

Annual Financial Report 2018-19

The Chief Constable of Merseyside Police

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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 2019. 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. People;
6. Explanation of Statement of Accounts;
7. Strategic risks; and
8. Summary and conclusion; and
9. Acknowledgement.

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;
- Support victims, protect vulnerable people and maintain public safety;
- Working in partnership to improve road 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 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 2018/19

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. Between 2010/11 and 2018/19 formula grant funding has been cut by 22.6% in cash terms, equating to a real terms cut of 31.9%. When income from council tax (including legacy council tax grants) are included the cut is 13.4% in cash terms and 23.8% in real terms. As a consequence of these cuts the police establishment has had to have been reduced by 1,652 (i.e. 22.5%) over the period to ensure that a balanced budget is achieved annually. These financial challenges are expected to continue until at least 2023/24.

Revenue Outturn

The CC Budget for 2018/19 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 2018/19 amounted to £332.555m. 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 2018/19.

	£m	%
Employee Expenses	278.889	83.9
Other	53.666	16.1
Total Net Operating Expenses	332.555	100.0

The budget for 2018/19 included a savings target of £7.016m to be addressed through the Force Change Programme. As a consequence of this, the PCC and Chief Constable completed a series of reviews under the Community First Programme. The aim of the programme is to ensure that the Force is appropriately structured to meet the needs of the community and implement the most appropriate operating model for the Force that will allow it to be responsive to PCC and community's priorities as well as threat, harm and risk, with fewer resources. A significant amount of work has been undertaken to date under the programme, including the following reviews that were completed during 2018/19 relating to Preventative Policing - Court Reassurance, Multi Agency Safeguarding Hubs, Integrated Offender Management, the Youth Offending Team and the Missing/ Functional Coordination Unit.

The outturn position for 2018/19 provides a financially resilient outcome for the financial year. In addition, the planned utilisation of the under spend provides an opportunity for the PCC and the Chief Constable to invest in initiatives that will improve the operational effectiveness and efficiency of Force.

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 2019 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 2019 £m
Current Assets	8.084
Current Liabilities	(13.100)
Long term Liabilities	(5,217.318)
Net Assets and (Liabilities)	(5,222.335)
Represented by:-	
Unusable Reserves	(5,222.335)
Total Reserves	(5,222.335)

At 31st March 2019 the CC had negative net assets of £5,222m 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 net pension liabilities associated with the unfunded police officer pension scheme of £4,990m coupled with the deficit of £227m 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 £5.016m 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 2019 the CC had the following net pension liabilities:-

	£m
Police Pension Scheme (i.e. Police Officers)	(4,990.550)
Local Government Pension Scheme (i.e. PCC and Staff)	(226.768)
Total	(5,217.318)

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:-

- 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 £4.990 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 £226.768m 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.

2019/20 and Beyond

In 2019/20 the PCC was again able to set a balanced budget. In doing so, the PCC raised the precept by the maximum allowable, i.e. by £24 per Band D Equivalent, resulting in an additional £9.9m of precept income. Maximising the precept not only helped balance the budget, but has also provided an opportunity for the Chief Constable to recruit an additional 40 Police Officers and provide some stability to the Force over the next couple of years. As part of the budget the PCC also allowed the Chief Constable to reinvest savings from the Community First Programme approved during 2018/19 to recruit an additional 40 Police Officers and 14 Police Staff in 2019/20, as well as save 40 Police Officer posts that were due to be lost. The Chief Constable intends to reinvest in priority areas to enhance the Force's operational capability.

However, despite balancing the budget in 2019/20, the latest Medium Term Financial Strategy (MTFS) forecasts that the PCC and Force will be required to identify potentially £18.4m of savings over the MTFS period. The Force will continue to identify and deliver 'non-staff' cost savings/ cost mitigations. This will help to ensure that the overall savings requirement impact to staff budgets is reduced. As well as implementing a long term estates strategy savings programme that will deliver an estimated £1.9m worth of savings, the Force also will look to make £0.250m each year from collaboration with partners. In addition, the Force will continue to use national, regional, and local procurement networks to gain further benefits and savings for equipment and services. The Force will also continue to develop strategies that will look to recycle or reuse existing equipment such as IT devices, and office furniture; to date this has delivered some £0.3m worth of cost mitigation.

4. NON-FINANCIAL PERFORMANCE

Annual Review of Governance Arrangements

The PCC and Chief Constable have approved and adopted a Joint Code of Corporate Governance, consistent with the principles of the CIPFA/SOLACE Framework: Delivering Good Governance in Local Government 2016, which sets out the PCC's and Chief Constable's shared approach to integrating the core good governance principles into the conduct of the business, and sets out the arrangements for reviewing their effectiveness.

The CC and Chief Officers within the Force have conducted a review of the effectiveness of the Governance Framework, including the system of internal control and internal audit, and their findings are detailed within the Annual Governance Statement included within the Statement of Accounts. The overall conclusion based on the findings of the review undertaken and the assurances received is that the Governance Framework, including the system of internal audit and internal audit, is operating effectively and continues to be fit for purpose.

Merseyside Police

In 2018/19 across Merseyside, there was a 6% increase in 'All Crime' compared to the previous year; 133,212 crimes recorded in 2018/19 compared to 125,449 crimes recorded in 2017/18. Increases have been seen in a number of categories, specifically; Violence Against the Person (+27%), in both Violence With Injury (+7%) and Violence Without Injury (+48%) categories; Cyber Crime (+28%) and Hate Crime (+7%). Knife Crime increased 38%, which is higher than the national increase.

Decreases have been seen in a number of categories, specifically; Sexual Offences (-8%), in both Rape (-11%) and Other Sexual Offence (-7%) categories; Stealing (-10%), including Vehicle Crime (-15%) and Burglary (-21%); within which Burglary Dwellings decreased by 24%. Incidents of ASB have also reduced by 29%.

Increases in crime recording is not necessarily an undesirable outcome as in many ways reporting is encouraged and it is often a reflection of public confidence in policing that leads to the report of a crime. Other factors that contribute to changes in recorded crime levels include the implementation of new crime categories which are added by the Home Office, as well as additional changes in how individual crime types are recorded. Such changes over the past year have significantly impacted on Violence and Knife Crime recording in particular. Furthermore, the Force is continually developing ways in which members of the public can contact the Police; an example of such includes the force establishing a 'Social Media Desk' whereby members of the public can contact the police to report a crime via platforms such as Facebook and Twitter.

There has been a significant decrease in Burglary offences, particularly Burglary Dwelling; as well as an increase in positive outcomes. This has been assisted by Operation Castle, which has targeted this type of offence and led to many successful convictions.

Her Majesty's Inspectorate of Constabulary and Fire & Rescue Services (HMICFRS) independently assesses the effectiveness and efficiency of police forces and fire & rescue services in the public interest. The HMICFRS 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.

In 2017 the HMICFRS issued its fourth PEEL assessment of Merseyside Police and the following ratings were given:-

- 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.

During 2018/19, HMICFRS adopted a risk based approach to the annual PEEL Assessment. Unlike in previous years, whereby all forces were subject to an annual PEEL Assessment, Efficiency and Legitimacy in the Spring and Effectiveness in the Autumn, HMICFRS moved to one annual assessment of forces, with all forces assessed in one of three tranches during the period from September 2018 through to June 2019. Merseyside will be subject to the annual PEEL assessment as part of the third tranche, week commencing the 24th June 2019.

Notwithstanding this, bespoke Force thematic inspection reports relating to Crime Data Integrity, Child Protection and Custody were published during 2018/19. With regards to Crime Data Integrity, HMICFRS's overall judgment of the Force was 'Good.' The Child Protection and Custody inspections did not receive a graded judgment. In both of these areas, the Force will be subject to a follow up inspection in 2019/20 to assess progress made against the recommendations and areas for improvement identified in the inspection reports.

5. PEOPLE

As at the 31st March 2019 the actual number of people employed by Merseyside Police is detailed in the table below.

	Total FTE
Merseyside Police	
Police Officers	3,401
Police Staff	1,930
PCSOs	248
TOTAL Group Employees	5,579

6. EXPLANATION OF THE STATEMENT OF ACCOUNTS

The purpose of the Statement of Accounts is to provide details of the CC financial activities for the year ending 31st March 2019. The financial statements for 2018/19 have been prepared in accordance with The Code of Practice on Local Authority Accounting in the UK 2018/19 (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 2018/19;
- **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 **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 CIES is reconciled to

the net expenditure that is chargeable to taxation and rents in the Expenditure and Funding Analysis (EFA) contained in the notes to the accounts. The EFA shows how annual expenditure is used and funded in comparison with those resources consumed or earned in accordance with generally accepted accounting practices;

- 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;
- 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);
- **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.

Events After the Reporting Period

The Statement of Accounts were authorised for issue on the 31st July 2019. Events taking place after this date are not reflected in the draft financial statements or notes. Where events have taken place on or before 31st July 2019 which provided information about conditions existing at 31st March 2019, the figures in the financial statements were adjusted in all material respects to reflect the impact of this information. The Statement of Accounts were not adjusted for events that have taken place between 1st April 2019 and 31st July 2019 which are indicative of conditions that arose after the reporting period. Since the issuing of the unaudited Statement of Accounts and the completion of the audit of the accounts no material events have been identified.

7. STRATEGIC RISKS

The structures and processes for managing risk is well established at various levels within Merseyside Police. The force follows the College of Policing Authorised Professional Practice in terms of the processes and procedures 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 Continuous Improvement Board, 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:-

- Firearms;

- Child Exploitation;
- Domestic Abuse;
- Burglary;
- Crime Outcomes;
- Sickness Absence.

