



KNOWSLEY METROPOLITAN BOROUGH COUNCIL

STATEMENT OF ACCOUNTS

2008 – 2009

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EXPLANATORY FOREWORD

1. INTRODUCTION

The Statement of Accounts is an important part of the Council's arrangements for ensuring sound financial management and accountability. This foreword aims to help readers understand Knowsley Council's Statement of Accounts for 2008/09. It explains the various accounting statements and provides a brief explanation of the Council's overall financial position at 31 March 2009. In preparing the Statement of Accounts the Council adopts the relevant national and international accounting requirements and ensures that they are completed prior to the statutory deadline of 30 June.

Each year the Council's external auditors (PricewaterhouseCoopers) undertake an annual Use of Resources Assessment that includes a review of the content of the Statement of Accounts. In 2008, the assessment showed that the Council continues to be one of the best performing metropolitan authorities in the country. The 2008 results included a maximum score (of 4) for the financial standing of the Council, showing that the Council was performing strongly in monitoring and maintaining the financial health of the organisation, as well as a score of 3 for the approach the Council takes to financial reporting.

To comply with accounting and legal regulations, the Statement of Accounts is a long and complex document. This foreword offers a guide to the most significant matters that are reported in the detailed Statements. However, as in previous years, the Council will also publish a summarised version of the audited accounts which will provide a more user-friendly overview of the key figures for 2008/09 and will be available on the Council's website after the conclusion of the audit.

Your Comments

If you have any comments on the Statement of Accounts please contact Dan Barlow, Assistant Borough Treasurer by email at dan.barlow@knowsley.gov.uk or by phone on 0151 443 3622.

You can also request a version of the Statement of Accounts in a more accessible format - for example translated into another language or available in larger print. Please call 0151 443 3064 if you wish to discuss the options that are available.

Other Information Available

There are several other ways in which you can access further information about the Council:

- **Internet**

The Council website (www.knowsley.gov.uk) contains a whole host of up-to-date information on the activities of the Council and its partners. You can also access electronic versions of the Statement of Accounts and other documents such as.

- Council Tax information leaflet
- Council minutes and agendas
- Corporate Plan

- **Knowsley Challenge**

This community newspaper is distributed to all households in the Borough on a monthly basis.

- **Contact Centre**

You can contact us on 0151 489 6000 or by email at customerservices@knowsley.gov.uk

- **One Stop Stop Shops**

Our One Stop Shops in Halewood, Huyton, Kirkby and Prescot are open during the following hours:

- Monday to Friday: 9am to 5pm
- Saturday: 10am to 12:30pm

2. PURPOSE OF THE ACCOUNTING STATEMENTS

The Statement of Accounts aims to help readers understand the Council's financial position at the end of the year; give assurance that expenditure was efficient and effective; and demonstrate that the Council is financially viable. To achieve this, the Statement of Accounts provides information on the following areas:

- What money was spent and received during the year.
 - The income and expenditure account shows the day-to-day revenue costs of providing services, and the income Knowsley received from Government Grant, fees and charges and Council Tax.
- What assets the Council holds, what it is owed and what it owes to others.
 - The balance sheet shows:
 - How much money is set aside in general balances, provisions and reserves
 - How much money was spent on acquiring or improving assets (capital expenditure)
 - How much money is owed to the Council (debtors) and by the Council (creditors)
 - The Council's share of the Pensions Fund Liability

3. THE ACCOUNTING STATEMENTS

There are a number of individual statements within the overall Statement of Accounts as follows.

Statement of Accounting Policies: This explains how the Council accounts for its expenditure and income using the recommended accounting practices. Other than the items set out in this foreword there have been no major changes to the Council's accounting policies in 2008/09.

Statement of Responsibilities: This sets out the financial responsibilities of Council Members and the Council's Chief Financial Officer – the Borough Treasurer.

Annual Governance Statement: This sets out the controls that are in place for managing the Council's business.

Main Financial Statements

Income and Expenditure Account: This summarises the Council's income and expenditure for the year. It also shows how the Council paid for the day-to-day cost of its services.

Statement of Movement on the General Fund Balance: This statement shows the differences between the balance on the Income and Expenditure Account and the General Fund Balance.

Statement of Total Recognised Gains and Losses: This statement brings together all the gains and losses of the Council for the year and shows the increase in the Council's net worth.

Balance Sheet: This sets out the financial position of the Council at the end of the financial year, and gives details of the Council's assets and liabilities.

Cash Flow Statement: This shows where the Council's money came from and how the Council spent the money. It also reflects the change in the Council's financial structure during the year.

Explanatory Notes: Each of the main statements is accompanied by explanatory notes that provide additional analysis and help to provide a wider context to the figures.

Collection Fund: This shows the income collected from the Council Tax and Business Rates.

4. 2008/09 INCOME AND EXPENDITURE

The Council receives money from several sources to pay for the day to day costs of providing services. Larger items of expenditure on capital assets are also paid for by borrowing or loans. These items are shown in the Income and Expenditure Account - which is summarised in the table below. The Income and Expenditure Account uses the Government's "Best Value" analysis to show the cost of Council services, with adjustments for other expenditure that relates to the Council's overall operations rather than specific service provision.

In 2008/09 most of Net Operating Costs were funded directly by the Government through the general Revenue Support Grant, specific grants and allocations of national non-domestic rates. Only £48.824m came from Council Tax receipts – about 9% of the Council's gross expenditure. Income is also generated from fees and charges to customers for some of the Council's services (shown as income against the cost of Council services). Each year, the Council reviews its charging policies to ensure that it receives the optimum amount of income - helping to provide more cost effective services within its limited financial resources.

<u>2008/09 INCOME AND EXPENDITURE</u>	Gross Expenditure £m	Gross Income £m	Net Expenditure £m
Net Operating Expenditure			
Cost of Council Services			
Adult Social Care	88.714	(33.051)	55.663
Central Services to the Public	20.708	(18.194)	2.514
Cultural, Environmental, Regulatory & Planning Services	125.783	(48.901)	76.882
Education and Children's Services	188.725	(151.005)	37.720
Highways, Roads & Transport Services	16.826	0	16.826
Housing Services	64.034	(63.140)	0.894
Other costs of Council operations	10.704	(2.318)	8.386
	515.494	(316.609)	198.885
Interest Payable			5.678
Other Operating Expenditure			5.508
Total			210.071
Amount from Government Grant and Taxpayers			
Council Tax Receipts			(48.824)
Government Revenue Support Grant			(38.239)
Share of the National Non Domestic Rate pool			(100.768)
Total			(187.831)
INCOME AND EXPENDITURE ACCOUNT DEFICIT			22.240
Less Statutory Accounting Adjustments (detailed in Statement of Movement on General Fund Balance)			(22.363)
INCREASE IN GENERAL FUND BALANCE			(0.123)

The Income and Expenditure Account does not include amounts set aside by the Council in reserves for future years, or a number of other statutory adjustments that the Government requires to avoid any undue impact on the Council Tax payer. These adjustments are recorded in the Statement of Movement on the General Fund Balance, which shows how much money has actually been added to the Council's General Balances at the end of the year. The increase in the General Fund balance represents the Council's overall surplus against its total revenue budget for the year. The Council's policy is to maintain its general balances at 3% of the revenue budget for the following year in order to provide a prudent financial safety-net for unforeseen events.

5. THE COUNCIL'S BALANCE SHEET

The Balance Sheet shows the Council's assets and liabilities at 31 March 2009 and reflects everything that the Council owes and is owed at that date.

In addition to the general balances mentioned above, the Council also sets money aside in provisions (for future expenditure relating to an event that has already occurred) and reserves (for likely future commitments and policy developments). At 31 March 2009, the total of the Council's reserves (excluding schools) was £52.846m. By putting money aside now to pay for future commitments, the Council ensures that it manages the impact of its spending in a planned and prudent way – avoiding sudden changes in Council Tax and making sure that it can afford to develop and improve services in the future.

In 2008/09, the Council spent £29.810m on acquiring or improving buildings and other capital assets. Over half of this expenditure was paid for using capital grant from the Government (£15.505m). The Council also borrowed £5.998m to help pay for its capital expenditure. All capital expenditure, and how the Council paid for it, is detailed in the Balance Sheet the accompanying notes.

Pension Fund Liability

The Balance Sheet also reflects the Council's participation in the Local Government Pension Scheme (administered by Merseyside Pension Fund). The Council and its employees pay contributions into the Pension Fund at a rate which is calculated to ensure that the overall fund is balanced in the longer term. At the end of 2008/09, the Council's share of the Fund liability (excluding Teachers) was £183.344m – compared with £210.921m the previous year (a decrease of 13.1%). This reflects less conservative financial assumptions made by the actuaries than those used as at 31 March 2008 – partly reflecting rising returns on investments and lower than expected inflation in the year.

6. MAJOR INFLUENCES ON THE 2008/09 ACCOUNTS

During 2008/09 there have been a number of developments that have had an unusual influence on the Council's Accounts. The major items are set out below:

Impact of the Economic Recession

The Council has considered how it should reflect the impact of the recent economic downturn on the Council's financial standing. The main impact for the Council has been on asset values and so the Council's Balance Sheet includes a reduction or 'impairment' in the market values of its operational assets of 25% (approximately £6m). It should be noted that this is a reflection of asset values at a particular point in time, and is not an indication of any long term, permanent fall in asset values. As market conditions recover in future years, asset values will be adjusted upwards accordingly.

Instability in the Global Banking Sector

During the year there were concerns about the security of local authority investments – particularly in the banking sector when Icelandic Banks went into receivership. Knowsley Council has a very prudent approach to the way it makes investments and only lends to institutions with very high credit ratings. As a result of this approach it was not exposed to the same risks that affected other UK authorities and organisations. However the unprecedented events in the banking sector demonstrate that even top-rated institutions can be vulnerable so the Council makes sure it constantly reviews its investments to minimise any undue risks.

Equal Pay Act (Amendment) Regulations 2003

As in previous years, the 2008/09 Statement of Accounts reflects the recommended accounting practice for potential compensation claims under the Equal Pay Act (Amendment) Regulations 2003 in relation to equal pay for work of equal value. The Council has accounted for its estimate of the maximum potential liability of £15.251m and, as required under the accounting regulations, has offset this so that there is no impact on the Council's overall balances. It should be noted that the Council's comprehensive job evaluation and harmonisation review is ongoing and is aimed at resolving this issue. The figure included in the accounts does not indicate an expected settlement figure and it does not prejudice the Council's ongoing negotiations on this matter.

Private Finance Initiative Schemes

During 2008/09 the first of the Council's PFI-funded assets became operational. The Christ the King Learning Centre opened in October 2008. While ownership of the asset does not pass to the Council for a further 25 years the Income and Expenditure Account reflects relevant payments made by the Council during the year of £4.707m. The Balance Sheet also includes a reserve of £9.349m that will be used to fund future payments relating to the ongoing Future Schooling in Knowsley programme.

International Financial Reporting Standards

The Government has stated that in an increasingly global economy there is benefit to be gained from ensuring easier comparison of organisations and of their accounts. To achieve this, the Government has made a commitment that the public sector should move towards adopting International Financial Reporting Standards (IFRS) with full compliance achieved for the 2010/11 Statement of Accounts. This transition will involve complex accounting changes and significant additional disclosure of information in future years.

STATEMENT OF ACCOUNTING POLICIES

These Accounts are prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2008: A Statement of Recommended Practice (the SORP), and the Best Value Accounting Code of Practice, issued by the Chartered Institute of Public Finance and Accountancy.

ACCOUNTING CONCEPTS

a) Accruals of income and expenditure

The Council's accounts (other than the cash flow statement) are prepared on an accruals basis. This requires the financial impact of activity to be accounted for at the date when it takes place rather than when cash is actually paid or received. For example:

- Fees, charges and rents due from customers are accounted for as income at the date the Council provides the relevant goods or services.
- Supplies are recorded as expenditure when they are consumed. Where there is a gap between the date of supply and consumption, supplies are carried as stocks on the Balance Sheet.
- Works are charged as expenditure when they are completed, before which they are carried as works in progress on the Balance Sheet.
- Interest payable and receivable is accounted for using the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.

Where income or expenditure is recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where it is doubtful that debts will be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected. *Note: this approach is recommended by the Council to be adopted by all Schools, but the Council has limited scope to enforce this.*

b) Going Concern

The accounts are prepared on a going concern basis which assumes that the Council will continue in existence for the foreseeable future and that there is no intention to significantly reduce operations.

c) Primacy of Legislative Requirements

Where specific legislative requirements conflict with accounting principles, legislative requirements are applied.

BALANCES

Un-earmarked general balances provide a prudent financial safety-net for unforeseen events. The Council's policy is to maintain these at 3% of the net revenue budget for the following year.

CAPITAL RECEIPTS

Income from the disposal of fixed assets is credited to the useable capital receipts reserve and can be used to finance future capital expenditure. Any proportion reserved for the repayment of external loans has been credited to the capital adjustment account.

DEBTORS AND CREDITORS

All material sums due to be paid to or by the Council are shown irrespective of whether the cash has actually been received or paid. Debtors are shown net of the Council's provision for bad debts.

EQUAL PAY ACT (AMENDMENT) REGULATIONS 2003

The Council adopts the recommended accounting practice for potential compensation claims under the Equal Pay Act (Amendment) Regulations 2003 in relation to equal pay for work of equal value - as defined in Local Authority Accounting Panel Bulletin 68. The Council accounts for its estimate of the maximum expected costs as a provision in the Income and Expenditure Account. Statutory arrangements allow settlements to be financed from the General Fund in the year that payments actually take place, not when the provision is established. The provision is therefore balanced by an Equal Pay Back Pay Account that will be debited to the Statement of Movement on the General Fund Balance if payments are made. The figure included in the accounts does not indicate an expected settlement figure and does not prejudice the Council's ongoing negotiations on this matter.

ESTIMATION TECHNIQUES

While there is a presumption that the SORP requirements are adopted by the Council to measure amounts shown in the Accounts, the SORP recognises that there may be occasions where it is appropriate to adopt a different or less rigorous approach - provided that this does not risk a misrepresentation of the Council's overall financial position. Where the basis for measurement of an amount is uncertain, the Council will use a suitable estimation technique determined by the Borough Treasurer. Where a reasonable estimate has been made, but is subsequently identified as being insufficiently accurate, the Borough Treasurer will amend the Accounts accordingly.

FINANCIAL INSTRUMENTS

Financial Instruments are accounted for in accordance with all relevant Financial Reporting Standards. They are initially measured at fair value - which is the value of the instrument if it were to be bought or sold at today's prices.

a) Financial Liabilities

Financial liabilities are initially measured at fair value and carried at amortised cost. Annual charges to the Income and Expenditure Account for interest payable are based on the carrying amount of the liability multiplied by the effective interest rate for the instrument. The Council's borrowing is shown in the Balance Sheet as the outstanding principal repayable, with interest charged to the Income and Expenditure Account as the amount payable for the year in the loan agreement.

Gains (discounts received) or losses (premiums paid) from the repurchase or early settlement of borrowing are credited and debited to Net Operating Expenditure in the Income and Expenditure Account in the year when the repurchase or early settlement is made.

Regulations allow the impact of discounts and premiums on the General Fund Balance to be spread over future years. The Council's normal policy is to spread the gain or loss over the term that was remaining on the loan when it was repaid. Statutory provisions require that the impact on the General Fund Balance is the interest receivable for the financial year, with the balance being reversed in the Statement of Movement on the General Fund Balance.

b) Financial Assets

Financial assets are classified into two types:

- loans and receivables: assets that have fixed or determinable payments but are not quoted in an active market;
- available for sale: assets that have a quoted market price and/or do not have fixed or determinable payments. The Council has no assets of this type.

Loans and receivables are initially measured at fair value and carried at amortised cost. Annual credits to the Income and Expenditure Account for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. The amount presented in the Balance Sheet is the outstanding principal receivable, and the interest credited to the Income and Expenditure Account is the amount receivable for the year in the loan agreement.

Where the Council has made a loan to a third party at less than market rates (a soft loan) a loss is recorded in the Income and Expenditure Account for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal. Interest is credited at a marginally higher effective rate of interest than the rate receivable from the third party, with the difference serving to increase the amortised cost of the loan in the Balance Sheet. Statutory provisions require that the impact of soft loans on the General Fund Balance is the interest receivable for the financial year, with the balance being reversed in the Statement of Movement on the General Fund Balance.

Assets are identified as impaired where there is a likelihood arising from a past event that payments due under the contract will not be made. In such cases the asset is written down and a charge made to the Income and Expenditure Account.

c) Accrued Interest

The carrying value of interest bearing assets and liabilities includes accrued interest. The accrued interest up to and including the valuation date is therefore included in fair value calculations to provide a comparison with the carrying value.

