The Police and Crime Commissioner and the Chief Constable have approved the Statement of Accounts for publication on the 31st July 2019 in accordance with requirements of the Accounts and Audit Regulations 2015. Unfortunately, at the time of publication our External Auditor, Grant Thornton, had been unable to conclude their audit and issue their audit opinions. Consequently, the status of the Statement of Accounts are unaudited and the Statement of Accounts as published may be subject to change. The audit opinions will be published as soon as reasonably practicable after the conclusion of the audit, along with the audited Statement of Accounts.

Annual Financial Report 2018-19 (Unaudited)

The Police and Crime Commissioner for Merseyside

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Narrative Statement by the Chief Finance Officer

The Statement of Accounts provide details of the Police and Crime Commissioner's (PCC) and the Group i.e. incorporating the Chief Constable, 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 PCC 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 PCC and Group;
2. Introduction to Merseyside;
3. Financial performance;
4. Non-financial performance;
5. People;
6. Explanation of the Statement of Accounts;
7. Strategic risks;
8. Summary and conclusion; and
9. Acknowledgements.

1. EXPLANATION OF THE PCC AND GROUP

The Police Reform and Social Responsibility (PRSR) Act 2011 created the post of directly elected PCC for Merseyside. In 2016 the second national elections for PCC's took place on the 5th May 2016, with the people of Merseyside re-electing Jane Kennedy for a second term to oversee policing and crime matters in their area. The PCC will hold office until May 2020. 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; and
- Working in partnership to improve road safety.

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 scrutinised by the Police and Crime Panel in order to promote openness and transparency in the transaction of police and crime business. The Panel also supports the PCC in the effective exercise of its functions. The Panel comprises ten elected members (representing each of the five Local Authorities in

Merseyside) and two independent members. Knowsley Metropolitan Borough Council provides administration and support to the Panel.

The PRSR Act established two separate legal entities as 'corporations sole, i.e. the PCC for Merseyside and the Chief Constable of Merseyside Police Force. Under the PRSR Act the PCC is responsible for producing its own set of accounts, along with the consolidated Group accounts. In addition, the Chief Constable is also required to produce a separate set of accounts.

This set of accounts focuses on those discrete activities which the PCC is directly responsible for, such as community safety and commissioning services for victims, as well as the "PCC Group" which includes all aspects of operational policing under the direction and control of the Chief Constable.

The Chief Constable has produced a separate set of accounts which explains how the resources provided by the PCC have been used to deliver operational policing services. The Chief Constable's accounts can be found at the following link:-

https://www.merseysidepcc.info/home/down-to-business/money/Statement-of-Accounts.aspx

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 balance budget is achieved annually. These financial challenges are expected to continue until at least 2023/24.

Revenue Outturn

The PCC approves an annual revenue budget to finance spending on the day to day running expenses of the PCC and Force. In 2018/19 the Net Budget Requirement was £313.102m, of which £5.8m was under the PCC's direct control. In broad terms the following tables show where the PCC and the Group's money came from and how it was spent.

Where did our Money Come From?

The PCC and Group gets most of its funding through Government grants with a significant amount also coming from money raised through the Council Tax payments, i.e. Precept. The table below shows where the money came from in 2018/19.

	£m	%
General Police Grant and Legacy Council Tax Grants	247.660	79.1
Council Tax (i.e. Precept)	64.963	20.7
Collection Fund Surplus	0.479	0.2
Planned Contribution from Reserves	0.150	0.0
Total	**313.252**	**100.0**

As can be seen above, the majority of income comes from Government Grants (79.1%), with the precept, which is raised locally and is collected by the five Local Councils along with their council tax, accounting for 20.7%.

What did we spend the Money on?

Most money is spent on Police Officers, Police Staff, including Police and Community Support Officers, and Police Pensions. Other money is spent in various ways including buildings, vehicles, forensics, uniforms and ICT. The table below shows where the money was spent in 2018/19.

	£m	%
Police Officers Pay	160.103	51.1
Police Pensions	40.119	12.8
Police Support Staff Pay	68.361	21.8
Police Support Staff Pensions	11.548	3.7
Other	31.888	10.2
Total Net Operating Expenditure	**312.019**	**99.6**
Contributions to Reserves	1.233	0.4
Total	**313.252**	**100.0**

Group Controlled Expenditure

The outturn position for 2018/19 shows total net operating expenditure of £312.019m. This represents an overall under-spend on the revenue budget of £1.233m, i.e. 0.4%, compared to the 2018/19 budget. This position is a result of a net under-spend of £2.173m on the operational budget reduced to take account of the under achievement of in year savings of £0.940m.

The under spend on the operational budget is mainly due to savings achieved across service departments within the Force, through the holding of vacancies to provide greater flexibility to enable the Force to re-engineer its service, as well as a more efficient use of resources and the continued scrutiny of spending. The North West Regional Organised Crime Unit also underspent in year due to the Unit working with a number of vacancies across its teams. In addition, the Unit was successful in applying for funding from the Police Transformation Fund which has resulted in underspends in ongoing areas of budgets.

However, delays in the disposal of a number of properties resulted in an increase in capital financing costs, along with the payment of employee costs associated with the ongoing change programme reduced the overall net operational underspend. In addition, throughout 2018/19, the police service nationally has been working alongside the Home Office to address some issues within the Forensic Services market. As a consequence of this review, all Forces have seen price increases to ensure the viability of the sector is secured.

The majority of the under spend has been transferred to the Invest to Save Reserve to provide funding for initiatives that will generate future savings. In addition, contributions have been made to the Chief Constables Priority Fund and the PCC's Crime Prevention Strategy Reserve. The underspend relating to North West ROCU has also been carried forward.

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.

In addition, savings have been delivered through the review of non-staff budgets associated with functions that have been subject to review and through the review and scrutiny of central and force-level budgets in order to identify potential savings. The actual savings realised in the year amount to £6.076m, £0.940m short of the savings target. This shortfall has been added to the savings target set out in the 2019/20 Budget Report. The shortfall across the Community First projects is mainly due to the identification of the need to reinvest some of the achieved savings into a Quality Control function within Forensic Services, in order to ensure the Force meets the new ISO accreditation requirements, and the pausing of implementation of the review of custody provision due a significant change in demand profile within custody during 2018/19, consequently the anticipated savings relating to this were not achieved.

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.

PCC Controlled Expenditure

The PCC has a budget for the Office of the Police and Crime Commissioner (OPCC), as well as the funding for the Crime Prevention Strategy. A high level analysis of the OPCC's budget and Crime and Prevention Strategy is provided below.

Office of the Police and Crime Commissioner

The budget for the OPCC was £1.212m to cover the cost associated with the PCC carrying out her functions and support costs. At year end the budget was underspent by £0.081m, due to the office holding a number of vacancies and greater scrutiny of spending. The underspend has been transferred into the PCC's Crime Prevention Strategy Reserve to enable the PCC to continue to fund initiatives that support the prevention of crime and disorder on Merseyside.

Crime Prevention Strategy

In 2018/19 the PCC approved the continuation of the Crime Prevention Strategy with the aim of supporting initiatives that contributed to the PCC's Police and Crime Plan priorities, particularly focusing on the prevention of crime and anti-social behaviour, as well as helping support victims of crime. In order to support the strategy the PCC established a number of funding streams that have been utilised to fund the strategy, these are:-

(i) Community Safety Funding (£2.837m)

In February 2018 the PCC awarded Crime and Disorder Reduction grants to the Force, Local Authorities, Community Safety Partnerships and the Voluntary Sector that would secure, or contribute to securing, crime and disorder reduction on Merseyside. The funding was used by the partners to fund community safety initiatives to reduce domestic violence, hate crime, youth crime and substance abuse and support offender management schemes, positive futures initiatives, the drug intervention programme within the Force Custody Suites and the PCC's Appropriate Adult Scheme.

(ii) Victim Support Services and Restorative Justice (£1.635m)

The PCC received specific grant funding from the Ministry of Justice to fund the provision and commissioning of Victim Support Services and Restorative Services on Merseyside. The total funding available in 2018/19 amounted to £1.635m. At the end of the financial year all the funding had been spent on providing practical support services for victims of crime, for their family members and for victims of sexual violence and domestic violence, including restorative justice services and practical support measures. The services commissioned and delivered by the PCC to support and care for victims of crime included:-

- Merseyside Police Referral and Neighbourhood Support Service;
- Domestic Abuse Support Service for Young People & Children provided by the Local Authorities on Merseyside;
- Vulnerable Victims Support Service provided by Victim Support;
- Child Sexual and Child Exploitation Support Service provided by Catch 22;
- Support for Victims subject to Sexual Offences jointly provided by RASA and RASASC;
- Hate Crime Advocacy service provided by the Anthony Walker Foundation, supported by a consortium of hate crime support services; and
- Restorative Support Services Strategic Delivery Partner provided by Restorative Solutions.

The Child Sexual and Child Exploitation Support Service and the Support for Victims subject to Sexual Offences were co-commissioned services with Knowsley MBC & St Helens MBC and Liverpool City Council, NHS England, Knowsley MBC & Sefton MBC respectively. The co-commissioned schemes drew down an additional £0.438m from the PCC's partners to support victims of crime on Merseyside.

All these services were complemented by the running of the Victim Care Merseyside website. The website is a central portal where victims of crime can find advice, information and guidance and access support and care. Vulnerable people can search the website and find the best placed organisations to help them according to where they live and what issues they face.

(iii) PCC Priority Fund (£0.135m)

The PCC awarded funding totalling £0.135m to support other initiatives that will help prevent crime and anti-social behavior. Grants of between £5,000 and £25,000 were awarded to organisations that could demonstrate that their initiatives would contribute to the achievement of the PCC's Police and Crime Plan objectives. During the year 14 initiatives were supported from the Fund, including the 'Terriers project' run by the Royal Court Trust to raise awareness of the dangers of guns and gangs to children and young people, the 'Platform For Change' project run by Employability Solutions to deliver knife-crime awareness raising sessions to young people aged 11-19 years of age and the 'Safe Skills' educational programme run by the Ariel Trust to raise awareness of issues relating to grooming for sexual and criminal exploitation.

(iv) Police Property Act Fund (£0.045m)

The monies in the Police Property Act Fund are generated by the disposal of property, which remains in police possession, in connection with their investigations into a suspected offence, and the owner cannot be ascertained. The PCC is able to dispose of funds by making payments to charitable organisations, and also to meet the expenses incurred in the conveyance, storage, safe custody and sale of the property. During the course of the year the PCC ran a bidding round for funding from the Fund to support organisations running diversionary initiatives to coincide with Mischief Night. Subsequently, the PCC made 26 grant awards to charitable organisations across Merseyside of up to £5,000 from the fund totalling £0.045m.

(v) Home Office Specific Grants (£0.525m)

During the year the PCC received grant funding from the Home Office following successful bids to the Violence Against Women and Girls (VAWG) Service Transformation Fund and Early Intervention Youth Fund (EIYF). The VAWG funding was secured to commission the 'Red Umbrella' Project, in conjunction with South Wales PCC, over the next two years. The project aims to protect and support service users, gather intelligence, increase reporting for law enforcement to pursue and prosecute perpetrators of VAWG, keep victims safe, prevent further offences and provide pathways for those wishing to exit sex work through sustainable programmes. The project will be evaluated with the aim of identifying and sharing best practice across the country. The PCC submitted and endorsed a joint bid from the 'Merseyside Youth Alliance', i.e. Everton in the Community, Liverpool Football Club Foundation, Princes Trust and Shrewsbury House Youth Club, to the EIYF. The bid was successful and two year funding has been secured to enable the 'Youth Alliance' to support targeted early interventions and prevention activity to tackle serious violence by engaging in early intervention and prevention programmes with young people across Merseyside.

Capital Programme

In addition to revenue spending on day to day activities, the PCC and Force incur capital expenditure. Capital expenditure is expenditure on the acquisition of a fixed asset, or expenditure that adds to the value, or extends the useful life of an existing asset, such as improvements to police stations and properties, together with the purchase of vehicles and Information Communication Technology systems. Capital expenditure is normally funded by loans, grants, external contributions or capital receipts. The table below shows the capital expenditure incurred in 2018/19 and how it was funded.

	£m	%
Estate Strategy	15.660	77.5
IT and Technical Strategy	2.807	13.9
Vehicle Replacement Programme	1.737	8.6
Total Capital Expenditure	**20.204**	**100.0**
Financed by:-		
Grant Funding	1.359	6.7
Capital Receipts	1.505	7.4
Other Contributions	0.275	1.4
Reserves	1.185	5.9
Borrowing	15.880	78.6
Total Funding	**20.204**	**100.0**

From the above table it can be seen that there was significant expenditure on the capital programme in 2018/19, with over £15m being spent on the implementation of the PCC's Estate Strategy, particularly on the construction of the new central facility for property, vehicle fleet management and a patrol hub on Edge Lane and on initial work on the new training venue at Speke. A further £148m is planned to be spent on the Estate Strategy between 2019/20 and 2023/24, including the completion of the projects mentioned above, as well as a new Police Headquarters. The successful delivery of the 'Estate Strategy' represents a significant financial and operational challenge.

The main sources of funding for the capital programme were long term borrowing, government grants and the use of earmarked reserves. In order to deliver the capital programme over the next five years the PCC is planning to undertake a significant amount of prudential borrowing, the financial impact of which has been reflected within the Medium Term Financial Strategy.

Group Balance Sheet

The Balance Sheet is a snapshot of the PCC's and Group'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 PCC and the Group. The net assets of the PCC and Group (assets less liabilities) are matched by the reserves held by the PCC and the Group. 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 31st March 2019 £m
Long-Term Assets	261.517
Current Assets	54.232
Current Liabilities	(42.765)
Long Term Liabilities	(5,292.029)
Net Assets and (Liabilities)	**(5,019.044)**
Represented by:-	
Usable Reserves	28.345
Unusable Reserves	(5,047.389)
Total Reserves	**(5,019.044)**

At 31st March 2019 the Group had negative net assets of £5,019m which implies that the Group is technically bankrupt. Fortunately this is not the case. The sole reason the Group have negative assets is because of the pension liabilities associated with the unfunded police officer pension scheme of £4,990m coupled with the deficit of £229m 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 Group's Balance Sheet has net assets of £203m, including £28m in usable cash reserves.

The Cash Flow Statement

The Cash Flow Statement shows the changes in cash and cash equivalents, i.e. short term, high liquid investments, of the Group and PCC during the year. The statement shows how the Group and the PCC generates and uses cash and cash equivalents. Cash flows are classified within the cash flow statement as arising from operating activity, investing activity and financing activity. The statement is shown on page 25 of the statement of accounts. The table below sets out a summary Group cash flow statement.

	£m
Cash and Cash Equivalents at 1st April 2018	**17.411**
Net cash inflow/(outflow) from Operating Activities	14.617
Net cash inflow/(outflow) from Investing Activities	(21.627)
Net cash inflow/(outflow) from Financing Activities	(0.122)
Cash and Cash Equivalents at 1st April 2019	**10.279**

The PCC's cash flow statement shows an overall balance of £10.279m at year end, compared to £17.411m at the beginning of the year, reflecting a reduction in cash and cash equivalents of £7.132m over the year. The main factors that will affect the level of cash and cash equivalents in the future are the acquisition and disposal relating to the capital programme, particularly the estate strategy, the value of useable reserves and the level of grants received.

Loans and Investments

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

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

During 2018/19 the PCC undertook short-term borrowing and lending to ensure sufficient funds were available each day to cover its outgoings. No new long term borrowing was undertaken. All borrowing and lending was undertaken within the PCC's approved prudential indicators and in line with the approved Treasury Management strategy.

General Balances, Earmarked Reserves and Provisions

The PCC maintains General Balances, Earmarked Reserves and Provisions in order to ensure that adequate financial resilience is maintained. The accounts detail the balances held on the different reserves, along with the details of provisions made.

Police Service, as one of the major emergency services, is required to respond to incidents of an unexpected nature over which it has little or no control. A major incident or a series of events could put extraordinary pressure on the budget in a particular year. As a result, financial prudence dictates that a level of General Balances should be retained to provide resilience against the effect of such a situation. In order to ensure that the level of the General Balances are robust and prudent the Chief Finance Officer and Chief Constable undertake regular reviews of the level of these balances, taking account of the risks included within the strategic risk registers. The latest risk based review undertaken concluded that the minimum acceptable level of General Balances should be in the region of £12.3m. This level of General Balances equates to 3.9% of the 2019/20 level of direct resource funding, i.e. General Grant and precept. As at the 31st March 2019 the PCC General Balances stood at £12.204m.