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

8. SUMMARY AND CONCLUSION

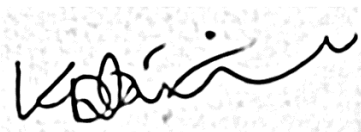
Overall, the PCC and Group is currently in a sound financial position, with some resilience to meet unforeseen circumstances, a major issue with regard to an emergency service such as the Police Service. Within a tight financial regime, the PCC and Chief Constable have protected, as much as possible operational performance through investing in the operational priorities set out by the PCC in the Police and Crime Plan. However, the PCC and the Force will continue to face a very significant financial challenge to balance its budget in the future, as well maintaining an efficient and effective Police Service.

The PCC and Chief Constable have identified that further savings of £18.4m will be required to be made by the end of 2023/24, assuming that Government Grant funding remains at the 2019/20 level and the precept is increased by 1.95% pa. However, the Police funding formula may be reviewed following the next Comprehensive Spending Review, consequently there is a risk that if a new formula was introduced it could have a detrimental impact on the level of grant funding received and any reduction would be on top of the estimated savings already identified. This situation represents a very significant financial risk and policing challenge for the PCC and Merseyside Police.

A strategy to address the savings requirement has been developed. The key element of the strategy is the continuation of the Community First programme. This change programme will continue to review the more strategic processes supported by a continuous improvement approach to smaller scale pieces of work. These will be supported by the existing collaboration programmes. The PCC and Force will continue to work with local forces, other emergency services and national work streams to consider options where collaboration can support how the Force can deliver local services in a better, more efficient way.

9. ACKNOWLEDGEMENTS

The production of the Statement of Accounts would not have been possible without the exceptionally hard work and dedication of colleagues in the Force Finance Department. I would like to express my gratitude to all colleagues who have assisted in the preparation of this document and also thank them for all their support during the course of the year.



Keith Dickinson ACMA/ CGMA/ FCMA
Director or Resources for the Chief Constable of Merseyside Police
31st July 2019

Independent auditor's report to the Chief Constable of Merseyside Police

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the Chief Constable of Merseyside Police (the 'Chief Constable') for the year ended 31 March 2019 which comprise the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Movement in Reserves Statement and notes to the financial statements, including a summary of significant accounting policies, and include the police pension fund financial statements comprising the Pension Fund Account and the Net Assets Statement. 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 2018/19.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Chief Constable as at 31 March 2019 and of its expenditure and income for the year then ended;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Chief Constable in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Director of Resources' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Director of Resources has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Chief Constable's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The Director of Resources is responsible for the other information. The other information comprises the information included in the Statement of Accounts, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge of the Chief Constable obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with the 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

Opinion on other matter required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Chief Constable gained through our work in relation to the Chief Constable's arrangements for securing economy, efficiency and effectiveness in its use of resources, the other information published together with the financial statements in the Statement of Accounts, the Narrative Report and the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Chief Constable under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters.

Responsibilities of the Chief Constable and the Director of Resources for the financial statements

As explained more fully in the Statement of Responsibilities for the Statement of Accounts, the Chief Constable is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. That officer is the Director of Resources. 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 2018/19, for being satisfied that they give a true and fair view, and for such internal control as the Director of Resources determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Director of Resources is responsible for assessing the Chief Constable's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the Chief Constable will no longer be provided.

The Chief Constable is Those Charged with Governance. Those charged with governance are responsible for overseeing the financial reporting process.

Auditor's responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Report on other legal and regulatory requirements - Conclusion on the Chief Constable's arrangements for securing economy, efficiency and effectiveness in its use of resources

Conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, we are satisfied that the Chief Constable put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

Responsibilities of the Chief Constable

The Chief Constable is responsible for putting in place proper arrangements for securing 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.

Auditor's responsibilities for the review of the Chief Constable's arrangements for securing economy, efficiency and effectiveness in its use of resources

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 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.

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether in all significant respects 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 this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Chief Constable put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to be satisfied that the Chief Constable has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Report on other legal and regulatory requirements - Certificate

We certify that we have completed the audit of the financial statements of the Chief Constable of Merseyside Police in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

Use of our report

This report is made solely to the Chief Constable, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 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.

Paul Grady

Paul Grady
Key Audit Partner

for and on behalf of Grant Thornton UK LLP, Local Auditor

London

8 October 2019

Statement of Responsibilities for the Statement of Accounts

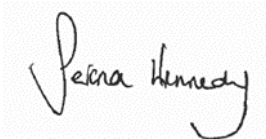
The Chief Constable's responsibilities

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



Serena Kennedy

Deputy Chief Constable of Merseyside Police

On behalf of the Chief Constable of Merseyside Police

31st July 2019

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 2019.

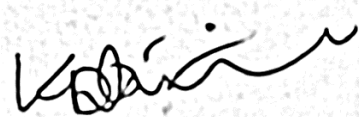
In securing the preparation of the Statement of Accounts, the Director of resources has:-

- 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 2019. In addition, the Statement of Accounts has been prepared in accordance with the accounting principles and policies set out in **Note 1**. I have authorised the Statement of Accounts for issue on the 31st July 2019. Any events after this date have not been recognised.



Keith Dickinson ACMA/ CGMA/ FCMA

Director of Resources for the Chief Constable of Merseyside Police

31st July 2019

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.

2017/18				Note	2018/19		
Gross Expenditure	Gross Income	Net Expenditure			Gross Expenditure	Gross Income	Net Expenditure
£000	£000	£000		£000	£000	£000	
381,149	(426,765)	(45,616)	Policing Services	20	597,515	(430,068)	167,447
381,149	(426,765)	(45,616)	Cost of services		597,515	(430,068)	167,447
83,524	0	83,524	Other operating expenditure	7	86,624	0	86,624
126,425	0	126,425	Financing and investment income and expenditure	8	121,002	0	121,002
591,098	(426,765)	164,332	Deficit on Provision of Services		805,141	(430,068)	375,073
(200,248)	0	(200,248)	Remeasurements of the net defined benefit liability	21.14	72,467	0	72,467
390,850	(426,765)	(35,916)	Total Comprehensive Income and Expenditure		877,608	(430,068)	447,540

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 2018		Note	As at 31st March 2019
£000			£000
0	Long Term Assets		
	Property, plant and equipment		0
0	Total Long Term Assets		0
	Current Assets		
8,842	Short-term debtors	10	8,084
8,842	Total Current Assets		8,084
	Current Liabilities		
(13,584)	Short-term creditors	11	(13,100)
0	Short-term borrowing		0
0	Provisions		0
(13,584)	Total Current Liabilities		(13,100)
	Long-term Liabilities		
(4,770,052)	Liability relating to defined benefit pension scheme	21.7	(5,217,318)
(4,770,052)	Total Long-term Liabilities		(5,217,318)
(4,774,794)	Net Assets/(Liabilities)		(5,222,335)
	Reserves		
0	Usable reserves	MIRS	0
(4,774,794)	Unusable reserves		(5,222,335)
(4,774,794)	Total Reserves		(5,222,335)

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.

2017/18		2018/19
£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

The Movement in Reserves Statement 2017/18 and 2018/19

This statement shows the movement in the 2017/18 and 2018/19 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 'unable' 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 CIES.

	Note	Usable Reserves		Unable Reserves		Total Reserves
		General Fund Balance	Pensions Reserve	Accumulated Absences Account	Total	
		£000	£000	£000	£000	£000
Balance as at 1st April 2017		0	(4,805,541)	(5,169)	(4,810,710)	(4,810,710)
Deficit on provision of services on an accounting basis		(164,332)	0	0	0	(164,332)
Remeasurements of the net defined benefit liability		0	200,248	0	200,248	200,248
Total Comprehensive Income and Expenditure		(164,332)	200,248	0	200,248	35,916
Actual amounts charged against the Pension Fund for the year		(50,825)	50,825	0	50,825	0
Difference in pension costs between accounting basis (IAS 19) and funding basis		215,584	(215,584)	0	(215,584)	0
Transfer of pension liabilities from PCC		0	0	0	0	0
Difference in employee remuneration costs (between accounting and funding basis)		(427)	0	427	427	0
Adjustments between accounting basis and funding basis under regulations:		164,332	(164,759)	427	(164,332)	0
Net increase or (decrease)		0	35,489	427	35,916	35,916
Balance as at 31st March 2018 and 1st April 2018	6	0	(4,770,052)	(4,742)	(4,774,794)	(4,774,794)
Deficit on provision of services on an accounting basis		(375,073)	0	0	0	(375,073)
Remeasurements of the net defined benefit liability		0	(72,467)	0	(72,467)	(72,467)
Total Comprehensive Income and Expenditure		(375,073)	(72,467)	0	(72,467)	(447,540)
Actual amounts charged against the Pension Fund for the year		(51,844)	51,844	0	51,844	0
Difference in pension costs between accounting basis (IAS 19) and funding basis		426,643	(426,643)	0	(426,643)	0
Transfer of pension liabilities from PCC		0	0	0	0	0
Difference in employee remuneration costs (between accounting and funding basis)		274	0	(274)	(274)	0
Adjustments between accounting basis and funding basis under regulations:		375,073	(374,799)	(274)	(375,073)	0
Net increase or (decrease)		-	(447,266)	(274)	(447,540)	(447,540)
Balance as at 31st March 2019	6	-	(5,217,318)	(5,016)	(5,222,334)	(5,222,334)

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 2018/19 (the Code) issued by the Chartered Institute of Public Finance and Accountancy (CIPFA), which is recognised by statute as representing proper accounting practice. This Code of Practice is based on International Financial Reporting Standards (IFRS) and also draws on approved accounting standards issued by the International Public Sector Accounting Standards Board and the UK Accounting Standards Board, where these provide additional guidance.

