

The Chief Constable of Merseyside Police

Annual Financial Report 2015-16

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Narrative Statement by the Director of Resources

The Statement of Accounts provide details of the Chief Constable's (CC) financial activities for the year ending 31st March 2016. The accounts are published in accordance with the Accounts and Audit Regulations 2015.

This section is the Narrative Statement. The purpose of the statement is to enable the CC to comment on the financial performance and economy, efficiency and effectiveness in its use of resources over the financial year. The structure of the statement is set out below.

1. Explanation of the CC and Group;
2. Introduction to Merseyside;
3. Financial performance;
4. Non-financial performance;
5. Strategic risks; and
6. Summary and conclusion.

1. EXPLANATION OF THE CC AND GROUP

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.

The Chief Constable is responsible for maintaining the Queen's Peace and the enforcement of the law, through the direction and control over the Force's officers and staff. The Chief Constable is accountable to the PCC for the delivery of efficient and effective policing, the delivery of the PCC priorities and the management of resources and expenditure by the Force. The PCC effectively commissions the police service from the Chief Constable.

The PCC is responsible for making sure the service provided by Merseyside police is efficient and effective. This is done by:-

- Holding the Chief Constable to account for the delivery of local policing;
- Setting and updating a Police and Crime Plan;
- Setting the force budget and precept;
- Regularly engaging with the public and communities; and
- Appointing, and where necessary dismissing, the Chief Constable.

The Police and Crime Plan sets out the PCC's priorities and drives the way Merseyside Police focus their resources to deliver policing for the communities of Merseyside. The PCC's priorities are:-

- Prevent crime and anti-social behaviour;
- Provide a visible and accessible neighbourhood policing style;
- Tackle serious and organised crime; and
- Support victims, protect vulnerable people and maintain public safety.

This set of accounts focuses on those discrete activities which the CC is responsible for which includes all aspects of operational policing under the direction and control of the Chief Constable.

2. AN INTRODUCTION TO MERSEYSIDE

Merseyside Police provides policing services to the metropolitan area of Merseyside. The police force area covers 250 square miles with approximately 65 miles of coastline in the north west of England. Although there are some more affluent areas, Merseyside has a high level of poverty. Around 1.39m

Narrative Statement by the Director of Resources

people live in a predominantly urban setting. The force covers the conurbation that includes the city of Liverpool and the Metropolitan Boroughs of Knowsley, Sefton, St Helens and Wirral. The resident population is increased by very large numbers of university students and the large numbers who visit, socialise in, commute into, or travel through the area each year. The transport infrastructure includes major rail stations, an airport and a major sea port.

3. FINANCIAL PERFORMANCE FOR THE YEAR 2015/16

Background

Since 2010 Merseyside has faced significant financial challenges due to reductions in funding from central government, along with cost pressures and continual changes in the demand for policing. As a consequence of these challenges, between 2011/12 and 2015/16 the Merseyside Police budget has been reduced by £77.4m, resulting in a reduction of 1,500 Police Officers and Staff. These financial challenges are expected to continue until at least 2020/21.

Revenue Outturn

The CC Budget for 2015/16 was constructed under the principle of financial devolution, which allows budget holders to better manage the resources at their disposal and improve accountability to the Chief Constable, and ultimately the PCC. The net revenue expenditure of the CC during 2015/16 amounted to £340.679m. In broad terms the following narrative shows where the CC and the Group's money came from and how it was spent.

Where did our Money Come From?

The CC gets all of its funding from the PCC. The sources of that funding are detailed in the Statement of Accounts of the PCC and Group.

What did we spend the Money on?

Most money is spent on Employee Expenses, including Police Officers, Police Staff, including Police and Community Support and Traffic Officers, and Police Pensions. Other money is spent in various ways including forensics, uniforms and ICT. The table below shows where the money was spent in 2015/16.

	£m	%
Employee Expenses	291.065	85
Other	49.614	15
Total Net Operating Expenditure	340.679	100

The budget for 2015/16 included a savings target of £15.396m to balance the budget. As a consequence of this, the PCC and Chief Constable undertook a series of reviews under the Strategic Excellent Policing programme aimed at identifying savings to meet this shortfall whilst minimising the impact on performance. During the year, £18.403m of savings were achieved, some £3.007m above the original savings target. The excess of savings were achieved due to savings being realised ahead of schedule, consequently these savings will be carried forward against the savings targets in 2016/17.

The outturn position for 2015/16 provides a financially resilient outcome for the financial year and helps the financial position going forward by identifying significant recurring budgetary savings. In addition, the utilisation of the under spend will provide an element of greater resilience and flexibility in enabling the CC and the Force to address the significant financial challenges ahead, as well as provide some opportunity to fund essential investment in the estate and enable the PCC and Chief Constable to invest in initiatives that will assist the achievement of the Police and Crime plan priorities.

Narrative Statement by the Director of Resources

CC Balance Sheet

The Balance Sheet is a snapshot of the CC's assets, liabilities, cash balances and reserves at the balance sheet date. The following table shows the value as at the 31st March 2016 of the assets and liabilities recognised by the CC. The net assets of the CC (assets less liabilities) are matched by the reserves held by the CC. Unusable reserves arise from accountancy adjustments, e.g. used to remove notional debits and credits for retirement benefits, and cannot be used to support the budget.

	As at 31 st March 2016 £m
Current Assets	10.210
Current Liabilities	(15.156)
Long term Liabilities	(3,917.685)
Net Assets and (Liabilities)	(3,922.631)
Represented by:-	
Unusable Reserves	(3,922.631)
Total Reserves	(3,922.631)

At 31st March 2016 the CC had negative net assets of £3,923m which implies that the Group is technically bankrupt. Fortunately this is not the case. The primary reason the Group had negative net assets is because of the pension liabilities associated with the unfunded police officer pension scheme of £3,768m coupled with the deficit of £150m in the funded Local Government Pension Scheme (LGPS) for police staff.

The police officer pension scheme is underwritten by the Home Office who provide an annual top-up grant to fund the difference between pension payments and income from employee and employer contributions. The current deficit in the LGPS will be managed through future employee and employer contributions. Further information on pension liabilities is provided below.

Excluding these pension liabilities the CC's Balance Sheet has net liabilities of £4.946m which is entirely explained by the existence of a Short term accumulating absences liability, an accounting entry made to reflect the liability of the Force relating to leave owing to employees.

Loans and Investments

The PCC is directly responsible for loans, investments and for borrowing money as she holds the Police Fund. The CC is not able to borrow money.

Pension Liabilities

Police Officers and Police Staff are offered retirement benefits by the PCC and Group as part of their terms and conditions of employment. In accordance with International Accounting Standard (IAS) 19, the PCC and Group are required to ensure that its accounts and that of the CC reflect the fair value of the assets and liabilities of the schemes and that benefits earned are recognised in the accounting periods in which they arise. As at the 31st March 2016 the CC had the following net pension liabilities:-

	£m
Police Pension Scheme (i.e. Police Officers)	3,768.310
Local Government Pension Scheme (i.e. PCC and Police Staff)	149.579
Total	3,917.889

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

Narrative Statement by the Director of Resources

- The police officer pension scheme is a statutory scheme, as specified by Police Regulations, whereby the Group pays an employer's contribution of 24.2% of pensionable pay for all serving police officers into the Police Pension Fund Account. If there is insufficient money in the Pension Fund Account to meet all expenditure commitments in any particular year, the Home Office will fund the deficit. In practice, therefore, the significant liability of £3.768 billion will be covered by future employer contributions and the receipt of Home Office grant monies.
- PCC and Police Staff are entitled to join the Local Government Pension Scheme (LGPS) as administered by Wirral Metropolitan Borough Council. The disclosed liability of £149.579m in respect of LGPS is likely to be funded in a number of ways, including potential changes to contribution rates and improved performance of the Fund's investments.

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

2016/17 AND BEYOND

In 2016/17 the PCC was able to set a balanced budget, with the delivery of £9.6m of savings by the Force, the utilisation of £2.4m of reserves and by raising £57.9m through the council tax requirement. The budget in 2016/17 will provide sufficient resources to enable the Chief Constable to achieve the priorities set out in the PCC's Police and Crime plan.

However, the latest Medium Term Financial Strategy (MTFS) forecasts that the PCC and CC will be required to identify £8.7m of savings in 2017/18 and potentially a further £13.4m in future years, giving an anticipated overall savings requirement of £22.1m over the MTFS period. Consequently, the PCC and CC face a very significant financial and policing challenge in the years ahead. The Chief Constable has established a Community First programme to ensure that the Force is appropriately structured to meet the needs of the community over the next 3-5 years. The Community First restructuring project seeks to find the most appropriate operating model for the Force that will allow it to be responsive to the PCC's and communities priorities as well as threat, harm and risk, with fewer resources. This model is being designed to deliver the best policing service possible with the resources available.

4. NON-FINANCIAL PERFORMANCE

Merseyside Police

Overall in Merseyside, there was a 5.1% increase in 'All Crime' during the financial year 2015/16 compared to the previous year from, 97,007 to 101,953 crimes. Increases have been seen in a number of crime categories namely Violence against the Person (+32.8%), in both the 'with' and without' Violence categories; Sexual Crimes (+15.2%), namely Rape and Other Sexual.