There are two types of Earmarked Reserves, 'useable reserves', i.e. those reserves that can be applied to fund expenditure or reduce council tax precept, and 'unusable reserves', i.e. reserves that arise out of the interaction of legislation and proper accounting practice either to store revaluation gains or as adjustment accounts to reconcile accounting requirements driven by reporting standards to statutory requirements. Unusable reserves are not resource-backed and cannot be used for any other purpose. The notes to the accounts provide a breakdown of all the earmarked reserves held at the end of 2018/19. With regard to useable reserves, the total amount held at year end amounts to £16.123m, a reduction of £2.664m (i.e. 14.2%) compared to the amount held at the beginning of the year. All of the earmarked reserves are for funding planned expenditure on projects and programmes over the MTFS period, with the exception of the Insurance Reserve which is held as a general contingency to meet other expenditure needs held in accordance with sound principles of good financial management, an element of the Restructure Reserve and the Section 152 Reserve. At present it is anticipated that there will be approximately £3.306m of balances remaining within these reserves that will fund specific projects and programmes beyond the current planning period, i.e. 2023/24.

Provisions are made where an event has taken place that gives the PCC or Group a legal or constructive obligation that probably requires settlement and a reliable estimate can be made of the amount of the obligation. As at the 31st March 2019 the PCC and Group held provisions totalling £10.023m. The main provision held is an Insurance Provision to finance internal insurance claims. This self-insurance policy currently substantially assumes the risk in respect of public, employer and motor liabilities. Details of all provisions are contained within the notes to the accounts.

Pension Liabilities

Police Officers and Police Staff are offered retirement benefits by the PCC and Group as part of their terms and conditions of employment. In accordance with International Accounting Standard (IAS) 19, the PCC and Group are required to ensure that its accounts reflect the fair value of the assets and liabilities of the schemes and that benefits earned are recognised in the accounting periods in which they arise. As at the 31st March 2019 the PCC and Group 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 Police Staff)	228.675
Total	**5,219.225**

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

- The liability does not have to be funded from this year's budget, but it's still a true cost estimated by actuaries. It represents the amount that will need to be found from future budgets to pay for pension entitlements already incurred in delivering services. So it's a real call on future funding arising from past activity. Not showing this liability would hide the liability that the PCC and the Group has incurred.

- The police officer pension scheme is a statutory scheme, as specified by Police Regulations, whereby the Group pays an employer's contribution 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 £4,990m 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 £229m 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. This is based on the assumptions that Government Grant funding remains at the 2019/20 level, the precept is increased by 1.95% pa and the achievement of estimated savings of £3.7m from the implementation of approved Community First Programmes, the estates strategy and continuing collaboration with partners. Consequently, the PCC and Force will continue to face a very significant financial and policing challenge in the years ahead. However, the Force do have a good track record of identifying and delivering cost savings/mitigations and a change programme aimed at addressing this financial challenge has been implemented by the Chief Constable, in partnership with the PCC.

4. NON-FINANCIAL PERFORMANCE

PCC Annual Report

The PCC has a statutory duty to publish an Annual Report every year detailing progress against the police and crime objectives in the police and crime plan. This report gives both the public and the body which oversees her work, the Police and Crime Panel, the opportunity to review the PCC's activities and work, and provide their feedback. As at the time of writing the PCC was finalising the 2018/19 draft report for scrutiny by the Police and Crime Panel. A copy of the final report will be published on the PCC's web site, along with a one page summary which draws attention to the headline figures during the year.

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.

Over the last 12 months (2018/19), the services commissioned to support and care for victims of crime, helping them to cope and recover, have supported almost 6,000 victims of crime. The support provided to victims included the following:-

- As providers for the PCC's Vulnerable Victims service, Victim Support provided support to 1,076 victims of crime during 2018/19, with 533 of those victims receiving longer-term ongoing support including face to face visits.
- Catch 22 were commissioned to deliver support to victims of Child Exploitation, including both Child Sexual and Child Criminal Exploitation. A total of 82 Children & Young People were supported.
- During 2018/19 Anthony Walker Foundation received 591 new referrals, seeking support for victims of racially and religiously aggravated Hate Crime. Of the 591 referrals, 366 were provided with longer-term ongoing support. The organisation has also worked in collaboration with other commissioned Hate Crime support services across Merseyside to provide a comprehensive and specialist service to victims of all types of Hate Crime.
- Citizens Advice Liverpool have supported 36 victims of Hate crime related to Sexual Orientation and/or Gender Identity, with 12 of these victims receiving longer term and ongoing support.
- In addition, Daisy Inclusive UK are commissioned locally by the PCC to provide bespoke support for victims of Disability-related Hate Crime, with 84 people being supported through this service.
- In addition to the 3 direct support service providers detailed, the PCC also commissions Stop Hate UK to provide a third party referral centre for the Merseyside area in order to provide several options for Hate Crime victims wishing to access support. Stop Hate UK dealt with 227 contacts for Merseyside during 2018/19.
- RASA and RASASC have been commissioned as a joint service provider, to provide vital support to more than 3,500 victims of Sexual Assault/Abuse over the last 12 months. 2,744 assessments were offered, with 1,344 assessments attended.
- Over the last 12 months, the PCC's commissioned Restorative Justice Service has developed rapidly, with 77 individuals having been referred and contacted by Restorative Solutions over the year.

- During 2018/19 the PCC has funded Savera UK to provide a service that supports people who have been subjected to Harmful Practices, including Forced Marriage, so-called Honour-based Abuse and/or Female Genital Mutilation. This service has supported 88 individuals through their experience, with all those supported confirming they felt their health and wellbeing had improved following or during treatment.
- Families Fighting for Justice, a well-regarded local support service, were funded by the PCC to provide a one-stop shop/signposting support service to bereaved families of Homicide victims and those affected by culpable road death. A total of 133 individuals were supported by Families Fighting for Justice through this service over the last year, with the organisation providing a wealth of other support services for additional adults and children not funded through the MoJ Victims' Funding.

At the time of writing the organisations supported via the Community Safety Funding and the PCC's Priority Fund were in the process of submitting outcome reports to the PCC on what had been delivered against the agreed key deliverables of the projects. A summary of this information will be published within the PCC's Annual Report, with further details published on the PCC's website in due course.

5. PEOPLE

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

	Total FTE
Office of the PCC	
Chief Officers	2
Other	15
TOTAL PCC Employees	**17**
Merseyside Police	
Police Officers	3,401
Police Staff	1,913
PCSOs	248
TOTAL Group Employees	**5,579**

6. STRATEGIC RISKS

A risk management strategy is in place to identify and evaluate risk. There are clearly defined steps to support better decision making through the understanding of risks, whether a positive opportunity or a threat and the likely impact. Below are the highest corporate risks from the Office of the Police and Crime Commissioner's (OPCC) Strategic Risk Register:-

(i) The increase/'surge' in serious violent crime and the detrimental impact on the PCC's priorities, particularly preventing crime and anti-social behaviour and tackling serious and organised crime;
(ii) Failure to have an efficient and effective Estate to meet current and future requirements;
(iii) Consultation and Implementation of a new Funding Formula;
(iv) The sustainability of specific grant funded crime and disorder reduction initiatives, i.e. Violence Against Women & Girls (VAWG) and Early Intervention Youth Fund (EIYF);
(v) The Election of a new Police and Crime Commissioner; and
(vi) A change in the governance arrangements as a result of the devolution of powers and funding to the Liverpool City Region, in particular the functions of the PCC to an elected Mayor, thus removing the PCC.

These risks are being actively managed by the Office of the PCC Management Team and regular updates provided to the PCC and the Joint Independent Audit Committee.

The Chief Constable also maintains a strategy and has arrangements in place to manage, monitor and review the strategic priorities identified, which include Serious Violent Crime, Firearms, Child Exploitation, Domestic Abuse, Burglary, Crime Outcomes and Sickness Absence. The PCC's, through the Force Inspection meeting, receives regular updates on the risks and how they are being managed, along with the Joint Independent Audit Committee.

7. EXPLANATION OF THE STATEMENT OF ACCOUNTS

The purpose of the Statement of Accounts is to provide details of the PCC and the Group financial activities for the year ending 31st March 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 PCC and the Group and highlights any significant features. The accounts that follow provide further detail of the financial affairs of the PCC and the Group and are comprised of:-

- **Independent Auditor's Report**, this sets out the opinion of the external auditor, Grant Thornton UK LLP, on whether the PCC and Group accounts presented give a 'true and fair view' of the financial position and operations of the PCC and the Group for 2018/19;
- **Statement of Responsibilities for the Statement of Accounts**, this statement sets out the responsibilities of the PCC and the PCC 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 Balance Sheet**, this statement shows the value as at the Balance Sheet date of the assets and liabilities recognised by the PCC and the Group. The net assets of the PCC and Group (assets less liabilities) are matched by the reserves held by the PCC and the Group;
- **the Cash Flow Statement** shows the changes in cash and cash equivalents of the PCC and the Group during the reporting period. The statement shows how the PCC and the Group generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities;
- **the Movement in Reserves Statement**, this statement shows the movement in the year on the different reserves held by the PCC and the Group, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce the council tax precept) and unusable reserves (i.e. those that the PCC and the Group are not able to use to provide services);
- **Notes to the Financial Statements**, these notes include a Statement of the Accounting Policies used as the basis of preparing the financial statements, information required by the Code of Practice that is not presented elsewhere in the financial statements, i.e. notes that break down lines presented on the face of the financial statements into their significant components (e.g. sub-classifications of property, plant and equipment) and information that is not provided elsewhere in the financial statements, but is relevant to an understanding of any of them (e.g. transactions with related parties);
- **the Pension Fund Account,** which summarises the amounts received into and paid out of the police officer pension fund operated by the PCC and the Group during the year; and
- A **glossary** of terms has also been prepared and is included at the end of the Statement of Accounts to assist readers in understanding the technical accounting terminology.

Significant Changes to the Accounting Policies

Accounting policies are the principles applied to show the effect of transactions and events on the financial statements. The PCC, the Chief Constable and the Group accounts have adopted consistent accounting policies. It is noted that the policies remain unchanged from those applied in 2017/18.

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.

Annual Governance Statement

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

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 as 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. 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.

The Narrative Statement by the Chief Finance Officer was signed by John Riley on 31st July 2019.

John Riley CPFA
Chief Finance Officer to the Police and Crime Commissioner of Merseyside Police
31st July 2019

Independent Auditors Report to the Police and Crime Commissioner for Merseyside

Report on the Audit of the Financial Statements

The Police and Crime Commissioner and the Chief Constable have approved the Statement of Accounts for publication on the 31st July 2019 in accordance with requirements of the Accounts and Audit Regulations 2015. Unfortunately, at the time of publication our External Auditor, Grant Thornton, had been unable to conclude their audit and issue their audit opinions. Consequently, the status of the Statement of Accounts are unaudited and the Statement of Accounts as published may be subject to change. The audit opinions will be published as soon as reasonably practicable after the conclusion of the audit, along with the audited Statement of Accounts.

Statement of Responsibilities for the Statement of Accounts

The Police and Crime Commissioner's responsibilities

The Police and Crime Commissioner is required to:-

- Make arrangements for the proper administration of its financial affairs and to ensure that one of its officers (i.e. the Chief Finance Officer) has 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 these Statement of Accounts

The Statement of Responsibilities was signed by Jane Kennedy on 31st July 2019

Rt Hon Jane Kennedy
Police and Crime Commissioner for Merseyside
31st July 2019

The Chief Finance Officer's responsibilities

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

In securing the preparation of the Statement of Accounts, the Chief Finance Officer has:-

- Selected suitable accounting policies and then applied them consistently;
- Made judgements and estimates that were reasonable and prudent; and
- Complied with the Code of Practice on Local Authority Accounting where applicable.

The Chief Finance Officer has also:-

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

I certify that the Statement of Accounts presents a 'true and fair view' of the financial position of the PCC and the Group at the accounting date and of the Income and Expenditure for the year ended 31st March 2019.

The Statement of Responsibilities was signed by John Riley on 31st July 2019

John Riley CPFA
Chief Finance Officer to the Office of the Police and Crime Commissioner of Merseyside Police
31st July 2019

The Group 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, rather than the amount to be funded from taxation. The Group raises taxation to cover expenditure in accordance with statutory regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

2017/18					2018/19		
Gross Expenditure	Gross Income	Net Expenditure		Note	Gross Expenditure	Gross Income	Net Expenditure
£000	£000	£000			£000	£000	£000
382,887	(28,092)	354,795	Policing Services	28.1	599,022	(23,937)	575,085
382,887	**(28,092)**	**354,795**	**Cost of Services**		**599,022**	**(23,937)**	**575,085**
83,527	(83,267)	260	Other operating expenditure/(income)	8	86,628	(86,446)	182
126,694	(61)	126,633	Financing and investment expenditure/(income)	9	122,578	(299)	122,278
0	(311,179)	(311,179)	Taxation and non specific grant income	10	0	(315,016)	(315,016)
593,108	**(422,599)**	**170,509**	**Deficit on Provision of Services**		**808,227**	**(425,698)**	**382,529**
(20,827)	0	(20,827)	Surplus on revaluation of non-current assets	19.1	4,899	0	4,899
(200,363)	0	(200,363)	Remeasurements of the net defined benefit liability	19.3	72,692	0	72,692
(221,190)	**0**	**(221,190)**	**Other Comprehensive Income and Expenditure**		**77,591**	**0**	**77,591**
371,918	**(422,599)**	**(50,681)**	**Total Comprehensive Income and Expenditure**		**885,818**	**(425,698)**	**460,120**

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

2017/18					2018/19		
Gross Expenditure	Gross Income	Net Expenditure	PCC	Note	Gross Expenditure	Gross Income	Net Expenditure
£000	£000	£000			£000	£000	£000
442,290	(41,878)	**400,411**	Policing Services	**28.1**	442,200	(34,561)	**407,639**
442,290	**(41,878)**	**400,411**	**Cost of Services**		**442,200**	**(34,561)**	**407,639**
3	(83,267)	**(83,264)**	Other operating expenditure/income	**8**	4	(86,445)	**(86,441)**
269	(61)	**208**	Financing and investment expenditure/(income)	**9**	1,576	(299)	**1,276**
0	(311,179)	**(311,179)**	Taxation and non specific grant income	**10**	0	(315,016)	**(315,016)**
442,562	**(436,385)**	**6,177**	**Deficit/(Surplus) on Provision of Services**		**443,780**	**(436,322)**	**7,458**
(20,827)	0	**(20,827)**	Surplus on revaluation of non-current assets	**19.1**	4,899	0	**4,899**
(115)	0	**(115)**	Remeasurements of the net defined benefit liability	**19.3**	225	0	**225**
(20,942)	**0**	**(20,942)**	**Other Comprehensive Income and Expenditure**		**5,124**	**0**	**5,124**
421,620	**(436,385)**	**(14,765)**	**Total Comprehensive Income and Expenditure**		**448,904**	**(436,322)**	**12,582**