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

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

The Financial Statements included here represent the accounts for the CC. The financial statements cover the 12 months to 31st March 2019. 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:-

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

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

1.3 Cost and Income Recognition

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

1.4 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 related to pay and service as follows:-

Police Officers

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

The 1987, 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.

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 2017. 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;

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

1.5 Events After the Balance Sheet Date

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

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

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

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

1.6 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 Pension Top Up Grant

The police pension schemes are unfunded and have no investment assets. Benefits payable are funded by contributions from officers and the PCC. Any difference between benefits payable and contributions receivable is funded by an additional contribution from the PCC which is financed by a top-up grant from the Home Office. The top-up grant income is calculated on an accruals basis and is credited to the PCC and Group Comprehensive Income and Expenditure Statement.

1.9 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.

1.10 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.

1.11 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.

1.12 Provisions, Contingent Liabilities and Contingent Assets

Provisions

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

Provisions are charged as an expense in the Comprehensive Income and Expenditure Statement in the year that the CC becomes aware of the obligation, and are measured at the best estimate at the Balance Sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties. The CC is funded for the provision through the intra-group funding from the PCC and the provisions are held on the PCC Balance Sheet.

Where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed in the Balance Sheet of the PCC and the CC will receive a credit back from the PCC (through the intra-group account) to the Comprehensive Income and Expenditure Statement.

Contingent Liabilities

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

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

Contingent Assets

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

1.13 VAT

The CC does not submit a VAT return and the PCC submits a single VAT return on behalf of the PCC Group. Income and expenditure excludes any amounts related to VAT, as all VAT collected is payable to HM Revenue and Customs and all VAT paid is recoverable from them.

2 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 2018 but will not be adopted by the Code until 2019/20.

2.1 Amendments to IAS 40 Investment Property: Transfers of Investment Property

IASB agreed to amend the paragraph to reinforce the principle for transfers into, or out of, investment property in IAS 40 to specify that such a transfer should only be made when there has been a change in use of the property. The proposals in the exposure draft published in November 2015 have now been finalised.

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 Chief Constable.

2.2 Annual Improvements to IFRS Standards 2014 – 2016 Cycle

Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23. The narrow scope amendments impact four standards.

- IFRS 3 was clarified that an acquirer should remeasure its previously held interest in a joint operation when it obtains control of the business.
- Conversely, IFRS 11 now explicitly explains that the investor should not remeasure its previously held interest when it obtains joint control of a joint operation, similarly to the existing requirements when an associate becomes a joint venture and vice versa.
- The amended IAS 12 explains that an entity recognises all income tax consequences of dividends where it has recognised the transactions or events that generated the related distributable profits, eg in profit or loss or in other comprehensive income. It is now clear that this requirement applies in all circumstances as long as payments on financial instruments classified as equity are distributions of profits, and not only in cases when the tax consequences are a result of different tax rates for distributed and undistributed profits.
- The revised IAS 23 now includes explicit guidance that the borrowings obtained specifically for funding a specified asset are excluded from the pool of general borrowings costs eligible for capitalisation only until the specific asset is substantially complete.

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 Chief Constable.

2.3 IFRIC 22 Foreign Currency Transactions and Advance Consideration

IFRIC 22 clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. Consensus is that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability; for multiple payments or receipts in advance, a date of transaction is established for each payment or receipt.

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 Chief Constable

2.4 IFRIC 23 Uncertainty over Income Tax Treatments

IFRIC 23 clarifies the accounting for uncertainties in income taxes. The interpretation is to be applied to the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12.

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 Chief Constable.

2.5 Amendments to IFRS 9 Financial Instruments: Prepayment Features with Negative Compensation

The amendments enable measurement at amortised cost of certain loans and debt securities that can be prepaid at an amount below amortised cost, for example at fair value or at an amount that includes a reasonable compensation payable to the borrower equal to present value of an effect of increase in market interest rate over the remaining life of the instrument. In addition, the text added to the standard's basis for conclusion reconfirms existing guidance in IFRS 9 that modifications or exchanges of certain financial liabilities measured at amortised cost that do not result in the derecognition will result in a gain or loss in profit or loss. Reporting entities will thus in most cases not be able to revise effective interest rate for the remaining life of the loan in order to avoid an impact on profit or loss upon a loan modification.

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 Chief Constable.

2.6 IFRS 16 Leases

The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the statement of profit or loss and other comprehensive income. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

The impact of the amendment to this standard, and its impact upon the accounts of the Chief Constable is being considered.

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	YES	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 IAS19. 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 IAS19 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 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.

Comprehensive Income and Expenditure Statement (CIES)	Recognised in PCC CIES	Recognised in CC CIES	Judgement
Property Plant and Equipment (including assets held for sale)	YES	NO	The PCC has legal title to long term assets, the power to determine whether the assets are sold and receives all the sales proceeds. The PCC controls the services provided through the long term assets, who they are provided to, and controls the residual value at the end of the contractual arrangement. It is therefore considered that the PCC will receive the future benefits from the assets. The PCC charges the CC a fair value for the assets which reflects depreciation and impairment/revaluation losses chargeable to the CIES.
Current Assets	YES	YES *	The majority of current assets are recognised on the PCC's balance sheet. Inventories are recognised on the PCC's Balance Sheet as the PCC controls the services provided through the assets. The majority of debtors are recognised on the PCC's 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 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 £105m or a one year increase in life expectancy would increase the pension liability by £131m. The effects on the net pensions liability of changes in individual assumptions are shown in **Note 21.9**. 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.

5 EVENTS AFTER THE REPORTING PERIOD

The Draft Statement of Accounts was authorised for issue by Keith Dickinson, Director of Resources to the Chief Constable of Merseyside Police on 31st July 2019.

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

Where events have taken place on or before 31st July 2019 which provide information about conditions existing at 31st March 2019, 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 2019 and 31st July 2019 which are indicative of conditions that arose after the reporting period.

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).

2017/18		2018/19
£000		£000
(4,805,541)	Balance as at 1 April	(4,770,052)
200,248	Remeasurements of the net defined benefit liability	(72,467)
(215,584)	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	(426,643)
50,825	Employer's pension contributions and direct payments to pensioners payable in the year	51,844
(4,770,052)	Balance at 31st March	(5,217,318)

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 2019). 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.

2017/18		2018/19
£000		£000
(5,169)	Balance as at 1st April	(4,742)
5,169	Settlement or cancellation of accrual made at the end of the preceding year	4,742
0		0
(4,742)	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	(5,016)
(4,742)	Balance at 31st March	(5,016)

7 OTHER OPERATING INCOME AND EXPENDITURE

2017/18		2018/19
£000		£000
264	Administrative expenses	284
83,260	Amounts payable to pension fund	86,340
83,524		86,624

8 FINANCING AND INVESTMENT INCOME AND EXPENDITURE

2017/18		2018/19
£000		£000
126,425	Net pensions interest cost	121,002
126,425		121,002

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 CC:-

31st March 2018		31st March 2019
£000		£000
	Debtors	
228	Loans and Receivables	329
228	Total Debtors	329
	Creditors	
(4,972)	Financial liabilities at amortised cost	(5,345)
(4,972)	Total Creditors	(5,345)

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

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;
- The fair value of trade receivables and payables are assumed to be the invoiced or billed amount; and
- There is no expected impairment of the instrument from perceived future events.

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

10 DEBTORS

31st March 2018		31st March 2019
£000		£000
228	Short term accumulated absences	329
8,615	Intra-group account	7,755
8,842	Total	8,084

11 CREDITORS

31st March 2018		31st March 2019
£000		£000
(3,597)	Bodies external to general government	(2,528)
(5,016)	HM Revenue and Customs	(5,227)
(4,970)	Short term accumulating absences	(5,345)
(13,584)	Total	(13,100)

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 deficit of £227.700m (2017/18: £35.916m surplus).

2017/18			2018/19	
£000	£000		£000	£000
	390,850	CIES Total Gross Expenditure		877,608
	(426,765)	PCC funding		(430,068)
	(35,916)	CIES Total Comprehensive Income and Expenditure		447,540
		Pension (IAS 19) charges		
(50,825)		Employers pensions contributions paid in year	(51,844)	
84,602		Current service cost	86,483	
3,713		Past service cost	218,354	
264		Administrative expenses	284	
580		Loss on curtailments	520	
(200,248)		IAS 19 remeasurements	72,467	
126,425		Pensions interest cost and expected return on plan assets	121,002	
	(35,489)	Compensated absences charges/(credits)		447,266
(316)		Decrease in creditor for short term accumulated absences	375	
(111)		Decrease in debtor for short term accumulated absences	(101)	
	(427)			274
	(35,916)	CIES Total Comprehensive Income and Expenditure		447,540

13 OFFICERS' REMUNERATION

13.1 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:

2017/18				2018/19
249	£50,000	-	£55,000	263
146	£55,001	-	£60,000	154
34	£60,001	-	£65,000	42
13	£65,001	-	£70,000	9
10	£70,001	-	£75,000	10
11	£75,001	-	£80,000	11
12	£80,001	-	£85,000	10
7	£85,001	-	£90,000	3
4	£90,001	-	£95,000	10
2	£95,001	-	£100,000	1
0	£100,001	-	£105,000	1
1	£105,001	-	£110,000	0
3	£110,001	-	£115,000	0
1	£115,001	-	£120,000	0
1	£120,001	-	£125,000	2
0	£130,001	-	£135,000	1
1	£135,001	-	£140,000	0
1	£145,001	-	£150,000	0
1	£160,001	-	£165,000	0
1	£185,001	-	£190,000	0
0	£190,001	-	£195,000	1
498				518

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 £50,000; however their total remuneration for the year exceeded £50,000 as a result of redundancy payments made.