The overall category of Stealing has seen a 0.5% reduction, but increases have been experienced in Personal Robbery (+2.6%), Burglary Dwelling (+8.9%), Unauthorised taking of Motor Vehicle (+17.5%) and Theft from Motor Vehicle (+1.5%). Hate Crime and Domestic Abuse Crime Types have also seen increases.

An increase in reported crime is not necessarily an undesirable outcome as in many ways reporting is encouraged and it is often a reflection of people's confidence in policing that leads to the report of a crime. Merseyside Police has also seen decreases in other crime categories which include; Business Robbery (-2.5%); Burglary Other (-9.5%) and there has been a 4.4% fall in Anti-Social Behaviour.

5. STRATEGIC RISKS

The structures and processes for managing risk is well established at various levels within Merseyside Police. The force has a policy which outlines the processes and procedures in place for managing risk.

Community First, the new performance framework, prioritises areas of threat, harm and risk within and outside of the police and crime plan priorities, allowing the force to concentrate on the putting victims first and providing a quality service to our communities.

The Deputy Chief Constable is the strategic lead for risk management and Chief Officers collectively consider the strategic and reputation risks that have potential to impact on the achievement of the force's strategic objectives and the PCC's Police and Crime Plan priorities. Risks are identified and managed through the Strategic Tasking & Coordination (ST&C) Meeting, which considers and agrees the strategic direction necessary to address current threat, harm and risk issues.

The force uses the national MoRiLE (Management of Risk in Law Enforcement) scoring process, which provides a consistent approach to identifying and prioritising strategic priorities and resources. The current force risks and priorities include:

- Cyber Crime
- Child Exploitation
- Missing Persons
- Child Sexual Exploitation
- Human Trafficking
- Domestic Abuse
- Economic position / budget
- Data Quality

In addition to the management of strategic risks, the force manages risks at a portfolio level, with each Chief Officer maintaining oversight of their key portfolio risks and the progress being made to manage and mitigate these risks.

6. SUMMARY AND CONCLUSION

The PCC and the CC continue to face a significant challenge to set a balanced budget in the future, as well as maintaining an efficient and effective Police Service. The Chief Constable, in conjunction with the PCC, has established a Community First programme to ensure that the Force is appropriately structured to meet the needs of the community over the next 3-5 years. The Community First restructuring project seeks to find the most appropriate operating model for the Force that will allow it to be responsive to PCC and communities priorities as well as threat, harm and risk, with fewer resources. This model is being designed to deliver the best policing service possible with the resources available.

Narrative Statement by the Director of Resources

The purpose of the Statement of Accounts is to provide details of the CC financial activities for the year ending 31st March 2016. The financial statements for 2014/15 have been prepared in accordance with The Code of Practice on Local Authority Accounting in the UK 2015/16 (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 financial statements may not always appear straightforward since they have to meet technical, legal and professional standards. The Narrative Statement provides a brief explanation and overview of the financial performance of the CC and highlights any significant features. The accounts that follow 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 accounts presented give a 'true and fair view' of the financial position and operations of the CC for 2015/16;
- **Statement of Responsibilities for the Statement of Accounts**, this statement sets out the responsibilities of the CC and the CC's Chief Finance Officer;
- **the Movement in Reserves Statement**, this statement shows the movement in the year on the different reserves held by the CC analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce the council tax precept) and unusable reserves (i.e. those that the CC are not able to use to provide services);
- **the Comprehensive Income and Expenditure Statement**, this statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Elected Policing Bodies, i.e. PCC's, raise taxation to cover expenditure in accordance with regulations, this may be different from the accounting cost;
- **the Balance Sheet**, this statement shows the value as at the Balance Sheet date of the assets and liabilities recognised by the CC. The net assets of the CC (assets less liabilities) are matched by the reserves held by the CC;
- **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 (e.g. transactions with related parties); and
- **the Pension Fund Account**, which summarises the amounts received into and paid out of the police officer pension fund operated by the CC during the year.

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

Narrative Statement by the Director of Resources

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 PCC, the Chief Constable and the Group accounts have adopted consistent accounting policies. It is noted that the policies remain largely unchanged from those applied in 2014/15. However, the following significant change has been made:-

- **International Financial Reporting Standard (IFRS) 13 Fair Value Measurement**

The 2015/16 Code of Practice adopts International Financial Reporting Standard (IFRS) 13 Fair Value Measurement. Prior to 2015/16 there was no consistent definition of 'fair value' in the Code. IFRS 13 defines fair value and introduces a single framework for measuring fair value. It also introduces enhanced disclosure requirements around fair value measurement.

IFRS 13 defines fair value as the amount that would be received on the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The impact of this revised standard has been considered and it has not had any material impact on the accounts of the CC.

- **Narrative Report**

The Code update reflects the requirement within the Accounts and Audit Regulations 2015 for local authorities in England to include a narrative statement with their published statement of accounts. The narrative report replaces the explanatory foreword in the accounts and includes some additional requirements. The regulations require comment by the authority on its financial performance and economy, efficiency and effectiveness in its use of resources over the financial year.

- **Materiality**

The Code emphasises that it is only necessary to disclose material information for the presentation of a "true and fair" view. A local authority need not provide a specific disclosure required by the Code if the information is not material. A review of the notes to the accounts has been undertaken in conjunction with Grant Thornton to identify any disclosures which can be removed on the grounds of materiality.

ANNUAL GOVERNANCE STATEMENT

The Annual Governance Statement explains how the CC has complied with its own Code of Corporate Governance, and also provides assurance on the system of internal control that the CC maintains and on the way it conducts its affairs.

The Narrative Statement by the Director of Resources was signed by Geoff Broadhead CPFA on 27th September 2016

**Geoff Broadhead CPFA
Director of Resources for the Chief Constable of Merseyside Police**

27th September 2016

Independent Auditors Report to the Chief Constable of Merseyside Police

We have audited the financial statements of the Chief Constable of Merseyside Police (the "Chief Constable") for the year ended 31 March 2016 under the Local Audit and Accountability Act 2014 (the "Act"). The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the related notes and include the police pension fund financial statements comprising the Pension Fund Account, the Net Assets Statement and the 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 2015/16.

This report is made solely to the Chief Constable, as a body, in accordance with Part 5 of the Act and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. 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 Director of Resources for the Chief Constable of Merseyside Police and auditor

As explained more fully in the Statement of the Responsibilities, the Director of Resources 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 2015/16, which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Chief Constable's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Director of Resources; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Narrative Report and the Annual Governance Statement 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:

- present a true and fair view of the financial position of the Chief Constable as at 31 March 2016 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 and applicable law.

Opinion on other matters

In our opinion, the other information published together with the audited financial statements in the Narrative Report and the Annual Governance Statement is consistent with the audited financial statements.

Matters on which we are required to report by exception

We are required to report to you if:

- in our opinion the Annual Governance Statement does not comply with the guidance included in '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 24 of the Act; or
- we make a written recommendation to the Chief Constable under section 24 of the Act; or
- we exercise any other special powers of the auditor under the Act.

We have nothing to report in these respects.

Conclusion on the Chief Constable's arrangements to secure value for money through economic, efficient and effective use of its resources

Respective responsibilities of the Chief Constable and 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 20(1)(c) of the Act to be satisfied that the Chief Constable has made 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.

Scope of the review of the Chief Constable's arrangements to secure value for money through economic, efficient and effective use of its resources.

We have undertaken our review in accordance with the Code of Audit Practice prepared by the Comptroller and Auditor General as required by the Act (the "Code"), having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2015, as to whether the Chief Constable had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined these criteria as those necessary for us to consider under the Code in satisfying ourselves whether the Chief Constable put in place proper arrangements to secure value for money through the economic, efficient and effective use of its resources for the year ended 31 March 2016.

We planned our work in accordance with the Code. 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 has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources.

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2015, we are satisfied that in all significant respects the Chief Constable has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the year ended 31 March 2016.

Independent Auditors Report to the Chief Constable of Merseyside Police

Certificate

We cannot formally conclude the audit and issue an audit certificate in accordance with the requirements of the Act and the Code until we have completed the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the year ended 31 March 2016. We are satisfied that this work does not have a material effect on the financial statements or on our conclusion on the arrangements for securing value for money through economic, efficient and effective use of its resources.

The Independent Auditor's Report to the Chief Constable of Merseyside Police was signed by Michael Thomas on 27th September 2016

**Michael Thomas
for and on behalf of Grant Thornton UK LLP, Appointed Auditor
Royal Liver Building
Liverpool L3 1PS
27 September 2016**

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 Andy Cooke QPM on 27th September 2016

**Andy Cooke QPM
Chief Constable of Merseyside Police
27th September 2016**

Director of Resources for the Chief Constable of Merseyside Police

The Chief Constable's Director of Resources is responsible for securing the preparation and production of the Statement of Accounts for the Chief Constable of Merseyside Police which, in terms of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom ('the Code'), is required to present a 'true and fair view' of the financial position of the Chief Constable of Merseyside Police at the accounting date and its Income and Expenditure for the year ended 31st March 2016.

In securing the preparation of the Statement of Accounts, the Director of resources 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 Director of Resources 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 2016. In addition, the Statement of Accounts has been prepared in accordance with the accounting principles and policies set out in note 1 on pages 15 to 21. I have authorised the Statement of Accounts for issue on the 27th September 2016. Any events after this date have not been recognised.