FIXED ASSETS

a) Tangible fixed assets

Fixed assets that have physical substance and are held for the provision of services or administrative purposes on a continuing basis, for example land, buildings or equipment.

b) Intangible fixed assets

A non-financial fixed asset that does not have a physical substance but is identifiable and is controlled by the Council through custody or legal rights. Expenditure on intangible fixed assets is capitalised when it will bring benefits to the Council for more than one financial year. The balance is amortised to the relevant service revenue account over the economic life of the investment to reflect the pattern of consumption of benefits.

c) Recognition of Assets

Expenditure on the acquisition, creation or enhancement of tangible fixed assets is capitalised on an accruals basis, provided that it yields benefits to the Council for more than one financial year. Expenditure that secures but does not extend the performance of an asset (e.g. repairs and maintenance) is charged to revenue as it is incurred.

d) Measurement of Value

Tangible fixed assets are valued (in accordance with the Statements of Asset Valuation Principles and Guidance Notes issued by The Royal Institute of Chartered Surveyors) by Mr D Milburn, Member of the Royal Institute of Chartered Surveyors and a Knowsley Borough Council employee. The assets are initially measured at cost, comprising all expenditure that is directly attributable to bringing the asset into working condition for its intended use. Assets are then shown in the Balance Sheet using the following classifications and measurement bases:

- investment properties and assets surplus to requirements: lower of net current replacement cost (defined as market value) or net realisable value;
- operational land and buildings and other operational assets: lower of net current replacement cost or net realisable value in existing use. For specialised operational properties, net current replacement cost is depreciated replacement cost.
- infrastructure assets and community assets: depreciated historical cost.

e) Revaluation of Assets

Assets included in the Balance Sheet at current value are revalued where there have been material changes in the value, 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 Income and Expenditure Account where they arise from the reversal of an impairment loss previously charged to a service revenue account. The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

f) Disposals

When an asset is disposed of or decommissioned, the value of the asset in the Balance Sheet is written off to the Income and Expenditure Account as part of the gain or loss on disposal. Receipts from capital disposals can only be used for new capital investment or set aside to reduce the Council's underlying need to borrow (the capital financing requirement).

g) Impairment of Assets

Impairment occurs when there has been a significant decline in an asset's valuation. The Council monitors impairment events and where identified, these are recognised as follows:

- where the impairment is due to the clear consumption of economic benefits, the impairment is charged to the relevant cost of service in the Income and Expenditure Account;
- all other impairments (e.g. due to a fall in market prices) are written off against any revaluation gains attributable to the asset in the Revaluation Reserve, with any excess charged to the relevant cost of service.

h) Depreciation

Depreciation is charged by allocating the value of an asset in the Balance Sheet to the cost of service in the Income and Expenditure Account over the period that the Council benefits from its use. Depreciation is calculated on a straight-line basis over the life of the asset. It is charged for all assets with a determinable finite life, with the exception of newly acquired assets which are not depreciated in the year of acquisition, and assets under construction which are not depreciated until they are brought into use.

Revaluation gains are also depreciated, with an amount equal to the difference between the current value depreciation and historical cost depreciation being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

i) Grants and Contributions

Where grants and contributions are received that are identifiable to fixed assets with a finite useful life, the amounts are credited to the Government Grants Deferred Account. The balance is then written down to revenue to balance depreciation charges made for the related assets in the relevant service revenue account, in line with the depreciation policy applied to them.

j) Revenue Expenditure funded from Capital under Statute

Revenue expenditure incurred during the year that may be capitalised under statutory provision, but does not result in the creation of tangible fixed assets, is charged as expenditure to the relevant cost of service. Where the cost has been met from existing capital resources or by borrowing, a transfer to the Capital Adjustment Account then reverses out the amounts charged in the Statement of Movement on the General Fund Balance so there is no impact on the level of Council Tax.

k) Charges to Revenue for Fixed Assets

Service revenue accounts, support services and trading accounts are debited with the following amounts to record the real cost of holding fixed assets during the year:

- depreciation attributable to the assets used by the relevant service.
- impairment losses attributable to the clear consumption of economic benefits on tangible fixed assets used by the service and other losses where there are no accumulated gains in the Revaluation Reserve against which they can be written off.

The Council is not required to raise Council Tax to cover depreciation, 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. This amount is known as the Minimum Revenue Provision (MRP) and is calculated by the Council on a prudent basis in accordance with statutory guidance. Depreciation, impairment losses and amortisations are therefore reversed and replaced by the MRP in the Statement of Movement on the General Fund Balance.

GOVERNMENT GRANTS

Government grants, third party contributions and donations are recognised as income at the date that the Council satisfies the conditions of entitlement to the amount (i.e. when there is reasonable assurance that the monies will be received and the related expenditure has been incurred). Government grants and subsidies are credited to the appropriate revenue and capital accounts to match the expenditure to which they relate. If a revenue grant is received in advance it is treated as a creditor. Grants to cover general expenditure (e.g. Revenue Support Grant) are credited to the Income and Expenditure Account after Net Operating Expenditure. Government grants related to capital expenditure (and therefore to the creation of a fixed asset) are credited to the Government Grants Deferred Account. The fixed asset is recorded at its gross amount in the balance sheet. An amount matching the depreciation of the asset is written off against the relevant service revenue account over the life of the asset.

GROUP ACCOUNTS

Councils with material and controlling interests in subsidiary and associated companies and joint ventures (and which would be regarded as such under the Companies Acts) are required to prepare summarised group accounts. Where such arrangements are with other local authorities, these group accounts are not required. The Council has no arrangements that require Group Accounts.

INTERNAL INTEREST

Internal interest is paid to or received from certain accounts, such as school balances, and is included in the Income and Expenditure Account as contributions to or from reserves. This interest is calculated on the basis of average monthly balances and the 7-day money market rate.

LEASES

The Council's general approach is to optimise the balance between the use of operating leases, finance leases and prudential borrowing for the acquisition of vehicles and equipment to ensure the most economic approach for the Council. The Council will assess whether it is appropriate to borrow money to purchase an asset, or alternatively enter into a lease agreement.

a) Finance Leases

When substantially all the risks and rewards relating to a leased asset transfer to the Council, then the lease is accounted for as a Finance Lease, resulting in the recognition of the asset on the Council's Balance Sheet. Rentals payable are apportioned between:

- a charge for the acquisition of the interest in the property, recognised as a liability in the Balance Sheet at the start of the lease, matched with a tangible fixed asset. The liability is written down as the rent becomes payable.
- a finance charge to the cost of service as the rent becomes payable.

Fixed assets recognised under finance leases are accounted for using the policies applied generally to Tangible Fixed Assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life.

b) Operating Leases

Leases that do not meet the definition of finance leases are accounted for as operating leases and treated as a revenue transaction. Rentals payable are charged to the relevant cost of service on a straight-line basis over the term of the lease (generally meaning that rentals are charged when they become payable) and the asset remains on the balance sheet of the lessor.

OVERHEADS AND SUPPORT SERVICE COSTS

The costs of overheads and support services are charged to those services that benefit from them. In accordance with the costing principles of the CIPFA Best Value Accounting Code of Practice 2008 the total absorption costing principle is used, so that the full cost of overheads and support services is shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core - costs relating to the Council's status as a multi-functional, democratic organisation such as Members' activities or the organisational infrastructure;
- Non Distributed Costs - the cost of discretionary benefits awarded to employees retiring early, any unused capacity of IT facilities and other assets.

These two cost categories are accounted for as separate headings in the Income and Expenditure Account as part of Net Cost of Services.

PENSIONS AND RETIREMENT BENEFITS

Employees of the Council are members of two separate pension schemes which provide retirement lump sums and pensions to members, earned as employees worked for the council:

a) Teachers' Pension Scheme

The teachers' pension scheme is a defined benefit scheme and is administered by Capita Teachers' Pensions on behalf of the Department for Children, Schools and Families (DCSF). Under the scheme, liabilities for these benefits cannot be identified to the Council. The scheme is therefore accounted for as if it were a defined contributions scheme; no liability for future payments of benefits is recognised in the Balance Sheet and the Children's Services revenue account is charged with the employer's contributions payable to teachers' pensions in the year.

b) The Local Government Pensions Scheme

This is the main employees' pension scheme and is administered by Wirral Metropolitan Borough Council as the Merseyside Pension Fund. The Council and employees pay contributions into the fund, calculated at a level estimated to balance the pension's liabilities with investment assets. The Council contribution rate is determined by the Fund's actuaries, based on a triennial valuation. Costs to the Council are shown in the cost of service when benefits are earned by employees, rather than when the benefits are eventually paid. The General Fund is charged with the amount payable by the Council to the pension fund in the year. The Statement of Movement on the General Fund Balance shows appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund.

The assets of the fund attributable to the Council are shown in the Balance Sheet at fair value as:

- quoted securities at current bid price;
- unquoted securities at professional estimate;
- unitised securities at current bid price;
- property at market value.

The liabilities of the fund attributable to the Council 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 and projections of projected earnings for current employees.

POOLED BUDGETS

Under Section 31 of the Health Act 1999, the Council is able to establish joint working arrangements with NHS bodies and to pool funds from the two organisations to create a single budget. Where pooled budgets are established, the Council's accounts reflect only the Council's share of the overall budget and exclude the share attributable to partner organisations.

PRIVATE FINANCE INITIATIVE (PFI)

PFI contracts are agreements to receive services, where the responsibility for making available the fixed assets required to provide the services passes to the PFI contractor. Payments made by the Council under a contract are generally charged to revenue to reflect the value of services received in each financial year. Government grants received for PFI schemes, in excess of current levels of expenditure, are carried forward as an earmarked reserve to fund future contract expenditure.

Where the assets under a PFI scheme are to pass to the Council at the end of the scheme at a cost less than fair value (including nil cost), an amount equal to the difference between the fair value and the payment to be made at the end of the contract is built up as a long-term debtor over the contract life by reducing the amount of the unitary payment charged to revenue.

PROVISIONS

These are amounts set aside which may need to be paid in respect of obligations arising from a past event, but where there is uncertainty as to the precise amount or timing of the liability. Provisions are recognised as a charge to the income and expenditure account in the year when the Council becomes aware of the liability and are based on the best estimate of the likely settlement. When payments are eventually made, they are charged to the provision set up in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year. Where it becomes likely that a payment will not be made, or the estimated liability is reduced, the amount is credited back to the relevant cost of service for that year. Where some or all of the payment is expected to be met by another party, this is only recognised as income if it is expected that reimbursement will be received.

Provisions for bad debts are calculated using an assessment of the likely level of future write-off, taking into account factors such as the age of debt or the status of debt collection. The Council reviews its provisions each year and provisions are adjusted at each balance sheet date to reflect the current best estimate of the obligation.

RESERVES

In addition to its general balances, the Council holds a number of specific reserves which are set aside for future commitments, policy initiatives and specific areas of future risk. This allows the Council to manage the impact of its spending in a planned and prudent way. The Council continually reviews these reserves to ensure that they remain appropriate and aligned to the Council's priorities.

Reserves are created by appropriating amounts in the Statement of Movement on the General Fund Balance. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service revenue account in that year to score against the Net Cost of Services in the Income and Expenditure Account. The reserve is then appropriated back into the General Fund Balance statement so that there is no net charge against Council Tax for the expenditure.

Certain reserves are kept to manage the accounting processes for tangible fixed assets and retirement benefits and that do not represent usable resources for the Council. These reserves are explained in the relevant policies set out in this statement.

RESTATEMENT OF PRIOR YEAR FIGURES

Where comparative figures for the previous year have been restated (for example due to changes in accounting policies) these are marked with an asterisk and details are shown in relevant notes.

STOCKS, STORES AND WORK IN PROGRESS

These items are included in the Balance Sheet at actual or current cost, rather than at the lower of cost and net realisable value as specified in Statement of Standard Accounting Practice 9 (SSAP 9). It is considered that the difference between the two methods of valuation is not significant in relation to the total value of stocks held. The Council is seeking to introduce a new system that will be compliant with SSAP9 in future years. Work in progress is valued at cost including an allocation of overheads.

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 it.

STATEMENT OF RESPONSIBILITIES

THE AUTHORITY'S RESPONSIBILITIES

The Council is required to:

- make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Council, that officer is the Borough Treasurer;
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets; and,
- arrange the approval of the Statement of Accounts by the Governance and Audit Committee.

THE BOROUGH TREASURER'S RESPONSIBILITIES

The Borough Treasurer is responsible for the preparation of the Council's Statement of Accounts in accordance with proper practices as set out in the Chartered Institute of Public Finance and Accountancy (CIPFA)/Local Authority (Scotland) Accounts Advisory Committee Code of Practice on Local Authority Accounting in the United Kingdom ('the Code of Practice').

In preparing this Statement of Accounts, the Borough Treasurer 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.

The Borough Treasurer has also:

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

BOROUGH TREASURER'S STATEMENT

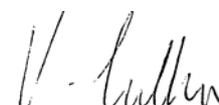
The Council's 2008/09 Statement of Accounts presents fairly the financial position of the Council at 31 March 2009 and its income and expenditure for the year ended 31 March 2009.



JAMES DUNCAN CPFA
Borough Treasurer

STATEMENT OF THE CHAIRMAN OF THE GOVERNANCE AND AUDIT COMMITTEE

I confirm on behalf of the Council that these accounts were approved by the Governance and Audit Committee at its meeting held on 26 June 2009, and that the Committee approved the outcome of the audit of the accounts at its meeting on 22 September 2009.



COUNCILLOR VINCE CULLEN
Chairman of the Governance and Audit Committee

ANNUAL GOVERNANCE STATEMENT 2008/09

1. Scope of Responsibility

The Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded, properly accounted for, and used economically, efficiently and effectively. The Council 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 Council is also responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of the Council's functions and which includes arrangements for the management of risk.

The Council has approved and adopted a code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE Framework Delivering Good Governance in Local Government. A copy of the code is on our website (www.knowsley.gov.uk) as part of the Constitution. This statement explains how the Council has complied with the code and also meets the requirements of regulation 4(2) of the Accounts and Audit Regulations 2003 as amended by the Accounts and Audit (Amendment) (England) Regulations 2006 in relation to the publication of a statement on internal control.

2. The Purpose of the Governance Framework

The governance framework comprises the systems and processes, and culture and values, by which the Council is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost effective services.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council'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 efficiently, effectively and economically.

The governance framework has been in place at the Council for the year ended 31 March 2009 and up to the date of approval of the statement of accounts.

Accordingly, the scope of internal control spans the whole range of local authority activities and includes those controls designed to ensure that:-

- the Council's policies are put into practice;
- the Council's values are met;
- laws and regulations are complied with;
- required processes are adhered to;
- financial statements and other published information are accurate and reliable; and,
- human, financial and other resources are managed efficiently and effectively.

3. The Governance Framework

The governance of the Council is based fundamentally around the Constitution, and is supported by numerous policies, procedures, codes of practice, management processes, and a system of delegation and accountability. The Council's governance arrangements are reflected in the Code of Corporate Governance. This brings together all aspects of corporate governance, grouped by the six core principles of effective governance.

The key elements of each of these core principles are as follows:

Determining the Council's purpose, its vision for the local area and intended outcomes for the community

The Council aims to deliver high quality services that provide value for money and which are aligned to the needs and priorities of the local community. The Council is part of the Knowsley Partnership, which has agreed a community strategy setting out the vision and priorities for the Borough.

The Council sets out its priorities, in the context of the community strategy, in the Corporate Plan 2007-2010. A Local Area Agreement has also been developed between the Council, the Knowsley Partnership, and the Government which reflects the priorities in the community strategy. The community strategy and the Corporate Plan reflect the outcome of extensive consultation, analysis of current and future needs, and consideration of current performance.

To deliver each of the aims of the Corporate Plan there are service delivery plans for all service units. These plans, updated annually, include clear identification of objectives and targets, reflect Corporate Plan priorities and include risk registers identifying risks to meeting the service objectives.

The Council has a range of performance indicators used to measure progress against its key priorities in the Corporate Plan and in the Local Area Agreement. Performance against targets is reported routinely to the Cabinet and the scrutiny committees.

The Council's medium term financial plan and capital programme allocate resources that are aligned to priorities. Monitoring reports for the revenue budget and the capital programme are submitted routinely to the Cabinet. Service improvements have been identified, and there are service reviews in progress with a view to achieving significant business efficiencies over the coming years.

Members and officers working together to achieve a common purpose with clearly defined functions and roles

The Council ensures that the roles and responsibilities for governance are defined and allocated so that accountability for decisions made and actions taken are clear. Additionally, the Council appoints several committees to discharge the Council's regulatory and scrutiny responsibilities. These leadership roles, and the delegated responsibilities of officers, are set out in the Constitution which is reviewed at least once each year and amended if necessary.

The Constitution, which defines and facilitates policy and decision-making processes, also defines the:-

- committee terms of reference;
- role of scrutiny committees;
- Member and employee codes of conduct;
- Scheme of Delegation;
- Member and officer protocol for working effectively together;
- Contract Procedure Rules;
- Financial Procedure Rules which determine the financial management of the Council and the reporting of financial matters, and safeguard financial standing;
- arrangements for identifying, establishing, and managing the key strategic and operational aims of the Council; and,
- mechanisms for ensuring compliance with established policies, procedures, laws, and regulations.

Ensuring compliance with these policies is the responsibility of the executive directors while the internal audit service checks that policies are complied with. Where incidents of non-compliance are identified, appropriate action is taken.

The Council's Chief Executive as Head of Paid Service leads the Council's officers and chairs the Corporate Management Team. All staff, including senior management, have clear conditions of employment and job descriptions which set out their roles and responsibilities. In accordance with Section 5 of the Local Government and Housing Act 1989, the Executive Director of Corporate Resources is appointed as the Council's Monitoring Officer. This officer is responsible for ensuring that, at all times, the Council acts within its legal powers. Similarly, in accordance with Section 151 of the Local Government Act 1972, the Borough Treasurer is the officer responsible for ensuring the proper administration of the Council's financial affairs. Therefore, any proposals, decisions, or omissions that give rise to unlawfulness or maladministration would be reported to the Council. Such a report would have the effect of halting the proposal or implementation of the decision until the Council considered the report.

The Council's governance arrangements are overseen by the Governance and Audit Committee, which:-

- provides independent scrutiny and assurance on the adequacy of the internal control environment and risk management framework;
- reviews the Council's policies relating to governance and audit matters;
- considers the strategic direction of internal audit, and the review of the system of internal audit; and,
- oversees the financial reporting process.

Promoting our values and upholding high standards of conduct and behaviour

The Council supports a culture and forms of behaviour based on a series of ethical standards and values in the Constitution that are contained within the Member and officers codes of conduct, including a requirement for declarations of outside interests to be completed. The conduct of Members is monitored by the Standards Committee, which also investigates allegations of misconduct by Members.