13.2 Senior Officers Remuneration

The table below shows remuneration of defined senior and statutory officers for the years 2017/18 and 2018/19.

Post Holder information	Notes	Salaries (incl. Fees and Allowances)	Expenses Allowances	Benefits in Kind	Total Remuneration excluding Pension Contributions	Pension Contribution	Total Remuneration including Pension Contributions
Chief Constable - A Cooke	1	171,621	16,980	-	188,601	39,833	228,434
Director of Resources		99,714	-	12,794	112,508	13,162	125,671
Deputy Chief Constable	2	143,215	12,267	5,811	161,293	32,863	194,157
Assistant Chief Constable	3	131,239	-	4,076	135,315	30,338	165,653
Assistant Chief Constable		104,627	-	10,092	114,719	25,062	139,781
Assistant Chief Constable		106,390	-	7,936	114,326	25,148	139,474
Assistant Chief Constable	4	88,205	-	8,152	96,357	20,892	117,249
Assistant Chief Constable	5	117,271	-	3,583	120,854	26,885	147,739
Total 2017/18		962,283	29,247	52,444	1,043,974	214,183	1,258,157
Chief Constable - A Cooke	1	174,557	16,980	-	191,537	13,333	204,870
Deputy Chief Constable	6	121,285	-	9,175	130,460	28,835	159,295
Deputy Chief Constable	7	82,563	-	3,268	85,831	19,734	105,565
Assistant Chief Constable	8	5,257	-	-	5,257	931	6,189
Assistant Chief Constable		112,708	-	8,052	120,760	27,017	147,777
Assistant Chief Constable	9	114,550	-	5,964	120,514	27,104	147,618
Assistant Chief Constable	10	94,808	-	2,244	97,052	22,254	119,306
Assistant Chief Constable	11	87,736	731	-	88,467	20,853	109,321
Assistant Chief Constable	12	92,396	750	-	93,146	20,960	114,106
Assistant Chief Constable	13	90,637	-	3,024	93,661	20,371	114,032
Director of Resources	1,14	21,237	1,682	-	22,919	2,803	25,722
Director of Resources	15	82,485	-	-	82,485	10,888	93,373
Director of Resources	16	50,231	-	4,345	54,576	6,631	61,207
Director of People	1,17	54,723	4,268	-	58,991	-	58,991
Total 2018/19		1,185,173	24,411	36,072	1,245,656	221,715	1,467,371

Note	Detail
1	The expenses allowance paid to the Chief Constable, indicated Assistant Chief Constables and Director of Resources and Director of People is a car allowance
2	The expenses allowance paid to the Deputy Chief Constable is a relocation allowance
3	Assistant Chief Constable Seconded to The National Crime Agency 3rd April 2017 - costs fully recharged to NCA from this date
4	Assistant Chief Constable joined the Force from 15th May 2017
5	Assistant Chief Constable joined the Force from 15th May 2017 as Regional Collaboration Lead - costs fully recharged*
6	Deputy Chief Constable promoted from the post of Assistant Chief Constable 05/11/2018 - full years' remuneration included
7	Deputy Chief Constable resigned from the Force 04/11/2018
8	Assistant Chief Constable Seconded to The National Crime Agency retired from the Force 11/04/2018 - costs fully recharged
9	Assistant Chief Constable Seconded to Cheshire Constabulary from 26/02/2019, all costs for this period fully recovered
10	Assistant Chief Constable promoted from 05/11/2018
11	Assistant Chief Constable promoted temporarily from Force 26/02/2019
12	Assistant Chief Constable promoted temporarily from Force 01/01/2019 as Regional Collaboration Lead - costs fully recharged*
13	Assistant Chief Constable retired from the Force 31/12/2018 as Regional Collaboration Lead - costs fully recharged*
14	Director of Resources joined the Force 15/01/2019
15	Director of Resources temporarily promoted from Force for period 01/10/2018 to 14/01/2019 - full years' remuneration included
16	Director of Resources retired 30/09/2018
17	Director of People joined the Force 17/09/2018

* Costs fully recharged across six Regional Forces (Merseyside, GMP, Cheshire, Cumbria, North Wales and Lancashire)

14 TERMINATION BENEFITS

The CC terminated the contracts of a number of employees in 2018/19 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	
	2017/18	2018/19	2017/18	2018/19	2017/18	2018/19	2017/18	2018/19
							£	£
Less than £20,000	0	0	6	2	6	2	51,722	27,492
£20,001 - £40,000	0	0	3	4	3	4	76,090	97,912
£40,001 - £60,000	0	0	2	2	2	2	99,136	108,281
£60,001 - £80,000	0	0	1	1	1	1	63,672	69,966
£80,001 - £100,000	0	0	3	0	3	0	256,620	0
£100,001 - £150,000	0	0	1	0	1	0	119,336	0
£150,001 - £200,000	0	0	0	0	0	0	0	0
Total	0	0	16	9	16	9	666,576	303,650

The total cost of £0.304m (£0.667m 2017/18) 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 2018/19 included above are £0.096m and are based on the estimated cost to the CC.

15 AUDIT COSTS

2017/18		2018/19
£000		£000
19	Fees payable to Grant Thornton UK LLP with regard to external audit services	14
19	Total	14

The members of the Joint Audit Committee claimed expenses of £6,182 in 2018/19 (£5,278 in 2017/18) these costs are charged to the PCC.

16 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 2018/19.

Local Authorities

Funding from Local Authorities in the Merseyside area is set out in the PCC Group and the PCC Statement of Accounts 2018/19.

Officers

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

17 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:-

2017/18		2018/19
£000		£000
9,816	Depreciation	11,171
2,671	Impairment and upward/downward valuations	(2,029)
1,300	Amortisation	1,482
13,787		10,624

18 JOINT ARRANGEMENTS

The CC is party to a number of joint arrangements. The 2017/18 Code adopts IFRS 11 'Joint Arrangements', which outlines the accounting requirements of entities that jointly control an arrangement. For the preparation of the 2018/19 financial statements all joint arrangements have been reviewed to ensure that the accounting treatment is in accordance with IFRS 11.

In 2018/19 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.

NWROCU (Formerly 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 NWROCU. Merseyside is the lead Force for this 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. For 2018/19 the total revenue costs of NWROCU were £22.063m. The unit received Home Office funding of £5.445m and the total net cost of the collaboration was £16.618m.

At the balance sheet date the unit held plant and equipment of £1.616m, cash balance of £0.013m, debtors of £5.576m, creditors of £2.897m, usable reserves of £1.654m and unusable reserves of £2.655m. The Groups net revenue contribution to Titan for 2018/19 was £4.132m. The share of the NWROCU 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 2018/19 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.

Joint Control Centre (JCC)

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

National Police Air Service (NPAS)

NPAS provides air support throughout England and Wales and has operated in the Merseyside area since January 2013. West Yorkshire police are the lead force. The PCC has not accounted for this collaboration as a joint arrangement because the PCC considers that there is no joint control of the arrangement. The Group recognises the cost of this service in the Comprehensive Income and Expenditure Statement.

Tri-Force Niche Enabled Collaboration

On the 8 January 2016, the Chief Constables and Police and Crime Commissioners of Cheshire, Merseyside and North Wales agreed to jointly fund the development of a single Niche RMS platform for the three forces. The single platform will allow standardised processes and enable significant working benefits, with Merseyside initially hosting the system followed by the development of a timeline for a move to a managed service. The agreed cost apportionment methodology is based upon Niche License numbers (Cheshire 27.3%, Merseyside 52.6% and North Wales 20.1%). The Niche Programme was successful with a Police Innovation Fund bid and achieved £2.24m in funding over two financial years (2016/17 – 2017/18) which was a significant proportion of the costings moving to a single Niche platform. The Police and Crime Commissioner for Merseyside is the lead force. From February 2019 a single Niche platform is operating across the three forces. As lead Force Merseyside Police have recognised a Fixed Asset of £3.581m in their accounts at 31st March 2019. For 2018/19 the total cost of the Tri Force Niche Collaboration was £0.564m shared between Merseyside, North Wales and Cheshire Police forces of which Merseyside's share of costs amounted to £0.297m.

19 THE EXPENDITURE AND FUNDING ANALYSIS (EFA)

This analysis takes the net expenditure that is chargeable to taxation and rents and reconciles it to the Comprehensive Income and Expenditure Statement. The Expenditure and Funding Analysis analysis shows how annual expenditure is used and funded from by the CC in comparison with those resources consumed or earned by the CC in accordance with generally accepted accounting practices. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement.

2017/18						Note	2018/19					
Adjustments between funding and accounting basis							Adjustments between funding and accounting basis					
Net Expenditure Chargeable to the General Fund Balance	Adjustments for Capital Purposes	Net change for Pensions Adjustments	Other differences	Total Adjustments	Net Expenditure in the Comprehensive Income and Expenditure Statement		Net Expenditure Chargeable to the General Fund Balance	Adjustments for Capital Purposes	Net change for Pensions Adjustments	Other differences	Total Adjustments	Net Expenditure in the Comprehensive Income and Expenditure Statement
£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	
5,635	0	(50,825)	(427)	(51,252)	(45,616)	Police Services	219,017	0	(51,844)	274	(51,570)	167,447
5,635	0	(50,825)	(427)	(51,252)	(45,616)	Net Cost of Services	219,017	0	(51,844)	274	(51,570)	167,447
(5,635)	0	215,584	0	215,584	209,949	Other Income and expenditure	(219,017)	0	426,643	0	426,643	207,626
0	0	164,759	(427)	164,332	164,332	Surplus or Deficit	0	0	374,799	274	375,073	375,073
0						Opening General Fund Balance	0					
0						Surplus/(Deficit) on General Fund Balance	0					
0						Transfers to / (from) Earmarked Reserves	0					
0						Closing General Fund Balance	0					

20 EXPENDITURE AND INCOME ANALYSED BY NATURE

This note takes the expenditure and income reported for the year in the Comprehensive Income and Expenditure Statement for the CC, and further analyses it by nature.