The Group and the PCC Balance Sheet

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

PCC as at 31st March 2018	Group as at 31st March 2018		Note	PCC as at 31st March 2019	Group as at 31st March 2019
£000	**£000**			**£000**	**£000**
		Long-term Assets			
254,885	254,885	Property, plant and equipment	**11.2**	256,096	256,096
3,693	3,693	Intangible assets	**11.2**	5,421	5,421
258,578	**258,578**	**Total Long-term Assets**		**261,517**	**261,517**
		Current Assets			
2,750	2,750	Assets held for sale	**11.2**	3,095	3,095
0	0	Short-term investments	**12.1**	5,000	5,000
954	954	Inventories		900	900
50,159	50,387	Short-term debtors	**13**	34,631	34,959
17,411	17,411	Cash and cash equivalents	**14**	10,279	10,279
71,274	**71,502**	**Total Current Assets**		**53,904**	**54,232**
		Current Liabilities			
(35,936)	(40,909)	Short-term creditors	**15.1**	(32,968)	(38,313)
0	0	Bank Overdraft		0	0
0	0	Short-term borrowing		0	0
(235)	(235)	Short-term deferred liabilities	**16**	(235)	(235)
(621)	(621)	Long-term borrowing due within one year	**15.2**	(639)	(639)
(3,966)	(3,966)	Provisions	**17.2**	(2,369)	(2,369)
(1,049)	(1,049)	Grants receipts in advance		(1,208)	(1,208)
(41,807)	**(46,780)**	**Total Current Liabilities**		**(37,420)**	**(42,765)**
		Long-term Liabilities			
(1,645)	(1,645)	Long-term deferred liabilities	**16**	(1,410)	(1,410)
(64,379)	(64,379)	Long-term borrowing		(63,740)	(63,740)
(1,511)	(4,771,563)	Liability relating to defined benefit pension scheme	**29.7**	(1,907)	(5,219,225)
(4,637)	(4,637)	Non-current provisions	**17.2**	(7,654)	(7,654)
(72,172)	**(4,842,224)**	**Total Long-term Liabilities**		**(74,711)**	**(5,292,029)**
215,873	**(4,558,924)**	**Net Assets/(Liabilities)**		**203,290**	**(5,019,044)**
		Reserves			
31,010	31,010	Usable reserves	**18**	28,345	28,345
184,863	(4,589,934)	Unusable reserves	**19**	174,946	(5,047,389)
215,873	**(4,558,924)**	**Total Reserves**		**203,291**	**(5,019,044)**

The Group and the PCC Cash Flow Statement

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

PCC 2017/18	Group 2017/18		PCC 2018/19	Group 2018/19
£000	**£000**		**£000**	**£000**
		Cash Flows From Operating Activities		
60,648	60,648	Precepts	65,442	65,442
346,939	346,939	Grants	346,682	346,682
47,707	47,707	Sales of goods and rendering of services	47,653	47,653
63	63	Interest received	275	275
455,357	**455,357**	**Cash inflows generated from operating activities**	**460,052**	**460,052**
(739)	(177,166)	Cash paid to and on behalf of employees	(739)	(180,181)
(4,518)	(87,064)	Cash paid to suppliers of goods and services	(4,518)	(83,320)
(86)	(86)	Interest paid	(3)	(3)
0	(183,649)	Other payments for operating activities	0	(181,932)
(442,622)	0	Cash paid to officers, employees and suppliers of goods and services on behalf of the CC	(440,175)	0
(447,965)	**(447,965)**	**Cash outflows generated from operating activities**	**(445,435)**	**(445,435)**
7,392	**7,392**	**Net cash inflow/(outflow) from operating activities**	**14,617**	**14,617**
		Cash Flows From Investing Activities		
(37,430)	(37,430)	Purchase of property, plant and equipment and intangible assets	(20,531)	(20,531)
0	0	Purchase of short-term investments	(67,000)	(67,000)
431	431	Proceeds from the sale of property plant and equipment	1,580	1,580
0	0	Proceeds from short-term investments	62,000	62,000
1,571	1,571	Other receipts from investing activities	2,324	2,324
(35,428)	**(35,428)**	**Net inflow/(outflow) from investing activities**	**(21,627)**	**(21,627)**
		Cash Flows From Financing Activities		
123,648	123,648	Cash receipts of short and long-term borrowing	38,123	38,123
(128,805)	(128,805)	Repayments of short and long-term borrowing	(38,245)	(38,245)
(5,157)	**(5,157)**	**Net cash inflow/(outflow) from financing activities**	**(122)**	**(122)**
(33,193)	**(33,193)**	**Increase/(Decrease) in cash and cash equivalents**	**(7,132)**	**(7,132)**
50,604	**50,604**	**Cash and Cash Equivalents at 1st April**	**17,411**	**17,411**
17,411	**17,411**	**Cash and Cash Equivalents at 31st March**	**10,279**	**10,279**

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

This statement shows the movement in the 2017/18 and 2018/19 financial year on the different reserves held by the Group, analysed into 'usable' reserves and 'unusable' reserves. The 'deficit on the provision of services' line shows the true economic cost of providing the Group's services, more details of which are shown in the Comprehensive Income and Expenditure Statement (CIES). These are different from the statutory amounts charged to the General Fund Balance for council tax setting. The 'net increase or (decrease) before transfers to earmarked reserves' line shows the statutory General Fund Balance before any discretionary transfers to or from earmarked reserves are undertaken by the Group. An analysis of the unusable reserves can be found in **Note 7**.

Group	Note	General Fund Balance	Earmarked Reserves	Capital Receipts Reserve	Capital Grants Unapplied Account	Total Usable Reserves	Total Unusable Reserves	Total Group Reserves
		£000	£000	£000	£000	£000	£000	£000
Balance as at 1st April 2017		12,204	17,090	0	19	29,313	(4,638,918)	(4,609,605)
Movement in reserves during 2017/118								
Deficit on provision of services on an accounting basis		(170,509)	0	0	0	(170,509)	0	(170,509)
Other Comprehensive Income and Expenditure		0	0	0	0	0	221,190	221,190
Total Comprehensive Income and Expenditure		(170,509)	0	0	0	(170,509)	221,190	50,681
Adjustments between accounting basis and funding basis under regulations:	6.1	173,480	0	0	0	173,480	(173,480)	0
Net increase/(decrease) before transfers to earmarked reserves		2,971	0	0	0	2,971	47,710	50,681
Transfers to and from earmarked reserves	7	(2,971)	1,697	0	0	(1,274)	1,274	0
Balance as at 31st March 2018		12,204	18,787	0	19	31,010	(4,589,934)	(4,558,924)
Movement in reserves during 2018/19								
Deficit on provision of services on an accounting basis		(382,529)	0	0	0	(382,529)	0	(382,529)
Other Comprehensive Income and Expenditure		0	0	0	0	0	(77,591)	(77,591)
Total Comprehensive Income and Expenditure		(382,529)	0	0	0	(382,529)	(77,591)	(460,120)
Adjustments between accounting basis and funding basis under regulations:	6.2	381,049	0	0	0	381,049	(381,049)	0
Net increase/(decrease) before transfers to earmarked reserves		(1,480)	0	0	0	(1,480)	(458,640)	(460,120)
Transfers to and from earmarked reserves	7	1,480	(2,665)	0	0	(1,185)	1,185	0
Balance as at 31st March 2019		12,204	16,122	0	19	28,345	(5,047,389)	(5,019,044)
Movement year on year		0	(2,665)	0	0	(2,665)	(457,455)	(460,120)

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

This statement shows the movement in the 2017/18 and 2018/19 financial year on the different reserves held by the PCC, analysed into 'usable' reserves and 'unusable' reserves. The 'deficit on the provision of services' line shows the true economic cost of providing the PCC's services, more details of which are shown in the PCC's Comprehensive Income and Expenditure Statement (CIES). These are different from the statutory amounts charged to the General Fund Balance for council tax setting. The 'net increase or (decrease) before transfers to earmarked reserves' line shows the statutory General Fund Balance before any discretionary transfers to or from earmarked reserves are undertaken by the PCC. An analysis of the unusable reserves for can be found in **Note 7**.

PCC	Note	General Fund Balance	Earmarked Reserves	Capital Receipts Reserve	Capital Grants Unapplied Account	Total Usable Reserves	Total Unusable Reserves	Total Group Reserves
		£000	£000	£000	£000	£000	£000	£000
Balance as at 1st April 2017		**12,204**	**17,090**	**0**	**19**	**29,313**	**171,794**	**201,108**
Movement in reserves during 2017/18								
Deficit on provision of services on an accounting basis		(6,177)	0	0	0	**(6,177)**	**0**	**(6,177)**
Other Comprehensive Income and Expenditure		0	0	0	0	**0**	**20,942**	**20,942**
Total Comprehensive Income and Expenditure		**(6,177)**	**0**	**0**	**0**	**(6,177)**	**20,942**	**14,765**
Adjustments between accounting basis and funding basis under regulations:	**6.3**	**9,148**	**0**	**0**	**0**	**9,148**	**(9,148)**	0
Net increase/(decrease) before transfers to earmarked reserves		**2,971**	**0**	**0**	**0**	**2,971**	**11,794**	**14,765**
Transfers to and from earmarked reserves	**7**	**(2,971)**	**1,697**	**0**	**0**	**(1,274)**	**1,274**	**0**
Balance as at 31st March 2018		**12,204**	**18,787**	**0**	**19**	**31,010**	**184,863**	**215,873**
Movement in reserves during 2018/19								
Deficit on provision of services on an accounting basis		(7,458)	0	0	0	**(7,458)**	**0**	**(7,458)**
Other Comprehensive Income and Expenditure		0	0	0	0	**0**	**(5,125)**	**(5,125)**
Total Comprehensive Income and Expenditure		**(7,458)**	**0**	**0**	**0**	**(7,458)**	**(5,125)**	**(12,583)**
Adjustments between accounting basis and funding basis under regulations:	**6.4**	**5,978**	**0**	**0**	**0**	**5,978**	**(5,978)**	**0**
Net increase/(decrease) before transfers to earmarked reserves		**(1,480)**	**0**	**0**	**0**	**(1,480)**	**(11,103)**	**(12,583)**
Transfers to and from earmarked reserves	**7**	**1,480**	**(2,665)**	**0**	**0**	**(1,185)**	**1,185**	**0**
Balance as at 31st March 2019		**12,204**	**16,122**	**0**	**19**	**28,345**	**174,945**	**203,290**

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 PCC Group and also the PCC. The financial statements cover the 12 months to 31st March 2019. The term 'Group' is used to indicate consolidated transactions and policies of the PCC and the CC for the year ended 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 PCC 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 Group during the year are included, whether or not the cash has actually been received or paid in the year. In particular:-

- Where income and expenditure has been recognised but cash has not yet been received or paid, a debtor or creditor for the relevant amount is included in the Balance Sheet;
- Supplies are recorded as expenditure when they are consumed. Supplies received but not yet consumed are held as inventories in the Balance Sheet;
- Fees, charges and rents due from customers are accounted for as income at the date the relevant goods or services are provided; 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 Cash and Cash Equivalents

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

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

1.4 Council Tax Income

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

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

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

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

1.5 Employee Benefits

Benefits Payable During Employment

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

Termination Benefits

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

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

Post Employment Benefits (Pensions)

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

Police Officers

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

The 1987, 2006 and 2015 Police Pension Schemes (PPS) for police officers are unfunded schemes, which means that there are no investment assets built up to meet the pensions liabilities, and cash has to be generated to meet the actual payments as they fall due. The Group is required by legislation to operate a Pension Fund with the amounts that must be paid into or out of the Pension Fund being specified by regulation. The former Police Authority set up a Pension Fund on 1st April 2006 from which pensions payments are made and into which contributions from the PCC and employees are received. The PCC then receives a top-up grant from the Government equal to the sum by which the amount payable for pensions from the Pension Fund exceeds the amount receivable from the PCC into the Pension Fund. The Pension Fund is shown separately in the Accounts.

Police Staff

Police staff, subject to certain qualifying criteria, are eligible to join the Local Government Superannuation Scheme, which is a funded defined benefit scheme. Pensions and other retirement benefits are paid from the fund and employers and employees make regular contributions into the fund so that the liabilities are paid for evenly over the employment period. Actuarial valuations of the fund are undertaken every three years to determine the contribution rates needed to meet its liabilities, the last valuation having been at 31st March 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 the PCC and Group are included in the Balance Sheet on an actuarial basis using the projected unit method, i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc., and estimates of projected earnings for current employees.

Pension scheme assets (LGPS only) attributable to the PCC are included at their fair value. Plan assets of the Police Pension Scheme include 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 PCC 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 Group to pension funds rather than that calculated under IAS 19. This means that an appropriation to or from the Pensions Reserve is necessary within the Movement in Reserves Statement to replace the notional sums for retirement benefits with the actual 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 surplus / deficit on provision of services, with actuarial gains and losses being recognised in other comprehensive income and expenditure.

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

1.6 Events After the Balance Sheet Date

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

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

1.7 Exceptional Items

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

1.8 Financial Assets and Liabilities

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

1.9 Government Grants and Contributions

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

- The Group will comply with the conditions attached to the payments; and
- The grants or contributions will be received.

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

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

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

1.10 Group Accounts

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

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

1.11 Intangible Assets

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

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

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

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

1.12 Interest Charges

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

1.13 Interest Receivable

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

1.14 Inventories

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

1.15 Jointly Controlled Operations

Jointly controlled operations are joint arrangements in which the Group 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 Group 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 Group's share of expenditure incurred and credited with the Group's share of income earned from the activity of the operation. If material, the Group recognises on its Balance Sheet its share of the assets that it controls and the liabilities that it incurs.

1.16 Leases

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

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

Finance lease payments are apportioned between:-

- A charge for the acquisition of the interest in the property applied to the writing down of the lease liability; and
- A finance charge debited to the Comprehensive Income and Expenditure Statement.

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

1.17 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.

1.18 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.

1.19 Police Property Act Fund

The Group maintains a Police Property Act Fund, which is shown in the earmarked reserves (Note 7). The requirement to maintain a Police Property Act Fund was laid down in the Police (Property) Act, 1897 and governed by subsequent regulations issued in 1898 and 1975. The monies in the Police Property Act Fund are generated by the disposal of property, which remains in police possession, in connection with their investigations into a suspected offence, and the owner cannot be ascertained (and no order of a competent court has been made regarding such property) or the disposal of property of offenders in certain cases, which have been confiscated.

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

1.20 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 Group'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.

1.21 Property, Plant and Equipment

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

Recognition

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

Measurement and Valuation

Assets are initially measured at cost, comprising:-

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

Donated assets are measured initially at fair value. The difference between fair value and any consideration paid is credited to the Taxation and Non Specific Grant Income and Expenditure line of the Comprehensive Income and Expenditure Statement, unless the donation has been made conditionally. Until conditions are satisfied, the gain is held in the Donated assets Account. Where gains are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance to the Capital Adjustment Account.

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

- **Assets under construction** - historical cost;
- **Land and buildings** - fair value, determined as the amount that would be paid for the asset in its existing use (Existing Use Value – EUV);
- **Depreciated Replacement Cost (DRC)** - Where there is no market-based evidence of the fair value of land and buildings because of their specialist nature, Depreciated Replacement Cost (DRC) is used as an estimate of fair value;
- **Other non-property assets** - such as vehicles and IT hardware have short useful lives or low values (or both), and depreciated historical cost basis is used as a proxy for fair value; and
- **Surplus assets** - the current value measurement base is fair value, estimated at highest and best use from a market participant's perspective.

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

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

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

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

Material borrowing costs that are directly attributable to the construction of a long-term asset are capitalised, were they are not material the costs are charged to the Comprehensive Income and Expenditure Statement in the year to which they relate.

Subsequent Expenditure

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

Impairment

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

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

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

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

Componentisation

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

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

Depreciation

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

Depreciation is calculated on the following bases:

- **Buildings** - straight-line allocation over the useful life of the property as estimated by the valuer; and
- **Vehicles, plant and equipment** - straight-line allocation over the estimated useful life of the asset.

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

Disposals and Non-Current Assets Held for Sale

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

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

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

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

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

Charges to Revenue for Property, Plant and Equipment

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

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

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

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

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

1.22 Provisions, Contingent Liabilities and Contingent Assets

Provisions

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

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

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

Full details of provisions can be found at **Note 17** to the Balance Sheet.

Contingent Liabilities

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

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

Contingent Assets

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

1.23 Redemption of Debt

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

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

1.24 Reserves and the General Fund Balance

The Group sets aside specific amounts as reserves for future policy purposes (earmarked reserves) or to cover general contingencies (The General Fund Balance). The earmarked reserves maintained by the Group are shown at **Note 7**. Other reserves are held to manage the accounting processes for property, plant and equipment and retirement benefits and are explained elsewhere in the statement of accounting policies and notes to the core financial statements.

1.25 VAT

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

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 2019 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 Group.

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, e.g. 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 amendments to these standards has been considered and it is not expected to have a significant impact on the accounts of the Group.

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 Group.

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 Group.

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 an 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 Group.

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 Group is being considered.

3 CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

In applying the accounting policies set out in **Note 1**, the PCC 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:

Future Levels of Funding

There is a high degree of uncertainty about future levels of funding for the Group. However the PCC has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the PCC and the Group might be impaired as a result of a need to reduce levels of service provision. The PCC also considers that it is appropriate to compile the financial statements on a going concern basis.

Collaborations

The PCC and Group 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 26** 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.