In addition, the Council takes fraud, corruption, and maladministration very seriously and has the following policies which aim to prevent and deal with such occurrences:-

- arrangements for whistle blowing by employees, contractors and the public, investigating suspected financial irregularities, and complaints procedures including complaints regarding the behaviour of elected or co-opted Members; and,
- an overall Anti-Fraud and Corruption Policy.

Whistle blowing and fraud reporting can be made via our website (www.knowsley.gov.uk) or the telephone hotline (0800 0730 532).

Taking informed and transparent decisions and managing risk

The Council's Constitution sets out how the Council operates and the process for policy and decision making, and budget setting. Meetings are open to the public (except where items are exempt under the Access to Information Act), and a forward plan of key decisions to be taken over the next four months is published on the Council's website.

All decisions made by the Council, Cabinet, or committees are made on the basis of written reports, including the legal and financial implications, impact on population groups, consideration of the risks involved and their management, and communication issues. The operations and policies of the Council are examined by a series of scrutiny committees.

Many other decisions are made by executive directors in consultation with the portfolio member under delegated powers that are detailed in the Council's Scheme of Delegation.

The Council's corporate risk management strategy requires that consideration of risk is embedded in all key decisions undertaken, which:-

- identifies, analyses, evaluates, and manages the key strategic and operational risks facing the Council, including those arising from joint working and partnerships;
- ensures potential losses, service disruption, failure to achieve corporate aims, negative publicity, reputational risks, and insurance claims compensation are minimised; and,
- promotes informed decisions on policy, service delivery options, and opportunities.

In addition, corporate and directorate risk registers are maintained and a monitoring group meets to review the extent to which the risks identified are being effectively managed. The Governance and Audit Committee oversees the effectiveness of risk management arrangements.

Effective management - capacity and capability of Members and officers

The Council aims to ensure that Members and officers of the Council have the skills, knowledge, and capacity they need to discharge their responsibilities and recognises the value of well trained and competent people in effective service delivery. All new Members and employees undertake an induction to familiarise them with the protocols, procedures, values and aims of the Council.

There is a Members development programme to assist them in their role and strengthen their capacity as confident and effective political and community leaders, who are capable of forming healthy and productive relationships, networks, and partnerships.

The Council has an integrated workforce development strategy that through a series of training and development priorities ensures that all staff and especially managers have the appropriate competencies. Development and support material is available for the competencies and training in the form of courses and computer based learning. All officers are part of a performance review and development scheme ensuring performance is managed and development needs are identified and achieved. This is recognised by the Council achieving the Investors in People accreditation.

Engaging with local people and other stakeholders to ensure robust accountability

The Council's planning and decision making processes are designed to include consultation with stakeholders and the submission of views by local people. Arrangements for consultation and for gauging local views include the Knowsley Voice, a panel of local residents who are regularly asked what they think about the Council's services. Those involved may also be invited to take part in other activities such as discussion groups and telephone interviews to talk about certain issues in more detail.

All Members offer surgeries for their constituents, and Local Area Partnership Boards and Public Forums aim to improve services at neighbourhood level, with improvements being driven by a closer relationship between local communities and the services being delivered.

The Council works extensively in partnership with other organisations in the Borough via the Knowsley Partnership and it is that body that shapes the community strategy. Where the Council acts as an accountable body there is a protocol for ensuring that a full risk analysis is undertaken and governance arrangements determined prior to fulfilling that role.

Performance and progress against the strategy is evaluated regularly using a performance management framework, which provides for:-

- the systematic review and reporting of performance across the Council;
- establishing and monitoring the achievement of the Council's aims;
- ensuring that services meet the needs of users, taxpayers, and the public;
- ensuring the economical, effective and efficient use of resources;
- securing continuous improvement in the way functions are exercised;
- engaging the wider community;
- an independent internal audit function with arrangements for reviewing the implementation of their recommended actions; and,
- reporting by the Council's external auditor and other inspection bodies.

Examples of the Council and its partners undertaking significant consultation and engagement with local people in developing key strategies and plans are the Joint Strategic Needs Assessment, Commissioning Strategic Plan, and Children's Plan, and on the improvements and changes to services. An annual survey of the users of social care services is undertaken as part of the performance management framework and the results are used to inform service development and improvement.

4. Review of Effectiveness

The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the Executive Directors within the Council who have responsibility for the development and maintenance of the governance environment, the Internal Audit Manager's annual report, and also by comments made by the external auditors and other review agencies and inspectorates.

In addition, the Council has various review mechanisms that operate continuously throughout the year. A key review mechanism is the various scrutiny committees, which have examined independently various services and review topics, including a significant role in the budget setting process and identification of financial efficiencies and savings.

The Governance and Audit Committee met five times throughout the year to provide independent assurance to the Council in relation to the effectiveness of the governance, internal control environment, and risk management framework.

The Standards Committee has met regularly throughout the year to consider and review issues relating to the conduct of Members including any referrals. Their work has included preparing for the new ethical conduct regime requirements for dealing with local investigations into Members' conduct. Publicly available guidance on how to make a complaint was introduced along with a review of the membership of the Standards Committee and its processes and procedures for investigation.

Regarding the Section 151 Officer and Monitoring Officer, in discharging these functions during the year, neither officer was required to report any adverse matters under these Acts. There were no complaints to the Ombudsman in 2008/09 that found maladministration against the Council or causing any injustice to the complainant.

Each year, the Council's Constitution is reviewed to ensure its aims and principles are effective and reflect any changes and developments in the Council's administration.

The Council's internal audit service as an independent and objective assurance service completed a programme of reviews throughout the year in order to provide an opinion on internal control, risk management and governance arrangements. The Internal Audit Manager is able to conclude that there are sound internal financial control systems in place by taking assurance from the system and risk-based audits undertaken across the Council during 2008/09, and the resultant actions taken by management. The Internal Audit Manager reports the findings of audits to executive directors and action is agreed to address these findings as necessary. The annual internal audit report on audit activity and findings, together with a review on the implementation of the previous year's recommendations, were submitted to the Governance and Audit Committee on 26 June 2009. Action will be taken to ensure that the 2% of the previous year's audit recommendations that remain outstanding are fully implemented.

In addition, the internal audit service undertakes fraud investigation and the Council's Investigation Panel met 10 times during the year to deal with a total of 9 suspected financial irregularities. None of the cases were major financial irregularities, or had an adverse effect on the Council's reputation. Proper action was taken in all instances to ensure that any control weaknesses were addressed, appropriate disciplinary action taken, and where necessary the matter was referred to the police. An annual report of the Investigation Panel's work was submitted to the Governance and Audit Committee on 21 April 2009.

During 2008/09 several governance issues have attracted national public attention, namely personal data losses, the use of surveillance powers, and the potential loss of investments in Icelandic banks. The Council's position on these matters is commented on below.

High profile losses of personal data have forced public bodies to improve their data handling methods. All local authorities are implementing the Government Secure Extranet network. This will permit the Council to have safe and secure connections with other local authorities as well as the Government. Access to the secure network requires the Council to adhere to stringent IT security measures and a project has delivered this on time and within existing budgets. The use of the secure network commenced in 2009/10 with the housing benefits service using a secure connection to communicate with the Government's Department for Work and Pensions. In addition, the security of the Council's network was audited and found to be satisfactory.

The Regulation of Investigatory Powers Act 2000 allows local authorities to undertake covert surveillance where this is both necessary and proportionate to the detection or prevention of crime or disorder. During 2008/09, the Office of Surveillance Commissioners inspected the Council's use of covert surveillance to ensure that it was being used lawfully. The Inspector concluded that the Council is using its covert surveillance powers appropriately and that there is a high degree of awareness amongst relevant officers of the issues and sensitivities surrounding covert surveillance and that they were fully aware of their responsibilities.

The Council invests short term any daily cash balances with banks, building societies, and money market funds, and aims to achieve an optimum return on investments commensurate with ensuring security of the money and liquidity. After the freezing of some local authority investments by Icelandic banks now in receivership there was concern about the safety of investments. As the Council's approach is cautious it would not have lent to those banks, and continues to use a lending list of highly credit rated institutions and UK sovereign backed triple-A rated money market funds. Events have demonstrated that even top-rated financial institutions are vulnerable and can change rapidly, therefore as well as constantly reviewing creditworthiness other market intelligence is factored in. A response to changes can happen immediately and the lending list adjusted to ensure the Council's prudent lending criteria is met.

In 2008, the Council received the highest possible overall rating by moving up from a 3-star rating to a 4-star rating in the Audit Commission's Comprehensive Performance Assessment (CPA), and was classed as improving well in their direction of travel assessment. The Audit Commission reported that "Knowsley Council is improving well. Good overall progress is being made against local priorities and improvements in health, economic regeneration and community safety are good. The Council continues to manage its resources well and work effectively with its partners. Good progress is being made in establishing joint performance arrangements which will help the Council and its partners tackle the specific needs of neighbourhoods and improve the lives of all people within the borough."

The Audit Commission's recent service assessments for adult social care, housing, and benefits all produced the highest rating (four). Children and young people services, cultural services, and environmental services were found to be rated (three), above the minimum standards. The Use of Resources assessment by the external auditor focuses on financial management and how resource management is integrated with strategy and corporate management, supports priorities, and delivers value for money. The assessment for 2008 concluded that the Council is performing overall at the highest level (four) with two of the five aspects reviewed being the key governance issues of financial standing and internal control rated each as a four.

Both the Annual Performance Assessment, carried out by OFSTED that provides a broad overview of performance in relation to children's services, including education, social care and health and the Commission for Social Care Inspection (CSCI) for Older People Services review that focuses on service issues did not raise any governance or internal control matters.

PricewaterhouseCoopers, the Council's external auditors, undertook a data quality review as it underpins the Audit Commission's reliance on performance indicators in its service assessments for the Comprehensive Performance Assessment (CPA). The report stated that the Council's overall management arrangements for ensuring data quality, as in previous years, were "performing well and consistently above minimum requirements". The quality of shared data and intelligence between partners is important for delivering the Knowsley Partnership's key priorities so that resources are targeted more clearly at needs.

An important aspect of governance is the need to ensure that all the Council's policies are up to date, relevant, and consistent. A protocol is in place that allows for a uniform approach to developing and managing Council policies. It states the procedure for policy production, approval, implementation, and review. This is supported by procedures and a policy template to help officers follow the protocol, and was launched at a series of workshops.

Risk management forms an integral part of the Council's policy, planning, operational, and control processes. A review of strategic and operational risks is undertaken annually. Strategic risks are approved and monitored by the Corporate Management Team and the Cabinet, whilst each directorate identifies and controls the risks associated with their priorities within business plans. This requirement is not only described in the Corporate Risk Management Strategy, but also is included in the Corporate Plan. All reports and briefing papers include a risk assessment paragraph as standard. All identified strategic and operational risks are held in a database, which is readily accessible for management to use to enable the tracking of controls and actions taken. The inter-directorate Corporate Risk and Resilience Group meets regularly to coordinate, monitor and develop risk management across the Council.

The requirement that all secondary schools must attain the Department for Children, Schools and Families' Financial Management Standard in Schools (FMSiS) was extended to the second tranche of primary schools during 2008/09. The standard is a statement of the characteristics expected to be found in a school that is well managed financially. It is for the Section 151 Officer to declare whether each school met the standard or that appropriate action was needed to ensure compliance. The internal audit service as accredited assessors carried out an evaluation of 26 primary schools and none failed to meet the standard.

The specific annual review of governance arrangements and the control environment was conducted in the following manner:

- a Corporate Governance Officer Working Group of senior officers that reviewed the Constitution and the Council's own governance arrangements against the best practice framework endorsed by CIPFA/SOLACE to identify areas for improvement. This Group is responsible for reviewing the draft statement, evaluating the assurances and self-assessments, and judging whether or not there is consistency with existing policies and the Council's governance framework; and,
- as it is the managers within the Council who are responsible principally for the development and maintenance of the governance environment, therefore, in order to provide assurance that those controls and arrangements are in place, each directorate is required to maintain an evidence based self-assessment document. The outcome being a resultant action plan for strengthening governance controls further. The assurances obtained from executive directors cover the response to their review of internal controls and the other reviews and responses to internal and external audits, inspections, and risk management. They are also asked to identify any significant internal control issues that need to be reported in this statement. The requirement to review internal controls in the management of directorates alongside the routine monitoring of finance, performance, and risk is embedded.

A theme contained within the resultant action plans arising from the review of governance arrangements and the control environment is the need to develop structured systems for implementing, monitoring, and reporting actions resulting from public and client surveys, especially links to performance management and business planning. Regarding partnerships, consideration is being given to integrating governance arrangements between the Council and key partner organisations, for example standardised risk management arrangements with Knowsley Primary Care Trust.

5. Significant Internal Control Issues

Taking into account the actions of the Section 151 Officer and the Monitoring Officer, the review performed by senior managers, assurances obtained from executive directors, internal audit, and the various external reviews that were reported to the Council, the Cabinet, or the Governance and Audit Committee during 2008/09, we can reasonably conclude that there are no unresolved and significant internal control issues.

We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Signed:-



**Councillor Ron Round,
Leader of the Council**



**Sheena Ramsey
Chief Executive**



**James Duncan
Borough Treasurer**

26 June 2009

INCOME AND EXPENDITURE ACCOUNT

This summarises the Council's income and expenditure for the year. It also shows how the Council paid for the day-to-day cost of its services.

2007/08 *		Expenditure £000	Income £000	2008/09 Net £000
Net £000				
	Council Services			
34,622	Adult Social Care	88,714	(33,051)	55,663
2,783	Central Services to the Public	20,708	(18,194)	2,514
39,628	Cultural, Environmental, Regulatory & Planning Services	125,783	(48,901)	76,882
26,944	Education and Children's Services	188,725	(151,005)	37,720
16,403	Highways, Roads & Transport Services	16,826	0	16,826
1,191	Housing Services	64,034	(63,140)	894
7,306	Corporate & Democratic Core	8,298	(2,318)	5,980
6,362	Non Distributed Items	2,406	0	2,406
135,239	Net Cost of Services <small>see i) below</small>	515,494	(316,609)	198,885
(2,475)	(Gain)/Loss on the Disposal of Fixed Assets			(2,058)
1,049	Parish Precepts			1,084
(393)	Trading Operations Surplus			(177)
5,631	Interest Payable and Similar Charges			5,678
79	Contribution to Housing Pooled Capital Receipts			37
(5,307)	Interest and Investment Income			(5,688)
4,016 *	Pensions interest cost and expected return			12,310
137,839	Net Operating Expenditure			210,071
(46,928)	Demands on the Collection Fund			(48,824)
(15,606)	Revenue Support Grant <small>see ii) below</small>			(38,239)
(92,989)	Distribution from National Non-Domestic Rate pool			(100,768)
(17,684)	Income and Expenditure Account (Surplus)/Deficit for the year			22,240

* 2007/08 Comparative Figures: The 2007/08 figure for Pension Interest Cost and Expected Return has been restated to reflect the change in the valuation of Pension Fund Assets from mid to bid price per the 2008 Statement of Recommended Practice. The Actuarial Gains and Losses shown in the Statement of Total Recognised Gains and Losses below have also been restated.

i) Equal Pay Act Regulations 2003: As in previous years the net cost of service includes the impact of revisions to the Council's estimate of the maximum expected costs under the Equal Pay Act Regulations 2003. The year-on year movement in the cost of service and the overall Income and Expenditure Account balance is an increase of £29.524m (detailed in Note 1 to the Income and Expenditure Account). This impact is reversed in the amounts credited to the General Fund Balance in the year (detailed in the Statement of Movement on General Fund Balance).

ii) The Revenue Support Grant includes £24.211m for Area Based Grant. This Grant commenced in 2008/09 and is allocated by the Government to Councils as a non-ringfenced general grant, replacing Local Area Agreement Grant which was credited to cost of service in previous years.

STATEMENT OF MOVEMENT ON THE GENERAL FUND BALANCE

This statement summarises the difference between the balance on the Income and Expenditure Account and the Council's actual General Fund Balance. A full reconciliation of this difference is shown at Note 1 to this Statement. The Income and Expenditure Account shows the Council's actual financial performance during the year. However, the Authority is required to raise Council Tax on a different accounting basis, the main differences being:

- Capital investment is accounted for in the period when it is financed, rather than when the fixed assets are consumed;
- Retirement benefits are charged when the amounts become payable to pension funds and pensioners, rather than when the future benefits are earned.

At the end of each year, an increase or decrease in the General Fund Balance shows whether the Council has under or over spent against the Council Tax that it has raised, taking into account the use of reserves built up in the past and contributions to reserves earmarked for future expenditure.

2007/08		2008/09	
£000		£000	Note
	General Fund Balances		
(17,684)	(Surplus) / Deficit for year on Income and Expenditure	22,240	
17,442	Net additional amount required by statute and non-statutory proper practices to be debited or credited to the General Fund Balance for the year	(22,363)	1
<u>(242)</u>	Increase in General Fund Balance for the year	<u>(123)</u>	
(4,634)	Balance at beginning of the year	(4,876)	
<u>(4,876)</u>	Balance on General Fund to be carried forward	<u>(4,999)</u>	
4,876	Amount of General Fund Balance generally available for new expenditure	4,999	
<u>4,876</u>		<u>4,999</u>	

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

This statement brings together all the gains and losses of the Council for the year and shows the aggregate increase or decrease in the Council's net worth. In addition to the surplus generated on the Income and Expenditure Account, it includes gains and losses relating to the revaluation of fixed assets and re-measurement of the net pensions liability to cover the cost of retirement benefit.