The Statement of Responsibilities was signed by Geoff Broadhead CPFA on 27th September 2016

**Geoff Broadhead CPFA
Director of Resources for the Chief Constable of Merseyside Police
27th September 2016**

The Movement in Reserves Statement 2014/15 and 2015/16

This statement shows the movement in the 2014/15 and 2015/16 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 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		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		(57,904)	57,904	0	57,904	0
Difference in pension costs between accounting basis (IAS 19) and funding basis		248,210	(248,210)	0	(248,210)	0
Transfer of pension liabilities from PCC		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:	13.2	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 and 1st April 2015		0	(4,385,334)	(5,109)	(4,390,443)	(4,390,443)
Deficit on provision of services on an accounting basis		(153,213)	0	0	0	(153,213)
Remeasurements of the net defined benefit liability		0	621,025	0	621,025	621,025
Total Comprehensive Income and Expenditure		(153,213)	621,025	0	621,025	467,812
Actual amounts charged against the Pension Fund for the year		(70,675)	70,675	0	70,675	0
Difference in pension costs between accounting basis (IAS 19) and funding basis		224,051	(224,051)	0	(224,051)	0
Transfer of pension liabilities from PCC		0	0	0	0	0
Difference in employee remuneration costs (between accounting and funding basis)		(163)	0	163	163	0
Adjustments between accounting basis and funding basis under regulations:	13.3	153,213	(153,376)	163	(153,213)	0
Net increase or (decrease)		-	467,649	163	467,812	467,812
Balance as at 31st March 2016		-	(3,917,685)	(4,946)	(3,922,631)	(3,922,631)

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.

2014/15 Restated*				Note	2015/16		
Gross Expenditure	Gross Income	Net Expenditure			Gross Expenditure	Gross Income	Net Expenditure
£000	£000	£000		£000	£000	£000	
142,405	0	142,405	Local policing		140,135	0	140,135
27,112	0	27,112	Dealing with the public		24,984	0	24,984
32,327	0	32,327	Criminal justice arrangements		32,106	0	32,106
12,890	0	12,890	Roads policing		15,559	0	15,559
36,332	0	36,332	Operational Support		30,982	0	30,982
26,476	0	26,476	Intelligence		19,596	0	19,596
60,426	0	60,426	Investigation		68,620	0	68,620
9,721	0	9,721	Investigative support		7,307	0	7,307
14,825	0	14,825	National policing		10,898	0	10,898
4,500	0	4,500	Non-distributed costs		5,212	0	5,212
0	(404,925)	(404,925)	PCC funding for financial resources consumed		0	(416,576)	(416,576)
367,014	(404,925)	(37,911)	Cost of services		355,399	(416,576)	(61,177)
62,709	0	62,709	Other operating expenditure	7	70,474	0	70,474
166,265	0	166,265	Financing and investment income and expenditure	8	143,916	0	143,916
595,988	(404,925)	191,063	Deficit on Provision of Services		569,789	(416,576)	153,213
396,348	0	396,348	Remeasurements of the net defined benefit liability	21.16	(621,025)	0	(621,025)
992,336	(404,925)	587,411	Total Comprehensive Income and Expenditure		(51,236)	(416,576)	(467,812)

*The comparative figures for Cost of Services Gross Expenditure and Gross Income have been restated from the 2014/15 Statement of Accounts. See **Note 20** for details of the restatement. The restatement has no impact on the Net Total Comprehensive Income and Expenditure or the General Fund Balance.

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 2015		Note	As at 31st March 2016
£000			£000
0	Long Term Assets Property, plant and equipment		0
0	Total Current Assets		0
9,644	Current Assets Short-term debtors	10	10,210
9,644	Total Current Assets		10,210
(14,345)	Current Liabilities Short-term creditors	11	(15,156)
0	Short-term borrowing		0
(408)	Provisions		0
(14,753)	Total Current Liabilities		(15,156)
(4,385,334)	Long-term Liabilities Liability relating to defined benefit pension scheme	21.9	(3,917,685)
(4,385,334)	Total Long-term Liabilities		(3,917,685)
(4,390,443)	Net Assets/(Liabilities)		(3,922,631)
0	Reserves Usable reserves	Movement in Reserves Statement	0
(4,390,443)	Unusable reserves		(3,922,631)
(4,390,443)	Total Reserves		(3,922,631)

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, investing or financing activities.

2014/15 Restated*		2015/16
£000		£000
0	Cash Flows From Operating Activities	0
0	Cash Flows From Investing Activities	0
0	Cash Flows From Financing Activities	0
0	Movement in cash and cash equivalents	0
0	Cash and Cash Equivalents at 1st April	0
0	Cash and Cash Equivalents at 31st March	0

Notes to the Financial Statements

1 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 2015/16 (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 2016. 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.

Notes to the Financial Statements

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 1987 Police Pension Scheme (1987 Scheme) is governed by the Police Pensions Regulation 1987 (as amended) and related regulations that are made under the Police Pensions Act 1976. The 2006 Police Pension Scheme (2006 Scheme) is also governed by the Police Pensions Act 1976 (as amended by the Police Pension Regulations 2006). The 2015 Police Pension Scheme (2015 Scheme) is also governed by the Police Pensions Act 1976 (as amended by the Police Pension Regulations 2015).

The 1987, 2006 and 2015 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.

Notes to the Financial Statements

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.

Notes to the Financial Statements

1.4 Employee Benefits (continued)

- **Remeasurements** – these are changes in the net pension liabilities 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 pension funds rather than that calculated under IAS 19. This means that an appropriation to or from the Pensions Reserve is necessary within the Movement in Reserves Statement to replace the notional sums for retirement benefits with the actual 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.

Notes to the Financial Statements

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

A police pension account was set up on 1 April 2006 and administers all of the police pension schemes (the 1987,2006 and the new 2015 schemes). Under the Police Reform and Social Responsibility Act 2011, the account is to be administered by the CC and accounts for 2015/16 follow the main statements.

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.

From 1 April 2015 the actuarial valuation changed the employer contribution rate from 24.4 to 21.3%. However, the benefit of this reduced contribution was not passed on to the policing bodies which means that, although the deficit on the Police Pension Account is still met by an additional contribution from the Police Fund, not all of this additional contribution is now met from the Home Office Grant; an amount equivalent to 2.9% of the pensionable pay is funded from the PCC's own resources.

1.10 Police Pension Scheme 1987 – Additional payments in respect of past commutations

In May 2015 the pensions Ombudsman published his determination in a case concerning the lump sum paid to a firefighter on his retirement. The case also had relevance to many police officers who retired in the early 2000s. The impact of the determination was that the PCC Group would be required to apply the principles of the Pension Ombudsman's determination to the police officers who retired from 1 December 2001 and 30 November 2006 and to make the necessary lump sum and pension payments. Lump sum payments were made during 2015/16 from the period in question. A total of

Notes to the Financial Statements

£12,660 was recognised in the Police Pension Account and was funded in the first instance by the PCC and ultimately by an increased police pension grant from the Home Office. In accounting terms the increased liability was treated as a post-employment benefit under IAS 19 and resulted in an actuarial loss being recognised in the year, reported within the Other Comprehensive Income and Expenditure section of the CIES. The liability was discharged in year by the additional employer's contribution made by the PCC. There was no impact on the net pension liability at the start or end of the financial year.

1.11 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.

1.12 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.

1.13 Financial Assets and Liabilities

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

1.14 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.

Notes to the Financial Statements

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.

1.14 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.

Notes to the Financial Statements

2. ACCOUNTING STANDARDS ISSUED, NOT ADOPTED

The following sets out amendments to accounting standards or new accounting standards that have been issued on or before 1st January 2016 but will not be adopted by the Code until 2016/17.

2.1 Amendments to IAS 19 *Employee Benefits (Defined Benefit Plans: Employee Contributions)*

The impact of this amendment has been considered and it is deemed they will have no significant impact on the accounts of the Group

2.2 Annual Improvements to IFRSs 2010 – 2012 Cycle

In December 2013 the International Accounting Standards Board (IASB) issued Annual Improvements to IFRSs 2010-2012 cycle, a collection of amendments to IFRSs

The issues included in this cycle are:-

- **IFRS 2: Definition of a 'vesting condition'**
- **IFRS 3: Accounting for contingent consideration in a business combination**
- **IFRS 8: Aggregation of operating segments**
- **IFRS 8: Reconciliation of the total of the reportable segments' assets to the entity's assets**
- **IFRS 13: Short-term receivables and payables**
- **IAS 7: Interest paid that is capitalised**
- **IAS 16/IAS38: Revaluation method – proportionate restatement of accumulated depreciation**
- **IAS 24: Key management personnel**

The impact of these amendments have been considered and it is deemed they will have no significant impact on the accounts of the Group

2.3 Amendment to IFRS 11 *Joint Arrangements (Accounting for Acquisitions of Interests in Joint Operations)*

The impact of the amendment to this standard has been considered and it is not expected to impact on the accounts of the Group.

2.4 Amendment to IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets (Clarification of Acceptable Methods of Depreciation and Amortisation)*

The impact of this revised standard has been considered and it is not expected to have any material impact on the accounts of the Group.