2017/18		2018/19
£000		£000
318,067	Employees	535,400
9,917	Premises	10,557
5,451	Transport	6,062
15,636	Supplies & Services	15,977
13,787	Charges for Assets consumed	10,625
18,290	Other Services Expenses	18,894
381,149		597,515
(426,765)	Funding from the PCC	(430,068)
(45,616)	Net Cost of Service	167,447
126,425	IAS 19 Pension Net Interest	121,002
83,260	Pension Top Up Grant	86,340
264	IAS 19 Admin Fees	284
209,949		207,626
164,332	Deficit / (Surplus) on Provision of Services	375,073

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 £16.651m (2017/18: £16.950m) of contributions have been netted off against retirement benefits payable to pensioners. The cost to the CC of employer's contributions for police officers was £39.971m in 2018/19 (2017/18: £39.285m) **Note 21.11**.

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 18 years for the

Old 1987 Police Pension Scheme, at around 33 years for the 2006 Police Pension Scheme and at around 33 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 21.7**.

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 £11.873m (2017/18: £11.540m) **Note 21.11**. Details of liabilities for police staff are shown at **Note 21.7**.

The duration of the defined benefit obligation for the Police Staff Pension Scheme is estimated at 21 years for the CC.

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 21.8**). 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; and
- Pay and price inflation is significantly more or less than anticipated.

Demographic Risks

- Longevity horizons continue to expand; and
- Deteriorating pattern of early retirements.

Regulatory Risks

- Changes to regulations; and
- 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 Pension Costs

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

	Local Government Pension Scheme		Police Pension Scheme								TOTAL
	2017/18	2018/19	2017/18 1987 SCHEME	2017/18 2006 SCHEME	2017/18 2015 SCHEME	2017/18 TOTAL	2018/19 1987 SCHEME	2018/19 2006 SCHEME	2018/19 2015 SCHEME	2018/19 TOTAL	2018/19 GRAND TOTAL
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Net Cost of Services											
Current service cost	16,692	16,933	26,380	740	40,790	67,910	24,130	680	44,740	69,550	86,483
Past service cost	23	7,424	3,190	0	500	3,690	180,720	29,770	440	210,930	218,354
Administrative Expenses	264	284	0	0	0	0	0	0	0	0	284
Net Operating Expenditure											
Interest cost	15,354	15,834	112,580	5,620	3,200	121,400	106,320	5,650	4,350	116,320	132,154
Expected return on assets	(10,329)	(11,152)	0	0	0	0	0	0	0	0	(11,152)
Loss on curtailments	580	520	0	0	0	0	0	0	0	0	520
Net charge to the Comprehensive Income and Expenditure Statement	22,584	29,843	142,150	6,360	44,490	193,000	311,170	36,100	49,530	396,800	426,643
Movement in Reserves Statement											
Reversal of net charges made for retirement benefits in accordance with IAS19	(22,584)	(29,843)	(142,150)	(6,360)	(44,490)	(193,000)	(311,170)	(36,100)	(49,530)	(396,800)	(426,643)
Actual amount charged against revenue:											
Employers contributions and direct payments to pensioners payable in the year	11,540	11,873	18,325	459	20,501	39,285	16,846	363	22,762	39,971	51,844
IAS 19 Remeasurements charged against Other Comprehensive Income and Expenditure	28,743	(27,446)	199,595	(3,299)	(24,791)	171,505	8,644	(7,013)	(46,652)	(45,021)	(72,467)

21.7 Pension Assets and Liabilities Recognised in the Balance Sheet

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 2018	31st March 2019	31st March 2018	31st March 2018	31st March 2018	31st March 2018	31st March 2019	31st March 2019	31st March 2019	31st March 2019	31st March 2018	31st March 2019
	£000	£000	1987 SCHEME £000	2006 SCHEME £000	2015 SCHEME £000	TOTAL £000	1987 SCHEME £000	2006 SCHEME £000	2015 SCHEME £000	TOTAL £000	GRAND TOTAL £000	GRAND TOTAL £000
Estimated liabilities in scheme	(590,257)	(663,452)	(4,223,450)	(221,680)	(143,570)	(4,588,700)	(4,509,130)	(264,430)	(216,990)	(4,990,550)	(5,178,957)	(5,654,002)
Estimated assets in scheme	408,905	436,684	0	0	0	0	0	0	0	0	408,905	436,684
Net liability	(181,352)	(226,768)	(4,223,450)	(221,680)	(143,570)	(4,588,700)	(4,509,130)	(264,430)	(216,990)	(4,990,550)	4,770,052)	(5,217,318)

The liabilities show the underlying commitments that the CC has in the long run to pay retirement benefits. The total net liability of £4,998m has a substantial impact on the net worth of the CC as recorded in the Balance Sheet, resulting in a net liability of £5,002m. 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; and
- 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 2017. The Police Scheme liabilities have been assessed by the Government Actuaries Department using data provided by the Group.

21.8 Actuarial Assumptions

The main assumptions used in the calculations have been:-

	Local Government Pension Scheme		Police Pension Scheme	
	31st March 2018	31st March 2019	31st March 2018	31st March 2019
Rate of inflation	2.1%	2.2%	2.3%	2.4%
Short term rate of increase in salaries	3.6%	3.7%	4.3%	4.4%
Long term rate of increase in salaries	n/a	n/a	4.3%	4.4%
Rate of increase in pensions	2.2%	2.3%	2.3%	2.4%
Rate for discounting scheme liabilities	2.7%	2.5%	2.6%	2.7%
<u>Mortality Rates (in years)</u>				
Longevity at 65 for future pensioners (Men)	25.0	25.2	22.6	24.6
Longevity at 65 for future pensioners (Women)	27.8	27.9	24.2	26.2
Longevity at 65 for current pensioners (Men)	22.0	22.2	24.5	22.7
Longevity at 65 for current pensioners (Women)	24.8	25.0	26.1	24.3

21.9 Actuarial Assumptions – Sensitivity Analysis

Change in Actuarial Assumption	2018/19				TOTAL
	Local Govt Pension Scheme	Police Pension Scheme			
		1987 SCHEME	2006 SCHEME	2015 SCHEME	
	£000	£000	£000	£000	£000
Unadjusted deficit	(226,768)	(4,509,130)	(264,430)	(216,990)	(5,217,318)
+0.1% change in discount rate	13,823	75,400	8,400	7,600	105,223
+0.1% change in pay growth (salaries)	(3,073)	(4,200)	(4,000)	0	(11,273)
+0.1% change in inflation (pensions)	(14,117)	(62,400)	(4,400)	(8,200)	(89,117)
+1 year increase in life expectancy	(12,663)	(106,000)	(6,000)	(6,000)	(130,663)

21.10 Reconciliation of Present Value of Scheme Liabilities

	LGPS Funded Liabilities		Police Pension Scheme Unfunded Liabilities								TOTAL
	2017/18	2018/19	2017/18				2018/19				
	£000	£000	1987 SCHEME £000	2006 SCHEME £000	2015 SCHEME £000	TOTAL £000	1987 SCHEME £000	2006 SCHEME £000	2015 SCHEME £000	TOTAL £000	GRAND TOTAL £000
As at 1st April	(594,396)	(590,257)	(4,299,220)	(212,480)	(94,790)	(4,606,490)	(4,223,450)	(221,680)	(143,570)	(4,588,700)	(5,178,957)
Transfer of liabilities from PCC	0	0	0	0	0	0	0	0	0	0	0
Current service costs	(16,692)	(16,933)	(26,380)	(740)	(40,790)	(67,910)	(24,130)	(680)	(44,740)	(69,550)	(86,483)
Interest costs	(15,354)	(15,834)	(112,580)	(5,620)	(3,200)	(121,400)	(106,320)	(5,650)	(4,350)	(116,320)	(132,154)
Members contributions	(3,433)	(3,684)	(5,570)	(180)	(11,200)	(16,950)	(4,380)	(150)	(12,190)	(16,720)	(20,404)
IAS 19 remeasurements	29,121	(40,124)	85,770	(4,480)	6,660	87,950	(107,900)	(7,590)	(14,340)	(129,830)	(169,954)
Benefits paid	11,100	11,324	137,720	1,820	250	139,790	137,770	1,090	2,640	141,500	152,824
Past service costs	(23)	(7,424)	(3,190)	0	(500)	(3,690)	(180,720)	(29,770)	(440)	(210,930)	(218,354)
Loss on curtailments	(580)	(520)	0	0	0	0	0	0	0	0	(520)
As at 31st March	(590,257)	(663,452)	(4,223,450)	(221,680)	(143,570)	(4,588,700)	(4,509,130)	(264,430)	(216,990)	(4,990,550)	(5,654,002)

21.11 Reconciliation of Present Value of Scheme Assets

	LGPS Funded Assets		Police Pension Scheme Unfunded Assets								TOTAL
	2017/18	2018/19	2017/18				2018/19				
	£000	£000	1987 SCHEME £000	2006 SCHEME £000	2015 SCHEME £000	TOTAL £000	1987 SCHEME £000	2006 SCHEME £000	2015 SCHEME £000	TOTAL £000	GRAND TOTAL £000
As at 1st April	395,345	408,905	0	0	0	0	0	0	0	0	408,905
Transfer of assets from PCC	0	0	0	0	0	0	0	0	0	0	0
Expected return on assets	10,329	11,152	0	0	0	0	0	0	0	0	11,152
Administrative expenses	(264)	(284)	0	0	0	0	0	0	0	0	(284)
IAS 19 remeasurements	(378)	12,678	113,825	1,181	(31,451)	83,555	116,544	577	(32,312)	84,809	97,487
Employers contributions	11,540	11,873	18,325	459	20,501	39,285	16,846	363	22,762	39,971	51,844
Members contributions	3,433	3,684	5,570	180	11,200	16,950	4,380	150	12,190	16,720	20,404
Benefits paid	(11,100)	(11,324)	(137,720)	(1,820)	(250)	(139,790)	(137,770)	(1,090)	(2,640)	(141,500)	(152,824)
As at 31st March	408,905	436,684	0	0	0	0	0	0	0	0	436,684

21.12 Fair Value of Plan Assets

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

	Assets as at 31st March 2018		Assets as at 31st March 2019	
	£000	%	£000	%
Equity investments	215,575	52.7%	214,441	49.1%
Government bonds	14,680	3.6%	15,830	3.6%
Other bonds	50,868	12.4%	53,429	12.2%
Property	36,433	8.9%	41,689	9.5%
Cash/liquidity	10,918	2.7%	12,725	2.9%
Other	80,431	19.7%	98,570	22.6%
Total	408,905	100.0%	436,684	100.0%

The asset values in the Local Government Pension Scheme were calculated as at 31st March 2019. 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.