Comprehensive Income and Expenditure Statement (CIES)	Recognised in PCC CIES	Recognised in CC CIES	Judgement
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.
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

Uncertainty	Effect If Actual Results Differ from Assumptions
Provisions	
The PCC and Group have an insurance provision and this represents an amount of known obligations based on insurance company reserves amounts, inclusive of win/loss ratio.	An increase in known obligations or a reduction on the win/loss ratio over the forthcoming year will result in consideration being given to making additional contributions to the provision to ensure that the level of known obligations are met. Alternatively, if the known obligations fall and the win/loss ratio increases, consideration will be given to reducing the amount in the provision.
The General Fund Balance and Earmarked Reserves	
The PCC and Group retain a number of reserves in order to ensure that adequate financial resilience is maintained over the longer term. The Police Service, as one of the major emergency services is required to respond to incidents of an unexpected nature over which it has little or no control. A major incident or a series of events could put extraordinary pressure on the financial resources in a particular year.	The PCC and the CC undertake an annual review of the level of General Balances, taking into account the risks included within the PCC and Force Risk Registers. This risk based review has concluded that the minimum acceptable level of General Balances should be in the region of £12.3m. General Balances as at 31st March 2019 amounted to £12.2m. There is the potential for a series of risks identified in the risk register to materialise in any financial year. Should the financial requirements be greater than the estimated amounts, pressures could be placed on Force budgets. If a major incident(s) occurred which exceeded General Balance reserves the PCC would be required to meet the excess from other funds or reserves.
Pensions Liability	
The pension liability is recognised on the CC and PCC Balance Sheet. Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality and expected returns on pension fund assets. The Group uses an independent firm of actuaries to assess the Local Government Pension Scheme assets and liabilities and the Government Actuary's 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 the life expectancy would increase the pension liability by £131m. The effects on the net pensions liability of changes in individual assumptions are detailed in the actuarial assumptions (**Note 29.9**). 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.
Valuations of Operational Properties	
Land and building assets are held on the PCC and the Group Balance Sheet. In the 2018/19 financial year 74.6% of properties (by value) have been subject to a full valuation and 25.1% have been subject to a desktop valuation. The remaining 0.3% has not been valued for practical or strategic reasons.	The valuations of land and buildings (full valuations and desktop valuations) are made using assumptions and estimation techniques. Should the actual results differ from the estimates results the balance sheet values of Property, Plant and Equipment will increase or decrease accordingly; however there will be no overall impact to the Revenue Account of the PCC or the Group due to the statutory overrides to reverse the impact of depreciation, impairment and revaluation losses.

5 EVENTS AFTER THE REPORTING PERIOD

The Statement of Accounts was authorised for issue by John Riley, Chief Finance Officer to The Police & Crime Commissioner for Merseyside on 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 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 Group 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 Group to meet future capital and revenue expenditure. The following sets out a description of the reserves that the adjustments are made against.

General Fund Balance

The General Fund is the statutory fund into which all the receipts of the Group are required to be paid and out of which all the liabilities of the Group are required to be met, except to the extent that statutory rules might provide otherwise. These rules can also specify the financial year in which liabilities and payments should impact on the General Fund Balance, which is not necessarily in accordance with proper accounting practice. The General Fund Balance therefore summarises the resources that the Group is statutorily empowered to spend on its services or capital investment at the end of the financial year.

Earmarked Reserves

Earmarked reserves are the amounts set aside from the General Fund Balance to provide financing for future expenditure plans.

Capital Receipts Reserve

The capital receipts reserve holds the proceeds from the disposal of long-term assets which are restricted by statute from being used other than to fund new capital expenditure or to be set aside to finance historical capital expenditure. A balance on the reserve shows the resources that have yet to be applied for these purposes at the year end.

The Capital Grants Unapplied Account (Reserve)

The capital grants unapplied account (reserve) holds the grants and contributions received towards capital projects for which the Group has met the conditions that would otherwise require repayment of the monies but which have yet to be applied to meet expenditure. The balance is restricted by grant terms as to the capital expenditure against which it can be applied and/or the financial year in which this can take place.

6.1 Group Adjustments between Accounting Basis and Funding Basis 2017/18

	Note	General Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied
		£000	£000	£000
Adjustments to the Revenue Resources				
Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements:				
Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account)	**19.2**	13,787	0	0
Capital Grants and Contributions and Revaluation losses	**19.2**	(3,137)	0	0
Pensions costs (transferred to or from the Pensions Reserve)	**19.3**	164,868	0	0
Council tax (transfers to or from Collection Fund)	**19.5**	248	0	0
Holiday Pay (transferred to the Accumulated Absences Reserve)	**19.6**	(427)	0	0
Total Adjustments to Revenue Resources		**175,339**	**0**	**0**
Adjustments between capital and revenue resources				
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	**19.2**	(6)	421	0
Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account)	**19.2**	(1,535)	0	0
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	**19.2**	(318)	0	0
Total Adjustments between Revenue and Capital Resources		**(1,859)**	**421**	**0**
Adjustments to capital resources				
Use of the Capital Receipts Reserve to finance capital expenditure	**19.2**	0	(421)	0
Total Adjustments between Revenue and Capital Resources		**0**	**(421)**	**0**
Total Adjustments		**173,480**	**0**	**0**

6.2 Group Adjustments between Accounting Basis and Funding Basis 2018/19

	Note	General Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied
		£000	£000	£000
Adjustments to the Revenue Resources				
Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements:				
Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account)	**19.2**	10,625	0	0
Capital Grants and Contributions and Revaluation losses	**19.2**	(1,929)		
Pensions costs (transferred to or from the Pensions Reserve)	**19.3**	374,970	0	0
Council tax (transfers to or from Collection Fund)	**19.5**	16	0	0
Holiday Pay (transferred to the Accumulated Absences Reserve)	**19.6**	272	0	0
Total Adjustments to Revenue Resources		**383,953**	**0**	**0**
Adjustments between capital and revenue resources				
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve		(106)	1,505	0
Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account)	**19.2**	(2,194)	0	0
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	**19.2**	(604)	0	0
Total Adjustments between Revenue and Capital Resources		**(2,904)**	**1,505**	**0**
Adjustments to capital resources				
Use of the Capital Receipts Reserve to finance capital expenditure	**19.2**	0	(1,505)	0
Total Adjustments between Revenue and Capital Resources		**0**	**(1,505)**	**0**
Total Adjustments		**381,049**	**0**	**0**

6.3 PCC Adjustments between Accounting Basis and Funding Basis 2017/18

	Note	General Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied
		£000	£000	£000
Adjustments to the Revenue Resources Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements:				
Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account)	**19.2**	13,787	0	0
Capital Grants and Contributions and Revaluation losses	**19.2**	(3,137)	0	0
Pensions costs (transferred to or from the Pensions Reserve)	**19.3**	109	0	0
Council tax (transfers to or from Collection Fund)	**19.5**	248	0	0
Total Adjustments to Revenue Resouces		**11,007**	**0**	**0**
Adjustments between capital and revenue resources				
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	**19.2**	(6)	421	0
Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account)	**19.2**	(1,535)	0	0
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	**19.2**	(318)	0	0
Total Adjustments between Revenue and Capital Resources		**(1,859)**	**421**	**0**
Adjustments to capital resources				
Use of the Capital Receipts Reserve to finance capital expenditure	**19.2**	0	(421)	0
Total Adjustments between Revenue and Capital Resources		**0**	**(421)**	**0**
Total Adjustments		**9,148**	**0**	**0**

6.4 PCC Adjustments between Accounting Basis and Funding Basis 2018/19

	Note	General Fund Balance	Capital Receipts Reserve	Capital Receipts Unapplied
		£000	£000	£000
Adjustments to the Revenue Resources				
Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements:				
Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account)	**19.2**	10,625	0	0
Capital Grants and Contributions and Revaluation losses	**19.2**	(1,929)	0	0
Pensions costs (transferred to or from the Pensions Reserve)	**19.3**	171	0	0
Council tax (transfers to or from Collection Fund)	**19.5**	16	0	0
Total Adjustments to Revenue Resources		**8,883**	**0**	**0**
Adjustments between capital and revenue resources				
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	**19.2**	(106)	1,505	0
Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account)	**19.2**	(2,194)	0	0
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	**19.2**	(604)	0	0
Total Adjustments between Revenue and Capital Resources		**(2,904)**	**1,505**	**0**
Adjustments to capital resources				
Use of the Capital Receipts Reserve to finance capital expenditure	**19.2**	0	(1,505)	0
Total Adjustments between Revenue and Capital Resources		**0**	**(1,505)**	**0**
Total Adjustments		**5,979**	**0**	**0**

7 TRANSFERS TO/FROM EARMARKED RESERVES

This note sets out the amounts set aside from the General Fund Balance to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund expenditure in 2018/19.

Group and PCC		Transfers			Transfers		
Reserve	Balance as at 31st March 2017	In	Out	Balance as at 31st March 2018	In	Out	Balance as at 31st March 2019
	£000	£000	£000	£000	£000	£000	£000
Restructure	8,375	0	0	8,375	0	0	8,376
Invest to Save	3,584	0	(1,504)	2,080	668	(739)	2,010
ESN Reserve	1,800	0	0	1,800	0	(338)	1,462
Insurance Reserve	0	1,300	0	1,300	0	(996)	304
POCA	789	767	(190)	1,366	0	(413)	953
Estate Strategy	555	1,089	(554)	1,090	0	(1,090)	0
CCPF	422	43	0	465	291	0	756
Crime Prevention Strategy	412	76	(150)	338	102	(150)	291
Civil Litigation Fund	381	0	0	381	0	0	381
Section 152	355	666	(193)	828	430	(328)	929
NWROCU Asset	267	419	(60)	626	332	(447)	511
Victim Support	118	0	0	118	0	0	118
Police Property Act Fund	24	59	(71)	12	72	(52)	31
Open Source Conference	8	0	0	8	0	(8)	(0)
	17,090	4,419	(2,722)	18,787	1,895	(4,562)	16,123

Net Movement in Year	1,697	(2,667)

Details of reserves with individual balances of more than £1.000m, or whose additional explanation are considered beneficial to the user of the accounts, are provided below:-

- **The Restructure Reserve** is to be utilised to fund the potential redundancy or redeployment protection costs associated with the work of the Community First Programme. The utilisation of this reserve allows for the immediate release of savings from the revenue account, thus ensuring continued financial resilience.
- **The Invest to Save Reserve** has been established to reinvest underspends in support of initiatives that will generate future savings. All bids from the reserve are authorised by the PCC, and are overseen operationally by the Community First Programme Board.
- **The ESN Reserve** has been created to help fund the costs of purchasing new handsets for the whole Force as part of the National upgrade of the Police Emergency Services Network which was scheduled to commence in 2017/18.

8 OTHER OPERATING INCOME AND EXPENDITURE

PCC 2017/18	Group 2017/18		PCC 2018/19	Group 2018/19
£000	**£000**		**£000**	**£000**
(83,260)	(83,260)	Home Office grant receivable towards retirement benefit costs	(86,340)	(86,340)
(7)	(7)	(Gains)/losses on the disposal of non-current assets	(106)	(106)
0	83,260	Home Office grant payable to the pension fund	0	86,340
3	267	IAS 19 administrative fees	4	288
(83,264)	**260**		**(86,442)**	**182**

9 FINANCING AND INVESTMENT INCOME AND EXPENDITURE

PCC 2017/18	Group 2017/18		PCC 2018/19	Group 2018/19
£000	**£000**		**£000**	**£000**
231	231	Interest payable and similar charges	1,536	1,536
38	126,463	Net pensions interest cost	40	121,042
(61)	(61)	Interest income	(299)	(299)
208	**126,633**		**1,276**	**122,278**

10 TAXATION AND NON-SPECIFIC GRANT INCOME

Group and PCC 2017/18		Group and PCC 2018/19
£000		**£000**
	Credited to Taxation and Non Specific Grant Income	
(120,756)	Police specific revenue grant	(120,756)
(60,629)	Precepts	(65,442)
248	Deficit/(Surplus) on collection fund	16
(14,103)	Council tax support funding	(14,103)
(111,263)	DCLG formula funding	(111,263)
0	Donated Assets	0
(1,538)	Council tax freeze grant	(1,538)
(3,137)	Capital grants and contributions	(1,929)
(311,179)		**(315,016)**
	Credited to Cost of Services	
(3,384)	Terrorism grant	(2,745)
(2,510)	Regional grants	(931)
(1,639)	Victims Support Services Grant	(1,635)
(937)	Other grants	(1,698)
(8,469)		**(7,009)**

11 PROPERTY PLANT AND EQUIPMENT

11.1 Group and PCC Movement on Balances 2017/18

	Land & Buildings	Plant & Equipment	Vehicles	Assets Under Construction	Surplus Assets	Total	Intangibles	Held for Sale	Grand Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Gross Value as at 1st April 2017	**169,563**	**25,303**	**20,087**	**28,191**	**9**	**243,154**	**14,244**	**3,255**	**260,653**
Additions	304	2,085	2,154	30,325	0	**34,869**	911	0	**35,780**
Transfers	50,744	67	0	(50,811)	0	**0**	0	0	**0**
Revaluation increases recognised in the Revaluation Reserve	16,821	0	0	0	0	**16,821**	0	0	**16,821**
Revaluation decreases recognised in the Surplus/Deficit on Provision of Services	(3,326)	0	0	0	0	**(3,326)**	0	(190)	**(3,516)**
Derecognition - disposals	0	0	(1,278)	0	0	**(1,278)**	0	(316)	**(1,594)**
Derecognition - other	0	(180)	(257)	0	0	**(437)**	(2,045)	0	**(2,482)**
Gross Value as at 31st March 2018	**234,106**	**27,276**	**20,705**	**7,705**	**9**	**289,801**	**13,111**	**2,750**	**305,661**
Depreciation and Impairment as at 1st April 2017	**(316)**	**(16,964)**	**(14,299)**	**0**	**0**	**(31,579)**	**(10,151)**	**0**	**(41,730)**
Depreciation charge for year	(4,976)	(3,022)	(1,818)	0	0	**(9,816)**	(1,300)	0	**(11,116)**
Depreciation written out to the Revaluation Reserve	4,006	0	0	0	0	**4,006**	0	0	**4,006**
Depreciation written out to the Surplus/Deficit on Provision of Services	925	0	0	0	0	**925**	0	0	**925**
Impairment losses recognised in the Surplus/Deficit on the Provision of Services	0	0	(70)	0	0	**(70)**	(11)	0	**(80)**
Derecognition - disposals	0	0	1,179	0	0	**1,179**	0	0	**1,179**
Derecognition - other	0	180	257	0	0	**437**	2,045	0	**2,482**
Depreciation and Impairment as at 31st March 2018	**(360)**	**(19,805)**	**(14,751)**	**0**	**0**	**(34,917)**	**(9,417)**	**0**	**(44,334)**
Carrying Value as at 31st March 2018	**233,746**	**7,471**	**5,954**	**7,705**	**9**	**254,885**	**3,694**	**2,750**	**261,328**
Carrying Value as at 31st March 2017	**169,247**	**8,340**	**5,788**	**28,191**	**9**	**211,575**	**4,093**	**3,255**	**218,923**

11.2 Group and PCC Movement on Balances 2018/19

	Land & Buildings	Plant & Equipment	Vehicles	Assets Under Construction	Surplus Assets	Total	Intangibles	Held for Sale	Grand Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Gross Value as at 1st April 2018	**234,106**	**27,276**	**20,705**	**7,705**	**9**	**289,801**	**13,111**	**2,750**	**305,661**
Additions	513	3,511	1,864	13,775	0	**19,663**	542	0	**20,205**
Transfers	656	1,051	0	(4,374)	0	**(2,667)**	2,667	0	**0**
Revaluation increases/(decreases) recognised in the Revaluation Reserve	(10,469)	0	0	0	0	**(10,469)**	0	504	**(9,965)**
Revaluation increases/(decreases) recognised in the Surplus/Deficit on Provision of Services	1,165	0	0	0	0	**1,165**	0	(51)	**1,114**
Derecognition - disposals	0	0	(1,607)	0	0	**(1,607)**	0	(1,248)	**(2,855)**
Derecognition - other	0	(894)	(497)	0	0	**(1,391)**	(663)	0	**(2,054)**
Assets reclassified to held for sale/surplus	(4,228)	0		0	3,088	**(1,140)**	0	1,140	**0**
Gross Value as at 31st March 2019	**221,743**	**30,944**	**20,466**	**17,106**	**3,097**	**293,355**	**15,656**	**3,095**	**312,106**
Depreciation and Impairment as at 1st April 2018	**(360)**	**(19,805)**	**(14,751)**	**0**	**0**	**(34,917)**	**(9,417)**	**0**	**(44,334)**
Depreciation charge for year	(6,126)	(3,292)	(1,753)	0	0	**(11,171)**	(1,482)	0	**(12,653)**
Depreciation written out to the Revaluation Reserve	5,065	0	0	0	0	**5,065**	0	0	**5,065**
Depreciation written out to the Surplus/(Deficit) on Provision of Services	1,043	0	0	0	0	**1,043**	0	0	**1,043**
Impairment losses recognised in the Surplus/(Deficit) on the Provision of Services	0	0	(127)	0	0	**(127)**	0	0	**(127)**
Derecognition - disposals	0	0	1,457	0	0	**1,457**	0	0	**1,457**
Derecognition - other	0	894	497	0	0	**1,391**	663	0	**2,054**
Depreciation and Impairment as at 31st March 2019	**(378)**	**(22,203)**	**(14,678)**	**0**	**0**	**(37,259)**	**(10,236)**	**0**	**(47,495)**
Carrying Value as at 31st March 2019	**221,365**	**8,741**	**5,788**	**17,106**	**3,097**	**256,096**	**5,421**	**3,095**	**264,612**
Carrying Value as at 31st March 2018	**233,746**	**7,471**	**5,954**	**7,705**	**9**	**254,885**	**3,694**	**2,750**	**261,328**

11.3 Capital Commitments

As at 31st March 2019, the Group and the PCC had entered into a number of capital contracts (with values in excess of £0.100m) for the construction, purchase or enhancement of Property, Plant and Equipment budgeted to cost £11.937m; of which £11.153m relates to expenditure connected to the Group Estate Strategy.