2.5 Annual Improvements to IFRSs 2012 – 2014 Cycle

The IASB finalised the Annual Improvement to IFRSs 2012-2014 Cycle in September 2014 with a mandatory effective date of 1 January 2016.

The issues included in this cycle are: -

- **IFRS 5: Changes in Methods of Disposal**
- **IFRS 7: Servicing Contracts**
- **IFRS 7: Applicability of the amendments to IFRS 7 to condensed interim financial statements**
- **IAS 19: regional market issue**
- **IAS 34: Disclosure of information 'elsewhere in the interim financial report'**

2. ACCOUNTING STANDARDS ISSUED, NOT ADOPTED (CONTINUED)

The impact of the amendments to these standards has been considered and it is not expected to have any significant impact on the accounts of the Group.

2.6 Amendment to IAS 1 *Presentation of Financial Statements* (Disclosure Initiative)

The impact of the amendment to this standard has been considered and it is not expected to have a significant impact on the accounts of the Group.

2.7 Changes to the format of the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement and the introduction of the new Expenditure and Funding Analysis

There will be changes to the format of the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement and the introduction of the new Expenditure and Funding Analysis for financial year 2016-17 onwards. This will have an impact on the financial statements of the Group. All relevant elements of the 2015-16 financial statements will be re-stated in the 2016-17 accounts to reflect the revised format.

2.8 Changes to the format of the Pension Fund Account and the Net Assets Statement

There will be changes to the format of the Pension Fund Account and the Net Assets Statement for financial year 2016-17 onwards. This will have an impact on the financial statements of the Group. All relevant elements of the 2015-16 financial statements will be re-stated in the 2016-17 accounts to reflect the revised format.

Notes to the Financial Statements

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 critical judgements made in the Statement of Accounts are:

Collaborations

The CC and PCC are involved in a widening range of ways of working to provide policing services and 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 PCC has carefully considered all collaborative activity. The judgements and accounting treatment of collaborative activity can be found in **note 18** Joint Arrangements.

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.

Notes to the Financial Statements

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/valuation 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.

4. 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 pensions' liability and the reserve will vary significantly should any of the assumptions prove to be inaccurate. For instance, a 0.1% increase in the discount rate would decrease the pension liability by £87m or a one year increase in life expectancy would increase the pension liability by £94m. The effects on the net pensions liability of changes in individual assumptions are shown in **note 21.11**. The Group recognises the cost of retirement benefits in the cost of services when the benefits are eventually paid as pensions. However, the charge required to be made against the precept is based on the cash payable in the year, so the real cost of retirement benefits is reversed out in the Movement in Reserves Statement. Any revisions to the estimation of the net liability to pay pensions would not impact upon the Revenue Account of the Group.

Notes to the Financial Statements

5. EVENTS AFTER THE REPORTING PERIOD

The Statement of Accounts was authorised for issue by Geoff Broadhead, Director of Resources to the Chief Constable of Merseyside Police on 27th September 2016.

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

Where events have taken place on or before 27th September 2016 which provide information about conditions existing at 31st March 2016, 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 2016 and 27th September 2016 which are indicative of conditions that arose after the reporting period.

Notes to the Financial Statements

6. ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS

This note details the adjustments that are made to the total comprehensive income and expenditure recognised by the CC in the year in accordance with proper accounting practice to arrive at the resources that are specified by statutory provisions as being available to the CC to meet future capital and revenue expenditure. The following sets out a description of the reserves that the adjustments are made against.

6.1 General Fund Balance

The CC does not hold any General Fund Balances.

6.2 The Pensions Reserve

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).

2014/15		2015/16
£000		£000
(3,797,611)	Balance as at 1 April	(4,385,334)
(396,348)	Remeasurements of the net defined benefit liability	621,025
(248,210)	Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive income and Expenditure Statement	(224,051)
(1,069)	Transfer of pension liabilities from PCC	0
57,904	Employer's pension contributions and direct payments to pensioners payable in the year	70,675
(4,385,334)	Balance at 31st March	(3,917,685)

Notes to the Financial Statements

6.3 The Accumulated Absences Account

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 2016). 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.

2014/15		2015/16
£000		£000
(5,421)	Balance as at 1 April	(5,109)
5,421	Settlement or cancellation of accrual made at the end of the preceeding year	5,109
0		0
(5,109)	Amount by which staff and officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(4,946)
(5,109)	Balance at 31st March	(4,946)

Notes to the Financial Statements

7. OTHER OPERATING INCOME AND EXPENDITURE

2014/15		2015/16
£000		£000
261	Administrative expenses	269
62,448	Amounts payable to pension fund	82,865
0	GAD v Milne payment transferred through MIRS	(12,660)
62,709		70,474

8. FINANCING AND INVESTMENT INCOME AND EXPENDITURE

2014/15		2015/16
£000		£000
166,265	Net pensions interest cost	143,916
166,265		143,916

9. FINANCIAL INSTRUMENTS

9.1 Categories of Financial Instruments

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

CC 31st March 2015		CC 31st March 2016
£000		£000
81	Debtors	
	Loans and Receivables	71
81	Total Debtors	71
	Creditors	
(4,780)	Financial liabilities at amortised cost	(5,019)
(4,780)	Total Creditors	(5,019)

Prepayments are also excluded because they are contractual rights to receive goods or services rather than to receive cash or another financial asset.

Notes to the Financial Statements

9.2 Financial Instruments Gains and Losses

The Comprehensive Income and Expenditure Statements of the Chief Constable recognise no gains and losses in relation to financial instrument.

9.3 Fair Value of Assets and Liabilities carried at Amortised Cost

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

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

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

The carrying value of current financial assets and liabilities is deemed to be a reasonable approximation of fair value because of the relatively short period to maturity. The balances are shown in **9.1**.

9.4 Financial Instruments – Nature and Extent of Risks Arising

Credit Risk

Due to the nature of the Chief Constables Financial Instruments there is no credit risk.

Liquidity Risk

Due to the nature of the Chief Constables Financial Instruments there is no liquidity risk.

Market Risk

Due to the nature of the Chief Constables Financial Instruments there is no market risk.

Notes to the Financial Statements

10. DEBTORS

31st March 2015		31st March 2016
£000		£000
80	Short term accumulated absences	70
9,564	Intra-group account	10,140
9,644	Total	10,210

11. CREDITORS

31st March 2015		31st March 2016
£000		£000
(4,271)	Bodies external to general government	(5,553)
(4,885)	HM Revenue and Customs	(4,587)
(5,189)	Short term accumulated absences	(5,016)
(14,345)	Total	(15,156)

Notes to the Financial Statements

12. 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 surplus of £467.812m (2014/15: £587.411m deficit).

2014/15			2015/16	
£000	£000		£000	£000
	992,336	CIES Total Gross Expenditure		(51,236)
	(404,925)	PCC funding		(416,576)
	587,411	CIES Total Comprehensive Income and Expenditure		(467,812)
		Pension (IAS 19) charges		
(57,904)		Employers pensions contributions paid in year	(70,675)	
76,872		Current service cost	74,654	
4,500		Past service cost	4,090	
261		Administrative expenses	269	
312		Loss on curtailments	1,122	
396,348		IAS 19 remeasurements	(621,025)	
1,069		Transfer of pension liability	0	
166,265		Pensions interest cost and expected return on plan assets	143,916	
	587,723			(467,649)
		Compensated absences charges/(credits)		
17		Decrease in creditor for short term accumulated absences	(172)	
(329)		Decrease in debtor for short term accumulated absences	9	
	(312)			(163)
	587,411	CIES Total Comprehensive Income and Expenditure		(467,812)

Notes to the Financial Statements

13. 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 13.1** below.

13.1 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.

2014/15 Restated*		Note	2015/16
£000			£000
343,138	Net Expenditure in the FAU Analysis		340,681
(385,689)	Amounts not reported in FAU net expenditure		(329,611)
0	Amounts reported below net cost of services in the Comprehensive Income and Expenditure Statement		0
4,640	Amounts not reported in the Comprehensive Income and Expenditure Statement		(72,247)
(37,911)	Cost of Services in Comprehensive Income and Expenditure Statement		(61,177)

*The comparative figures for Cost of Services Gross Expenditure and Gross Income have been restated from the 2014/15 Statement of Accounts. See **Note 20** for details of the restatement. The restatement has no impact on the Net Total Comprehensive Income and Expenditure or the General Fund Balance.

Notes to the Financial Statements

13.2 Reconciliation of FAU Net Expenditure to Subjective Analysis 2014/15 (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	(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	(62,448)	4,544	299,454	228,974	528,428
Other expenses	67,464	0	0	96	67,560	0	67,560
Total Expenditure	343,138	81,684	(62,448)	4,640	367,014	228,974	595,988
(Surplus)/Deficit	343,138	(323,241)	(62,448)	4,640	(37,911)	228,974	191,063

*The comparative figures for Cost of Services Gross Expenditure and Gross Income have been restated from the 2014/15 Statement of Accounts. See **Note 20** for details of the restatement. The restatement has no impact on the Net Total Comprehensive Income and Expenditure or the General Fund Balance.