21.13 Scheme History

	2014/15	2015/16	2016/17	2017/18	2018/19
	£000	£000	£000	£000	£000
Present Value of Scheme Liabilities					
Local Government Pension Scheme	(480,229)	(471,864)	(594,396)	(590,257)	(663,452)
Police Pension Scheme	(4,219,820)	(3,768,310)	(4,606,490)	(4,588,700)	(4,990,550)
	(4,700,049)	(4,240,174)	(5,200,886)	(5,178,957)	(5,654,002)
Fair Value of Assets (LGPS)					
Local Government Pension Scheme	314,715	322,489	395,345	408,905	436,684
Deficit in Scheme					
Local Government Pension Scheme	(165,514)	(149,375)	(199,051)	(181,352)	(226,768)
Police Pension Scheme	(4,219,820)	(3,768,310)	(4,606,490)	(4,588,700)	(4,990,550)
	(4,385,334)	(3,917,685)	(4,805,541)	(4,770,052)	(5,217,318)

21.14 Remeasurements of the Net Defined Benefit Liability

	2014/15		2015/16		2016/17		2017/18		2018/19	
	£000	%	£000	%	£000	%	£000	%	£000	%
Local Government Scheme										
Difference between the expected and actual return on assets	21,193	6.8	(8,878)	(2.8)	55,726	14.1	(378)	(0.1)	12,678	2.9
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	(86,823)	27.7	32,379	6.9	(99,423)	(16.7)	29,121	4.9	(40,124)	(6.0)
	(65,630)		23,501		(43,697)		28,743		(27,446)	
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	131,322	2.8	76,674	2.0	77,826	1.7	83,555	1.8	84,809	1.7
Changes in the demographic and financial assumptions used to estimate liabilities	(462,040)	9.8	520,850	13.8	(774,580)	(16.8)	87,950	1.9	(129,830)	(2.6)
	(330,718)		597,524		(696,754)		171,505		(45,021)	
Total IAS 19 Remeasurements	(396,348)		621,025		(740,451)		200,248		(72,467)	

21.15 Plan Asset Fair Value Disaggregation

Asset Classification	2017/18			2018/19		
	£000 Quoted Market price	£000 No Quoted Market price	£000 TOTAL	£000 Quoted Market price	£000 No Quoted Market price	£000 TOTAL
Equities						
UK	86,157	0	86,157	67,033	11,532	78,565
Global	129,418	0	129,418	91,198	44,678	135,876
	215,575	0	215,575	158,231	56,210	214,441
Bonds						
UK Government	14,680	0	14,680	15,830	0	15,830
UK Corporate	17,706	0	17,706	18,820	0	18,820
UK Index Linked	33,162	0	33,162	34,609	0	34,609
	65,548	0	65,548	69,259	0	69,259
Property						
UK Direct Property	0	23,757	23,757	0	26,656	26,656
UK Property Managed	777	6,174	6,951	864	7,956	8,820
Global Property Managed	0	5,725	5,725	0	6,213	6,213
	777	35,656	36,433	864	40,825	41,689
Other						
UK Private Equity	41	13,453	13,494	1	13,870	13,871
Global Private Equity	0	12,799	12,799	0	15,483	15,483
UK Hedge Funds	0	2,085	2,085	379	1,787	2,166
Global Hedge Funds	0	10,713	10,713	0	11,041	11,041
Global Infrastructure	0	8,055	8,055	0	10,651	10,651
UK Infrastructure	450	9,650	10,100	758	16,106	16,864
UK Opportunities	5,479	10,386	15,865	4,023	13,397	17,420
Global Opportunities	2,331	4,989	7,320	3,794	7,280	11,074
	8,301	72,130	80,431	8,955	89,615	98,570
Cash						
Cash Instruments	10,918	0	10,918	12,725	0	12,725
	301,119	107,786	408,905	250,034	186,650	436,684

21.16 Claims Arising from the Transitional Provisions in the Police Pension Regulations 2015

The Chief Constable of Merseyside, along with other Chief Constables and the Home Office, currently has 410 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.

Claims of unlawful discrimination have also been made in relation to the changes to the Judiciary and Firefighters Pension regulations and in December 2018 the Court of Appeal (McCloud / Sargeant) ruled that the 'transitional protection' offered to some members as part of the reform to public sector pensions amounts to unlawful discrimination. On 27th June 2019 the Supreme Court refused leave to appeal on the McCloud case. In light of this it is envisaged that the Court will require changes to arrangements for employees who were transferred to the new schemes potentially including Police Pension Scheme members. This would lead to an increase in Police Pension Scheme liabilities and our actuaries (The Government Actuary Department (GAD)) using specific assumptions and applying these across the Police scheme as a whole have estimated the potential increase in scheme liabilities for Merseyside to be approximately 4.4% or £210.3m of pension scheme liabilities. This increase is reflected in the present value of the defined benefit obligation, as reported in the net defined benefit liability line of the Balance Sheet, with the increase presented as a past

service cost within cost of services in the Comprehensive Income and Expenditure Statement. Note 29.7 sets out the detail.

GAD have used the following calculation approach to estimate the increase in liabilities. They have calculated the costs for an average member for each age under the 2015 scheme or relevant pre-2015 scheme over the four years to 31st March 2019 and taken the higher value, then compared this to the liability that has been calculated for the disclosures based on the current scheme allocation. This has been done for all members in the data as at 31st March 2016. This is based on the assumptions made for the 2018/19 accounts, rather than allowing for each member's actual career progression /salary increases etc. This represents one possible form of compensation, namely putting members in the relevant pre-2015 scheme or the 2015 scheme that would be expected (under the assumptions used at the calculation date) to provide more generous benefits for that member over the relevant period. This is not the same as calculating whether members would be better off at retirement. An allowance has been made for costs in respect of new entrants of the scheme since 2015. Whether these members would be eligible for any compensation is currently uncertain. The calculation has been carried out for the Police scheme as a whole and assumed to apply equally to the authority. Any difference in the profile of the authority's membership compared with the scheme as a whole may result in a different impact in practice. There is a considerable element of uncertainty surrounding these figures and they are highly sensitive to assumptions around short term earnings growth. In addition, the past service cost in respect of the McCloud / Sargeant judgement is expected to be highly sensitive to the gap between CPI inflation and the assumed rate of salary growth. Under the approach and remedy adopted, if the long term salary growth assumptions were 1.0% pa lower, then the impact on the past service cost is expected to be a change of around -10% on the provision. Alternative forms of remedy may have different levels of sensitivity to these assumptions. There may be a further impact on the current service cost for 2019/20 which is not taken into account in these figures or in the contribution rates.

The impact of an increase in scheme liabilities arising from McCloud / Sargeant judgment will be determined through the pension valuation process, which calculates employer and employee contribution rates. The next Police Pension valuation is due to take place in 2020 with implementation of the results planned for 2023/24 and forces will need to plan for the impact of this on employer contribution rates alongside other changes identified through the valuation process.

The impact of an increase in annual pension payments arising from McCloud / Sargeant is determined through The Police Pension Fund Regulations 2007. These require a police authority to maintain a police pension fund into which officer and employer contributions are paid and out of which pension payments to retired officers are made. If the police pension fund does not have enough funds to meet the cost of pensions in year the amount required to meet the deficit is then paid by the Secretary of State to the police authority in the form of a central government top-up grant.

With regard to the LGPS a similar adjustment to past service costs within the IAS19 Disclosure has been made for the McCloud judgment (adjustment depending on materiality). This corresponds to a 3.5% or £7.4m increase in liabilities. This increase is reflected in the present value of the defined benefit obligation, as reported in the net defined benefit liability line of the Balance Sheet, with the increase presented as a past service cost within cost of services in the Comprehensive Income and Expenditure Statement. Note 29. 7 sets out the detail. The impact of an increase in scheme liabilities arising from McCloud / Sargeant judgment will be determined through the pension valuation process, which calculates employer and employee contribution rates.

22 CONTINGENT LIABILITIES

The Chief Constable of Merseyside currently has 2 claimants relating to undercover police officers overtime and when they are on duty. The Group and the PCC recognise that there is a potential contingent liability of some £0.470m in relation to these cases, which is estimated to be the maximum potential liability.

23 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 2018 to 31st March 2019 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.