2007/08		2008/09
£000		£000
(17,684)	(Gain) / Loss for the year on the Income and Expenditure Account	22,240
(8,938)	(Gain) / Loss arising on revaluation of fixed assets	(13,775)
76,769	Actuarial (Gain) / Loss on pension fund assets and liabilities ^{Note i)}	(40,285)
148	Loss for the year on the Collection Fund	147
<u>50,295</u>	Total Recognised (Gain) / Loss for the year	<u>(31,673)</u>

- i) The Actuarial Gains for the year are taken from Note 19 to the Balance Sheet. Actuarial gains on liabilities of £128.707m and losses on assets of £88.422m net to an overall gain of £40.285m.

BALANCE SHEET

The Balance Sheet sets out the financial position of the Council at the end of the year and gives details of the Council's assets and liabilities.

Balance at * 31.3.2008 £000	£000	Balance at 31.3.2009 £000	Note
Net Fixed Assets			
3,394 <i>Intangible Fixed Assets</i>		2,793	1
Tangible Fixed Assets			
Operational Assets			
294,096 - Land and Buildings	297,652		
10,508 - Vehicles, Plant, Furniture and Equipment	14,688		
138,919 - Infrastructure	140,054		
1,202 - Community Assets	1,174		
444,725 Total Operational Assets		453,568	1
Non-operational Assets			
1,364 - Assets under Construction	1,364		
21,302 - Investment Properties	20,095		
13,467 - Surplus Assets held for Disposal	16,980		
36,133 Total Non Operational Assets		38,439	1
484,252 Total Fixed Assets		494,800	
5,212 Long Term Investments		10,523	2
Long Term Debtors			
820 Mortgages	645		
118 Car Loans	122		
0 Private Finance Initiative Debtor	87		3
		854	
490,402 Total Long Term Assets		506,177	
Current Assets			
478 Work in Progress/Stock in Hand	388		4
83,740 Investments	124,529		5
26,926 Debtors	19,261		6
4,393 Imprest/Cash in Hands of Collectors	3,661		
		147,839	
605,939 Total Assets		654,016	
Less Current Liabilities			
798 Short Term Borrowing	14,855		7
36,491 Creditors	39,673		8
11,635 Cash Overdrawn	10,101		9
		64,629	
557,015 Total Assets less Current Liabilities		589,387	
Less Long Term Liabilities			
125,151 Long Term Borrowing	127,426		10
86,494 Government Grants Deferred	93,754		
7,956 Government Grants Unapplied	20,485		
231,348 * Pension Liability	200,116		19
6,345 Provision for Equal Pay Back Pay ^{see i) below}	15,557		11
5,631 Provisions	6,286		12
		463,624	
94,090 Total Assets less Liabilities		125,763	

BALANCE SHEET (cont'd)

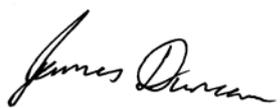
Balance at 31.3.2008 £000	£000	Balance at 31.3.2009 £000	Note
Financed By:			
8,146		21,581	15
255,977		245,106	16
(51)		(53)	17
547		434	
8,163		0	18
(3,170)		(4,816)	11
(231,348)		(200,116)	19
51,448		59,273	20
Revenue Balances			
4,876	4,999		
(498)	(645)		
		4,354	
94,090	Total Equity	125,763	

* 2007/08 Comparative Figures: The 2007/08 figures for Pension Liability and Reserve have been restated to reflect the change in the valuation of Pension Fund Assets from mid to bid price per the 2008 Statement of Recommended Practice.

i) Equal Pay Act (Amendment) Regulations 2003

As in previous years, and in accordance with recommended accounting practice, a provision of £15.251m is included in the Balance Sheet relating to the Council's estimate of the maximum expected costs that may arise from the Equal Pay Act (Amendment) Regulations 2003. The Balance Sheet Total Equity also includes £4.816m within the Equal Pay Back Pay Account and £10.436m within the Capital Adjustment Account to reflect the reversal of the impact on the Council's General Fund Balances until such time as any future cash settlements are made (see Note 1 to the Statement of Movement on General Fund Balances). The Council is currently conducting a comprehensive job evaluation and harmonisation review which is aimed at resolving this issue and the inclusion of this does not indicate an expected final settlement figure or prejudice the Council's ongoing negotiations on this matter.

These financial statements replace the unaudited financial statements authorised at the meeting of the Governance and Audit Committee on 26 June 2009.



JAMES DUNCAN CPFA
Borough Treasurer

22 September 2009

CASH FLOW STATEMENT

This Cash Flow Statement summarises the inflows and outflows of cash arising from transactions with third parties for revenue and capital purposes.

2007/08		2008/09	
£000	REVENUE ACTIVITIES	£000	£000
	Cash Outflows		
196,094	Cash paid to and on behalf of employees	206,558	
208,633	Other operating cash payments	253,985	
54,732	Housing Benefit paid out	60,370	
31,882	National Non Domestic Rate Payments to National Pool	33,076	
8,870	Precepts Paid	9,277	
500,211	Cash outflows on revenue activities		563,266
	Cash Inflows		
(38,340)	Council Tax income	(40,130)	
(92,989)	National Non Domestic Rate	(100,768)	
(29,222)	Non-domestic rate receipts	(41,292)	
(15,606)	Revenue Support Grant	(14,028)	
0	Area Based Grant	(24,211)	
(54,446)	Dept for Work and Pensions Grants for Benefits (Note 1)	(59,962)	
(176,455)	Other Government Grants (Note 1)	(160,251)	
(49,947)	Cash received for goods and services	(52,505)	
(58,432)	Other operating cash receipts	(98,739)	(591,886)
(15,226)	Cash inflows on revenue activities		(28,620)
	Servicing of Finance		
	Cash Outflows		
5,168	Interest paid	5,549	
	Cash Inflows		
(4,924)	Interest received	(4,418)	1,131
(14,982)	NET REVENUE ACTIVITIES (Note 2)		(27,489)
	CAPITAL ACTIVITIES		
	Cash Outflows		
23,020	Purchase of Fixed Assets	23,877	
5,000	Purchase of Long Term Investments	5,000	
1,528	Other Capital Cash Payments	5,934	34,811
	Cash Inflows		
(1,645)	Sale of fixed assets	(2,959)	
(20,353)	Capital Grants received (Note 1)	(28,024)	
(134)	Other capital cash receipts	(769)	(31,752)
(7,566)	NET CASH INFLOW before financing		(24,430)
	FINANCING		
	Cash Outflows		
85,414	Repayments of amounts borrowed		4,000
	Cash Inflows		
(90,956)	New loans raised		(20,202)
(5,542)	Net Financing cashflows		(16,202)
	Management of Liquid Resources		
14,760	Short term Investments	39,830	
(1,652)	Net Decrease in cash (Note 3)	802	40,632
7,566	Total Movement in Net Debt (Note 4)		24,430

NOTES TO THE INCOME AND EXPENDITURE ACCOUNT

1. EQUAL PAY ACT (AMENDMENT) REGULATIONS 2003

In line with the Council's accounting policies, the net cost of service includes the impact of revisions to the Council's 2007/08 estimate of the expected maximum costs under the Equal Pay Act Regulations. The provision of £6.039m that was included in 2007/08 has been increased in the 2008/09 cost of services to a new provision of £15.251m. This results in a net debit to the 2008/09 cost of services of £9.212m. In 2007/08 there had been a reduction in the provision compared with the previous year, so the 2007/08 cost of service was credited with £20.312m. Therefore the overall year on year movement in the 2008/09 cost of services is £29.524m.

The 2008/09 provision is a prudent accounting assessment of the expected maximum costs to which the Council might be exposed, so that the possible effect on the Council's financial position can be assessed properly. The Council is currently conducting a comprehensive job evaluation and harmonisation review which is aimed at resolving this issue. The making of the provision should not be regarded as an acceptance of liability in any particular case. The amount of provision made does not indicate an expected final settlement figure or prejudice the Council's ongoing negotiations on this matter.

2. SIGNIFICANT TRADING OPERATIONS

The Council operates several trading operations, whereby services are provided to users on the basis of an agreed charge, for example, either a quoted price or a schedule of rates. Trading accounts, which have a target to at least break even, are maintained for such activities, which record the income and expenditure for the services provided by the Trading Operation. Details of the significant Trading Operations of the Council are set out in the table below.

Organisation	2007/08			2008/09		
	Turnover	Total Spend	(Surplus) /Deficit	Turnover	Total Spend	(Surplus) /Deficit
	£000	£000	£000	£000	£000	£000
Highways	(4,007)	4,335	328	(2,055)	2,748	693
Transport	(3,583)	3,337	(246)	(2,890)	2,491	(399)
School Meals	(5,337)	5,144	(193)	(5,397)	5,213	(184)
Building Cleaning	(4,361)	4,079	(282)	(4,537)	4,250	(287)
	(17,288)	16,895	(393)	(14,879)	14,702	(177)

NOTES TO THE INCOME AND EXPENDITURE ACCOUNT

3. PROVISION FOR REPAYMENT OF TRANSFERRED DEBT

This represents the actual principal repayments of transferred debt held by other authorities.

	2007/08	2008/09
	£000	£000
Transferred Debt Repayments	695	740
Transferred Debt Income	(9)	(9)
Net Charge	<u>686</u>	<u>731</u>

4. PUBLICITY

Section 5 of the Local Government Act 1986 requires local authorities to keep a separate account of expenditure on publicity. The expenditure is included in the Income and Expenditure Account, within the net cost of services and is separately identified in the table below:

	2007/08	2008/09
	£000	£000
Recruitment Advertising and Other Publicity	1,326	1,270
Media and Customer Relations Unit	223	363
	<u>1,549</u>	<u>1,633</u>

5. SECTION 137 PAYMENTS

Section 137 of the Local Government Act 1972 (as amended) enables a local authority to incur expenditure for the benefit of people in its area, on activities or projects not specifically authorised by other powers. Expenditure amounted to £0.031m in 2008/09 (£0.031m in 2007/08) compared to a maximum allowable level of £0.755m. The majority of this expenditure relates to the provision of grants under these powers to certain voluntary bodies.

6. AGENCY WORK

The Council had no agency agreements in place during 2008/09.

7. LOCAL AUTHORITY (GOODS AND SERVICES) ACT 1970

This Act allows local authorities to form consortia to enable more effective procurement of goods and services. Under this Act, the Council provided no significant services to public bodies during 2008/09. The Council is a member of the Yorkshire Purchasing Organisation, a consortium with other local authorities. Expenditure on purchases made through this consortium totalled £0.804m in 2008/09 (£0.936m in 2007/08) and there was a dividend payable to the Council of £0.068m (£0m in 2007/08).

NOTES TO THE INCOME AND EXPENDITURE ACCOUNT

8. PENSION COSTS

The Council participates in two pension schemes:

Teachers: In 2008/09, the Council paid an employer's contribution of £6.793m (£6.699m in 2007/08), representing 14.1% (14.1% in 2007/08) of employees' pensionable pay, to the Department for Children, Schools and Families (DCSF), in respect of teachers' pensionable pay. In addition, the Council is responsible for all pension payments relating to added years benefits it has awarded, together with the related increases. In 2008/09, these amounted to £1.519m (£1.423m in 2007/08), representing 3.2% (3.0% in 2007/08) of pensionable pay.

Other Employees and Members: In 2008/09, the Council paid an employer's contribution of £15.679m (£13.537m in 2007/08), representing 18.0% (15.9% in 2007/08) of employees' pensionable pay, to the Merseyside Pension Fund. In addition, the Council is responsible for all pension payments relating to added years benefits it has awarded, together with the related increases. In 2008/09, these amounted to £3.036m (£2.344m in 2007/08), representing 3.5% (2.8% in 2007/08) of pensionable pay (including in-year retirements costs which amounted to £0.637m).

The transactions that are included in the 2008/09 Income and Expenditure Account in respect of the Council's pensions scheme are set out in the following table, based upon information provided to the Council by the Pension Fund's independent actuary. The cost of retirement benefits is shown in the Net Cost of Services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge to be met in the year is based on the amounts set by the Pension Fund, so the real cost of accrued retirement benefits is reversed out of the accounts as indicated in the Statement of Movement on General Fund Balance.

NOTES TO THE INCOME AND EXPENDITURE ACCOUNT

8. PENSION COSTS (Cont'd)

	Merseyside Pension Fund		Teachers Added Years		Total	
	2007/08 £000	2008/09 £000	2007/08 £000	2008/09 £000	2007/08 £000	2008/09 £000
Net Cost of Services						
Current Service Cost	13,155	14,497	0	0	13,155	14,497
Past Service or Curtailment or Settlement Costs	5,015	1,064	0	0	5,015	1,064
	<u>18,170</u>	<u>15,561</u>	<u>0</u>	<u>0</u>	<u>18,170</u>	<u>15,561</u>
Net Operating Expenditure						
Interest Cost	26,824	34,871	919	1,159	27,743	36,030
Expected Return on Assets	(23,727) *	(23,720)	0	0	(23,727)	(23,720)
	<u>3,097</u>	<u>11,151</u>	<u>919</u>	<u>1,159</u>	<u>4,016</u>	<u>12,310</u>
Net Charge to Income & Expenditure account	<u>21,267</u>	<u>26,712</u>	<u>919</u>	<u>1,159</u>	<u>22,186</u>	<u>27,871</u>

Statement of Movement on the General Fund Balance

Reversal of net charges made for retirement benefits in accordance with FRS17

	<u>(21,267)</u>	<u>(26,712)</u>	<u>(919)</u>	<u>(1,159)</u>	<u>(22,186)</u>	<u>(27,871)</u>
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Actual amount charged against the General Fund Balance for pensions in the year:

Employers' contributions payable to scheme

	<u>15,207</u>	<u>17,384</u>	<u>1,371</u>	<u>1,434</u>	<u>16,578</u>	<u>18,818</u>
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Source: Mercer Human Resource Consulting Ltd

* The 2007/08 figure for Expected Return on Assets has been restated to reflect the change in the valuation of Pension Fund Assets from mid price to bid price as determined by 2008 Statement of Recommended Practice and the Council's accounting policies.

In addition to the recognised gains and losses included in the Income and Expenditure Account, an actuarial gain of £40.285m (£76.769m loss 2007/08 as restated) is included in the Statement of Recognised Gains and Losses.

Note 19 to the Balance Sheet details the assumptions used to estimate these figures.

NOTES TO THE INCOME AND EXPENDITURE ACCOUNT

9. EMPLOYEE'S REMUNERATION OVER £50,000

The table below shows the number of employees (including teachers but excluding Merseyside Police Authority officers) whose remuneration for 2008/09 was £50,000 or more. Remuneration relates to all payments arising from employment and all taxable sums due by way of expenses, allowances and the estimated monetary value of any other benefits received by an employee otherwise than in cash. It also includes payments made in respect of retirement and/or redundancy.

Total Remuneration	Number of Employees	
	* 2007/08	2008/09
£50,000 - £59,999	100	121
£60,000 - £69,999	29	51
£70,000 - £79,999	21	17
£80,000 - £89,999	11	20
£90,000 - £99,999	1	7
£100,000 - £109,999	1	2
£110,000 - £119,999	3	0
£120,000 - £129,999	0	3
£130,000 - £139,999	0	0
£140,000 - £149,999	0	0
£150,000 - £159,999	0	0
£160,000 - £169,999	0	0
£170,000 - £179,999	0	1
£180,000 - £189,999	1	1
£190,000 - £199,999	0	0
£200,000 - £209,999	0	0
£210,000 - £219,999	0	0
£220,000 - £229,999	1	0
TOTAL	168	223

* The figures for 2007/08 have been restated to include non-taxable employee remuneration.

10. MEMBERS' ALLOWANCES

During 2008/09, the Council paid a total of £0.874m in respect of Members' Allowances (£0.850m in 2007/08). Further details can be obtained from the Head of Democratic Services, Directorate of Corporate Resources, Municipal Buildings, Huyton.

11. RELATED PARTY TRANSACTIONS

Under Financial Reporting Standard 8, the Council is required to disclose material transactions with related parties. Related parties are individuals or organisations that have the potential to control or influence the Council or be controlled or influenced by the Council. The following identifies the Council's related party transactions during 2008/09:

Central Government

The Government has effective control over the general operations of the Council. It is responsible for providing the statutory framework within which the Council operates and provides funding in the form of grants. Details relating to transactions with Government departments are set out in Note 1 to the Cash Flow Statement.

NOTES TO THE INCOME AND EXPENDITURE ACCOUNT

Subsidiary and Associated Companies

Details of the Council's interests in companies are set out in Note 22 to the Council's Balance Sheet.

Other Public Bodies

- **Primary Care Trust**

The Council established a partnership agreement with Knowsley Primary Care Trust during 2004/5 using powers under Section 31 of the Health Act 1999 (see Note 16 to the Income and Expenditure Account) and these remain in place under section 75 of the NHS Act 2006. The Partnership Board includes five Council Members and is advised by four Officers of the Council. Under this partnership agreement, a number of the Council's officers are funded jointly by the Council and the Primary Care Trust, including the Council's Executive Director of Wellbeing Services who is also the Chief Executive of the Primary Care Trust.

- **Pension Fund**

Full details of the Council's Pension Fund transactions are disclosed in Note 8 to the Income and Expenditure Account and the Statement of Accounting Policies. One Member of the Council is a member of the Merseyside Pension Fund Committee.

- **Knowsley Housing Trust**

Transactions to Knowsley Housing Trust consisted of £6.766m in payments and £2.293m in receipts. 12 Members of the Council have declared an interest, including one acting as Chair and eight as Board Members.

- **Councils for Voluntary Services - Knowsley**

Payments totalled £0.044m. Two Members have expressed an interest.

- **New Deal For Communities**

Payments to New Deal for Communities totalled £0.015m. Three Members have expressed an interest.