Notes to the Financial Statements

13.3 Reconciliation of FAU Net Expenditure to Subjective Analysis 2015/16

	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	(416,576)	0	0	(416,576)	0	(416,576)
Total Income	0	(416,576)	0	0	(416,576)	0	(416,576)
Employee expenses	291,065	74,615	0	(70,782)	294,898	70,474	365,372
Other expenses	49,616	12,350	0	(1,465)	60,501	143,916	204,417
Total Expenditure	340,681	86,965	0	(72,247)	355,399	214,390	569,789
(Surplus)/Deficit	340,681	(329,611)	0	(72,247)	(61,177)	214,390	153,213

Notes to the Financial Statements

14. OFFICERS' REMUNERATION

14.1 Remuneration Banding

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:

2014/15				2015/16
218	£50,000	-	£55,000	212
95	£55,001	-	£60,000	118
20	£60,001	-	£65,000	16
15	£65,001	-	£70,000	19
4	£70,001	-	£75,000	15
10	£75,001	-	£80,000	7
9	£80,001	-	£85,000	5
10	£85,001	-	£90,000	14
1	£90,001	-	£95,000	3
2	£95,001	-	£100,000	1
2	£100,001	-	£105,000	3
3	£105,001	-	£110,000	3
1	£110,001	-	£115,000	0
2	£115,001	-	£120,000	1
0	£120,001	-	£125,000	0
0	£125,001	-	£130,000	0
0	£130,001	-	£135,000	0
0	£135,001	-	£140,000	0
1	£140,001	-	£145,000	0
0	£145,001	-	£150,000	1
0	£150,001	-	£155,000	1
0	£155,001	-	£160,000	0
0	£160,001	-	£165,000	0
0	£165,001	-	£170,000	0
0	£170,001	-	£175,000	0
1	£175,001	-	£180,000	1
0	£180,001	-	£185,000	1
394				421

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.

Notes to the Financial Statements

14.2 Senior Officers Remuneration

The table below shows remuneration of defined senior and statutory officers for the years 2014/15 and 2015/16.

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	159,758	16,647	0	0	176,405	0	176,405
Deputy Chief Constable	2	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	3	103,872	0	0	3,264	107,136	24,484	131,620
Assistant Chief Constable	4	97,969	0	0	5,444	103,413	23,056	126,469
Total 2014/15		901,096	16,647	12,042	40,469	970,254	128,607	1,098,861
Chief Constable - J Murphy	1	161,355	16,647	0	0	178,002	0	178,002
Deputy Chief Constable		140,186	0	0	8,892	149,078	32,216	181,294
Director of Resources		94,955	0	0	11,387	106,342	11,680	118,022
Assistant Chief Constable	5	89,073	0	0	3,178	92,251	0	92,251
Assistant Chief Constable	6	22,760	0	0	1,305	24,065	5,166	29,231
Assistant Chief Constable	7	81,537	0	0	7,859	89,396	19,278	108,674
Assistant Chief Constable	8	16,867	0	0	810	17,677	3,982	21,659
Assistant Chief Constable	9	96,817	0	0	4,371	101,188	20,226	121,414
Assistant Chief Constable	10	26,024	0	0	1,100	27,124	6,203	33,327
Total 2015/16		729,574	16,647	0	38,902	785,123	98,751	883,874

Notes to the Financial Statements

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 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.
3	The Assistant Chief Constable was seconded to NATO from April 2014 to October 2014. All costs were fully recharged for this period.
4	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).
5	The Assistant Chief Constable retired from the Force on the 15th of January 2016
6	The Assistant Chief Constable retired from the Force on the 14th of June 2015
7	The Assistant Chief Constable left the Force on the 3rd of January 2016
8	The Assistant Chief Constable was Seconded to the Regional Collaboration Project, all costs are shared between the Cheshire, Cumbria, GMP, Lancashire, Merseyside & North Wales Forces for this period. The ACC left the Force on the 29th of May 2015
9	The Assistant Chief Constable was Seconded to the Regional Collaboration Project from the 6th of June 2015. All costs are shared between the Cheshire, Cumbria, GMP, Lancashire, Merseyside & North Wales Forces from this date.
10	The Assistant Chief Constable joined the Force on the 4th of January 2016

Notes to the Financial Statements

15. TERMINATION BENEFITS

The CC terminated the contracts of a number of employees in 2015/16 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	
	2014/15	2015/16	2014/15	2015/16	2014/15	2015/16	2014/15	2015/16
							£	£
£0 - £20,000	0	1	15	31	15	32	200,959	429,251
£20,001 - £40,000	0	0	18	18	18	18	520,636	482,480
£40,001 - £60,000	0	0	12	10	12	10	559,858	492,409
£60,001 - £80,000	0	0	7	3	7	3	482,807	220,034
£80,001 - £100,000	0	0	3	4	3	4	266,646	367,273
£100,001 - £150,000	0	0	2	1	2	1	281,542	149,741
Total	0	1	57	67	57	68	2,312,448	2,141,188

The total cost of £2.141m (£2.312m 2014/15) 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 2015/16 included above are £0.283m and are based on the estimated cost to the CC.

Notes to the Financial Statements

16. AUDIT COSTS

2014/15		2015/16
£000		£000
25	Fees payable to Grant Thornton UK LLP with regard to external audit services	19
25	Total	19

The members of the Joint Audit Committee claimed expenses of £4,437 in 2015/16 (£5,805 in 2014/15) these costs are charged to the PCC.

17. 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 2015/16.

Local Authorities

Funding from Local Authorities in the Merseyside area is set out in the PCC Group and the PCC Statement of Accounts 2015/16.

Officers

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

Notes to the Financial Statements

18. CHARGE TO CC FOR ASSETS CONSUMED IN THE YEAR

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

2014/15		2015/16
£000		£000
8,176	Depreciation	9,234
2,365	Impairment and upward/downward valuations	(148)
836	Amortisation	717
11,377		9,803

19. JOINT ARRANGEMENTS

The CC is party to a number of joint arrangements. The 2015/16 Code adopts IFRS 11 'Joint Arrangements', which outlines the accounting requirements of entities that jointly control an arrangement. For the preparation of the 2015/16 financial statements all joint arrangements have been reviewed to ensure that the accounting treatment is in accordance with IFRS 11.

In 2015/16 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 Commissioners.

Notes to the Financial Statements

For 2015/16 the total revenue costs of TITAN were £16.066m. The unit received Home Office funding of £2.954m and the total net cost of the collaboration was £13.112m.

At the balance sheet date the unit held property, plant and equipment of £0.436m, negative cash balance of £0.623m, debtors of £3.409m, creditors of £2.566m, usable reserves of £0.220m and unusable reserves of £0.436m. The Groups net revenue contribution to Titan for 2015/16 was £3,493m. The share of the TITAN balance sheet balances and the revenue contribution 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.

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 2014/15 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.

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.

Notes to the Financial Statements

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.

Notes to the Financial Statements

20.RESTATEMENT OF COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT (COMPARATIVE FIGURES)

2014/15 Audited				2014/15 Restated*			
Gross Expenditure	Gross Income	Net Expenditure		Note	Gross Expenditure	Gross Income	Net Expenditure
£000	£000	£000			£000	£000	£000
171,520	0	171,520	Local policing		142,405	0	142,405
29,845	0	29,845	Dealing with the public		27,112	0	27,112
33,677	0	33,677	Criminal justice arrangements		32,327	0	32,327
15,937	0	15,937	Roads policing		12,890	0	12,890
42,994	0	42,994	Operational Support		36,332	0	36,332
29,455	0	29,455	Intelligence		26,476	0	26,476
74,693	0	74,693	Investigation		60,426	0	60,426
9,894	0	9,894	Investigative support		9,721	0	9,721
16,947	0	16,947	National policing		14,825	0	14,825
4,500	0	4,500	Non-distributed costs		4,500	0	4,500
0	(404,925)	(404,925)	PCC funding for financial resources consumed		0	(404,925)	(404,925)
429,462	(404,925)	24,537	Cost of services		367,014	(404,925)	(37,911)
261	0	261	Other operating expenditure		62,709	0	62,709
166,265	0	166,265	Financing and investment income and expenditure		166,265	0	166,265
595,988	(404,925)	191,063	Deficit on Provision of Services		595,988	(404,925)	191,063
396,348	0	396,348	Remeasurements of the net defined benefit liability		396,348	0	396,348
992,336	(404,925)	587,411	Total Comprehensive Income and Expenditure		992,336	(404,925)	587,411

The 2014/15 Comprehensive Income and Expenditure Statement has been restated to report the pension fund account expenditure within other operating expenditure. In the 2014/15 Statement of Accounts this expenditure was reported within Cost of Services.

Notes to the Financial Statements

21. DEFINED BENEFIT PENSION SCHEMES

21.1 The Police Pension Scheme (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 pension 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 11.00% and 15.05% of their salary (depending on which scheme they are in and their annual earnings). In total £18.090m (2014/15: £18.736m) 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 20 years for the Old 1987 Police Pension Scheme, at around 39 years for the 2006 Police Pension Scheme and at around 40 years for the 2015 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 21.8**.

21.2 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 pension 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 £11.839m (2014/15: £12.116m). Details of liabilities for police staff are shown at **note 21.8**.

The duration of the defined benefit obligation for the Police Staff Pension Scheme is estimated at 22 years. Expected contributions for the 2016/17 financial year are £10.751m.