2017/18	Pension Fund Account	2018/19
£000		£000
	Income	
	Contributions Receivable	
(30,066)	Police employers pension contribution income	(29,980)
(5,571)	Employees pension contributions (Police Pension Scheme 1987)	(4,309)
(175)	Employees pension contributions (Police Pension Scheme 2006)	(150)
(11,196)	Employees pension contributions (Police Pension Scheme 2015)	(12,192)
	Other	
(731)	Police transfer value receivable	(598)
(1,397)	Capital equivalent income - ill health pensions	(1,770)
(49,137)	Total Income	(48,999)
	Expenditure	
	Benefits Payable	
106,350	Police pensions	111,642
1,887	Police ill health commutations	1,804
23,696	Police ordinary commutations	21,816
337	Police death in service grant	77
	Other	
20	Refunds of contributions	0
107	Police transfer value payable	0
132,396	Total Expenditure	135,339
83,260	Net Amount Payable/(Receivable) before top-up grant	86,340
(83,260)	Additional contribution from the PCC	(86,340)
(0)	Net Amount Payable/(Receivable)	0

31st March 2018	Net Assets Statement	31st March 2019
£000	Net Current Assets and Liabilities	£000
	Creditors/Receipts in Advance	0
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

Annual Governance Statement

Merseyside Police**Annual Governance Statement 2018****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 The Chief Constable and the PCC have approved and adopted a Joint Code of Corporate Governance, consistent with the principles of the CIPFA/SOLACE Framework: Delivering Good Governance in Local Government 2016, which sets out the shared approach to integrating the core good governance principles into the conduct of the business, and sets out the arrangements for reviewing their effectiveness. A copy of the Code is available on Merseyside Police's website at www.merseyside.police.uk.

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 Governance comprises the arrangements put in place to ensure that the intended outcomes for stakeholders are defined and achieved. To deliver good governance in the public sector, both governing bodies and individuals working for public sector entities (e.g. the PCC and Chief Constable) must try to achieve their entity's objectives while acting in the public interest at all times. Acting in the public interest implies primary consideration of the benefits for society, which should result in positive outcomes for service users and other stakeholders.

2.2 The system of internal control is a significant part of the overall governance 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.

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".

2.3 The Chief Constable needs to 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.

3. The Governance Framework

3.1 The governance framework comprises the systems, processes, culture and values by which the Chief Constable is directed and controlled. The Chief Constable of Merseyside Police is responsible for operational policing matters, the direction and control of police personnel, and for putting in place proper arrangements for the governance of the force. The Police and Crime Commissioner for Merseyside is required to hold him to account for the exercise of those functions, and those of the persons under his direction and control. It therefore follows that the PCC must satisfy herself that the force has appropriate mechanisms in place for the maintenance of good governance, and that these operate in practice.

3.2 The core principles that underpin the governance framework are outlined below. Examples of the behaviours and outcomes are provided against each principle that demonstrate that the relevant principle was in place during the year:

A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of the law.

- The Chief Constable has communicated to its workforce, the values and behaviours expected of them via the 'Just Trilogy' (Just Talk, Just Think, Just Lead) vision. The force has a strong ethical culture and has fully embedded the **Code of Ethics** into its vision, policy and practice.
- The force has implemented good decision making practices and there is effective oversight and scrutiny. The force has adopted the National Decision Model (NDM), which provides a framework in which decisions can be examined and challenged. The model has the Code of Ethics at its centre.
- The force has adopted Authorised Professional Practice, which is authorised by the College of Policing as the official source of professional practice on policing.
- The force's Professional Standards Department manages all complaints made by members of the public against Merseyside Police officers and staff, and also deals with conduct issues. The Department works with the Independent Office for Police Conduct (IOPC) to quality assure investigations and increase public confidence.
- Merseyside Police maintains an up to date **register of interests** for Chief Officers and their respective staff. There is a requirement for all police officers and police staff to declare and have approved any external business interest. In addition an up to date **gifts and hospitality register** is maintained. Police officers and police staff are required to report any offer of a gift or gratuity, which arise during, or in connection with their employment for Merseyside Police. All gifts and gratuities, whether accepted or not, have to be disclosed. These registers are published on the force's website.
- The force reviews individual performance on a regular basis and considers training or development needs. A revised **Professional Development Review (PDR)** process was introduced during 2017 to support the move towards professionalising the police service and recognising the knowledge, skills and experience of all staff. All PDRs are now completed on an electronic (ePDR) system, to increase efficiency of the process.

B. Ensuring openness and comprehensive stakeholder engagement.

- The force has developed a **Community Engagement Strategy** 2017-2020, which enables the participation of citizens and communities in policing at their chosen level, ranging from providing information and reassurance, to empowering them to identify and implement solutions to local problems and influence strategic priorities and decisions. This is in line with the force's Community First Strategy.
- The force **collaborates with other agencies** to manage demand and reduce costs. The force's rationale for collaborating with others is to improve services for local communities and make savings wherever possible. This includes blue light collaboration opportunities.
- The force has been working together with North Wales Police and Cheshire Constabulary to bring our existing Niche system into a single shared database. The Tri Force Niche project enables officers and staff in all 3 forces to access each other's data, reducing threat, harm and risk, ultimately improving the services provided to communities.
- The force's website is regularly update to ensure the most up to date and timely information is available to members of the community. The force also has an up to date **Freedom of Information publication scheme**.
- The force has well-developed social media capability, including Twitter, Facebook and MerseyNow, which provides up to date **information to the communities of Merseyside**.

C. Defining outcomes in terms of sustainable service and economic benefits.

- The force's **Community First Strategy** is a concept that puts the victim and community at the heart of decision making. The force's performance framework has been replaced with common sense measures that assess our effectiveness at putting the community first, making quality decisions, and getting it right first time. It places greater emphasis on using discretion and common sense.
- The force's Community Cash Back Fund continues to utilise money obtained through the Proceeds of Crime Act (POCA). This funding is being used to support specific community projects and operations, crime reduction initiatives and to promote diversionary activities.
- **Her Majesty's Inspectorate of Constabulary and Fire & Rescue Services (HMICFRS)** independently assess policing activity, from neighbourhood teams to serious crime and the fight against terrorism – in the public interest. During 2018-19 the force was inspected against a number of thematic areas. The force acts on recommendations and areas for improvement identified in each inspection report.
- The force assesses its demand and has an excellent **understanding of the current demand** on its services, and a good understanding of potential future demand for services. It uses its resources well to meet demand and to plan for future demand and investment. During 2018-19 the force created the 'Understanding Demand Team', to help understand the effect of demand on our capability to protect people, prevent crime and deliver Community First.

D. Determining the interventions necessary to optimize the achievement of the intended outcomes.

- The Chief Constable and PCC have maintained and reviewed the **Medium Term Financial Strategy**, which forms the basis of the annual budget and provides a framework for evaluating future proposals.

- The force's **Community First Programme Board** provides governance, guidance and decision making to ensure programme work is delivered to required timescales and specifications. The Board ensures that the programme achieves its objectives in delivering business benefits including an examination of budget and resourcing.
- The **Continuous Improvement Board** highlights key strategic performance issues and risks, determines how each portfolio is contributing to priorities and identifies and resolves cross portfolio issues.
- **Strand Level Governance meetings** coordinated activity at a force level, ensuring delivery of the objectives within each of the Police and Crime Plan priorities.
- The **Corporate Governance Framework** was reviewed and amended to reflect best practice.

E. Developing the entity's capacity, including the capability of its leadership and the individuals within it.

- The force undertook a **Leadership Review** to complement the work being done as part of the Community First strategy. The review defined a set of leadership principles to support the Force strategy and build upon the well embedded 'Just Principles', recognising that the organisation needs to be equipped with the skills and knowledge we need to meet the changing policing challenges over the next few years.
- The formation of the Leadership Team was the start of supporting further leadership development across the Force. The current leadership development was reviewed and identified key areas for development. It was recognised that first and second line managers required a stronger strategic steer and skills update in terms of leading teams and the fundamentals within that in order to enable them to manage individual performance more effectively.
- Resilience Training has been introduced to support line managers in managing not only their own resilience and that of their team. This was seen as a key aspect of managing teams and performance in terms of well-being. It was designed to instil some coping mechanisms to help people deal with pressure of work in order to avoid increased sickness levels.
- The force is designing a Promotion Pathway that includes the ICLP, and will be delivered to first line managers following on from successfully passing the Sergeant Exam. It was acknowledged that an area affecting performance were issues around recording on Force systems so the first element of the Pathway will be a Professional Practice course that will include required system usage for line managers. This will improve recording with the knock on effect on accuracy and reduced repeated input/ double keying. There will be a suite of Leadership CPD that is currently being designed and will be accessible to line managers and those that are appropriate will be opened to the Force as a whole. The final element will be the ICLP which will be completed as they are successful at promotion board and take up their posting. Once this is established we will look at delivering a Leadership programme for those being promoted to Inspector and for police staff of equivalent Sergeant and Inspector ranks.
- Talent management pools have been established within strands and departments, which has enabled further support in terms of developing staff to improve performance. Each area has looked at how they can enhance their teams and areas for development. They have delivered sessions to support promotion processes, development in specific skills required and to support PDR usage and understanding. These are being managed within each area and coordinated and supported by the Leadership Team.
- The force 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.

F. **Managing Risks and Performance through Robust Internal Control and Strong Public Financial Management.**

- The force has developed a ***strategic understanding of the threats and risks*** which pose the greatest harm to local communities, using the 'management of risk in law enforcement' (MoRiLE) process. This tool assesses the types of crimes which most threaten communities, and highlights where the force does not currently have the capacity or capability to tackle them effectively.
- **Strategic financial updates** are provided at the force's Strategic Management Board on a monthly basis.
- The **Joint Audit Committee** has overseen the completion of the work of the internal and external audit during the year and ensured that actions arising from their work have been addressed.
- The force holds a bi-monthly ***Continuous Improvement Board***, which highlights key strategic performance issues and risks, determines how each portfolio is contributing to priorities and identifies and resolves cross portfolio issues.