Similar commitments at 31st March 2018 were £6.211m.

11.4 Revaluations

The Group and the PCC carry out a rolling programme that ensures that all land and buildings are revalued at least once every five years. The valuations have been undertaken by an external valuer during the period January and February 2019. Valuations of land and buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors.

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

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

Vehicles and plant and equipment are valued at depreciated historical cost as this valuation is deemed to be a reasonable estimate of fair value.

The table below shows the date at which land and building assets, which are valued at fair value, were last subject to a desktop or a full valuation by the external valuer :-

Group and PCC	Land & Buildings	Plant & Equipment	Vehicles	Assets Under Construction	Surplus Assets	Total
	£000	£000	£000	£000	£000	£000
Carried at historical cost	366	30,944	20,466	17,106	0	68,882
Valued at fair value as at:						
31st March 2015	148	0	0	0	0	**148**
31st March 2016	0	0	0	0	0	**0**
31st March 2017	0	0	0	0	0	**0**
31st March 2018	0	0	0	0	0	**0**
31st March 2019	221,229	0	0	0	3,097	**224,326**
Total cost or valuation as at 31st March 2019	**221,743**	**30,944**	**20,466**	**17,106**	**3,097**	**293,355**

11.5 Non-Operational Property, Plant and Equipment (Surplus Assets)

The Group and PCC hold surplus assets valued at £3.097m.

11.6 Finance Leases

The PCC holds two properties and one piece of land under finance leases. The net carrying amount reported in the PCC and Group Balance Sheets for these assets is £5.303m.

The PCC has made capital contributions towards the building works for the two properties and in both instances the liability for payment of the lease has been considered paid in full at the lease inception. The PCC paid the sum of the total lease payments on the land at the date of acquisition.

The PCC therefore does not recognise any liability on the PCC and Group balance sheets for future minimum lease payments.

11.7 Depreciation

In line with IAS16, depreciation is defined as the systematic allocation of the depreciable amount of an asset over its useful life. Depreciation is charged as follows:

- Land and Buildings - straight-line allocation over 4 to 50 years
- Plant and Equipment – straight-line allocation over 4 years
- Vehicles – straight-line allocation over 4 to 10 years

12 FINANCIAL INSTRUMENTS

12.1 Categories of Financial Instruments

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

At Carrying Value		At Fair Value			At Carrying Value		At Fair Value	
PCC 31st March 2018	Group 31st March 2018	PCC 31st March 2018	Group 31st March 2018		PCC 31st March 2019	Group 31st March 2019	PCC 31st March 2019	Group 31st March 2019
£000	£000	£000	£000		£000	£000	£000	£000
				Investments				
0	0	0	0	Financial Receivables	5,000	5,000	5,000	5,000
0	**0**	**0**	**0**	**Total Investments**	**5,000**	**5,000**	**5,000**	**5,000**
				Cash and cash equivalents				
17,411	17,411	17,411	17,411	Financial Receivables	10,279	10,279	10,279	10,279
17,411	**17,411**	**17,411**	**17,411**	**Total Cash and Cash Equivalents**	**10,279**	**10,279**	**10,279**	**10,279**
				Debtors				
33,465	33,693	33,465	33,693	Financial Receivables	28,001	28,330	28,001	28,330
33,465	**33,693**	**33,465**	**33,693**	**Total Debtors**	**28,001**	**28,330**	**28,001**	**28,330**
				Creditors				
0	0	0	0	Short term borrowing	0	0	0	0
(98,621)	(103,594)	(103,076)	(108,049)	Financial liabilities at amortised cost	(94,604)	(99,949)	(99,550)	(104,895)
(98,621)	**(103,594)**	**(103,076)**	**(108,049)**	**Total Creditors**	**(94,604)**	**(99,949)**	**(99,550)**	**(104,895)**

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

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

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

12.2 Financial Instruments Gains and Losses

The Comprehensive Income and Expenditure Statements of the Group and the PCC recognise £0.299m (£0.061m 2018/19) of gains relating to interest income and £1.576m (£0.269m 2017/18) of losses relating to interest expenses. These gains and losses have been incurred in relation to Financial Instruments.

12.3 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. Likewise, investments held are included in the Balance Sheet as the outstanding principal receivable and the interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable in the year.

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

- No early repayment or impairment is recognised;
- Where an instrument will mature in the next 12 months, the Balance Sheet carrying amount is assumed to approximate fair value;
- 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, and therefore information about the fair values of those financial instruments has not been disclosed. The exception to this is the PWLB loan, which is disclosed at fair value. For loans from the PWLB, Arlingclose (the Commissioner's advisors) have used the Net Present Value (NPV) approach to arrive at a calculated fair value, which provides an estimate of the value of future payments in today's terms. Inputs to these measurement methods are those defined in IFRS13 as Level 2 – inputs that are observable for the asset or liability either directly or indirectly.
These balances are shown in **Note 12.1**.

12.4 Financial Instruments – Nature and Extent of Risks Arising

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

Credit Risk

This is the risk that other parties may fail to pay amounts due and arises from the short term lending of surplus funds to banks and financial institutions as well as credit exposure to customers. The Group and the PCC have adopted CIPFA's Code of Practice for Treasury Management and this is enshrined in its Financial Regulations. This code includes key controls in respect of investment and borrowing in line with CIPFA's Prudential Code. The potential of impairment arising from future events has been considered for all classifications of Financial Assets and Liabilities, in line with the requirements of IFRS9; and any such impairments have been provided for explicitly within the Accounts. The amounts owed to the Group and the PCC in respect of general sundry debtors are kept continually under review and particularly in respect of the likelihood that some debts may not be repaid. The Group and the PCC provide for bad debts each year, as at 31st March 2019 the provision was £0.123m (2017/18:£0.235m)

The total value of sundry debtors net of impairment as at 31st March 2019 is £1.465m (2017/18:£1.637m) analysed as follows:-

Group and PCC 2017/18		Group and PCC 2018/19
£000		£000
1,173	Current	1,283
162	Less than 12 months overdue	27
302	More than 12 months overdue	154
1,637	**Total**	**1,465**

Liquidity Risk

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

Market Risk

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

13 DEBTORS

PCC 31st March 2018	Group 31st March 2018		PCC 31st March 2019	Group 31st March 2019
£000	**£000**		**£000**	**£000**
26,022	**26,022**	**Central Government Bodies**	**20,861**	**20,861**
23,944	23,944	Other Local Authorities	22,422	22,422
(14,035)	(14,035)	Impairment allowance for (council tax) doubtful debtors	(12,183)	(12,183)
9,910	**9,910**	**Other Local Authorities (net of impairment)**	**10,240**	**10,240**
1,637	1,637	Sundry debtors	1,466	1,466
(235)	(235)	Impairment allowance for doubtful debtors	(123)	(123)
1,402	**1,402**	**Sundry debtors (net of impairment)**	**1,342**	**1,342**
12,825	**12,825**	**Prepayments**	**2,188**	**2,188**
0	**228**	**Short term accumulating absences**	**0**	**329**
50,159	**50,387**	**Total Debtors**	**34,631**	**34,959**

14 CASH AND CASH EQUIVALENTS

Group and PCC 31st March 2018		Group and PCC 31st March 2019
£000		**£000**
36	Imprests	49
55	Bank current accounts	240
17,320	Short term investments	9,990
17,411	**Total Cash and Cash Equivalents**	**10,279**

As at 31st March 2019, the Group and the PCC held a total of £4.567m (2017/18: £4.701m) under the Proceeds of Crime Act 2002, representing cash seized by Police and retained as evidence in support of crimes or cash handed into the Police as found property awaiting claim by the owner or finder.

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

Within the accounts of the Group and the PCC, there is £0.031m (2017/18: £0.012m) held under the Police Property Act 1997 which applies to property that is in the possession of police where the owner of the property cannot be identified and where no order of a competent court has been made. This amount is shown in **Note 7**, earmarked reserves, under the heading Police Property Act Fund. The Fund is used to meet expenses incurred in the conveyance, storage, safe custody and sale of the property and to make payments for charitable purposes.

15 CREDITORS

15.1 Short Term Creditors

PCC 31st March 2018	Group 31st March 2018		PCC 31st March 2019	Group 31st March 2019
£000	**£000**		**£000**	**£000**
(2,330)	(2,330)	Government departments	(545)	(545)
(19)	(5,035)	HM Revenue & Customs	0	(5,227)
(12,027)	(12,027)	Other local authorities	(11,101)	(11,101)
(12,950)	(16,547)	Bodies external to general government	(13,567)	(16,095)
0	(4,970)	Short term accumulating absences	0	(5,345)
(8,611)	0	Intra-group account	(7,755)	0
(35,936)	**(40,909)**	**Total External Creditors**	**(32,968)**	**(38,313)**

15.2 Long Term Borrowing

Group and PCC 31st March 2018		Group and PCC 31st March 2019
£000		**£000**
0	**Balance brought forward**	**(65,000)**
(65,000)	Borrowing in Year	0
0	Repayments in Year	621
(65,000)	**Balance carried forward**	**(64,379)**
(621)	Payable within one year	(639)
(64,379)	Payable in more than one year	(63,740)
(65,000)		**(64,379)**

16 DEFERRED LIABILITIES

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

Group and PCC 31st March 2018		Group and PCC 31st March 2019
£000		£000
(2,115)	**Balance brought forward**	**(1,880)**
235	Repayment of principal	235
(1,880)	**Balance carried forward**	**(1,645)**
(235)	Payable within one year	(235)
(1,645)	Payable in more than one year	(1,410)
(1,880)		**(1,645)**

17 PROVISIONS

17.1 Insurance Provision

In 2018/19 the Group and the PCC made a contribution of £3.000m to the Insurance Provision. The contributions made each year are based upon best advice received from the Group's insurance brokers. This takes account of the previous claims history and the anticipated outcomes of known claims. Self-insurance currently substantially assumes the risk in respect of public, employer and motor liabilities. The level of the Insurance Provision is continually reviewed to ensure it is at an appropriate level.

17.2 Other Provisions

The Group and the PCC also hold a number of other provisions including a provision of £2.330m to provide for the potential claw back of claims paid by the Group's former insurance company Municipal Mutual Insurance Ltd.

PCC 31st March 2018	Group 31st March 2018		PCC 31st March 2019	Group 31st March 2019
£000	£000	**Insurance provision**	£000	£000
(6,538)	**(6,538)**	**Balance brought forward**	**(4,801)**	**(4,801)**
(3,203)	(3,203)	Additional provisions made in the financial year	(3,000)	(3,000)
1,300	1,300	Transfer to / (from) Insurance Reserve	(996)	(996)
2,260	2,260	Amounts used in the financial year	1,539	1,539
1,381	1,381	Transfer to MMI Provision	0	0
(4,801)	**(4,801)**	**Total Insurance Provision**	**(7,258)**	**(7,258)**
		Other Provisions		
(2,330)	(2,330)	MMI Provision	(2,330)	(2,330)
(1,473)	(1,473)	Other	(435)	(435)
(8,603)	**(8,603)**	**Total Provisions**	**(10,023)**	**(10,023)**
(3,966)	(3,966)	Estimated to be payable within one year	(2,369)	(2,369)
(4,637)	(4,637)	Estimated to be payable in more than one year	(7,654)	(7,654)
(8,603)	**(8,603)**	**Total Provisions**	**(10,023)**	**(10,023)**

18 USABLE RESERVES

Movement in the Group's usable reserves are detailed in the Movement in Reserves Statement.

19 UNUSABLE RESERVES

PCC 2017/18	Group 2017/18		Note	PCC 2018/19	Group 2018/19
£000	**£000**			**£000**	**£000**
89,623	89,623	Revaluation Reserve	**19.1**	82,202	82,202
96,249	96,249	Capital Adjustment Account	**19.2**	94,164	94,164
(1,511)	(4,771,563)	Pensions Reserve	**19.3**	(1,907)	(5,219,225)
0	0	Deferred Capital Receipts Reserve	**19.4**	0	0
505	505	Collection Fund Adjustment Account	**19.5**	490	490
0	(4,748)	Accumulated Absences Account	**19.6**	0	(5,019)
184,867	**(4,589,934)**			**174,949**	**(5,047,389)**

19.1 REVALUATION RESERVE

The Revaluation Reserve contains the gains made by the Group arising from increases in the value of Property, Plant and Equipment. The balance is reduced when assets with accumulated gains are:-

- revalued downwards or impaired and the gains are lost;
- used in the provision of services and the gains are consumed through depreciation;
- disposed of and the gains are realised.

The reserve contains only revaluation gains accumulated since 1st April 2007, the date that the reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

Group and PCC 2017/18		Group and PCC 2018/19	
£000		**£000**	**£000**
70,694	**Balance as at 1st April**		**89,623**
20,827	Upward revaluation of assets	(4,899)	
20,827	Surplus on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services		**(4,899)**
(1,897)	Difference between fair value depreciation and historical cost depreciation	(2,414)	
(1)	Accumulated gains on assets sold or scrapped	(108)	
(1,898)	**Amount written off to the Capital Adjustment Account**		**(2,522)**
89,623	**Balance at 31st March**		**82,202**

19.2 CAPITAL ADJUSTMENT ACCOUNT

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The account is debited with the cost of acquisition, construction or subsequent costs as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to an historical cost basis). The account is credited with the amounts set aside by the Group as finance for the costs of acquisition, construction and enhancement. The account also contains revaluation gains accumulated on property, plant and equipment before 1st April 2007, the date that the Revaluation Reserve was created to hold such gains.

Group and PCC 2017/18		Group and PCC 2018/19	
£000		£000	£000
101,868	**Balance as at 1st April**		**96,249**
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:		
(11,116)	Charges for depreciation and impairment of non-current assets	(12,654)	
(2,671)	Revaluation losses / (gains) on Property, Plant and Equipment	2,029	
0	Amortisation of intangible assets	0	
(415)	Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement.	(1,399)	
(14,202)			**(12,024)**
1,898	Adjusting amounts written out of the Revaluation Reserve		**2,522**
(12,304)	**Net written out amount of the cost of non-current assets consumed in the year**		**(9,502)**
	Capital financing applied in the year:		
421	Use of the Capital Receipts Reserve to finance new capital expenditure	1,505	
3,137	Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	1,929	
1,535	Statutory provision for the financing of capital	2,194	
318	Capital expenditure charged against the General Fund balance	604	
1,274	Use of Earmarked Reserves to fund capital expenditure	1,185	
6,685			**7,417**
0	Donated assets credited to the Comprehensive Income and Expenditure Statement		**0**
96,249			**94,164**

19.3 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. The Group accounts for post-employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the cost. However, the charge made against the precept is based upon the Group's contributions to pension funds in the financial year and retirement benefits paid to pensioners for which it is directly responsible.