Transactions relating to Other Public Bodies also included

- Merseytravel £0.177m – Five Members have expressed an interest.
- Merseyside Waste Disposal Authority £7.239m – One Member has expressed an interest.
- Merseyside Fire and Rescue Service £0.044m - Three Members have expressed an interest.
- Merseyside Police Authority £0.592m – One Member has expressed an interest

Members' Interests

Members of the Council have direct control over the Council's financial and operational policies. During 2008/09, works and services totalling £1.027m were commissioned from organisations in which eight Members had an interest. Contracts were entered into in full compliance with the Council's Constitution. Payments and grants totalling £12.391m were paid to housing associations, hospital trusts, and voluntary organisations, in which there were 65 expressions of interest from Members. In all cases, the relevant Members have declared their interest and taken no part in any prejudicial discussion or decision relating to the transactions.

NOTES TO THE INCOME AND EXPENDITURE ACCOUNT

Officers Interests

During 2008/09, one Executive Director expressed an interest in Greater Merseyside Connexions and one Executive Director expressed an interest in Tomorrow's People, to which payments totalling £0.132m and £0.095m respectively were made during the year. No other specific interest declarations were made surrounding activities falling outside normal duties.

12. BUILDING CONTROL TRADING ACCOUNT

The Local Authority Building Control Regulations require the disclosure of information regarding the setting of charges for the administration of the building control function. However, certain activities performed by the Building Control Unit cannot be charged for, such as providing general advice and liaising with other statutory authorities. The statement below shows the total costs of operating the Building Control Unit divided between the chargeable and non-chargeable activities.

Charges have been set for the functions prescribed in Regulation 4 of the Building (Local Authority Charges) Regulations 1998, namely:-

- A plan charge, payable when plans of the building work are deposited with the Local Authority.
- An inspection charge, payable on demand after the Local Authority carries out the first inspection in respect of which the charge is payable.
- A building notice charge, payable when the building notice is given to the Local Authority.
- A reversion charge, payable for building work in relation to a building:
 - i. which has been substantially completed before plans are first deposited with the Local Authority in accordance with Regulation 18(2)(a)(I) of the Approved Inspectors Regulations, or
 - ii. in respect of which plans for further building work have been deposited with the Local Authority in accordance with Regulation 18(3) of the Approved Inspectors Regulations, on the first occasion on which those plans have been deposited.
- A regularisation charge which is payable at the time of the application to the Local Authority in accordance with Regulation 13(A) of the Building Regulations.

	2007/08	2008/09		Total
	Total	Chargeable	Non Chargeable	
	£000	£000	£000	£000
Expenditure				
Employee Expenses	294	135	102	237
Transport	11	5	4	9
Supplies and Services	134	82	62	144
Central and Support Services	63	32	24	56
Total Expenditure	502	254	192	446
Income				
Building Regulation Charges	(259)	(196)	0	(196)
Net (Surplus)/Deficit	243	58	192	250

NOTES TO THE INCOME AND EXPENDITURE ACCOUNT

13. OPERATING AND FINANCE LEASES

13.1 Council as a Lessee

The table below analyses the rentals paid by the Council for operating and finance leases, by asset classification.

	2007/08			2008/09		
	Operating Lease £000	Finance Lease £000	Total £000	Operating Lease £000	Finance Lease £000	Total £000
Wheeled Bins	52	0	52	52	0	52
Vehicles	447	0	447	234	0	234
Other	99	0	99	55	0	55
	598	0	598	341	0	341

The Council was committed at 31 March 2009 to making payments of £0.106m, under operating leases in 2008/09, comprising of the following elements:

	Leases Expiring in 2009/10 £000	Leases expiring between 2010/11 and 2013/2014 £000	Leases expiring after 2013/2014 £000
Wheeled Bins	3	49	0
Vehicles	39	3	0
Other	9	3	0
	51	55	0

13.2 Council as a Lessor

The Council has numerous leasing agreements with private individuals and entities regarding shops, other premises and land. The lease terms and periods are negotiated on an individual basis when the lease is taken out. These leases are all operating leases there are no finance leases. The Council received income as follows relating to these leases:

	2007/08 £000	2008/09 £000
Shops	723	773
Industrial & business units	655	745
Other	186	203
	1,564	1,721

NOTES TO THE INCOME AND EXPENDITURE ACCOUNT

14. IMPAIRMENT OF ASSETS

The Council's approach to impairment of assets is set out in the Council's accounting policies. The amounts that have been recognised as charges to cost of service are £11.328m.

15. AUDITOR'S REMUNERATION

In 2008/09, Knowsley MBC incurred the following fees relating to external audit and inspection:

	2007/08	2008/09		Total
	£000	Pricewaterhouse Coopers £000	Audit Commission £000	
Fees payable with regard to external audit services carried out by the appointed auditor	252	254	0	254
Fees payable in respect of Statutory Inspection under (Section 10 Local Government Act 1999)	125	0	27	27
Fees payable for the certification of grant claims and returns (Section 28 Audit Commission Act 1998)	94	95	0	95
Fees payable for other services	1	20	0	20
Total	472	369	27	396

Under the Audit Commission's Rotation Policy, PricewaterhouseCoopers LLP became the Council's appointed Auditors from 1 April 2005.

NOTES TO THE INCOME AND EXPENDITURE ACCOUNT

16. POOLED BUDGETS

Section 31 of the Health Act 1999 allows the establishment of joint working arrangements between NHS bodies and local authorities. This enables the bodies to “pool” funds to work together to address specific local health issues. Where pooled budgets are established, the main financial statements in these accounts reflect only the Council’s share of the overall budget, and exclude the share(s) attributable to partner organisations. The details of the entire pooled budget including all partners’ shares are disclosed in the notes below.

During 2008/09, the Council was involved with four pooled budgets each of which has a “host” organisation. Three of the pools are hosted by the Council’s Health and Social Care Portfolio and one is hosted by Knowsley Primary Care Trust. Details of all the pooled budgets are shown below.

16.1 Pooled Budgets Hosted by the Council

Included within the Council’s accounts are the following three partnership schemes with Knowsley Primary Care Trust:

Pooled Budget	Purpose
Older People	Provision of supported accommodation and community-based support
Mental Health	Provision of support in the community for people with a mental illness
Adults with learning disabilities	Provision of supported accommodation for adults with learning disabilities

Details of the three hosted pooled budget accounts are shown in the table below.

Income and Expenditure	Older People		Mental Health		Learning Disabilities		Total	
	2007/08 £000	2008/09 £000	2007/08 £000	2008/09 £000	2007/08 £000	2008/09 £000	2007/08 £000	2008/09 £000
Gross Funding								
Reserve B/fwd	(166)	(173)	(42)	(138)	(360)	(585)	(568)	(896)
Knowsley Primary Care Trust	(1,002)	(1,472)	(987)	(1,596)	(9336)	(1,208)	(11,325)	(4,276)
Knowsley MBC	(587)	(50)	(520)	0	(676)	(10,082)	(1,783)	(10,132)
Total Funding	(1,755)	(1,695)	(1,549)	(1,734)	(10,372)	(11,875)	(13,676)	(15,304)
Pooled Expenditure	1,582	1,397	1,411	1,600	9,787	11,571	12,780	14,568
Net (surplus) / deficit	(173)	(298)	(138)	(134)	(585)	(304)	(896)	(736)

2008/09 Movement in Reserves

	Older People £000	Mental Health £000	Learning Disabilities £000	Total £000
Revenue reserves B/fwd	(173)	(138)	(585)	(896)
Reserves for Rephasing	(506)	(494)	0	(1,000)
Net (surplus)/deficit in year	(125)	4	281	160
Balance carried forward	(804)	(628)	(304)	(1,736)

NOTES TO THE INCOME AND EXPENDITURE ACCOUNT

16.2 Pooled budgets hosted by other organisations

The Council is involved in one pooled budget where Knowsley Primary Care Trust acts as the host. This budget is for the provision of Integrated Community Equipment, and is detailed in the table below.

Integrated Community Equipment Service Pooled Budget

	2007/08 £000	2008/09 £000
Funding		
Balance of funds brought forward	(56)	(47)
Knowsley Metropolitan Borough Council	(303)	(318)
Knowsley Primary Care Trust	(479)	(498)
St Helens Metropolitan Borough Council	(438)	(469)
St Helens Primary Care Trust	(642)	(629)
Total Funding	(1,918)	(1,961)
Total Expenditure	1,871	1,912
Net underspend carried forward	(47)	(49)

17. DEDICATED SCHOOLS GRANT

The Council's expenditure on schools is funded primarily by grant monies provided by the Department for Children, Schools and Families, the Dedicated Schools Grant (DSG). The Dedicated Schools Grant is ring-fenced and can only be applied to meet expenditure properly included in the Schools Budget, as defined in the School Finance (England) Regulations 2008. The Schools Budget includes elements for a range of educational services provided on an authority-wide basis and for the Individual Schools Budget, which is divided into a budget share for each maintained school. Details of the deployment of the Dedicated Schools Grant receivable for 2008/09 are shown in the following table.

Schools Budget Funded by Dedicated Schools Grant	Central Expenditure £'000	Individual Schools Budget £'000	Total £'000
Final DSG for 2008/09	(8,852)	(87,912)	(96,764)
Brought Forward from 2007/08	267	(1,887)	(1,620)
Carry Forward to 2009/10 agreed in advance	0	0	0
Agreed budgeted distribution in 2008/09	(8,585)	(89,799)	(98,384)
Actual central expenditure	8,622	-	8,622
Actual ISB deployed to schools	-	88,468	88,468
Local authority contribution for 2008/09	0	0	0
Carry forward to 2009/10	37	(1,331)	(1,294)

NOTES TO THE STATEMENT OF MOVEMENT ON THE GENERAL FUND BALANCE

1. RECONCILIATION OF STATUTE AND NON-STATUTE PROPER PRACTICES

The net additional amount required by statute and non-statutory proper practices debited or credited to the General Fund is comprised of:

2007/08 £000		2008/09 £000
	Amounts included in the income and expenditure account but required by Statute to be excluded when determining the Movement on the General Fund Balance for the year	
(1,090)	Amortisation of Intangible Fixed Assets	(1,275)
(13,895)	Depreciation and Impairment of Fixed Assets	(24,255)
2,521	Government Grants Deferred Amortisation	3,289
(4,559)	Revenue Expenditure funded from Capital under Statute	(978)
2,475	Net Gain / (Loss) on Sale of Fixed Assets	2,058
(51)	Differences between amounts debited/credited to the I&E Account and amount payable/receivable to be recognised under statutory provisions relating to soft loans and premiums and discounts on the early repayment of debt	(2)
20,312	Equal Pay Act (Amendment) Regulations 2003 ^{see i) below}	(9,212)
(22,186)	* Net Charges made for Retirement Benefits in accordance with FRS17	(27,871)
(16,473)		(58,246)
	Amounts not included in the income and expenditure account but required by Statute to be included when determining the Movement on the General Fund Balance for the year	
4,636	Minimum Revenue Provision for Capital Financing	5,268
686	Principal Repayment on External Loans	731
1,928	Capital Expenditure charged in year to the General Fund Balance	3,278
(79)	Transfer from Usable Capital Receipts to meet payments to the Housing Capital Receipts Pool	(37)
16,578	Employers Contribution Payable to the Pension Fund and Retirement Benefits payable Direct to Pensioners	18,818
23,749		28,058
	Transfers to or from the General Fund Balance that are required to be taken into account when determining the Movement on the General Fund Balance for the year	
	Contributions to Earmarked Reserves	
1,581	- Schools' Balances	(2,510)
8,585	- Other Reserves	10,335
10,166		7,825
17,442	Net additional amount required to be credited to the General Fund Balance for the year	(22,363)

i) Equal Pay Act (Amendment) Regulations 2003 - In accordance with Local Authority Accounting Panel Bulletin 68 the General Fund Balance is credited with an adjustment of £9.212m to offset the impact of revisions to the Council's provision for the estimated maximum costs that may arise from the Equal Pay Act (Amendment) Regulations 2003.

* 2007/08 Retirement Benefits have been restated by £0.047m to reflect the change in the valuation of Pension Fund Assets from mid price to bid price per the 2008 Statement of Recommended Practice.

NOTES TO THE BALANCE SHEET

1 a) FIXED ASSETS – MOVEMENTS

<u>Operational Assets</u>	Land & Buildings	Vehicle Plant & Equipment	Infrastructure	Community Assets	Total
	£000	£000	£000	£000	£000
Cost or Valuation					
Balance at 1 April 2008	346,126	35,349	151,199	1,365	534,039
Opening Revaluations	(391)	0	0	0	(391)
Opening Reclassifications	0	0	0	0	0
	<u>345,735</u>	<u>35,349</u>	<u>151,199</u>	<u>1,365</u>	<u>533,648</u>
Additions	11,238	7,200	4,312	0	22,750
Other Expenditure	91	0	0	0	91
Disposals	0	0	0	0	0
Revaluations in Year ^(note i)	6,227	0	0	0	6,227
Reclassifications in Year	(333)	0	0	0	(333)
	<u>(333)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(333)</u>
Balance at 31 March 2009	<u>362,958</u>	<u>42,549</u>	<u>155,511</u>	<u>1,365</u>	<u>562,383</u>
Depreciation and Impairment					
Balance at 1 April 2008	(52,030)	(24,841)	(12,280)	(163)	(89,314)
Depreciation	(6,662)	(3,020)	(3,177)	(28)	(12,887)
Impairment	(6,574)	0	0	0	(6,574)
Disposals	0	0	0	0	0
Revaluations	(40)	0	0	0	(40)
	<u>(40)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(40)</u>
Balance at 31 March 2009	<u>(65,306)</u>	<u>(27,861)</u>	<u>(15,457)</u>	<u>(191)</u>	<u>(108,815)</u>
Balance Sheet amount at 31 March 2009	<u>297,652</u>	<u>14,688</u>	<u>140,054</u>	<u>1,174</u>	<u>453,568</u>
Balance Sheet amount at 31 March 2008	<u>294,096</u>	<u>10,508</u>	<u>138,919</u>	<u>1,202</u>	<u>444,725</u>
Nature of Asset Holding					
Owned	297,652	14,688	140,054	1,174	453,568
Finance Lease	0	0	0	0	0
Private Finance Initiative	0	0	0	0	0
	<u>297,652</u>	<u>14,688</u>	<u>140,054</u>	<u>1,174</u>	<u>453,568</u>

NOTES TO THE BALANCE SHEET

1 a) FIXED ASSETS – MOVEMENTS (Cont'd)

Non-Operational Assets	Assets under Construction	Investment Properties	Surplus Assets held for Disposal	Total
	£000	£000	£000	£000
Cost or Valuation				
Balance at 1 April 2008	1,364	23,098	13,467	37,929
Opening Revaluations	0	0	0	0
	<u>1,364</u>	<u>23,098</u>	<u>13,467</u>	<u>37,929</u>
Additions	0	274	85	359
Other Expenditure	0	0	3	3
Disposals	0	0	(1,183)	(1,183)
Revaluations in Year ^(see note i)	0	0	12,008	12,008
Reclassifications in Year	0	0	333	333
	<u>0</u>	<u>0</u>	<u>333</u>	<u>333</u>
Balance at 31 March 2009	<u>1,364</u>	<u>23,372</u>	<u>24,713</u>	<u>49,449</u>
Depreciation and Impairment				
Balance at 1 April 2008	0	(1,796)	0	(1,796)
Depreciation	0	0	0	0
Impairment	0	(1,481)	(7,733)	(9,214)
	<u>0</u>	<u>(1,481)</u>	<u>(7,733)</u>	<u>(9,214)</u>
Balance at 31 March 2009	<u>0</u>	<u>(3,277)</u>	<u>(7,733)</u>	<u>(11,010)</u>
Balance Sheet amount at 31 March 2009	<u>1,364</u>	<u>20,095</u>	<u>16,980</u>	<u>38,439</u>
Balance Sheet amount at 31 March 2008	<u>1,364</u>	<u>21,302</u>	<u>13,467</u>	<u>36,133</u>
Nature of Asset Holding				
Owned	1,364	20,095	16,980	38,439
Finance Lease	0	0	0	0
Private Finance Initiative	0	0	0	0
	<u>1,364</u>	<u>20,095</u>	<u>16,980</u>	<u>38,439</u>

i) The revaluations in year relate primarily to assets that have been held on the balance sheet at zero value in previous years due to the impact on their value of their specialised nature or restrictions on their potential use. These have now been revalued to reflect the Council's increased flexibility for such assets to be utilised for a wider purpose as set out in the Council's Local Development Framework.