Notes to the Financial Statements

21.3 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 21.10**). 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.

21.4 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.

21.5 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 Schemes 1987, 2006 and 2015 (through the reimbursement mechanism of the police top up grant).

21.6 Police Pension Scheme 1987 – Additional payments in respect of past commutations

In May 2015 the pensions Ombudsman published his determination in a case concerning the lump sum paid to a firefighter on his retirement. The case also had relevance to many police officers who retired in the early 2000s. The impact of the determination was that the PCC Group would be required to apply the principles of the Pension Ombudsman's determination to the police officers who retired from 1 December 2001 and 30 November 2006 and to make the necessary lump sum and pension payments. Lump sum payments were made during 2015/16 from the period in question. A total of £12,660 was recognised in the Police Pension Account and was funded in the first instance by the PCC and ultimately by an increased police pension grant from the Home Office.

In accounting terms the increased liability was treated as a post-employment benefit under IAS 19 and resulted in an actuarial loss being recognised in the year, reported within the Other Comprehensive Income and Expenditure section of the CIES. The liability was discharged in year by the additional employer's contribution made by the PCC. There was no impact on the net pension liability at the start or end of the financial year.

Notes to the Financial Statements

21.7 Pension Costs – 2014/15 (Comparative Figures)

	LGPS	Police Pension Scheme		TOTAL	
	2014/15 £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	9,522	50,450	16,900	67,350	76,872
Past service cost	0	3,950	550	4,500	4,500
Administrative Expenses	261	0	0	0	261
Net Operating Expenditure	0	0	0	0	0
Interest cost	16,964	156,460	5,590	162,050	179,014
Expected return on assets	(12,749)	0	0	0	(12,749)
Loss on curtailments	312	0	0	0	312
Net charge to the Comprehensive Income and Expenditure Statement	14,310	210,860	23,040	233,900	248,210
Movement in Reserves Statement					
Reversal of net charges made for retirement benefits in accordance with IAS19	(14,310)	(210,860)	(23,040)	(233,900)	(248,210)
Actual amount charged against revenue:					
Employers contributions and direct payments to pensioners payable in the year	12,116	36,678	9,110	45,788	57,904
IAS 19 Remeasurements charged against Other Comprehensive Income and Expenditure	(65,630)	(298,188)	(32,530)	(330,718)	(396,348)

Notes to the Financial Statements

21.8 Pension Costs – 2015/16

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:

	LGPS		Police Pension Scheme			TOTAL
	2015/16 £000	2015/16 1987 SCHEME £000	2015/16 2006 SCHEME £000	2015/16 2015 SCHEME £000	2015/16 TOTAL £000	2015/16 GRAND TOTAL £000
Net Cost of Services						
Current service cost	12,384	34,060	1,030	27,180	62,270	74,654
Past service cost	0	3,690	0	400	4,090	4,090
Administrative Expenses	269	0	0	0	0	269
Net Operating Expenditure	0	0	0	0	0	0
Interest cost	16,230	132,550	5,370	570	138,490	154,720
Expected return on assets	(10,804)	0	0	0	0	(10,804)
Loss on curtailments	1,122	0	0	0	0	1,122
Net charge to the Comprehensive Income and Expenditure Statement	19,201	170,300	6,400	28,150	204,850	224,051
Movement in Reserves Statement						
Reversal of net charges made for retirement benefits in accordance with IAS19	(19,201)	(170,300)	(6,400)	(28,150)	(204,850)	(224,051)
Actual amount charged against revenue:						
Employers contributions and direct payments to pensioners payable in the year	11,839	26,262	509	19,405	46,176	58,015
IAS 19 Remeasurements charged against Other Comprehensive Income and Expenditure	23,501	589,348	31,191	(23,015)	597,524	621,025

Notes to the Financial Statements

21.9 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 2015	31st March 2016	31st March 2015			31st March 2016				31st March 2015	31st March 2016
	£000	£000	1987 SCHEME £000	2006 SCHEME £000	TOTAL £000	1987 SCHEME £000	2006 SCHEME £000	2015 SCHEME £000	TOTAL £000	£000	£000
Estimated liabilities in scheme	(480,229)	(471,864)	(4,057,430)	(162,390)	(4,219,820)	(3,599,460)	(137,090)	(31,760)	(3,768,310)	(4,700,049)	(4,240,174)
Estimated assets in scheme	314,715	322,489	0	0	0	0	0	0	0	314,715	322,489
Net liability	(165,514)	(149,375)	(4,057,430)	(162,390)	(4,219,820)	(3,599,460)	(137,090)	(31,760)	(3,768,310)	(4,385,334)	(3,917,685)

The liabilities show the underlying commitments that the CC has in the long run to pay retirement benefits. The total liability of £3,918m has a substantial impact on the net worth of the CC as recorded in the Balance Sheet, resulting in a net liability of £3,923m. 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.

Notes to the Financial Statements

21.10 Actuarial Assumptions

The main assumptions used in the calculations have been:

	Local Government Pension Scheme		Police Pension Scheme	
	31st March 2015	31st March 2016	31st March 2015	31st March 2016
Rate of inflation	2.1%	2.0%	2.2%	2.2%
Short term rate of increase in salaries	3.6%	3.5%	4.2%	1.0%
Long term rate of increase in salaries	n/a	n/a	4.2%	4.2%
Rate of increase in pensions	2.1%	2.0%	2.2%	2.2%
Rate for discounting scheme liabilities	3.4%	3.6%	3.3%	3.6%
<u>Mortality Rates (in years)</u>				
Longevity at 65 for future pensioners (Men)	24.8	24.8	25.4	25.1
Longevity at 65 for future pensioners (Women)	28.1	28.1	27.9	27.2
Longevity at 65 for current pensioners (Men)	22.4	22.4	23.3	23.1
Longevity at 65 for current pensioners (Women)	25.3	25.3	25.7	25.1

21.11 Actuarial Assumptions – Sensitivity Analysis

Change in Actuarial Assumption	2015/16				
	Police Staff Pension Scheme	Police Pension Scheme			TOTAL
		1987 SCHEME	2006 SCHEME	2015 SCHEME	
	£000	£000	£000	£000	£000
Unadjusted deficit	(149,375)	(3,599,460)	(137,090)	(31,760)	(3,917,685)
+0.1% change in discount rate	10,348	69,780	5,700	1,360	87,188
+0.1% change in pay growth (salaries)	(10,579)	(5,000)	(2,180)	0	(17,759)
+0.1% change in inflation (pensions)	(3,633)	(57,440)	(2,600)	(1,340)	(65,013)
+1 year increase in life expectancy	(8,843)	(82,100)	(2,400)	(600)	(93,943)

Notes to the Financial Statements

21.12 Reconciliation of Present Value of Scheme Liabilities

	LGPS Funded Liabilities		Police Pension Scheme Unfunded Liabilities							TOTAL
	2014/15	2015/16	2014/15	2014/15	2014/15	2015/16	2015/16	2015/16	2015/16	2015/16
	£000	£000	1987 SCHEME £000	2006 SCHEME £000	TOTAL £000	1987 SCHEME £000	2006 SCHEME £000	2015 SCHEME £000	TOTAL £000	GRAND TOTAL £000
As at 1st April	(367,864)	(480,229)	(3,585,060)	(115,930)	(3,700,990)	(4,057,430)	(162,390)	0	(4,219,820)	(4,700,049)
Transfer of liabilities from PCC	(3,100)	0	0	0	0	0	0	0	0	0
Current service costs	(9,522)	(12,384)	(50,450)	(16,900)	(67,350)	(34,060)	(1,030)	(27,180)	(62,270)	(74,654)
Interest costs	(16,964)	(16,230)	(156,460)	(5,590)	(162,050)	(132,550)	(5,370)	(570)	(138,490)	(154,720)
Members contributions	(3,455)	(3,533)	(13,860)	(4,870)	(18,730)	(8,180)	(230)	(9,680)	(18,090)	(21,623)
IAS 19 remeasurements	(86,823)	32,379	(371,500)	(18,620)	(390,120)	498,750	31,080	3,680	533,510	565,889
Benefits paid	7,811	9,255	123,850	70	123,920	137,700	850	2,390	140,940	150,195
Past service costs	0	0	(3,950)	(550)	(4,500)	(3,690)	0	(400)	(4,090)	(4,090)
Loss on curtailments	(312)	(1,122)	0	0	0	0	0	0	0	(1,122)
As at 31st March	(480,229)	(471,864)	(4,057,430)	(162,390)	(4,219,820)	(3,599,460)	(137,090)	(31,760)	(3,768,310)	(4,240,174)

Notes to the Financial Statements

21.13 Reconciliation of Present Value of Scheme Assets

	LGPS Funded Assets		Police Pension Scheme Unfunded Assets						TOTAL	
	2014/15	2015/16	2014/15			2015/16				
	£000	£000	1987 SCHEME £000	2006 SCHEME £000	TOTAL £000	1987 SCHEME £000	2006 SCHEME £000	2015 SCHEME £000	TOTAL £000	GRAND TOTAL £000
As at 1st April	271,242	314,715	0	0	0	0	0	0	0	314,715
Transfer of assets from PCC	2,032	0	0	0	0	0	0	0	0	0
Expected return on assets	12,749	10,804	0	0	0	0	0	0	0	10,804
Administrative expenses	(261)	(269)	0	0	0	0	0	0	0	(269)
Employers contributions	12,116	11,839	36,678	9,110	45,788	26,262	509	19,405	46,176	58,015
Members contributions	3,455	3,533	13,860	4,870	18,730	8,180	230	9,680	18,090	21,623
Benefits paid	(7,811)	(9,255)	(123,850)	(70)	(123,920)	(137,700)	(850)	(2,390)	(140,940)	(150,195)
IAS 19 remeasurements	21,193	(8,878)	73,312	(13,910)	59,402	103,258	111	(26,695)	76,674	67,796
As at 31st March	314,715	322,489	0	0	0	0	0	0	0	322,489

Notes to the Financial Statements

21.14 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:

	Assets as at 31st March 2015		Assets as at 31st March 2016	
	£000	%	£000	%
Equity investments	169,883	54.0%	167,037	51.8%
Government bonds	15,736	5.0%	14,797	4.6%
Other bonds	38,867	12.3%	36,427	11.3%
Property	25,996	8.3%	28,721	8.9%
Cash/liquidity	9,536	3.0%	11,086	3.4%
Other	54,697	17.4%	64,421	20.0%
Total	314,715	100.0%	322,489	100.0%

The asset values in the Local Government Pension Scheme were calculated as at 31st March 2016. 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.