The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Group has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

PCC 2017/18	Group 2017/18		PCC 2018/19	Group 2018/19
£000	**£000**		**£000**	**£000**
(1,517)	**(4,807,058)**	**Balance as at 1 April**	**(1,511)**	**(4,771,563)**
115	200,363	Remeasurements of the net defined benefit liability	(225)	(72,692)
0	0	Transfer of pension liabilities to CC	0	0
(219)	(215,803)	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	(297)	(426,940)
110	50,935	Employer's pension contributions and direct payments to pensioners payable in the year	126	51,970
(1,511)	**(4,771,563)**	**Balance at 31st March**	**(1,907)**	**(5,219,225)**

19.4 DEFERRED CAPITAL RECEIPTS RESERVE

The Deferred Capital Receipts Reserve holds the gains recognised on the disposal of non-current assets but for which cash settlement is yet to take place. Under statutory arrangements, the PCC does not treat these gains as usable for financing new capital expenditure until they are backed by capital receipts. When the deferred cash settlement eventually takes place, amounts are transferred to the Capital Receipts Reserve.

Group and PCC 2017/18		Group and PCC 2018/19
£000		**£000**
0	**Balance as at 1 April**	**0**
0	Transfer of deferred sale proceeds credited to the Surplus or Deficit on Provision of Services in the Comprehensive Income and Expenditure Statement	0
0	Transfer to the Capital Receipts Reserve on receipt of cash	0
0	**Balance at 31st March**	**0**

19.5 COLLECTION FUND ADJUSTMENT ACCOUNT

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

Group and PCC 2017/18		Group and PCC 2018/19
£000		£000
753	**Balance as at 1 April**	**505**
(248)	Amount by which precept income credited to the Comprehensive Income and Expenditure Statement on an accruals basis is different remuneration chargeable in the year in accordance with statutory requirements	(16)
505	**Balance at 31st March**	**490**

19.6 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.

PCC 2017/18	Group 2017/18		PCC 2018/19	Group 2018/19
£000	£000		£000	£000
0	**(5,175)**	**Balance as at 1 April**	**0**	**(4,742)**
0	5,175	Settlement or cancellation of accrual made at the end of the preceding year	0	4,742
0	**0**		**0**	**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	0	(5,014)
0	**(4,742)**	**Balance at 31st March**	**0**	**(5,014)**

20 OFFICERS' REMUNERATION

20.1 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:

PCC 2017/18	Group 2017/18				PCC 2018/19	Group 2018/19
2	251	£50,000	-	£55,000	1	264
0	146	£55,001	-	£60,000	0	154
1	35	£60,001	-	£65,000	1	43
0	13	£65,001	-	£70,000	0	9
0	10	£70,001	-	£75,000	0	10
1	12	£75,001	-	£80,000	0	11
1	13	£80,001	-	£85,000	1	11
0	7	£85,001	-	£90,000	1	4
0	4	£90,001	-	£95,000	0	10
0	2	£95,001	-	£100,000	0	1
0	0	£100,001	-	£105,000	0	1
0	1	£105,001	-	£110,000	0	0
0	3	£110,001	-	£115,000	0	0
0	1	£115,001	-	£120,000	0	0
0	1	£120,001	-	£125,000	0	2
0	0	£130,001	-	£135,000	0	1
0	1	£135,001	-	£140,000	0	0
0	1	£145,001	-	£150,000	0	0
0	1	£160,001	-	£165,000	0	0
0	1	£185,001	-	£190,000	0	0
0	0	£190,001	-	£195,000	0	1
5	503				4	522

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.

20.2 Senior Officers Remuneration

The table below shows remuneration of defined senior and statutory officers for the years 2017/18. Expenses allowances disclosed are those chargeable under UK income tax.

Post Holder information	Notes	Salaries (incl. Fees and Allowances)	Expenses Allowances	Benefits in Kind	Total Remuneration excluding Pension Contributions 2017/18	Pension Contribution	Total Remuneration including Pension Contributions 2017/18
PCC		**£**	**£**	**£**	**£**	**£**	**£**
Police and Crime Commissioner - J Kennedy		85,000	-	-	85,000	10,880	95,880
Deputy Police and Crime Commissioner	*1*	7,950	-	-	7,950	-	7,950
Deputy Police and Crime Commissioner	*2*	17,049	-	-	17,049	2,182	19,231
Chief Executive and Monitoring Officer		75,448	925	-	76,373	9,525	85,898
Chief Finance Officer		60,210	688	-	60,898	7,707	68,605
Total PCC single entity statements		**245,656**	**1,614**	**-**	**247,270**	**30,294**	**277,564**
Chief Constable (CC)							
Chief Constable - A Cooke	*3*	171,621	16,980	-	188,601	39,833	228,434
Director of Resources		99,714	-	12,794	112,508	13,162	125,670
Deputy Chief Constable	*4*	143,215	12,267	5,811	161,293	32,863	194,156
Assistant Chief Constable	*5*	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	*6*	88,205	-	8,152	96,357	20,892	117,249
Assistant Chief Constable	*7*	117,271	-	3,583	120,854	26,885	147,739
Total CC single entity statements		**962,283**	**29,247**	**52,444**	**1,043,974**	**214,183**	**1,258,156**
Total Group		**1,207,939**	**30,861**	**52,444**	**1,291,244**	**244,477**	**1,535,720**

Note	Detail
1	The Chief of Staff resigned on the 30th June 2016
2	The Temporary Chief Executive appointed on 26th July 2016 and appointment confirmed on 6th February 2017
3	The expenses allowance paid to the Chief Constable is a car allowance
4	The Chief Constable retired from the Force 30th June 2016
5	The Chief Constable promoted from the post of Deputy Chief Constable 1st July 2016 - full years remuneration included
6	The Deputy Chief Constable joined the Force 5th September 2016
7	The Expenses Allowance paid to the Deputy Chief Constable is a relocation allowance

The table below shows remuneration of defined senior and statutory officers for the years 2018/19. Expenses allowances disclosed are those chargeable under UK income tax.

Post Holder information	Notes	Salaries (incl. Fees and Allowances)	Expenses Allowances	Benefits in Kind	Total Remuneration excluding Pension Contributions 2018/19	Pension Contribution	Total Remuneration including Pension Contributions 2018/19
PCC		£	£	£	£	£	£
Police and Crime Commissioner - J Kennedy		86,558	-	-	86,558	11,080	97,638
Deputy Police and Crime Commissioner	*1*	43,595	163	-	43,758	5,580	49,338
Chief Executive and Monitoring Officer		83,350	691	-	84,041	10,576	94,617
Chief Finance Officer		62,478	355	-	62,833	7,997	70,830
Total PCC single entity statements		**275,981**	**1,209**	**-**	**277,190**	**35,233**	**312,423**
Chief Constable (CC)							
Chief Constable - A Cooke	*2*	174,557	16,980	-	191,537	13,333	204,870
Deputy Chief Constable	*3*	121,285	-	9,175	130,460	28,835	159,295
Deputy Chief Constable	*4*	82,563	-	3,268	85,831	19,734	105,565
Assistant Chief Constable	*5*	5,257	-	-	5,257	931	6,189
Assistant Chief Constable		112,708	-	8,052	120,760	27,017	147,777
Assistant Chief Constable	*6*	114,550	-	5,964	120,514	27,104	147,618
Assistant Chief Constable	*7*	94,808	-	2,244	97,052	22,254	119,306
Assistant Chief Constable	*8*	87,736	-	-	87,736	20,853	108,590
Assistant Chief Constable	*9*	93,146	750	-	93,896	20,960	114,856
Assistant Chief Constable	*10*	90,637	-	3,024	93,661	20,371	114,032
Director of Resources	*2,11*	21,237	1,458	-	22,695	2,803	25,498
Director of Resources	*12*	82,485	-	-	82,485	10,888	93,373
Director of Resources	*13*	50,231	-	4,345	54,576	6,631	61,207
Director of People	*2,14*	53,890	3,778	-	57,668	-	57,668
Total CC single entity statements		**1,185,090**	**22,966**	**36,072**	**1,244,128**	**221,715**	**1,465,843**
Total Group		**1,461,071**	**24,175**	**36,072**	**1,521,318**	**256,948**	**1,778,266**

Note	Detail
1	Deputy Police & Crime Commissioner resigned 18/03/2019
2	The expenses allowance paid to the Chief Constable, Director of Resources and Director of People is a car allowance
3	Deputy Chief Constable promoted from the post of Assistant Chief Constable 05/11/2018 - full years' remuneration included
4	Deputy Chief Constable resigned from the Force 04/11/2018
5	Assistant Chief Constable Seconded to The NCA resigned from the Force 11/04/2018 - costs fully recharged to NCA
6	Assistant Chief Constable Seconded to Cheshire Constabulary from 26/02/2019, all costs for this period fully recovered
7	Assistant Chief Constable promoted from 05/11/2018
8	Assistant Chief Constable promoted temporarily from Force 26/02/2019
9	Assistant Chief Constable promoted temporarily from Force 01/01/2019 as Regional Collaboration Lead - costs fully recharged*
10	Assistant Chief Constable retired from the Force 31/12/2018 as Regional Collaboration Lead - costs fully recharged*
11	Director of Resources joined the Force 15/01/2019
12	Director of Resources temporarily promoted from Force for period 01/10/2018 to 14/01/2019 - full years' remuneration included
13	Director of Resources retired 30/09/2018
14	Director of People joined the Force 17/09/2018

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

21 TERMINATION BENEFITS

21.1 TERMINATION BENEFITS - GROUP

The Group 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**
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 Group 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 Group.

21.2 TERMINATION BENEFITS - PCC

There have been no costs charged or incurred in the PCC Comprehensive Income and Expenditure Statement for exit packages for 2017/18 or 2018/19.

22 AUDIT COSTS

PCC 2017/18	Group 2017/18		PCC 2018/19	Group 2018/19
£000	**£000**		**£000**	**£000**
38	57	Fees payable to Grant Thornton UK LLP with regard to external audit services	30	44
5	5	Fees payable in respect of other services provided by Grant Thornton UK LLP during the year	0	0
43	**63**	**Total**	**30**	**44**

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.

23 RELATED PARTIES

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

The Chief Constable for Merseyside Police

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

Central Government

Central Government has effective control over the general operations of the Group and the PCC – it is responsible for providing the statutory framework within which the Group and the PCC operate and provides the majority of funding in the form of grants. Grants received from government departments are set out in **Note 10** Grant Income.

Local Authorities

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

Group and PCC 2017/18		Group and PCC 2018/19
£000		**£000**
	Precepts	
15,635	Wirral MBC	16,589
13,832	Sefton MBC	14,846
17,105	Liverpool City Council	18,667
8,372	St. Helens MBC	9,056
5,684	Knowsley MBC	6,284
60,629		**65,442**

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

The Group and the PCC have considered transactions with:

- The PCC;
- The CC;
- Senior officers of the CC; and
- Senior officers of the PCC.

It has been concluded that there are no material transactions to disclose.

24 CAPITAL EXPENDITURE AND CAPITAL FINANCING

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

Group and PCC 31st March 2018		Group and PCC 31st March 2019
£000		**£000**
46,365	**Opening Capital Financing Requirement**	**75,460**
	Capital Investment	
35,780	Operational assets	20,205
	Sources of Finance	
(3,137)	Government grants and other contributions	(1,929)
(318)	Revenue financing	(604)
(1,274)	Use of reserves	(1,185)
(421)	Capital receipts	(1,505)
(1,300)	Minimum revenue provision	(1,959)
(235)	Repayment for inherited debt	(235)
0	Other CFR adjustments	0
75,460	**Closing Capital Financing Requirement**	**88,248**
	Explanation of Movements in Year	
29,095	(Decrease) / Increase in underlying need to borrow	12,788
29,095	**Decrease in Capital Financing Requirement**	**12,788**

25 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:-

PCC 2017/18		PCC 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**

26 JOINT ARRANGEMENTS

The Group is party to a number of joint arrangements which have been accounted for as joint operations. Jointly controlled operations are joint arrangements in which the Group 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 parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. The activities are not carried out through a separate vehicle.

The PCC considers that there is joint control of these arrangements because the collaborative agreements entered into by the parties:-

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

The Comprehensive Income and Expenditure Statement is debited with the Group's share of expenditure incurred and credited with the Group's share of income earned from the activity of the operation. If material, the Group recognises on its Balance Sheet its share of the assets that it controls and the liabilities that it incurs.

As the PCC receives all income and funding, any income receivable from the structure of the arrangement will be credited to the Comprehensive Income and Expenditure Statement of the PCC. The Comprehensive Income and Expenditure Statement of the CC contains the expenditure arising from these collaborations and therefore the PCC credits the CC with an equivalent amount through the intra-group funding.

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.

In the 2013/14 financial year the PCC purchased and refurbished a building to accommodate the NWROCU teams. The cost of this asset was fully funded by a £3.689m capital grant received from the Home Office. The premises were purchased in the name of and are owned by the PCC for Merseyside and the asset is reported at fair value as an operational asset in the PCC and the Group financial statements.

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

The 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 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. Total expenditure incurred on the building works amounted to £5.125m and an additional £2.680m has been spent on IT infrastructure. The PCC leases the building from Merseyside Fire and Rescue Service (MFRS) for a term of 40 years and the asset has been accounted for as a finance lease and is reported at fair value as an operational asset in the PCC and Group financial statements. As the PCC made capital contributions to MFRS towards the building works, the liability for the payment of the lease is considered paid in full at its inception.

This collaboration has not been accounted for as a joint arrangement because the PCC considers that there is no joint control of the arrangement. The accounting treatment applied therefore is to recognise the asset (valued at £5.270m as at 31st March 2019) as a finance lease - see **Note 1.16**.

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.

27 EXPENDITURE AND FUNDING ANALYSIS (EFA)

27.1 The Group 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 shows how annual expenditure is used and funded from by the Group in comparison with those resources consumed or earned by the Group 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								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	Group	Note	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**
392,370	13,787	(50,935)	(427)	(37,575)	354,795	Police Services		616,158	10,625	(51,970)	272	(41,073)	575,085
392,370	**13,787**	**(50,935)**	**(427)**	**(37,575)**	**354,795**	**Net Cost of Services**		**616,158**	**10,625**	**(51,970)**	**272**	**(41,073)**	**575,085**
(395,341)	(4,996)	215,803	248	211,055	**(184,286)**	Other Income and expenditure		(614,678)	(4,833)	426,940	16	422,123	(192,556)
(2,971)	**8,791**	**164,868**	**(179)**	**173,480**	**170,509**	**(Surplus) / Deficit**		**1,480**	**5,792**	**374,970**	**288**	**381,049**	**382,529**
(29,313)						**Opening General Fund Balance**		**(31,010)**					
(2,971)						(Surplus)/Deficit on General Fund Balance	**7**	1,480					
1,274						Transfers (to) / from Earmarked Reserves		1,185					
(31,010)						**Closing General Fund Balance**		**(28,345)**					

27.2 The PCC 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 shows how annual expenditure is used and funded from by the PCC in comparison with those resources consumed or earned by the PCC 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						Group	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**
388,034	13,787	(110)	(1,300)	12,377	400,411	Police Services		399,099	10,625	(126)	(1,959)	8,540	407,639
388,034	**13,787**	**(110)**	**(1,300)**	**12,377**	**400,411**	**Net Cost of Services**		**399,099**	**10,625**	**(126)**	**(1,959)**	**8,540**	**407,639**
(391,005)	(3,696)	219	248	(3,229)	**(394,234)**	Other Income and expenditure		(397,619)	(2,874)	297	16	(2,561)	(400,181)
(2,971)	**10,091**	**109**	**(1,052)**	**9,148**	**6,177**	**(Surplus) / Deficit**		**1,480**	**7,751**	**171**	**(1,943)**	**5,978**	**7,458**
(29,313)						**Opening General Fund Balance**		**(31,010)**					
(2,971)						(Surplus)/Deficit on General Fund Balance	**7**	1,480					
1,274						Transfers (to) / from Earmarked Reserves		1,185					
(31,010)						**Closing General Fund Balance**		**(28,345)**					

28 EXPENDITURE AND INCOME ANALYSED BY NATURE & DISAGGREGATION OF REVENUE

28.1 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 PCC and the Group, and further analyses it by nature.