NOTES TO THE BALANCE SHEET

1 a) FIXED ASSETS – MOVEMENTS (Cont'd)

<u>Intangible Assets</u>	Software Licences £000
Cost or Valuation	
Balance at 1 April 2008	6,375
Opening Revaluations	<u>0</u>
	6,375
Additions	<u>674</u>
Balance at 31 March 2009	<u>7,049</u>
Depreciation and Impairment	
Balance at 1 April 2008	(2,981)
Depreciation	<u>(1,275)</u>
Balance at 31 March 2009	<u>(4,256)</u>
Balance Sheet amount at 31 March 2009	
	<u>2,793</u>
Balance Sheet amount at 31 March 2008	
	<u>3,394</u>
Nature of Asset Holding	
Owned	2,793
Finance Lease	0
Private Finance Initiative	<u>0</u>
	<u>2,793</u>

1 b) FIXED ASSETS – DEPRECIATION METHODS

Depreciation is calculated on the straight line method based on the following useful life of assets:

Land & Buildings / Community Assets	50 years
Plant & Equipment	20 years
Vehicles	5 years
Information Technology Equipment	5 years
Non Operational Assets (excluding land and leases)	50 years
Intangible Assets	5 years
Leased Assets	Lease Life

NOTES TO THE BALANCE SHEET

1 c) FIXED ASSETS – CAPITAL FINANCING

Capital expenditure was financed as follows:

	2007/08	2008/09
	£000	£000
Capital Expenditure		
Operational Assets	20,055	22,841
Revenue Expenditure funded from Capital under Statute	10,194	5,934
Non-Operational Assets	790	361
Intangible Assets	925	674
	<u>31,964</u>	<u>29,810</u>
 Sources of Finance		
Grant	16,196	15,505
Loans	6,381	5,998
Capital Receipts	6,315	4,268
Capital Expenditure from Revenue Account	1,396	3,278
Reserves / Provisions	816	117
Contributions from Partners and Developers	860	644
	<u>31,964</u>	<u>29,810</u>

NOTES TO THE BALANCE SHEET

1 d) FIXED ASSETS – CAPITAL EXPENDITURE

The main items of capital expenditure during 2008/09 were:

	£000
<u>Children’s Services Portfolio</u>	
Schools’ Devolved Formula Capital Programme	1,495
Schools’ Modernisation Programme	1,413
Computers for Pupils	560
City Learning Centres	551
Sure Start Programme	534
National Infrastructure to Schools	515
<u>Health and Social Care Portfolio</u>	
Bewley Drive Resource Centre	696
<u>Leader’s Portfolio</u>	
Ward Walkabout	472
<u>Leisure, Community and Culture Portfolio</u>	
Play Pathfinder	693
Essential Maintenance	385
<u>Neighbourhood Delivery Portfolio</u>	
Vehicle and Plant Replacement	2,665
<u>Regeneration, Economy and Skills Portfolio</u>	
Highway Maintenance Programme	3,792
Raven Court – Public Service	2,178
Specsheds – Penryn Rd	1,504
Private Tenants Grants	1,437
Energy Efficiency Grants	839
North Huyton Revive Programme – Owner Occupier Acquisitions	710
Austin Trading Estate – Refurbishment Hanger 5/6	604
Housing Assistance – Renovation grants	510

NOTES TO THE BALANCE SHEET

1 e) FIXED ASSETS – SIGNIFICANT FUTURE COMMITMENTS OF CAPITAL EXPENDITURE

Significant commitments at 31 March 2009 for future capital expenditure include the following:

Scheme	Purpose	Expected Period	£000
Targeted Capital Primary Schools	To build 2 new primary/special needs learning centres at Northwood and Greengates and 2 primary learning centres at North Huyton Joint Catholic and Church of England and Parkbrow with extended schools facilities and links to children centre provision.	2009/10	29,508
Devolved Formula Capital	Allowances provided to schools on a formulaic basis to allow local decision making on asset management subject to identification of priority within the Asset Plan.	2009/10	3,479
Addressing the Need for Supported Housing	To provide extra care housing for older persons to assist older people to live more independent lives than would be possible in residential care or nursing homes, but with the level of care and support required. Also to assist the prevention of homelessness.	2009/10	3,228
Leisure Facilities	The implementation of Phase III will see the centre of the Borough have one main leisure hub facility with a main public pool, with satellite sites that will consist of a smaller specialist water facility and a number of dry facilities in Stockbridge Village and Prescott. This is in keeping with the model adopted in the North and South of the Borough.	2009/10	3,080
Our Place	Leisure - A discrete capital budget code for the building and furnishing of the youth facility funded by MyPlace (DCSF) funding via big Lottery Fund.	2009/10	3,000
Modernisation	The Capital Modernisation Programme assures the condition of the school building stock. Adequate maintenance supports the raising of standards of achievement of pupils by ensuring that teaching and learning takes place in suitable environments.	2009/10	2,970

NOTES TO THE BALANCE SHEET

1 e) FIXED ASSETS – SIGNIFICANT FUTURE COMMITMENTS OF CAPITAL EXPENDITURE (Cont'd)

Scheme	Purpose	Expected Period	£000
Decent Homes for All	Financial Assistance to Owner Occupiers to bring their homes to the Decent Homes Standard by Housing Renewal, Energy Efficiency and Disabled Facilities works. In addition, to allow people to minimise their fuel bills or to have their home adapted to cater for a disability and allow them to remain in their home, if that is their wish.	2009/10	2,802
Strategic Highway Network	Structural maintenance of the carriageways and bridges and schemes aimed at improving the management and control of traffic (both within and through the borough) with signals and signs.	2009/10	2,798
Building and Property Alterations	Included in this block is the refurbishment of the Huyton Municipal Buildings (£1.364m) and the New Hutte Community Resource Centre refurbishment (£0.271m).	2009/10	1,709
Safety and Security of Neighbourhoods	A programme of measures aimed at reducing road casualties and improving security and quality of life in our neighbourhoods. These include parking and access schemes, traffic calming and miscellaneous schemes aimed primarily at addressing environmental issues.	2009/10	1,171
Market Renewal and Affordable Housing Options	Financial assistance under the "Power of Well Being" to provide assistance to help eligible Knowsley residents obtain a first step onto the property ladder and into owner occupation.	2009/10	1,002
Building Schools for the Future	Although not classified as a capital scheme the Council is also undertaking a major Private Finance Initiative to build seven new Learning Centres to provide completely new secondary education provision across the Borough.		

NOTES TO THE BALANCE SHEET

1 f) FIXED ASSETS – NUMBERS

The table below shows an analysis of the type and number of Tangible Fixed Assets held within the Authority's Balance Sheet.

Analysis of Tangible Fixed Assets	31.3.2008	31.3.2009	
Administrative buildings	5	5	
Allotments	122	122	Plots
Bridges	141	136	
Cemeteries	2	2	
Centres for people with learning/physical disabilities	3	2	
Civic halls and suites	2	2	
Club House	1	1	
Commercial properties - rented/leased	168	164	
- void	34	9	
Community Assets	20	20	
Community and Youth Centres	15	15	
Day centres for the Elderly	2	2	
Depots and Workshops	3	3	
Homes for people with learning disabilities	1	1	
Industrial properties - rented/leased	385	374	
- void	7	18	
Lamp units	18,241	18,875	
Leisure and Sports Centres	7	7	
Libraries	7	7	
Market	1	1	
Museums	1	1	
Offices	20	15	
Other Health and Social Care establishments	9	11	
Parks, playing fields, and open spaces	488	488	Hectares
Public conveniences	1	1	
Roads – principal	101	101	Km
- other	462	465	Km
Schools – Primary	24	24	
- Secondary	7	7	
- Other	8	8	
Vehicles and plant	223	273	

NOTES TO THE BALANCE SHEET

1 g) LEASES

As noted in the Council's accounting policy, the Council regularly reviews its procurement arrangements to optimise the balance between the use of leases and prudential borrowing. At 31 March 2009 the Council held no Finance Leases and during 2008/09 no new operating or finance leases were taken out as the acquisition of new vehicles and equipment was funded by prudential borrowing. The outstanding obligations with regard to existing lease arrangements are therefore reducing, as equipment and vehicles are returned at the end of the lease.

Outstanding Obligations	Operating Leases £000
1 -2 years	51
2 – 5 years	113
5 years & above	0
Total	164

2. LONG TERM INVESTMENTS

At 31 March 2009, the Council held two investments of £5.000m each with Barclays Bank, one at an interest rate of 6.85% maturing 16 June 2010 and the other at an interest rate of 6.67% maturing 1 July 2010. Interest accrued on these investments in 2008/09 is £0.520m. The Council also held £0.003m of investments in 3.5% Treasury Stock at 31 March 2009.

3. PRIVATE FINANCE INITIATIVE TRANSACTIONS

On 13 December 2007, the Council entered into a Private Finance Initiative (PFI) arrangement with Transform Schools for the provision of seven Centres for Learning. The contract includes Hard Facilities Management for a period of 25 years from service commencement, with a contract expiry date of 31 August 2034.

a) Assets held under PFI arrangements

No fixed assets are held by the Council under the terms of the Council's PFI arrangements. However, a long term debtor of £0.087m is recognised in the Balance Sheet for the difference in the amount paid for the asset at the end of the contract and its residual value. This debtor will be built up over the life of the contract and will then be cancelled out when the asset transfers back to the authority.

b) Future contractual payments

Upon the works acceptance date, the Council's unitary charge payments are at a level of 95%, increasing to 100% upon site completion. Under the terms of this 25 year contract the Council is committed to making gross payments estimated at £613m (average payment per year is £24.520m). However, the net cost to the Council after income such as that from government grant is estimated at £179m (average payment per year is £7.160m). The first payment under the contract was made in 2008/09.

NOTES TO THE BALANCE SHEET

4. STOCKS AND WORK IN PROGRESS

	31.3.2008 £000	31.3.2009 £000
Work in Progress	0	0
<u>Stocks</u>		
- Neighbourhood Delivery	465	375
- Leisure Community and Culture	5	6
- Other General Fund	8	7
Total Stocks	478	388
Total	478	388

5. SHORT TERM INVESTMENTS

The Council's short term investments of £124.529m include cash on deposit with banks and building societies, plus other liquid investments with money market funds.

6. DEBTORS

The amounts owed to the Council by others are as follows:

	31.3.2008 £000	31.3.2009 £000
Amounts falling due in one year:		
Government Departments	11,080	5,838
Other Local Authorities	927	914
Employee Related	70	41
Sundry Debtors	8,900	8,052
Car loans	32	31
Payments in Advance	965	2,294
Collection Fund	8,264	5,939
Total Amounts falling due within one year:	30,238	23,109
Provision for bad debts:		
General	(2,674)	(2,732)
Collection Fund	(638)	(1,116)
Total Provision for bad debts:	(3,312)	(3,848)
Total Debtors	26,926	19,261

NOTES TO THE BALANCE SHEET

7. SHORT TERM BORROWING

Source of Loan	Range of interest rates payable %	31.03.2008 £000	31.03.2009 £000
Public Works Loan Board	Fixed (2.5% to 7.375%)	58	4,111
Temporary Loan	Fixed (0.55%)	0	10,001
Other Local Authorities	Variable	740	743
		798	14,855

8. CREDITORS

The amounts owed by the Council to others are as follows:

	31.3.2008 £000	31.3.2009 £000
Amounts falling due in one year:		
Government Departments	7,392	7,949
Other Local Authorities	1,032	1,209
Employee Related	5,705	6,637
Sundry Creditors	14,127	13,951
Income in Advance	7,016	5,743
Collection Fund	1,219	4,184
Total Creditors	36,491	39,673

9. CASH

At 31 March 2009, the bank account balance was £1.979m overdrawn. However, cheques raised but unpresented at the bank and other miscellaneous balances totalled £8.122m, which produces a cash overdrawn figure of £10.101m.

10. LONG TERM BORROWING

Source of Loan	Range of interest rates payable (%)	31.3.2008 £000	31.3.2009 £000
Public Works Loan Board	Fixed (2.5% to 7.375%)	103,030	105,984
Lender Offer Borrowing Option	Fixed (3.71% to 4.08%)	17,429	17,493
Other Local Authorities ^(Note i)	Variable	4,692	3,949
		125,151	127,426

An analysis of loans by maturity is:

Maturing in 1-2 years	1,043	546
Maturing in 2-5 years	13,281	16,350
Maturing in 5-10 years	6,339	6,329
Maturing in more than 10 years	104,488	104,201
	125,151	127,426

Note i) : This represents debt transferred on local government reorganisation in 1974 and 1986 but administered by other local authorities on behalf of the Council.

NOTES TO THE BALANCE SHEET

11. EQUAL PAY ACT (AMENDMENT) REGULATIONS 2003

As in previous years the Statement of Accounts reflects the recommended accounting practice for potential compensation claims under the Equal Pay Act (Amendment) Regulations 2003 in relation to equal pay for work of equal value - as defined in Local Authority Accounting Panel Bulletin 68. A provision of £15.251m is included in the Balance Sheet relating to the Council's estimate of the maximum expected costs that may arise from the regulations. The Balance Sheet Total Equity also includes £4.816m within the Equal Pay Back Pay Account and £10.436m within the Capital Adjustment Account (see Note 16) to reflect the reversal of the impact on the Council's General Fund Balances until such time as any future cash settlements are made (see Note 1 to the Statement of Movement on General Fund Balances). The Council is currently conducting a comprehensive job evaluation and harmonisation review which is aimed at resolving this issue. The making of the provision should not be regarded as an acceptance of liability in any particular case. The amount of the provision made does not indicate an expected final settlement figure or prejudice the Council's ongoing negotiations on this matter.

12. PROVISIONS

In addition to the provision relating to the Equal Pay Act Regulations (detailed in Note 11 to the Balance Sheet) a number of further provisions have been set aside at 31 March 2009 to cover the following liabilities:

	Balance 31.3.2008	Provided in year	Applied in year	Balance 31.3.2009
	£000	£000	£000	£000
Austin Trading Estate	451	45	(117)	379
Business Rates	246	16	(1)	261
Highways/Drainage Service	0	47	0	47
Early Retirement and Severance Costs	171	0	(60)	111
Insurance	3,871	989	(17)	4,843
KCVS Grant	128	0	(128)	0
Mental Health Act - Section 117	144	0	(119)	25
Prescot Regeneration	532	0	0	532
Service Charge Refunds	88	0	0	88
Total	5,631	1,097	(442)	6,286

Detail of Council Provisions

Austin Trading Estate: rental income collected by the Council and due to English Partnerships.

Business Rates: Service charges to be repaid to occupiers of Nutgrove Villa, Page Moss One Stop Shop and Halewood New Centre due to reimbursement of business rates.

Highways/Drainage Service: exit costs associated with cessation of the in house provision of these services.

Early Retirement and Severance Costs: to meet anticipated costs associated with the early retirement and severance of a number of employees across the Council.

Insurance: estimated settlement cost of claims received at the Balance Sheet date. A separate reserve is held for the estimated settlement costs of future claims (see Note 20). The Insurance Provision covers claims above the excess/retention levels for risks associated with property and liability. Any greater claims are covered by policies held with external insurance, along with all other types of risks.

Mental Health Act 1983 Section 117 (Provision of After Care): provision to refund of charges made to recipients of community care services under section 117 of this Act.

Prescot Regeneration: Pending the outcome of a review, the Government Office for the North West has advised the Council to set aside a provision to meet the maximum potential grant clawback relating to the Prescot Regeneration Scheme.

Service Charge Refunds: for the repayment of service charges not used for Furniture for Network Housing.

NOTES TO THE BALANCE SHEET

13. SIGNIFICANCE OF FINANCIAL INSTRUMENTS FOR FINANCIAL POSITION AND PERFORMANCE

a) Financial Instrument Balances

The borrowings and investments disclosed in the Balance Sheet are made up of the following categories of financial instruments

	Long Term		Short Term	
	Balance at 31 March 2008 £000	Balance at 31 March 2009 £000	Balance at 31 March 2008 £000	Balance at 31 March 2009 £000
Financial liabilities at amortised cost - analysed by:				
- Loans outstanding	120,459	123,477	58	14,112
- Current liabilities (including short-term creditors and cash overdrawn)	0	0	48,126	49,774
Total borrowings	120,459	123,477	48,184	63,886
Loans and receivables - analysed by:				
- Investments outstanding	5,212	10,523	83,740	124,529
- Current assets (including short-term debtors and petty cash)	0	0	31,319	22,922
- Long-term debtors	938	854	0	0
Total investments	6,150	11,377	115,059	147,451

NOTES TO THE BALANCE SHEET

b) Financial Instruments Gains and Losses

The gains and losses recognised in the Income and Expenditure Account and the Statement of Total Recognised Gains and Losses in relation to financial instruments are made up as follows:

	Financial Liabilities – measured at amortised cost £000	Financial Assets – loans and receivables £000	Total £000
2007/08			
Interest expense	(5,274)	0	(5,274)
Losses on de-recognition	(510)	0	(510)
Interest payable and similar charges	(5,784)	0	(5,784)
Interest income	0	5,307	5,307
Gains on de-recognition	453	0	453
Interest and investment income	453	5,307	5,760
Net gain/(loss) for the year	(5,331)	5,307	(24)
2008/09			
Interest expense	(5,399)	0	(5,399)
Losses on de-recognition	0	0	0
Interest payable and similar charges	(5,399)	0	(5,399)
Interest income	0	5,688	5,688
Gains on de-recognition	0	0	0
Interest and investment income	0	5,688	5,688
Net gain/(loss) for the year	(5,399)	5,688	289

Gains and losses on de-recognition relate to discounts and premiums that have arisen on the extinguishment of loans in the Balance Sheet during the year. The discounts and premiums are recognised in the Income and Expenditure account but are reversed in the Statement of Movement on General Fund Balance and replaced with the statutory amortisation amount set out in regulations.

c) Fair Value of Assets and Liabilities Carried at Amortised Cost

Financial liabilities and financial assets represented by loans and receivables are carried in the Balance Sheet at amortised cost. 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, using the following assumptions which do not have a material effect on the fair value of the instrument:

- no early repayment or impairment is recognised;
- interest is calculated using the most common market convention. Where a relevant date occurs on a non working day the interest value and date have not been adjusted;
- where interest is paid/received every six months on a day basis, the value of interest is rounded to two equal instalments;
- for fixed term deposits it is assumed that interest is received on maturity; and
- the fair value of trade and other receivables is taken to be the invoiced or billed amount.

NOTES TO THE BALANCE SHEET

The following methodology has been adopted:

Public Works Loan Board debt

The new borrowing rate, as opposed to the premature repayment rate, has been used as the discount factor for calculating the fair value for all Public Works Loan Board borrowing. This is because the premature repayment rate includes a margin which represents the lender's profit as a result of rescheduling the loan, and which the Council considers would distort the fair value.

Inclusion of accrued interest

The purpose of the fair value disclosure is primarily to provide a comparison with the carrying value in the Balance Sheet. Since this includes accrued interest as at the Balance Sheet date, the accrued interest up to and including the valuation date is also included in the fair value calculation.