G. **Implementing Good Practices in Transparency, Reporting, and Audit to Deliver Effective Accountability.**

- The force has a number of Board Level 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.
- The force 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. The force publishes the outcomes of disciplines on its website, along with the outcome of misconduct hearings.
- The force has effective arrangements in place 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.

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 2018-19 has been informed by the work of senior managers within the force, who have responsibility for the development and maintenance of the governance environment; the Head of Internal Audit's annual report; and also by comments made by external auditors and other review agencies and inspectorates. The review also comprises:
 - An annual review of the key documents within the Chief Constable's corporate governance framework eg Financial Regulations. This provides assurance around potential vulnerability to fraud or breaches of financial regulations.

- An overarching review of the governance arrangements in place to support each of the core principles. As part of the review the Chief Constable's Code of Corporate Governance is updated to reflect changes to the governance framework and the implementation of the prior year's AGS development plan.
- A review of what has happened during the past year to evidence how the governance framework has been complied with. The process includes consideration of the questions and challenges raised within the CIPFA Good Governance Guidance Note for Police and a discussion on how well existing arrangements meet the good practice guidance within the guidance.

4.3 **Assurance Framework** – this 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. The key assurances are:-

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

The Head of Internal Audit is responsible for the day-to-day management of the Shared Internal Audit Service, and reports directly to the Chief Finance Officers. Direct access to the PCC, Chief Constable and the Chair of the Joint Audit Committee is also sanctioned if considered appropriate. The Head of Internal Audit plays a critical role in the delivering the PCC's, and Chief Constables, strategic objectives which conforms to the CIPFA Statement on the Role of the Head of Internal Audit (2010).

On the basis of the internal audit work undertaken in 2018-19, including the outcomes of follow up work on actions agreed with management, the Head of Internal Audit is satisfied that sufficient assurance work has been carried out to allow him to form a reasonable conclusion on the adequacy of risk management, governance and internal control. In his opinion the Office of the Police and Crime PCC for Merseyside's and the Chief Constable'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.

In accordance with the Accounts and Audit Regulations 2015 the PCC once again conducted a review of the effectiveness of its system of Internal Audit. Consequently, the Head of Internal Audit undertook a self-assessment of compliance against the Local Government Application Note to the Public Sector Internal Audit Standards (PSIAS) developed by CIPFA, using the checklist detailed within Appendix 4 of the note to form the basis of the judgment. The Head of Internal Audit has completed the self-assessment and there are no issues to report.

PSIAS also require that all internal audit functions be subjected to an external evaluation every 5 years. A peer review was undertaken in September 2017 by the Head of Internal Audit of West Yorkshire PCC. The principal objectives of the assessment were:

- To review Shared Internal Audit Service (SIAS) conformance with Public Sector Internal Audit Standards;
- To evaluate the effectiveness of SIAS internal audit activity; and
- To identify opportunities to enhance management and work processes.

In making assessments the peer group adopted The Institute of Internal Auditor's (IIIA) Quality Assessment Manual ratings: "Generally Conforms," "Partially Conforms," and "Does Not Conform." Merseyside SIAS achieved a "Generally Conforms" opinion meaning that the internal audit activity has a charter, policies, and processes that are judged to be in conformance with the Standards. A number of minor recommendations were made from the review and have been incorporated in to the Quality Assurance Improvement Programme.

(ii) 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 Governance Report and the Annual Audit Letter, are considered by the PCC and the Audit Committee at appropriate times during the annual cycle of meetings.

At the time of writing Grant Thornton were undertaking their audit review and will issue their opinions by 31st July.

(iii) Joint Audit Committee

The PCC and Chief Constable have established a Joint Audit Committee. Its role is to provide an independent review of the effectiveness of 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 2018/19. The Committee's overall conclusions on the PCC's and Chief Constable's governance arrangements are that it has received assurances on the operation of the PCC's and Chief Constable's 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, the Audit Committee reviewed its own effectiveness against its terms of reference and its objectives. Members believe the Committee has been effective. However, there are areas to develop further such as developing arrangements for ensuring value for money through the revised champion roles. An action plan has been agreed to address the areas identified. In implementing this action plan, the Committee will become more effective during 2019/20. 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.

(iv) 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.

(v) Her Majesty's Inspectorate of Constabulary and Fire & Rescue Services (HMICFRS)

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 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.

During 2018/19, HMICFRS adopted a risk based approach to the annual PEEL Assessment. Unlike in previous years, whereby all forces were subject to an annual PEEL Assessment – Efficiency and Legitimacy in the Spring, and Effectiveness in the Autumn –, HMICFRS moved to one annual assessment of forces, with all forces assessed in one of three tranches during the period from September 2018 through to June 2019. Merseyside will be subject to the annual PEEL assessment as part of the third tranche, week commencing the 24th June 2019.

Notwithstanding this, bespoke Force thematic inspection reports relating to: Crime Data Integrity; Child Protection; and Custody were published during 2018/19. With regards Crime Data Integrity, HMICFRS's overall judgment of the Force was 'good.' The Child Protection and Custody inspections did not receive a graded judgment. In both of these areas, the Force will be subject to a follow up inspection in 2019/20 to assess progress made against the recommendations and areas for improvement identified in the inspection reports.

(vi) Force decision making processes

Policy and decision making within the force ultimately rests with the Chief Constable. A number of key Board Level meetings exist to support him in this process, including the Strategic Management Board, Community First Programme Board and Continuous Improvement Board.

Conclusion

Based on the findings of the review undertaken above and the assurances received it is concluded that the Governance Framework, including the system of internal audit and internal audit, is operating effectively and continues to be fit for purpose.

5. Significant Governance Issues

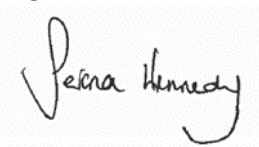
5.1 The following table details the progress made against the significant governance issues identified in last year's Annual Governance Statement.

Governance Issue	Action
<p>The ongoing identification and achievement of the savings identified in the Medium Term Financial Strategy to ensure a balanced budget over the period.</p>	<p>As part of the 2018/19 budget the PCC agreed a savings target of £7.0m with the Chief Constable to balance the budget. As a consequence of this, the PCC and Chief Constable completed a series of reviews under the Community First Programme and the actual savings realised in the year amount to £6.1m, an overall under-achievement of £0.9m. In February 2019 the PCC was able to set a balanced budget for 2019/20. In doing so the PCC raised the precept by the maximum allowable, resulting in an additional £9.9m of precept income. Maximising the precept also provided an opportunity for the Chief Constable to recruit an additional 40 Police Officers and provide some stability to the Force over the next couple of years. As part of the budget the Chief Constable was able to reinvest savings from the Community First Programme approved during 2018/19 to recruit an additional 40 Police Officers and 14 Police Staff in 2019/20, as well as save 40 Police Officer posts that were due to be lost.</p> <p>The Medium Term Financial Strategy (MTFS) has been reviewed and it is forecast that the PCC and Force will be required to identify £18.4m of savings over the MTFS period. Consequently, the PCC and Force will continue to face a very significant financial and policing challenge in the years ahead. The Chief Constable, in partnership with the PCC, is identifying areas for review. This issue has been highlighted as an ongoing significant governance issue and is being managed through the PCC's Risk Management arrangements.</p>
<p>The Government have not yet published the new model for distributing funding to police forces, which may further impact on the savings requirement for Merseyside.</p>	<p>The new model is still yet to be published. This Governance Issue remains, and is reflected on the table for 2019/20.</p>
<p>The Policing and Crime 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 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. There may be a further impact as a result of the devolution deal; the implications of which are unknown at this stage. 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 PCC, Force and the Merseyside Fire & Rescue Authority (MFRA) have established a Joint Police and Fire Collaboration Committee to explore opportunities for greater collaboration between themselves, and also the North West Ambulance Service.</p> <p>The PCC is committed to being a member of the Joint Police and Fire Collaboration Committee and in ensuring that the emergency services collaborate with one another where it would improve their efficiency or effectiveness to do so</p>

5.2 The following have been identified as significant governance issues for the force in 2019/20 and beyond.

Governance Issue	Action
<p>The ongoing identification and achievement of the savings identified in the Medium Term Financial Strategy to ensure a balanced budget over the period.</p>	<p>The force is currently developing the next phase of change programmes 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 Government have not yet published the new model for distributing funding to police forces, which may further impact on the savings requirement for Merseyside.</p>	<p>The force will closely monitor any recommendations that come out of the consultation and provide an assessment of the impact. In conjunction with other metropolitan forces, we have commissioned work from external advisors to provide professional advice.</p>
<p>The Policing and Crime 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 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. There may be a further impact as a result of the devolution deal; the implications of which are unknown at this stage.</p> <p>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>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>

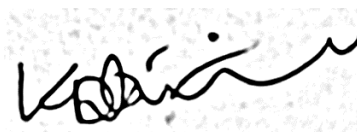
Signed



Serena Kennedy

**Deputy Chief Constable of Merseyside Police
On behalf of the Chief Constable of
Merseyside Police**

31st July 2019



Keith Dickinson ACMA/ CGMA/ FCMA

Director of Resources for the Chief Constable of Merseyside Police

31st July 2019

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.

CURTAILMENTS & SETTLEMENTS

Curtailement arises as a result of the early payment of accrued pensions on retirement on the grounds of efficiency, redundancy or where the employer has allowed employees to retire on unreduced benefits before they would otherwise have been able to do so.

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.

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 2018/19)

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 2018.

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.

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.