2017/18 PCC	2017/18 Group		2018/19 PCC	2018/19 Group
£000	**£000**		**£000**	**£000**
1,033	319,100	Employees	1,180	536,631
20	9,938	Premises	23	10,580
0	5,451	Transport	0	6,062
238	15,874	Supplies & Services	87	16,064
11,196	11,196	Depreciation & Amortisation	12,781	12,781
2,591	2,591	Revaluation Losses	(2,157)	(2,157)
447	18,737	Other Services Expenses	165	19,059
426,765	0	Funding to the CC	430,068	0
442,290	**382,887**	**Gross Cost of Service**	**442,148**	**599,022**
(41,878)	(28,092)	Service Income	(34,561)	(23,937)
400,411	**354,795**	**Net Cost of Service**	**407,587**	**575,085**
(7)	(7)	(Profit)/Loss on Disposal of Assets	(106)	(106)
231	231	Interest Payable and Similar	1,536	1,536
(61)	(61)	Interest and Investment Income	(299)	(299)
38	126,463	IAS 19 Pension Net Interest	40	121,042
(83,260)	0	Pension Top Up Grant	(86,340)	0
3	267	IAS 19 Admin Fees	4	288
317,356	**481,688**		**322,421**	**697,545**
(120,756)	(120,756)	Police Specific Revenue Grant	(120,756)	(120,756)
(60,629)	(60,629)	Precept Income	(65,442)	(65,442)
248	248	Deficit/Surplus on Coll Fund	16	16
(3,137)	(3,137)	Capital Grants and Contribution	(1,929)	(1,929)
(111,263)	(111,263)	Formula Funding	(111,263)	(111,263)
(1,538)	(1,538)	Council Tax Freeze Grant	(1,538)	(1,538)
(14,103)	(14,103)	Council Tax Support Funding	(14,103)	(14,103)
6,177	**170,509**	**Deficit / (Surplus) on Provision of Services**	**7,405**	**382,529**

28.2 Disaggregation of Revenue from Contracts with Customers

This note considers revenue from contracts with customers under IFRS15, and disaggregates revenue from these customers into primary product lines and timing of revenue recognition (i.e. goods transferred at a point in time or services transferred over time).

2017/18 GROUP & PCC Policing Services		2018/19 GROUP & PCC Policing Services
£000		**£000**
12,820	Services transferred over time	11,556
12,820	**Deficit / (Surplus) on Provision of Services**	**11,556**

29 DEFINED BENEFIT PENSION SCHEMES

29.1 The Police Pension Scheme (Police Officers)

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 in 2018/19 (2017/18: £16.942m) of contributions have been netted off against retirement benefits payable to pensioners in the Group financial statements. The cost to the Group of employer's contributions for police officers was £39.971m in 2018/19 (2017/18: £39.285m) **Note 29.11**. The PCC does not recognise the cost of employing police officers and therefore does not recognise any associated pension costs.

The fund is drawn up in accordance with the policies in the Statement of Accounting Policies. The fund's financial statements do not take into account liabilities to pay pensions and other benefits after the period end. The weighted average duration of the defined benefit obligation is estimated at around 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 Group offers retirement benefits. Although these benefits will not actually be payable until employees retire, the Group has a commitment to make the payments which need to be disclosed at the time that the employees earn their future entitlement. Details of liabilities for police officers are shown at **Note 29.10**.

29.2 The Local Government Pension Scheme (Police Staff)

The Local Government Pension Scheme (LGPS) for police staff is administered by Merseyside Superannuation Fund. This is a defined benefit scheme, which is funded by a dedicated portfolio of assets to fund any liabilities of the scheme. The Group and employees pay contributions into a fund, calculated at a level intended to balance the pension liability with investment assets. In addition, the Group has made arrangements for the payment of added years to certain retired employees outside the provision of the scheme. The cost to the

Group of employer's contributions for police staff was £11.999m in 2018/19 (2017/18: £11.650m) **Note 29.11**. Details of liabilities for Police Staff are shown at **Note 29.10**.

The duration of the defined benefit obligation for the Police Staff Pension Scheme is estimated at 21 years for the Group and 26 years for the PCC.

29.3 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 29.9**). The sensitivity analysis has been calculated by assessing changes in the actuarial assumptions, including projected income and expenditure figures for the following year. No assessment has been allowed for the effects of changes in the yields on corporate bonds, as this would have an immaterial effect on the figures. It is important to note that all figures provided are approximate only and would be expected to change were the figures fully recalculated.

29.4 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.

29.5 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).

29.6 Pension Costs Group

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

Group	Local Government Pension Scheme		Police Pension Scheme								TOTAL
	2017/18 £000	2018/19 £000	2017/18 1987 SCHEME £000	2017/18 2006 SCHEME £000	2017/18 2015 SCHEME £000	2017/18 TOTAL £000	2018/19 1987 SCHEME £000	2018/19 2006 SCHEME £000	2018/19 2015 SCHEME £000	2018/19 TOTAL £000	2018/19 GRAND TOTAL £000
Net Cost of Services											
Current service cost	16,870	17,135	26,380	740	40,790	**67,910**	24,130	680	44,740	**69,550**	**86,685**
Past service cost	23	7,475	3,190	0	500	**3,690**	180,720	29,770	440	**210,930**	**218,405**
Administrative expenses	267	288	0	0	0	**0**	0	0	0	**0**	**288**
Net Operating Expenditure											
Interest cost	15,430	15,919	112,580	5,620	3,200	**121,400**	106,320	5,650	4,350	**116,320**	**132,239**
Expected return on assets	(10,367)	(11,197)	0	0	0	**0**	0	0	0	**0**	**(11,197)**
Loss on curtailments	580	520	0	0	0	**0**	0	0	0	**0**	**520**
Net charge to the CIES*	**22,803**	**30,140**	**142,150**	**6,360**	**44,490**	**193,000**	**311,170**	**36,100**	**49,530**	**396,800**	**426,940**
Movement in Reserves Statement											
Reversal of net charges made for retirement benefits in accordance with IAS19	**(22,803)**	**(30,140)**	**(142,150)**	**(6,360)**	**(44,490)**	**(193,000)**	**(311,170)**	**(36,100)**	**(49,530)**	**(396,800)**	**(426,940)**
Actual amount charged against revenue for pensions in the year:											
Employers contributions payable to the scheme and retirement benefits payable to pensioners	**11,650**	**11,999**	**18,325**	**459**	**20,501**	**39,285**	**16,846**	**363**	**22,762**	**39,971**	**51,970**
IAS 19 remeasurements charged against other comprehensive income and expenditure	**28,858**	**(27,671)**	**199,595**	**(3,299)**	**(24,791)**	**171,505**	**8,644**	**(7,013)**	**(46,652)**	**(45,021)**	**(72,692)**

* Comprehensive Income and Expenditure Statement

29.7 Pension Assets and Liabilities Recognised in the Balance Sheet

The liabilities show the underlying commitments that the Group has in the long-run to pay retirement benefits. The total net liability of £5,219m has a substantial impact on the net worth of the Group as recorded in the Balance Sheet, resulting in a Group net liability of £5,019m. However, statutory arrangements for funding the deficit means that the financial position of the Group remains healthy:-

- The deficit on the Local Government Scheme will be made good by increased contributions over the remaining working life of employees, as assessed by the scheme actuary; 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 Actuary's Department using data provided by Group.
The amount included in the Group Balance Sheet arising from the Group's obligation in respect of its defined benefit plans is 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	**(593,357)**	**(667,229)**	(4,223,450)	(221,680)	(143,570)	**(4,588,700)**	(4,509,130)	(264,430)	(216,990)	**(4,990,550)**	**(5,182,057)**	**(5,657,779)**
Estimated assets in scheme	**410,494**	**438,554**	0	0	0	**0**	0	0	0	**0**	**410,494**	**438,554**
Net liability	**(182,863)**	**(228,675)**	**(4,223,450)**	**(221,680)**	**(143,570)**	**(4,588,700)**	**(4,509,130)**	**(264,430)**	**(216,990)**	**(4,990,550)**	**(4,771,563)**	**(5,219,225)**

29.8 Actuarial Assumptions

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

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

29.9 Actuarial Assumptions – Sensitivity Analysis

	2018/19				
	Local Gov't Pension Scheme	Police Pension Scheme			TOTAL
		1987 SCHEME	2006 SCHEME	2015 SCHEME	
Change in Actuarial Assumption	**£000**	**£000**	**£000**	**£000**	**£000**
Unadjusted deficit	(228,675)	(4,509,130)	(264,430)	(216,990)	**(5,219,225)**
+0.1% change in discount rate	13,919	75,400	8,400	7,600	**105,319**
+0.1% change in pay growth (salaries)	(3,096)	(4,200)	(4,000)	0	**(11,296)**
+0.1% change in inflation (pensions)	(14,216)	(62,400)	(4,400)	(8,200)	**(89,216)**
+1 year increase in life expectancy	(12,729)	(106,000)	(6,000)	(6,000)	**(130,729)**

29.10 Reconciliation of Present Value of Scheme Liabilities Group

	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	(597,297)	**(593,357)**	(4,299,220)	(212,480)	(94,790)	**(4,606,490)**	(4,223,450)	(221,680)	(143,570)	**(4,588,700)**	**(5,182,057)**
Current service costs	(16,870)	**(17,135)**	(26,380)	(740)	(40,790)	**(67,910)**	(24,130)	(680)	(44,740)	**(69,550)**	**(86,685)**
Interest costs	(15,430)	**(15,919)**	(112,580)	(5,620)	(3,200)	**(121,400)**	(106,320)	(5,650)	(4,350)	**(116,320)**	**(132,239)**
Members contributions	(3,479)	**(3,738)**	(5,570)	(180)	(11,200)	**(16,950)**	(4,380)	(150)	(12,190)	**(16,720)**	**(20,458)**
IAS 19 remeasurements	29,238	**(40,402)**	85,770	(4,480)	6,660	**87,950**	(107,900)	(7,590)	(14,340)	**(129,830)**	**(170,232)**
Benefits paid	11,084	**11,317**	137,720	1,820	250	**139,790**	137,770	1,090	2,640	**141,500**	**152,817**
Past service costs	(23)	**(7,475)**	(3,190)	0	(500)	**(3,690)**	(180,720)	(29,770)	(440)	**(210,930)**	**(218,405)**
Loss on curtailments	(580)	**(520)**	0	0	0	**0**	0	0	0	**0**	**(520)**
As at 31st March	**(593,357)**	**(667,229)**	**(4,223,450)**	**(221,680)**	**(143,570)**	**(4,588,700)**	**(4,509,130)**	**(264,430)**	**(216,990)**	**(4,990,550)**	**(5,657,779)**

29.11 Reconciliation of Present Value of Scheme Assets Group

	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	**396,729**	**410,494**	0	0	0	**0**	0	0	0	**0**	**410,494**
Expected return on assets	**10,367**	**11,197**	0	0	0	**0**	0	0	0	**0**	**11,197**
Administrative expenses	**(267)**	**(288)**	0	0	0	**0**	0	0	0	**0**	**(288)**
IAS 19 remeasurements	**(380)**	**12,731**	113,825	1,181	(31,451)	**83,555**	116,544	577	(32,312)	**84,809**	**97,540**
Employers contributions	**11,650**	**11,999**	18,325	459	20,501	**39,285**	16,846	363	22,762	**39,971**	**51,970**
Members contributions	**3,479**	**3,738**	5,570	180	11,200	**16,950**	4,380	150	12,190	**16,720**	**20,458**
Benefits paid	**(11,084)**	**(11,317)**	(137,720)	(1,820)	(250)	**(139,790)**	(137,770)	(1,090)	(2,640)	**(141,500)**	**(152,817)**
As at 31st March	**410,494**	**438,554**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**438,554**

29.12 Fair Value of Plan Assets Group

	Assets as at 31st March 2018		Assets as at 31st March 2019	
	£000	%	£000	%
Equity investments	216,414	52.7%	**215,360**	**49.1%**
Government bonds	14,737	3.6%	**15,898**	**3.6%**
Other bonds	51,066	12.4%	**53,658**	**12.2%**
Property	36,574	8.9%	**41,868**	**9.5%**
Cash/liquidity	10,960	2.7%	**12,779**	**2.9%**
Other	80,743	19.7%	**98,991**	**22.6%**
Total	**410,494**	**100.0%**	**438,554**	**100.0%**

29.13 Scheme History Group

Group	2014/15	2015/16	2016/17	2017/18	2018/19
	£000	£000	£000	£000	£000
Present Value of Scheme Liabilities					
Local Government Pension Scheme	(481,703)	(473,426)	(597,297)	(593,357)	(667,229)
Police Pension Scheme	(4,219,820)	(3,768,310)	(4,606,490)	(4,588,700)	(4,990,550)
	(4,701,523)	**(4,241,736)**	**(5,203,787)**	**(5,182,057)**	**(5,657,779)**
Fair Value of Assets (LGPS)					
Local Government Pension Scheme	**315,919**	**323,847**	**396,729**	**410,494**	**438,554**
Deficit in Scheme					
Local Government Pension Scheme	(165,784)	(149,579)	(200,568)	(182,863)	(228,675)
Police Pension Scheme	(4,219,820)	(3,768,310)	(4,606,490)	(4,588,700)	(4,990,550)
	(4,385,604)	**(3,917,889)**	**(4,807,058)**	**(4,771,563)**	**(5,219,225)**

29.14 Remeasurements of the Net Defined Benefit Liability Group

Group	2014/15		2015/16		2016/17		2017/18		2018/19	
Local Government Scheme	£000	%	£000	%	£000	%	£000	%	£000	%
Difference between the expected and actual return on assets	21,271	6.8	(8,912)	(2.8)	55,553	14.0	(380)	(0.1)	12,731	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	(87,137)	27.7	32,509	6.9	(100,551)	25.3	29,238	(7.1)	(40,402)	9.2
	(65,866)		23,597		(44,998)		28,858		(27,671)	
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	(396,584)		621,121		(741,752)		200,363		(72,692)	

29.15 Plan Asset Fair Value Disaggregation Group

Group	2017/18			2018/19		
Asset Classification	£000 Quoted Market price	£000 No Quoted Market price	£000 TOTAL	£000 Quoted Market price	£000 No Quoted Market price	£000 TOTAL
Equities						
UK	86,493	0	86,493	67,321	11,581	78,902
Global	129,921	0	129,921	91,589	44,869	136,458
	216,414	**0**	**216,414**	**158,910**	**56,450**	**215,360**
Bonds						
UK Government	14,737	0	14,737	15,898	0	15,898
UK Corporate	17,775	0	17,775	18,901	0	18,901
UK Index Linked	33,291	0	33,291	34,757	0	34,757
	65,803	**0**	**65,803**	**69,556**	**0**	**69,556**
Property						
UK Direct Property	0	23,849	23,849	0	26,770	26,770
UK Property Managed	780	6,198	6,978	868	7,990	8,858
Global Property Managed	0	5,747	5,747	0	6,240	6,240
	780	**35,794**	**36,574**	**868**	**41,000**	**41,868**
Other						
UK Private Equity	41	13,505	13,546	1	13,929	13,930
Global Private Equity	0	12,849	12,849	0	15,549	15,549
UK Hedge Funds	0	2,093	2,093	381	1,795	2,176
Global Hedge Funds	0	10,755	10,755	0	11,088	11,088
Global Infrastructure	0	8,086	8,086	0	10,697	10,697
UK Infrastructure	452	9,688	10,140	761	16,175	16,936
UK Opportunities	5,500	10,426	15,926	4,040	13,454	17,494
Global Opportunities	2,340	5,008	7,348	3,810	7,311	11,121
	8,333	**72,410**	**80,743**	**8,993**	**89,998**	**98,991**
Cash						
Cash Instruments	10,960	0	**10,960**	12,779	0	**12,779**
	302,290	**108,204**	**410,494**	**251,106**	**187,448**	**438,554**

29.16 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 to 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.

30 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.

31 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 pension 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 PCC or Group 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
0	Additional commutation in respect of GAD v Milne	0
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

Office of the Police and Crime Commissioner for Merseyside

Annual Governance Statement

1. Scope of Responsibility

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

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

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. A copy of the Code is available on the PCC's website at www.merseysidepcc.info.