Discount rates used to calculate present value

The rates used in the fair value calculation were obtained from the market on 31 March 2009, using bid prices where applicable.

The fair values calculated are as follows:

	31 March 2008		31 March 2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	£000	£000	£000	£000
Financial Liabilities				
Lender Offer Borrower Option Loan	17,429	16,399	17,493	16,243
Public Works Loan Board Loan	103,086	103,311	110,095	109,366
Temporary Loans	0	0	10,001	10,000
	120,515	119,710	137,589	135,609
Financial Assets				
Fixed Term Deposits	76,267	76,333	110,742	111,602
Money Market Funds	12,683	12,683	24,310	24,310
Interest Free Loan	0	0	1,177	1,177
	88,950	89,016	136,229	137,089

The fair values for trade and other payables and receivables, cash balances and long term debtors are not included in the above table, as the fair value is taken to be the invoiced or billed amount.

Financial liabilities

Lender Offer Borrower Option

The fair value is less than the carrying amount because the Council's Lender Offer Borrower Option portfolio includes a number of fixed rate loans where the interest payable is lower than the rates available for similar loans at the balance sheet date. This commitment to pay interest below current market rates reduces the amount that the Council would have to pay if the lender requested or agreed to early repayment of the loans.

NOTES TO THE BALANCE SHEET

Public Works Loan Board

The fair value is less than the carrying amount because the Council's Public Works Loan Board portfolio includes a number of fixed rate loans where interest payable is lower than the rates available for similar loans at the balance sheet date. This commitment to pay interest below current market rates reduces the amount that the Council would have to pay if the lender requested or agreed to early repayment of the loans. The Public Works Loan Board's alternative calculations, based on the rates relevant to the premature repayment of loans, show the fair value of loans outstanding as at 31 March 2009 is £117.293m. This represents a variance of £7.927m when compared to the valuations above, prepared using rates available for new loans.

Temporary Loans

The fair value is less than the carrying amount because the Council's temporary loan has interest payable fixed at a rate lower than the rates available for similar loans at the balance sheet date. This commitment to pay interest below current market rates reduces the amount that the Council would have to pay if the lender requested or agreed to early repayment of the loans.

Financial Assets

Fixed term deposits

The fair value is higher than the carrying amount because the Council's portfolio of investments includes a number of fixed rate deposits where the interest rate receivable is higher than the rates available for similar deposits at the balance sheet date. This guarantee to receive interest above current market rates increases the amount that the Council would receive if it agreed to early repayment of the deposits. The £0.003m of investments in 3.5% Treasury Stock is also included here, the carrying value of which is deemed to be a reasonable approximation of the fair value.

Money Market Funds

The carrying value is deemed to be a reasonable approximation of fair value due to the nature of these short term variable interest rate investments.

Interest Free Loan

On 22 December 2008 an interest free loan of £1.184m was made to Huyton Churches. In line with the Council's accounting policies for soft loans, a notional loss of interest based on the prevailing market rate of 3.75% has been charged to the Income and Expenditure account, leaving a carrying value at the balance sheet date of £1.177m. As this is a short term debtor with no active market, the carrying amount is deemed to be a reasonable approximation of the fair value.

14. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

The Council's activities expose it to a variety of financial risks:

- Credit risk – other parties might fail to pay amounts due to the Council;
- Liquidity risk – the Council might not have funds available to meet its commitments; and
- Market risk – financial loss might arise for the Council as a result of changes in such measures as interest rates and stock market movements.

The Council's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on Council resources. Risk management is carried out by a central team with written policies. The Council's approach to financial instruments is strengthened by its adoption of CIPFA's Code of Practice on Treasury Management in the Public Services; its 2008/09 Treasury Management Strategy (approved by the Council on 4 March 2008); and its Treasury Management Practices (TMPs) that include specific areas such as interest rate risk, credit risk, and the investment of surplus cash. In this way the Council aims to achieve the optimum return on its investments whilst ensuring proper levels of security and liquidity.

NOTES TO THE BALANCE SHEET

In accordance with CIPFA's Prudential Code, the Council has set and regularly monitors treasury management indicators for the following three years to control key financial instrument risks. Accordingly, these indicators limit:

- The Council's overall borrowing;
- Its maximum and minimum exposures to fixed and variable interest rates;
- Its maximum and minimum exposures regarding the maturing structure of its debt; and
- Its maximum exposures to investments maturing beyond one year.

Credit risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Council's customers. During 2008/09, as banks and building societies struggled to find the necessary cash needed for their day to day dealings, they were prepared to pay higher interest rates to investors, and to do so for longer periods. However, the Council's policy is to ensure that high rates are not secured at the expense of unacceptable credit risk.

The Council uses Fitch ratings to derive its investment counterparty list which places limits on the value and duration over which investments can be made with approved counterparties. Where a counterparty does not have a Fitch rating, the equivalent Moody's rating will be used. The Council is alerted to changes in Fitch ratings through the use of its advisor's creditworthiness service. If a downgrade results in the counterparty or investment scheme no longer meeting the Council's minimum criteria for that class of investment, its further use as a new investment is immediately restricted to a lesser category or, if necessary, withdrawn completely until such a time as the counterparty's financial standing improves again.

Fitch's long term rating AAA denotes the highest credit quality with the lowest expectation of default risk. The lowest Fitch long term rating the Council used at the balance sheet date was A which denotes a high credit quality with an expectation of low default risk.

Fitch's short term rating F1 denotes the highest short term credit quality, indicating the strongest intrinsic capacity for timely payment of financial payments. An added "+" denotes any exceptionally strong credit features. The lowest Fitch short term rating the Council used at the balance sheet date was F1.

Fitch's individual ratings are assigned to banks and building societies that are legal entities. A scale of A-F is used where A is the strongest and F denotes a bank/building society has actually defaulted on repayments or in Fitch's opinion would have defaulted if it had not received external support.

The lowest Fitch individual rating the Council had used at the balance sheet date was C/D. These counterparties where, at the time of conducting the investments, of a much higher credit rating but are no longer on the Council's lending list. All Irish banks/building societies where removed from the Council's lending list in January 2009 on advice from the Council's Treasury Management advisors.

NOTES TO THE BALANCE SHEET

At the balance sheet date the credit criteria in respect of investments held by the Council was as follows:

Counterparty Category	Criteria					Maximum Investment & Duration per Institution	Total Exposure 31 March 09 £000
	Country Rating	Fitch Long Term Rating	Fitch Short Term Rating	Fitch Individual Rating	Fitch Support Rating		
UK Building Society	UK AAA	A	F1	B	3	£18m / up to one month	6,310
UK Building Society	UK AAA	A	F1	B	3	£12m / up to one month	12,059
UK Building Society	UK AAA	AA	F1+	B	1	£18m / up to three months	17,854
UK Bank	No credit rating. Nationalised UK Bank					£18m / up to three months	5,531
UK Banks	UK AAA	AA-	F1+	B	1	£18m / up to six months	36,764
Irish Banks	RoI AAA	Includes an Irish Nationalised Bank and those with Fitch Ratings A+/F1+/C/D/1				No longer on the Council's lending list	14,350
UK Banks	Part Nationalised UK Banks					No longer on the Council's lending list	17,871
Money market funds	All AAA rated					£18m / up to one year	24,310
Total Exposure to Credit Risk from Investments at 31 March 2009							135,049

Fitch's support ratings are an assessment of a potential supporter's propensity to support a bank/building society and of its ability to support it. It's propensity to support is a judgement made by Fitch ratings. Its ability to support is set by the potential supporters own Issuer Default Ratings. A scale of 1-5 is used where 1 indicates a bank where there is an extremely high probability of external support and 5 is where external support, although possible, cannot be relied upon.

The lowest Fitch support rating the Council had used at the balance sheet date was 3, representing a bank/building society where there is a moderate probability of support.

The Council has added fully nationalised UK banks e.g. Northern Rock back onto the lending list. Although these banks are no longer separate institutions in their own right and will therefore have credit ratings that do not conform to the minimum credit criteria, deposits made with them are effectively being made to the UK Government and are considered low risk by the Council as long as the UK Government support continues.

UK part nationalised banks are not currently on the Council's lending list as the banks that fall within this category's tend to also be part of a larger, more complicated banking group e.g. Lloyds/HBOS and Royal Bank of Scotland/NatWest where it is not clear where and how far the UK Government support would extend to each individual bank. The Council therefore adopts a prudent approach in these cases and continues to review its policy accordingly.

NOTES TO THE BALANCE SHEET

The following analysis (excluding amounts held in the Council's own bank account where the credit risk is deemed to be minimal) summarises the Council's potential maximum exposure to credit risk, based on past experience of default and uncollectability, adjusted to reflect current market conditions:

	Amount at 31 March 2009 (carrying amount) £000	Historical Experience of default %	Historical Experience adjusted for market conditions at 31 March 2009 %	Estimated Maximum exposure to default and uncollectability £000
Total Investments	135,049	0	0	0
Interest Free Loan	1,177	0	100	1,177
Mortgagors	645	0	0	0
Car Loans/Employee Related Debtors	194	0	0	0
Other Debtors	9,211	5	5	461

No breaches of the Council's counterparty criteria occurred during the reporting period; there were no instances of counterparties failing to meet contractual obligations in relation to deposits maturing during the financial year; and the Council does not expect any future losses from non-performance by any of its counterparties in relation to investments outstanding at the balance sheet date. As a result of the current uncertain conditions in the financial markets, however, the Council will keep its investment policy under review and amend the criteria as required.

The only experience of default on investments that local authorities have experienced over the last five years was from the Icelandic banks defaulting in October 2008. The Council has no exposure to Icelandic Banks as they have never featured on the Councils approved lending list.

The original terms of the interest free loan to Huyton Churches incorporated two payment dates with full repayment to be received by 31 May 2009, however the Council is in discussions with Huyton Churches to renegotiate repayment dates as the audit of a grant claim due to Huyton Churches has been delayed. The Accounts therefore recognise a potential exposure to credit risk if this loan was not repaid; however the Council does not at this stage expect this situation to arise.

On 31 March 2009 the Council held 129 mortgage accounts. Although half of these accounts are in arrears, the historical experience of default on mortgage debtors is negligible. Repayments have always resumed on accounts once threatened with legal action. The value of the mortgagee's home is also secured as collateral against the default risk. In 2008/09 the Council put in place a new system of checking cases with arrears exceeding three months in order to alert any mortgage account holders who could go into default. The Council also uses a specialist Loan and Mortgages Administrative Service to manage the accounts and recover arrears.

Both car loans and other employee related debt is recovered through automatic salary deductions, thereby eliminating any risk of default. If an employee leaves the Council and has debt outstanding, the credit risk is transferred to sundry debtors.

NOTES TO THE BALANCE SHEET

Other debtors at 31 March 2009 include £6.875m of sundry debtors; £2.294m of payments in advance and £0.042m of contractually based other local authority debtors. The Council does not generally allow credit for customers, such that £4.227m of the total sundry debtors balance is past its due date for payment. The past due amount can be analysed by age as follows:

	£m
Less than three months	3.745
Three to six months	0.168
Six months to one year	0.029
More than one year	0.285
	4.227

The Council has a clearly documented credit policy setting out the Council-wide responsibilities to minimise the risk to the Council of income that cannot be collected, or is difficult to collect. Debt is managed centrally with system-based recovery routines and overdue letter cycles. All available recovery methods are utilised including telephone collection, external collection agents, bankruptcy and charging orders where appropriate. A comprehensive analysis of all outstanding debt is undertaken, and collection performance monitored and reported to senior management, on a monthly basis throughout the year. The Council makes a provision for past due debtors based on the actual collection performance of previous years. All activities are supported by written procedures and policies including a Debt Recovery Strategy, Write Off Policy and Partnership Working Agreement with Legal Services.

Liquidity Risk

The Council has a comprehensive cash flow management system that seeks to ensure that cash is available as needed. In addition to maintaining liquid balances that can be drawn upon as required, the Council has ready access to borrowings both from the Public Works Loans Board and commercial lenders. Therefore, there is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments. Instead, there is a risk that the Council will be bound to replenish a significant proportion of its longer term debt portfolio at a time of unfavourable interest rates. The strategy is therefore to keep the upper limit of fixed rate borrowing to mature in each period as shown in the table below:

Maturity Period of Fixed Rate Borrowing	Upper limit of Fixed Rate Borrowing to mature in each period	Public Works Loan Board Maturity at 31 March 2009 £000	Lender Offer Borrower Option Maturity at 31 March 2009 £000	Total Maturity at 31 March 2009 £000	Actual % Maturity of Fixed Rate Borrowing at 31 March 2009
Under 12 months	15%	4,111	0	4,111	3%
1-2 years	15%	53	0	53	0%
2-5 years	50%	3,172	12,437	15,609	12%
5-10 years	80%	38	5,056	5,094	4%
10 years and above	100%	102,721	0	102,721	81%
		110,095	17,493	127,588	

Through a combination of careful planning of new loans taken out and making early repayments where it is economic to do so, the Council ensures that these prudential targets are achieved. All trade and other payables are due to be paid in less than one year.

NOTES TO THE BALANCE SHEET

Market Risk

Interest Rate Risk

The Council is exposed to risk in terms of its exposure to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the Council. For instance, a rise in interest rates would have the following effects:

- borrowings at variable rates – interest charged to the Income and Expenditure Account will rise;
- borrowings at fixed rates – the fair value of the liabilities will fall;
- investments at variable rates – interest credited to the Income and Expenditure Account will rise;
- investments at fixed rates – the fair value of the assets will fall.

Borrowings are not carried at fair value, so nominal gains and losses on fixed rate borrowings would not impact on the Income and Expenditure Account or Statement of Total Recognised Gains and Losses (STRGL). During periods of falling interest rates, and where economic circumstances make it favourable, fixed rate loans will be repaid early to limit exposure to losses. The risk of loss is reduced by the fact that a proportion of government grant payable on financing costs will normally move with prevailing interest rates or the Council's cost of borrowing and provide compensation for a proportion of any higher costs.

Changes in interest payable and receivable on variable rate borrowings and investments would be posted to the Income and Expenditure Account and affect the General Fund Balance pound for pound. However, the Council did not hold any variable rate borrowing as at 31 March 2009. Both the variable and fixed rate investments held by the Council are not quoted in an active market so movements in their fair value will not impact on the Income and Expenditure Account or STRGL.

The Council has a number of strategies for managing interest rate risk. The treasury management strategy is to aim to keep a maximum of 50% of borrowings in variable rate loans. The treasury management team receives professional advice and has a strategy for assessing interest rate exposure that feeds into the setting of the annual budget and which is used to update the budget quarterly during the year. This allows any adverse changes to be accommodated. The analysis will also advise whether new borrowing taken out is fixed or variable.

According to this assessment strategy, at 31 March 2009, if interest rates had been 1% higher with all other variables held constant, the financial effect would be as follows:

	£000
Decrease in fair value of fixed rate investment assets (no impact on Income and Expenditure Account or STRGL)	515
Decrease in fair value of fixed rate borrowings liabilities (no impact on Income and Expenditure Account or STRGL)	18,980

The impact of a 1% fall in interest rates would be as above but with the movements being reversed.

Currency Exchange Risk

The Council has no financial assets or liabilities denominated in foreign currencies, and therefore has no exposure to loss arising from movements in currency exchange rates.

Price risk

Under its Treasury Management Strategy, the Council does not invest in equity shares and is therefore not exposed to losses arising from fluctuations in the stock market.

NOTES TO THE BALANCE SHEET

15. REVALUATION RESERVE

This account reflects any surpluses arising from valuations, disposals and write-offs.

	2007/08	2008/09
	£000	£000
Balance at beginning of year	0	8,146
Revaluation of fixed assets	8,310	13,775
Disposals	0	(66)
Adjustment for Depreciation	(164)	(274)
Balance at end of year	<u>8,146</u>	<u>21,581</u>

16. CAPITAL ADJUSTMENT ACCOUNT

This account shows amounts which are required by statute to be set aside from capital receipts for the repayment of external loans and the amount of capital expenditure financed from revenue and capital receipts, and the difference between amounts provided for depreciation and those charged to revenue to repay the principal element of external loans.

	2007/08	2008/09
	£000	£000
Balance at beginning of year	318,963	255,978
Balance transferred from Fixed Asset Restatement Account	(58,643)	0
Capital receipts set aside	159	85
Transferred Debt receipts set aside	19	18
Capital financing - capital receipts	6,315	4,268
- revenue	1,396	3,278
- other	1,677	761
Capitalisation of Equal Pay Provision	(2,869)	(7,567)
Capital Receipts applied for future expenditure <small>see i) below</small>	0	6,731
Transfer from Government Grants Deferred	2,521	3,289
Adjustments on Revaluation	489	(1,276)
Less		
Net Adjustment for Statutory Loan Repayment Calculation	(7,391)	(8,153)
Write down of Revenue Expenditure funded from Capital under Statute (net of grant)	(4,559)	(978)
Impairment	(2,099)	(11,328)
Balance at end of year	<u>255,978</u>	<u>245,106</u>

i) Represents receipts that have been earmarked by the Council as funding for future capital schemes.

NOTES TO THE BALANCE SHEET

17. FINANCIAL INSTRUMENTS ADJUSTMENT ACCOUNT

This account provides a balancing mechanism between the different rates at which gains and losses relating to financial instruments (such as premiums/discounts on the early repayment of debt, and any loans made at rates below prevailing market rates) are recognised in the Income and Expenditure Account and the amount required by statute to be met from the General Fund. The account shows the reversal of such amounts charged to the Income and Expenditure Account and their replacement with an annual amortisation amount to the General Fund in line with regulations. The reserve is not available for the Council to spend.