21.15 Scheme History

	2011/12	2012/13	2013/14	2014/15	2015/16
	£000	£000	£000	£000	£000
Present Value of Scheme Liabilities					
Local Government Pension Scheme	(309,812)	(371,882)	(367,864)	(480,229)	(471,864)
Police Pension Scheme	(3,231,130)	(3,710,160)	(3,700,990)	(4,219,820)	(3,768,310)
	(3,540,942)	(4,082,042)	(4,068,854)	(4,700,049)	(4,240,174)
Fair Value of Assets (LGPS)					
Local Government Pension Scheme	221,153	256,049	271,242	314,715	322,489
Deficit in Scheme					
Local Government Pension Scheme	(88,659)	(115,833)	(96,622)	(165,514)	(149,375)
Police Pension Scheme	(3,231,130)	(3,710,160)	(3,700,990)	(4,219,820)	(3,768,310)
	(3,319,789)	(3,825,993)	(3,797,612)	(4,385,334)	(3,917,685)

Notes to the Financial Statements

21.16 Remeasurements of the Net Defined Benefit Liability

	2011/12		2012/13		2013/14		2014/15		2015/16	
	£000	%	£000	%	£000	%	£000	%	£000	%
Local Government Scheme										
Difference between the expected and actual return on assets	(8,852)	4.0	18,199	6.4	12,775	4.7	21,193	27.7	(8,878)	-10.1
Differences between actuarial assumptions about liabilities and actual experience	0		0		0		0		0	
Changes in the demographic and financial assumptions used to estimate liabilities	0	0.0	(40,972)	16.0	14,218	5.2	(86,823)	27.7	32,379	10.1
	<u>(8,852)</u>		<u>(22,773)</u>		<u>26,993</u>		<u>(65,630)</u>		<u>23,501</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	83,428	1.1	194,511	4.8	97,367	2.4	131,322	2.8	76,674	1.6
Changes in the demographic and financial assumptions used to estimate liabilities	(92,370)	2.9	(499,430)	12.2	107,460	2.6	(462,040)	9.8	520,850	11.1
	<u>(8,942)</u>		<u>(304,919)</u>		<u>204,827</u>		<u>(330,718)</u>		<u>597,524</u>	
Total IAS 19 Remeasurements	<u>(17,794)</u>		<u>(327,692)</u>		<u>231,820</u>		<u>(396,348)</u>		<u>621,025</u>	

Notes to the Financial Statements

21.17 Plan Asset Fair Value Disaggregation

Asset Classification	2014/15			2015/16		
	£000 Quoted Market price	£000 No Quoted Market price	£000 TOTAL	£000 Quoted Market price	£000 No Quoted Market price	£000 TOTAL
Equities						
UK	75,091	0	75,091	69,750	0	69,750
Global	94,792	0	94,792	97,287	0	97,287
	169,883	0	169,883	167,037	0	167,037
Bonds						
UK Government	15,736	0	15,736	14,797	0	14,797
UK Corporate	8,151	0	8,151	7,812	0	7,812
UK Index Linked	30,716	0	30,716	28,615	0	28,615
	54,603	0	54,603	51,224	0	51,224
Property						
UK Direct Property	0	17,624	17,624	0	18,483	18,483
UK Property Managed	1,039	4,186	5,225	1,320	5,118	6,438
Global Property Managed	0	3,147	3,147	0	3,800	3,800
	1,039	24,957	25,996	1,320	27,401	28,721
Other						
UK Private Equity	126	9,410	9,536	62	11,844	11,906
Global Private Equity	0	8,623	8,623	0	10,373	10,373
UK Hedge Funds	787	1,699	2,486	817	1,742	2,559
Global Hedge Funds	0	9,599	9,599	0	8,707	8,707
Global Infrastructure	850	2,612	3,462	1,300	4,156	5,456
UK Infrastructure	0	4,406	4,406	0	6,479	6,479
UK Opportunities	5,759	6,452	12,211	5,583	9,201	14,784
Global Opportunities	944	3,430	4,374	434	3,723	4,157
	8,466	46,231	54,697	8,196	56,225	64,421
Cash						
Cash Instruments	9,536	0	9,536	11,086	0	11,086
	243,527	71,188	314,715	238,863	83,626	322,489

22. CONTINGENT LIABILITIES

The Chief Constable of Merseyside, along with other Chief Constables and the Home Office, currently has 121 claims lodged against them with the Central London Employment Tribunal. The claims are in respect of alleged unlawful discrimination arising from the Transitional Provisions in the Police Pension Regulations 2015. The Tribunal is unlikely to consider the substance of the claims until 2017. Legal advice suggests that there is a strong defence against these claims. The quantum and who will bear the cost is also uncertain, if the claims are partially or fully successful. For these reasons, no provision has been made in the 2015/16 Accounting Statements.

The Chief Constable of Merseyside currently has 17 claimants relating to overtime for Police Officers when taking calls outside working hours. These claims relate to the judgement in the case of Allard and others v Chief Constable of Devon & Cornwall Constabulary. The Group and the PCC recognise that there is a potential contingent liability of some £0.690m.

The Chief Constable of Merseyside recognises that there is a potential contingent liability of some £0.120m relating to Undercover Police Officers overtime and when they are on duty. Two potential cases that have been identified with a maximum potential liability of £0.060m per case.

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 2015 to 31st March 2016 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.

2014/15	Pension Fund Account	2015/16
£000		£000
	Income	
	Contributions Receivable	
(33,338)	Police employers pension contribution income	(31,926)
(13,867)	Employees pension contributions (Police Pension Scheme 1987)	(8,234)
(4,869)	Employees pension contributions (Police Pension Scheme 2006)	(228)
0	Employees pension contributions (Police Pension Scheme 2015)	(9,679)
	Other	
(1,105)	Police transfer value receivable	(717)
(1,700)	Capital equivalent income - ill health pensions	(3,460)
(54,879)	Total Income	(54,244)
	Expenditure	
	Benefits Payable	
96,264	Police pensions	100,633
3,994	Police ill health commutations	3,707
16,262	Police ordinary commutations	19,068
0	Additional commutation in respect of GAD v Milne	12,660
319	Police death in service grant	341
	Other	
14	Refunds of contributions	26
474	Police transfer value payable	676
117,327	Total Expenditure	137,111
62,448	Net Amount Payable/(Receivable) before top-up grant	82,867
(62,448)	Additional contribution from the PCC	(82,867)
0	Net Amount Payable/(Receivable)	0
31st March 2015	Net Assets Statement	31st March 2016
£000	Net Current Assets and Liabilities	£000
	Creditors/Receipts in Advance	
0	Unpaid pension benefits	0
0	Employers contributions received in advance	0
0	Employees contributions received in advance	0
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

Merseyside Police

Annual Governance Statement 2016

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 office¹ 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 explains how Merseyside Police has complied with the code and also meets the requirements of Accounts and Audit (England) Regulations 2015 (Regulation 6 and 10), which requires all relevant bodies to review their internal control system and 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

¹ 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".

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.

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:

- **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 Community First performance framework and various governance meetings as outlined in the force's Assurance Framework.
- has developed a **Strategic Tasking & Coordination Meeting** to consider and agree the strategic direction necessary to address current issues of threat, harm and risk; and to prioritise the issues that go forward for resource allocation.
- has **appointed Strategic Responsible Officers** to coordinate activity at a force level, ensuring delivery of the objectives within each of the Police and Crime Plan priorities.
- has developed a number of strategies, including:
 - a **Crime Prevention Strategy** which represents the commitment of Merseyside Police to ensure that Prevention is effectively embedded into core business
 - a **Community Engagement Strategy**, which puts the community at the heart of all our decisions and is designed to enable us to effectively engage with communities to increase public confidence.
 - a revised **Integrated Offender Management Strategy**, to ensure there is a coordinated response across Merseyside, with partners, in the joint management of offenders who pose a significant risk of harm through serious or repeated offending in our communities.
 - a **Local Policing Strategy**, which outlines what is to be delivered through the local policing function throughout Merseyside.
- in conjunction with the PCC, regularly **consults and engages** with communities about policing, the prevention of crime and ASB. There is 'Your Area' section on the force's website, 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.