This statement explains how the PCC has complied with the Code and also meets the requirements of Regulation 6 and 10 of the Accounts and Audit regulations 2015 in relation to the review of the internal control system and the publication of the Annual Governance Statement.

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

2. The Purpose of the Governance Framework

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.

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

3. The Governance Framework

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

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

The core principles that underpinned the governance framework are detailed below, as well as examples of the behaviours and outcomes that demonstrated recognition that the relevant principles was in place during the year include:-

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

The PCC and Deputy PCC both signed a personal code of conduct on how they would act when fulfilling their respective roles and to abide by the seven Nolan principles, as well as treat all people with fairness and respect at all times.

The PCC and Deputy also disclosed details of all expenses claim and gifts and hospitality received or given on the PCCs web site. Procedures were also in place to enable any conflicts of interest to be recorded if required.

The PCCs Chief Executive acted as Monitoring Officer to ensure that the PCC and the OPCC act within the law at all times. The PCC has established policies and procedures for dealing with complaints against the Chief Constable and the PCC and her staff. During the year there were no reports to the Monitoring Officer with regard to illegal or inappropriate conduct.

Compliance to the Corporate Governance Framework and the Home Office Financial Management Code of Practice ensured that the good governance principles were embedded within the way the Office of the Police and Crime Commissioner for Merseyside (OPCCM) and Merseyside Police operated. As such, the PCC and Chief Constable set the tone for their respective organisations by creating a climate of openness, support and respect.

B. Ensuring openness and comprehensive stakeholder engagement.

The PCC is fully compliant with the Elected Local Policing Bodies (Specified Information) Order 2011 which sets out the information all Police and Crime Commissioners must make public. This information was published on the PCCs web site. In addition, during the course of the year the PCC published 61 key decisions on her web site. All the key decisions were scrutinized and endorsed by the Police and Crime Panel.

The PCC published a detailed Reserves Strategy to provide greater clarification on what reserves are being held and demonstrate that the PCC is compliant with Home Office guidance on police reserves.

In January 2019 the PCC undertook a three week public consultation exercise using roadshows and an online survey to ask the general public whether they would support increasing the precept by £24 in

2019/20. Seventy five percent of the respondents said they would support the increase. The Police and Crime Panel were notified of the proposal to increase the precept and endorsed the proposal. Consequently, the precept was increased to the maximum allowable without the need to hold a referendum.

The PCCs Community Engagement team are successfully embedded into the local policing areas and corresponding local authorities. They are fully engaged with the public, with partner agencies and the police, and have a clear view of the local picture in relation to crime reduction and community safety.

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

The PCC is required by law to produce a Police and Crime Plan for Merseyside. The Plan sets out the clear priorities on which the PCC and her partners will focus their work and the ways in which Merseyside Police will use its resources to deliver excellent policing for the communities of Merseyside. In March 2017 the PCC published the Police and Crime Plan covering 2017 to 2021. The plan detailed the PCC's five key priorities which are:-

- Prevent crime and anti-social behavior;
- Provide a visible and accessible neighbourhood policing style;
- Tackle serious and organised crime;
- Support victims, protect vulnerable people and maintain public safety; and
- Working in partnership to improve road safety.

The PCC released her 2018/19 Annual Report after it was endorsed by the Police and Crime Panel. The report details the extensive work carried out by the PCC over the last financial year and gives the public the chance to review and appraise her progress in delivering her police and crime priorities. It also covers the PCC's work to engage with the communities of Merseyside, including her campaigns and the work she carries out in partnership with Merseyside's community safety organisations and the progress of her Victim Care Merseyside service.

The PCC also consulted on the annual precept and approved an increase of £24 as part of approving a balanced budget in 2019/20. As part of the 2019/20 budget the PCC allowed the Chief Constable to reinvest £4.0m of identified savings from the Community First Programme approved during 2018/19 to recruit additional Police Officers and Police Staff in 2019/20. The Chief Constable intends to reinvest into priority areas to enhance operational capability. The details of the reinvestments were included within the annual budget report along with the rationale and benefits associated with each reinvestment. The PCC plans to monitor the impact of the reinvestment through the Force Quarterly Inspection meetings.

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

The Corporate Governance Framework was reviewed and amended to reflect best practice.

The PCC and the Chief Constable 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 Medium Term Financial Strategy highlights the significant financial and operational challenges facing the PCC and the Force over the next five years to balance its budget and achieve the Police and Crime Plan objectives.

The PCC also continually reviews the OPCCM Risk Register ensuring that all key strategic risks have been identified and controls are put in place to mitigate the potential risks identified. The PCC has also had oversight of the Forces Risk Register and strategies to reduce the risks identified.

The Estate Strategy continues to be implemented and a number of key decisions have been taken during the year including the awarding of the contracts to build the new Vehicle Fleet Facility/Stores/Patrol Hub at Edge Lane and a new specialist training facility in Speke.

The PCC Change Governance Group met on several occasions to consider detailed savings proposals from the Chief Constable and approved a number of significant changes to the Force operating model, including reviews of the Forensics and Evidence Management departments, the implementation of preventative policing models and a review of management structures and ratios.

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

The performance development review processes ensure that effective arrangements are in place for reviewing performance and agreeing an action plan(s) which would include any training or development needs.

The OPCCM is currently implementing an agreed action plan in order to ensure it retains its Investors in People status.

During the year a member of the OPCC was seconded to the Association of Police and Crime Commissioners (APCC) into the role of Senior Policy Manager – Fire and Emergency Services Collaboration. The role was expanded to also provide to be the single point of contact for the North West Region PCC's to the APCC. The secondment also provided the opportunity for officers within the OPCC to act up and develop their management and supervisory skills and experiences within the OPCC.

Training and awareness sessions have been held for the members of the Joint Audit Committee.

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

The PCC holds the Chief Constable to account for the performance of the Force against her key priorities. The Forces performance is monitored through the PCCs quarterly Force Inspection meetings. The Police and Crime Panel and the HMICFRS also monitor the performance of the PCC and the Force respectively.

The PCCs scheme of corporate governance defines the parameters for key roles in the corporations' sole including schemes of delegations and/or consents from the PCC or Chief Constable, financial regulations and contract standing orders.

Two new members has been recruited to the Joint Audit Committee following the retirement of two members. The Committee has overseen the completion of the work of Internal and External Audit during the year and ensured that actions arriving from their work have been addressed.

The OPCCM manages its data within the bounds of legislation governing the protection of data, ensuring that all data is appropriately stored and shared where necessary. The OPCCM utilises the Force IT system to store electronic data and complies with the Forces policies and procedures relating to ICT Acceptable Use and Record Management to safeguard the confidentiality, integrity and availability of its information. Physical data within the OPCCM is held securely with appropriate office and cabinet security provided. In addition, information is provided to members of the public under the Freedom of Information Act, with requests and responses published on the PCC's website.

The PCC has a number of arrangements in place to minimise the possibility of fraud, these include having a whistleblowing policy and procedure in place and taking part in the National Fraud Initiative, which is a national exercise that matches electronic data within and between public and private sector bodies, such as payroll, pensions and benefits data.

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

The PCC has a well-established web site on which all key decisions made during the year were published, along with the Annual Report. The Police and Crime Panel have scrutinised and endorsed all the key decisions taken, as well as the Annual Report. All the information required under the Elected Local Policing Bodies (Specified Information) Order 2011 was also published on the web site.

The PCCs Force Inspection meetings were held on a quarterly basis to hold the Chief Constable to account and the agenda’s and minutes from the meetings are published on the PCC’s web site.

The Joint Audit Committee has overseen the completion of the work of Internal and External Audit during the year and ensured that actions arriving from their work have been addressed. The Annual Statement of Accounts have also been produced and published on time.

In accordance with the Accounts and Audit Regulations 2015 the Annual Statement of Accounts include a Narrative Statement. The statement provides information on the financial and non-financial performance, as well as the economy, efficiency and effectiveness in its use of resources over the financial year.

4. Review of Effectiveness

The PCC has responsibility for conducting, at least annually, a review of the effectiveness of the Governance Framework, including the system of internal control and internal audit. The Chief Officers within the OPCCM have undertaken these reviews by reviewing the Assurance Framework, in particular taking into account the work of the Joint Audit Committee and Shared Internal Audit Service. Reports and comments made by the External Auditors Grant Thornton, the Police and Crime Panel and Her Majesty's Inspectorate of Constabulary have also informed this review, as well as observations and evidence from the PCC Governance meetings.

Assurance Framework

The PCC has an **Assurance Framework**, which is a structured means of identifying and mapping the key sources of assurance within the OPCCM and comprises of evidence to support the Annual Governance Statement. The key assurances are:-

(i) OPCC Chief Officers Annual Assurance Statements

The PCC has appointment two Statutory Officers, i.e. the Chief Executive (who also acts as the Monitoring Officer) and Chief Finance Officer, support the PCC in ensuring compliance.

Chief Executive – is the Head of Paid Service and undertakes the responsibilities of Monitoring Officer. The Monitoring Officer is responsible for ensuring that, at all times, the PCC acts within its legal powers.

Chief Finance Officer - similarly, in accordance with Section 151 of the Local Government Act 1972, the Chief Finance Officer is the Officer responsible for ensuring the proper administration of the PCC's financial affairs. In addition, the PCC's financial management arrangements conformed to the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer of the Police and Crime Commissioner and the Chief Finance Officer of the Chief Constable (2014).

There is a requirement both statutory Officers to complete an annual assurance statement confirming the effectiveness of the governance arrangements that were in place during the past year. Both Chief Officers have completed their annual assurance statements certifying that they are confident that systems of internal control existed during 2018/19 which enabled the PCC'S objectives to be met. In addition, during the year there have been no reports from the Monitoring Officer with regard to illegal or inappropriate conduct.

(ii) Shared Internal Audit Service

The primary role of Internal Audit is to give 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 Joint 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). This is through objectively assessing and providing an opinion on the adequacy of governance and management of existing risks and commenting on responses to emerging risks and proposed developments.

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

Internal Audit's plans and performance are reported annually to the Joint Audit Committee. The Internal Audit plan for 2018/19 included the reviews of the effectiveness of the governance arrangements covering crime recording, insurance, income generation, contract monitoring, body work repairs and the effectiveness of the monitoring and utilisation of the Community Safety Funding. In addition, a number of reviews of the Force and the North West Regional Oragainsed Crime Unit were undertaken, including the procedures and controls aound reconciling covert bank accounts.

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 were incorporated in to the Quality Assurance Improvement Programme. All the areas for improvement identified were addressed during the year.

(iii) External Audit

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

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

(iv) 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.

(v) Merseyside Police and Crime Panel

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

The Panel's responsibilities include:-

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

During 2018/19 the Police and Crime Panel approved the 2019/20 precept proposed by the PCC and endorsed all the key strategic decisions taken by the PCC.

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

Her Majesty's Inspectorate of Constabulary & Fire and Rescue Services (HMICFRS) independently assesses police forces and policing from neighbourhood teams to serious crime and the fight against terrorism. HMICFRS 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.

HMICFRS is independent of Government and the police:-

- HM Inspectors of Constabulary are appointed by the Crown – they are not employees of the police service or government.
- HM Chief Inspector of Constabulary reports to Parliament on the efficiency and effectiveness of police forces in England and Wales.
- HM Inspectors have powers to seek information from police forces and to access their premises.

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

The 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.

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 Police 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.

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
The on-going identification and achievement of the savings identified in the Medium Term Financial Strategy to ensure a balanced Budget over the period.	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. 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.
The devolving of powers and funding to the Liverpool City Region, in particular the functions of the PCC to an elected Mayor, thus removing the PCC.	Confirmation has been received from the Home Office that the functions of the PCC cannot be devolved to the Metro Mayor whilst the Liverpool City Region and the Elected Policing Area of Merseyside are not coterminous. However, the PCC has joined the Combined Authority as a co-opted member to provide the Metro Mayor strategic support with regard to the criminal justice system. The PCC and the OPCCM will engage with the new Metro Mayor on any proposals regarding devolution to ensure that the best governance arrangements are in place for ensuring the delivery of an efficient and effective police service on Merseyside. This issue is now being managed through the PCC's Risk Management arrangements.
Proposed changes to the statutory police complaints system may see significant responsibility move from the Chief Constable to the PCC. This will require changes to the governance, delegations and internal control arrangements currently in place.	The OPCC is awaiting the publication of statutory guidance by the Home Office, without the necessary direction of the statutory guidance it is not possible to make informed recommendations to the PCC at this stage. However, the OPCC has commenced discussions with Merseyside Police on the implications of each model, with a view to recommending a model to the PCC. This governance issue has been rolled forward into 2019/20 and is being managed through the PCC's Risk Management arrangements.
A new Data Protection Act is due to be enacted by the 25th May 2018, along with the introduction of General Data Protection Regulations (GDPR). The new Act and the GDPR will introduce new rights for individuals and new obligations for public and private sector organisations, including the PCC.	The Chief Executive has reviewed the processes and procedures within the OPCCM to ensure full compliance, as well as raised staff awareness of the implications and responsibilities. A Data Protection Officer is shared with Merseyside Police. The PCC has published a 'privacy policy' on the website explaining how personal data is collected and used, the legal basis for doing so and provides information about individuals rights in respect of their personal data for which the PCC is the data controller. This issue is now being managed through the PCC's Risk Management arrangements.

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

Governance Issue	Action
Following the sudden resignation of the Deputy PCC and the difficulties in appointing a replacement in a timely manner given that the PCC has only 12 months left in office, there is a risk that the specific responsibilities given to the post of Deputy PCC will not be undertaken, i.e. responsibility for the Commissioning of Victims Services and the maintenance of community remedies.	The PCC is considering her options around the potential appointment of a new Deputy PCC and the implications. Until a final decision is made there will be a requirement for the PCC to oversee the Victims Services and the maintenance of community remedies. In addition, senior officers from the OPCC will provide cover and support where necessary, e.g. Chief Executive will chair the Victims Programme Board.
Proposed changes to the statutory police complaints system may see significant responsibility move from the Chief Constable to the PCC. This will require changes to the governance, delegations and internal control arrangements currently in place.	The Chief Executive, in conjunction with the Chief Constable, will draft a decision report for the PCC on the options and implications of the Act. The report will include any required amendments to the Governance Framework and delegations to reflect any legislative changes and decisions to be taken by the PCC and/or the Chief Constable. As a result of any new governance arrangements the capacity of the OPCCM to discharge any additional requirements will also need to be reviewed.
The on-going identification and achievement of the savings identified in the Medium Term Financial Strategy to ensure a balanced Budget over the period.	PCC Chief Finance Officer, in conjunction with the Force Director of Resources, to keep the MTFS updated and report findings to PCC and Chief Constable. The Chief Constable has established a Community First Programme to ensure that the Force is appropriately structured to meet the needs of our communities and deliver the savings required over the MTFS. The PCC's Business Change and Efficiency Group will oversee the programme and will approve the required savings over the MTFS period.
The PCC has announced that she will not be seeking re-election, as consequence there will be a new PCC from May 2020.	There are no planned changes to the current governance arrangements. However, it is expected that a new PCC will review the governance arrangements once they take up office in order to ensure that they are still appropriate their election commitments and subsequent Police and Crime Plan.

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

Signed

The Annual Governance Statement was signed by Jane Kennedy, John Riley and Clive Howarth on 31st July 2019

Rt Hon Jane Kennedy

Police and Crime Commissioner for Merseyside

31st July 2019

Clive Howarth

Chief Executive
Office of the Police and Crime Commissioner for Merseyside
31st July 2019

John Riley

Chief Finance Officer
Office of the Police and Crime Commissioner for Merseyside
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 PCC and Group.

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

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

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

CASH
Comprises cash on hand and demand deposits.

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

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

THE CODE (The Code of Practice on Local PCC Accounting in the United Kingdom 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.

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

COMPONENTISATION
Identifying and depreciating the components of an asset separately if they have differing patterns of benefits relative to the total cost of the asset

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

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

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

CURTAILMENTS & SETTLEMENTS
Curtailment 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 PCC/Group money at the end of the financial year.

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

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

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

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

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

- Assets held by a long-term employee benefit fund; and
- Qualifying insurance policies (not relevant for Police).

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

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

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

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

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

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

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

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

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

LESSEE
An organisation which holds a property by lease.

LESSOR
An organisation which lets a property by lease.

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

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

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

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

OPERATING LEASE
Any lease which is not a finance lease.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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