Annual Governance Statement

- 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 developed a **Community First Programme Board** to enable the force to meet the ongoing Government spending cuts.
 - 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.
 - 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.
- **Working together to achieve a common purpose with clearly defined functions and roles.**

To demonstrate compliance with this core principle, the force:

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

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- 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.
- **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 2016-2019**, which focuses on putting our communities first in everything we do, bringing together the force's vision and Just principles.
- has an **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
 - Dignity at Work Policy

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- Dress and Appearance Policy

(i) has a number of **supporting policies** designed to deliver high standards and values.

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

To demonstrate compliance with this core principle, the force:

- 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** through extensive consultation. These meetings are recorded and actions published to provide a record of decision-making.
- in conjunction with the PCC, has maintained 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.

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- 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 around the organisation's priorities and addresses mandatory and other training, using a prioritisation model based on threat, harm and risk.
- 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.
- has launched the **'MerseyNow'** alert system which is a communication tool designed for UK Police forces which will allow the force and other partner agencies to engage with the public via targeted alert messages based on their location, preferred channel (e-mail/SMS or voice) and interests. MerseyNow will can be used for appeals, crime prevention, public relations, victim support and much more.
- 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. The Merseyside Independent Advisory Group is a group of people from our local communities who provide independent advice to the

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- police, with the aim of improving the quality of policing services and improving trust and reassurance to the communities of Merseyside
- 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.
- undertakes **surveys to obtain feedback from service users** in relation to particular issues and concerns raised both across the force and in individual neighbourhood.
- 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 2015-16 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.

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- 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).

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.

Internal Audit's plans and performance are reported annually to the Audit Committee and during the year 2015-16, audits included a review of payroll, the payment of pension lump sums, call handling arrangements, contract standing orders and information sharing agreements.

On the basis of the programme of planned internal audit work undertaken in 2015-16, the Head of Internal Audit is satisfied that sufficient assurance work has been carried out to allow a reasonable conclusion to be formed on the adequacy of risk management, governance and internal control. It is the opinion that the Chief Constable for Merseyside's risk management, governance and control arrangements are reasonable and audit testing has confirmed that controls are generally working effectively in practice. Where internal audit work has identified scope for improvements, the management response has been appropriate and action plans have been agreed.

External Audit

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

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In respect of the 2015/16 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 2016 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 2015/16 and applicable law. In addition, Grant Thornton reported that the information reported within the Annual Governance Statement is consistent with the Group audited financial statements and it also complies with the "Delivering Good Governance in Local Government framework" published by CIPFA/SOLACE.

Joint Audit Committee

The PCC and Chief Constable have established a Joint Audit Committee. The Committee was established in April 2013 to have oversight of, and provide independent review of the effectiveness of the PCC and Chief Constable's governance, risk management and control frameworks, financial reporting and annual governance processes, internal and external audit, and treasury management.

CIPFA recommends that Audit Committees report regularly on their work and, at least annually, assess their performance. To this end the Committee have drafted its annual report setting out how the Committee fulfilled its responsibilities in 2015-16.

The Committee's overall conclusions on the Chief Constable's governance arrangements are that it has received assurances on the operation of the systems of governance, risk management, 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 a review of its effectiveness against its terms of reference and its objectives. Members believe the Committee has been effective but have identified areas where improvements could be made. These include considering governance arrangements in new partnerships and collaborations as they develop. The continuing development of the "champion" roles will also increase effectiveness. An action plan has been agreed to address the areas identified. In implementing this action plan, the Committee will become more effective during 2016/17. The Committee recognises the significant challenges facing the PCC and Chief Constable and aims to support them in developing governance arrangements as they address key challenges while also meeting the continuing requirement to make cost savings.

Force Review & Inspection Teams

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 identified risks and priorities. Reviews and inspections are undertaken and a level of assurance of compliance, fitness for purpose and risk is reported to back to individual Chief Officers and action plans monitored via appropriate governance meetings.

Her Majesty's Inspectorate of Constabulary (HMIC)

Her Majesty's Inspectorate of Constabulary (HMIC) independently assesses police forces and policing from neighbourhood teams to serious crime and the fight against terrorism. HMIC aims to provide authoritative information to allow the public to compare the performance of their force against others, and to drive improvements in the service to the public.

HMIC is independent of Government and the police:

- HM Inspectors of Constabulary are appointed by the Crown – they are not employees of the police service or government.

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- HM Chief Inspector of Constabulary reports to Parliament on the efficiency and effectiveness of police forces in England and Wales.
- HM Inspectors have powers to seek information from police forces and to access their premises.

HMIC decides on the depth, frequency and areas to inspect based on judgements about what is in the public interest. In making these judgements, HMIC considers the risks to the public, the risks to the integrity of policing, service quality, public concerns, the operating environment, the burden of inspection and the potential benefits to society from the improvements that might arise from the inspection.

The HMIC undertake annual PEEL (Police Effectiveness Efficiency Legitimacy) assessments of police forces in England and Wales. Forces are assessed on their effectiveness, efficiency and legitimacy. They are judged as outstanding, good, requires improvement or inadequate on these categories based on inspection findings, analysis and Her Majesty's Inspectors' professional judgment across the year. The following PEEL inspections were carried out on Merseyside Police:-

- Legitimacy - How legitimate is the force at keeping people safe and reducing crime? – Rated Good;
- Efficiency - How efficient is the force at keeping people safe and reducing crime?- Rated Good; and
- Effectiveness - How effective is the force at keeping people safe and reducing crime? - Rated Good.

At the end of the PEEL year (in February), HMIs bring together all the judgments made throughout the year together with other findings and information to produce a rounded annual assessment of each force. Merseyside Police has been assessed as Good.

- o 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:
- o Strategic Management Board (SMB) - the main purpose of SMB is to set force strategy and consider organisational change proposals and govern policy development.
- o Community First Programme Board - the main purpose of the CFPB is to oversee delivery of the objectives and scope of the Community First Restructuring Project and its key deliverables
- o Strategic Tasking & Coordination Meeting - The main purpose of the Strategic Tasking & Coordination Meeting is to consider operational and organisational priorities based on threat, harm and risk, provide the long-term strategic direction of the force, monitor and oversee progress against agreed priorities and consider emerging threat, harm and risk issues.

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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 2016-17, however there is a recognition that the ongoing government spending cuts from the CSR announcement in 2015 will still require planning to enable the force to achieve the savings over the next 3-5 years.</p> <p>The Government is consulting on a new model for distributing funding to police forces, which may further impact on the savings requirement for the force.</p>	<p>The force is currently developing plans to implement a functional model, but there will be a 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 will closely monitor any recommendations that come out of the consultation and provide an assessment of the impact.</p>
<p>CIPFA have published a new framework, 'Delivering Good Governance in Local Government', which came into effect from April 2016. It is used as best practice for developing and maintaining a locally adopted code of corporate governance and requires organisations to review existing governance arrangements, develop and maintain an up to date local code of governance and report publically on compliance and the effectiveness of governance arrangements.</p>	<p>There is a need to review the effectiveness of the Chief Constable's governance arrangements in light of the new framework to ensure they reflect best practice and enable the Chief Constable to continue to demonstrate compliance with the statutory requirements.</p>

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Governance Issue	Action
<p>The Policing and Crime Bill (Act) introduces measures which not only allow, but in some aspects require, collaboration between the emergency services to go further and faster. These are locally enabling and recognise that local leaders are best placed to determine the sort of collaboration that is in the best interests of their communities. The Bill (Act) requires the police, fire and rescue, and ambulance services to collaborate with one another, where it would be in the interests of their efficiency or effectiveness to do so.</p> <p>As a minimum, the legislation requires PCCs to be represented on the relevant fire and rescue authority (FRA) (or its committees) with full voting rights, subject to the consent of the FRA. Alternatively, PCCs have the option of putting forward a business case which may include arrangements to take on responsibility for the governance of fire and rescue; or to become the single employer for fire and police, to deliver greater improvements through the integration of back office functions and maximise the benefits of workforce flexibility.</p>	<p>The Work is ongoing to seek further collaboration between the force and the Merseyside Fire & Rescue Service. This includes all areas where there are opportunities to share back office or operational efficiencies. There is a joint Police and Fire Collaboration Board that ensures this process is effectively governed and managed.</p> <p>The PCC is currently represented on the Joint Police and Fire Collaboration Committee. The PCC, in conjunction with the MFRA, will need to consider the other options contained in the final Act around the governance arrangements. A full business case would be required to support any proposed changes from the current arrangements and would need demonstrate any new arrangements would improve the efficiency and effectiveness of the services. A business case would need to be submitted to the Home Secretary for approval before any changes to the governance arrangements are applied.</p>

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Signed

The Annual Governance Statement was signed by Andy Cooke QPM and Geoff Broadhead CPFA on 27th September 2016

Andy Cooke QPM

**Chief Constable of Merseyside
Police**

27th September 2016

Geoff Broadhead CPFA

**Director of Resources for the Chief
Constable of Merseyside Police**

27th September 2016

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.