	2007/08	2008/09
	£000	£000
Balance at beginning of year	0	(51)
Net premium paid in year on early repayment of debt	(57)	0
Amortisation of net premium	6	6
Notional loss in year on interest free loan to Huyton Churches	0	(19)
Amortisation of notional loss	0	11
Balance at end of year	(51)	(53)

18. USABLE CAPITAL RECEIPTS RESERVE

Income from the disposal of fixed assets is credited to the Usable Capital Receipts Reserve and used for current capital spending, or is set aside for future capital spending and debt repayments.

	2007/08	2008/09
	£000	£000
Balance at beginning of year	13,071	8,163
Capital receipts in year for sales of assets	2,174	2,958
	15,245	11,121
Less: Set aside for loan redemption	(159)	(85)
	15,086	11,036
Payments re Pooling Housing Capital Receipt	(79)	(37)
Capital Receipts applied for future expenditure ^{see i) below}	0	(6,731)
Capital Receipts applied during year – tangible assets	(6,781)	(4,256)
Capital Receipts applied during year – intangible assets	(63)	(12)
Balance at end of year	8,163	0

i) Represents receipts that have been earmarked by the Council as funding for future capital schemes.

NOTES TO THE BALANCE SHEET

19. PENSIONS LIABILITY AND RESERVE

a) OVERALL POSITION

The Council is a member of the Merseyside Pension Fund which is responsible for the provision of retirement benefits as set out by the Local Government Pensions scheme. The Council is also liable for all future added years benefits that it has awarded to teachers. Note 8 to the Income and Expenditure Account details the Council's participation in these schemes. The underlying assets and liabilities for retirement benefits attributable to the Council at 31 March 2009 are as follows:

	Funded Liabilities: Merseyside Pension Fund		Unfunded Liabilities: Teachers Pension Fund		Total	
	2007/08	2008/09	2007/08	2008/09	2007/08	2008/09
	£'000	£'000	£'000	£'000	£'000	£'000
Reconciliation of Liabilities						
1 April	(496,966)	(571,472)	(17,705)	(19,709)	(514,671)	(591,181)
Current Service Cost	(13,155)	(14,497)	-	-	(13,155)	(14,497)
Interest Cost	(26,824)	(34,871)	(919)	(1,159)	(27,743)	(36,030)
Contributions	(5,073)	(5,674)	-	-	(5,073)	(5,674)
Actuarial gains/(losses)	(43,136)	126,045	(2,456)	2,662	(45,592)	128,707
Benefits paid	18,697	19,791	1,371	1,434	20,068	21,225
Past Service Costs	(5,015)	(1,064)	-	-	(5,015)	(1,064)
31 March	(571,472)	(481,742)	(19,709)	(16,772)	(591,181)	(498,514)

	Merseyside Pension Fund	
	2007/08	2008/09
	£'000	£'000

Reconciliation of Assets

1 April	364,969	359,833
Expected rate of return	23,727	23,720
Actuarial gains and (losses)	(30,446)	(88,422)
Employer Contributions	15,207	17,384
Contributions by scheme members	5,073	5,674
Benefits paid	(18,697)	(19,791)
31 March	359,833	298,398

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the Balance Sheet date. Expected returns on equity investments reflect long-term real rates of return experienced in the respective markets.

The actual return on scheme assets in the year was £64.702m (2007/08: £5.486m). Total liabilities (including Teacher's Pensions) exceed assets by £200.116m. The Fund's Actuary is required to set contribution rates to meet 100% of the overall liabilities of the Fund.

NOTES TO THE BALANCE SHEET

19. PENSIONS LIABILITY AND RESERVE (Cont'd)

b) SCHEME HISTORY

	2004/05 £'000	2005/06 £'000	2006/07 £'000	2007/08 £'000	2008/09 £'000
Present value of liabilities:			<i>As restated</i>	<i>As restated</i>	
Merseyside Pension Fund	(429,349)	(495,545)	(496,966)	(571,472)	(481,742)
Teachers Pension Fund	(18,149)	(18,664)	(17,705)	(19,709)	(16,772)
Fair value of assets:					
Merseyside Pension Fund	279,568	344,317	364,969	359,833	298,398
Surplus / Deficit in the scheme:					
Merseyside Pension Fund	(149,781)	(151,228)	(131,997)	(211,639)	(183,344)
Teachers Pension Fund	(18,149)	(18,664)	(17,705)	(19,709)	(16,772)
Total	(167,930)	(169,892)	(149,702)	(231,348)	(200,116)

The Council has elected not to restate fair value of scheme assets for 2004/05 and 2005/06 as permitted by FRS 17 (as revised).

The liabilities show the underlying commitments that the authority has in the long run to pay retirement benefits. The total liability of £498.514m has a substantial impact on the net worth of the authority as recorded in the Balance Sheet, resulting in a negative overall balance of £200.116m. However, statutory arrangements for funding the deficit mean that the financial position of the authority remains healthy:

- the deficit on the Merseyside Pension Fund will be made good by increased contributions over the remaining working life of employees, as assessed by the scheme actuary,
- finance is only required to be raised to cover Teachers' pensions when the pensions are actually paid.

The total contributions expected to be made to the Merseyside Pension Fund by the Council in the year to 31 March 2010 is £17.385m.

c) BASIS FOR ESTIMATING ASSETS AND LIABILITIES

The liabilities are the underlying commitments that the Council has to pay for retirement benefits in the future. These have been assessed by the Fund's actuaries, Mercer Human Resource Consulting Ltd., using estimates of pension benefits payable in future years, based on assumptions of mortality rates, salary levels and other financial estimates.

NOTES TO THE BALANCE SHEET

19. PENSIONS LIABILITY AND RESERVE (Cont'd)

The principal assumptions used by the actuary have been:

	Merseyside Pension Fund		Teachers Pension Fund	
	2007/08	2008/09	2007/08	2008/09
Long-term expected rate of return on assets in the scheme:				
Equities	7.5%	7.5%	n/a	n/a
Government bonds	4.6%	4.0%	n/a	n/a
Other bonds	6.1%	6.0%	n/a	n/a
Property	6.5%	6.5%	n/a	n/a
Cash/Liquidity	5.3%	0.5%	n/a	n/a
Other	7.5%	7.5%	n/a	n/a
Mortality assumptions:				
Longevity at 65 for current pensioners				
Men	20.3	20.3	20.3	20.3
Women	23.1	23.2	23.1	23.2
Longevity at 65 for future pensioners				
Men	21.3	21.3	21.3	21.3
Women	24	24.1	24	24.1
Actuarial assumptions:				
Rate of Inflation	3.6%	3.3%	3.6%	3.3%
Rate of increase in salaries	4.85%	4.55%	4.85%	4.55%
Rate of increase in pensions	3.6%	3.3%	3.6%	3.3%
Rate for discounting scheme liabilities	6.1%	7.1%	6.1%	7.1%

The Teachers Pension Scheme has no assets to cover its liabilities. The Merseyside Pension Fund's assets consist of the following categories, by proportion of the assets held:

	2007/08	2008/09
	%	%
Equities	57.5%	53.6%
Government Bonds	16.1%	17.7%
Other Bonds	5.9%	4.8%
Property	8.7%	9.3%
Cash / Liquidity	4.5%	4.2%
Other Assets	7.3%	10.4%
	<u>100.0%</u>	<u>100.0%</u>

d) HISTORY OF EXPERIENCE GAINS AND LOSSES

The actuarial gains identified as movements on the Pensions Reserve in 2008/09 can be analysed into the following categories, measured as a percentage of assets or liabilities at 31 March 2009:

	2004/05	2005/06	2006/07	2007/08	2008/09
	%	%	%	%	%
			<i>As restated</i>	<i>As restated</i>	
Differences between the expected and actual return on assets	4.9	13.2	0.0	(8.5)	(29.6)
Experienced gains and losses on liabilities	(17.2)	(9.8)	5.1	(4.2)	0.0

NOTES TO THE BALANCE SHEET

20. RESERVES

The Council holds a number of earmarked reserves for future Portfolio and Council-Wide expenditure commitments and policy development as follows:

Reserve	Description	Balance at 31 March 2008 £'000	Movement (increase) / decrease £'000	Balance at 31 March 2009 £'000
CHILDREN'S SERVICES PORTFOLIO				
Teenage Pregnancy	To fund initiatives to reduce levels of teenage pregnancy in the Borough.	(57)	0	(57)
Maintenance Works	To undertake essential building maintenance work.	(394)	65	(329)
Risk Management	Funding for future risk management initiatives.	(517)	189	(328)
Schools Finance Support	School finance support service surplus to be re-invested with Knowsley schools.	(47)	0	(47)
School Improvement Partners	To enable School Improvement Partners provide support to the Borough's schools.	(74)	50	(24)
Staffing	To support fixed term staff costs for programme initiatives and development.	(45)	43	(2)
Youth Offending	To facilitate service improvement in line with the Improvement Plan, Criminal Justice and Information Act and the new Youth Rehabilitation Order	(133)	133	0
Youth	To support the achievement of Children and Young People's Strategic Priorities	(337)	(168)	(505)
Standards Task Force	To fund a programme to improve attainment in English and Maths across all key stages.	0	(551)	(551)
Total Children's Services Reserves		(1,604)	(239)	(1,843)
COMMUNITY SAFETY AND SOCIAL INCLUSION PORTFOLIO				
Crime and Disorder Initiatives	To develop the Anti-social Behaviour Unit and other crime and disorder initiatives.	(973)	312	(661)
Total Community Safety and Social Inclusion Reserves		(973)	312	(661)
CORPORATE AND CUSTOMER SERVICES PORTFOLIO				
Portfolio IT Systems	To develop new I.T. services and systems.	(49)	41	(8)
Portfolio Service Development	To integrate, refocus and restructure services for the Portfolio.	(662)	471	(191)
Environmental Initiatives	To maximise existing use of accommodation.	(252)	252	0
Performance Improvement	Resources set aside for service transformation and business process re-engineering.	(110)	71	(39)
Total Corporate and Customer Services Reserves		(1,073)	835	(238)

20. RESERVES (cont'd)

Reserve	Description	Balance at 31 March 2008 £'000	Movement (increase) / decrease £'000	Balance at 31 March 2009 £'000
FINANCE AND INFORMATION TECHNOLOGY PORTFOLIO				
IT Systems	To develop current and new IT systems for the Portfolio.	(517)	437	(80)
Service Development	To integrate, refocus and restructure services for the Portfolio.	(150)	69	(81)
Environmental Initiatives	To maximise use of existing accommodation.	(90)	90	0
Performance Improvement	Resources set aside for service transformation and business process re-engineering.	(325)	325	0
Total Finance and Information Technology Reserves		(1,082)	921	(161)
HEALTH AND SOCIAL CARE PORTFOLIO				
Community Care	To provide for the future costs of the range of social services provided by the Council.	(365)	228	(137)
IT / Systems Strategy	To meet Government targets for electronic social care record system.	(1,049)	(73)	(1,122)
Performance Improvement	Performance Improvement Initiatives, service growth and administrative services review.	(283)	236	(47)
Pooled Budget	To provide for future costs of the pooled budget – supported accommodation.	(131)	(377)	(508)
Social Services – Initiatives	Includes reserves for 'Workstep' and disability services – multi agency training.	(124)	(203)	(327)
Capital Reserves	Revenue funding set aside for capital schemes delayed into 2009/10.	0	(307)	(307)
Total Health and Social Care Reserves		(1,952)	(496)	(2,448)
LEADER'S PORTFOLIO				
Performance Improvement	To fund the Pride Campaign, Equality & Diversity and other service developments.	(290)	207	(83)
Neighbourhood and Economic Regeneration	Contribution to Neighbourhoods Ward Walkabout capital programme.	0	(126)	(126)
Maintenance and Trading Reserves – Parking & Access	Lancaster Walk and Brookwood Road Capital Schemes.	0	(40)	(40)
Neighbourhood Response	To undertake political priorities identified under the Neighbourhood agenda.	0	(146)	(146)
Total Leader's Portfolio Reserves		(290)	(105)	(395)

20. RESERVES (cont'd)

Reserve	Description	Balance at 31 March 2008 £'000	Movement (increase) / decrease £'000	Balance at 31 March 2009 £'000
LEISURE, COMMUNITY AND CULTURE PORTFOLIO				
Business Opportunities	Income set aside to fund development of business opportunities	(64)	32	(32)
Business Rates Reserve	Business Rates to be charged to the service in future years	(59)	(2)	(61)
Capital Reserve	Revenue contributions towards the Portfolio's capital programme.	(973)	588	(385)
Learn Direct	Contribution towards the refurbishment of Huyton Library	(9)	9	0
Leisure Service Development	Resources set aside for new leisure services and policy development.	(26)	10	(16)
Strategy Reserve	To integrate, refocus and restructure services for the portfolio.	(51)	38	(13)
Total Leisure, Community and Culture Reserves		(1,182)	675	(507)
NEIGHBOURHOOD DELIVERY PORTFOLIO				
Neighbourhood Delivery	Revenue resources set aside for service policy and performance improvement.	(255)	(22)	(277)
Contract Services Reserves	Trading balances set aside for policy and performance improvement.	(14)	14	0
Total Neighbourhood Delivery Reserves		(269)	(8)	(277)
REGENERATION, ECONOMY AND SKILLS PORTFOLIO				
Capital Reserve	Revenue contributions towards the Portfolio's capital programme.	(21)	(542)	(563)
Enterprise Initiatives	To be used to fund Enterprise and Competitiveness schemes.	(53)	1	(52)
European Social Fund	Contributions towards European Social Fund schemes.	(187)	17	(170)
Maintenance Reserves	For initiatives such as winter maintenance and dangerous tree removal	(599)	407	(192)
Neighbourhood Regeneration	To fund schemes within the Neighbourhoods Programme.	(602)	602	0
Neighbourhood Renewal Fund	To fund the pilot Halewood Neighbourhood Initiative.	(215)	215	0
Performance Improvement	To undertake an in-depth review of Voluntary Sector Grant Aid	(91)	3	(88)
Staffing & Running Costs	Staffing costs for temporary and fixed-term placements, and short term programmes.	(1,227)	1,060	(167)
Strategic Development	For Local Development Framework, Sustainable Communities Strategy, Estates Strategy and Economic Regeneration Strategy.	(267)	(88)	(355)
Total Regeneration, Economy and Skills Reserves		(3,262)	1,675	(1,587)

20. RESERVES (cont'd)

Reserve	Description	Balance at 31 March 2008 £'000	Movement (increase) / decrease £'000	Balance at 31 March 2009 £'000
COUNCIL-WIDE RESERVES				
Prior year Budget Allocations	Contribution of resources to service priorities approved as part of prior year budgets.	(6,726)	6,614	(112)
2009/10 Budget Allocations	Contribution of resources to service priorities approved as part of the 2009/10 budget.	0	(2,209)	(2,209)
Budget Risk Assessments	To reflect potential pressures that may arise from changes in the budget assumptions.	(2,028)	394	(1,634)
Future Is Knowsley	To fund marketing campaign raising the profile and desirability of the Borough.	(250)	0	(250)
Medium Term Financial Plan	To fund budget pressures identified during the medium term financial planning process.	(1,592)	(556)	(2,148)
LAA Pump Priming Grant	To fund expenditure incurred by Local Area Agreement projects during the year.	(211)	29	(182)
Pooled Budget	Future contributions to the Council's pooled budgets with the Primary Care Trust.	(4,500)	4,500	0
Treasury Management	To fund potential impact of changes in the Treasury Management Plan assumptions	(500)	0	(500)
Workforce Remodelling	Contribution towards potential costs of remodelling the Council workforce	(3,817)	(1,464)	(5,281)
Kirkby Development	Contribution towards development costs for Kirkby Town Centre project.	(170)	(319)	(489)
Neighbourhood Initiatives	To fund ongoing Working Neighbourhoods Fund schemes and neighbourhood initiatives.	(426)	(10,168)	(10,594)
BSF Development	To fund development of the Council's Building Schools for the Future (BSF) Programme	(3,575)	1,131	(2,444)
Street Lighting PFI	Contribution to development work on Private Finance Initiative scheme.	(465)	163	(302)
Neighbourhood Renewal Fund	To cover costs related to Neighbourhood Renewal Fund schemes.	(1,279)	1,279	0
Stockbridge Village Regeneration	To cover costs of feasibility and development work associated with the redevelopment of the Stockbridge Village Area.	(200)	(4,719)	(4,919)
IT / Systems Development	To develop IT and service systems across the Council.	0	(337)	(337)
Huyton Municipal Essential Works	Essential replacement of boilers, lifts and electrical works in Huyton Municipal Building.	0	(1,000)	(1,000)
Total Council Wide Reserves		(25,739)	(6,662)	(32,401)
Insurance Reserve	This reserve represents the sum held to cover potential future insurance claims.	(5,085)	2,106	(2,979)
Building Schools For The Future	Private Finance Initiative funding account contributions to deliver a transformational secondary education system through seven new centres for learning across the Borough	0	(9,349)	(9,349)
TOTAL COUNCIL RESERVES (EXCLUDING SCHOOLS)		(42,511)	(10,335)	(52,846)
SCHOOL RESERVES	Individual school balances on delegated budgets to fund future expenditure.	(8,937)	2,510	(6,427)
TOTAL COUNCIL RESERVES (INCLUDING SCHOOLS)		(51,448)	(7,825)	(59,273)

NOTES TO THE BALANCE SHEET

21. TRUST FUNDS

The Council administers a number of Funds as sole trustee. These Funds are related principally to legacies left by individual benefactors over a period of years.

	Balance 31.3.2008 £000	Receipts £000	Payments £000	Balance 31.3.2009 £000
King George V Playing Fields	836	30	(30)	836
A permanent endowment from the sale of land left to KMBC from benefactors.				
Health and Social Care Trust Funds ^(Note i)	165	25	(65)	125
Huyton Distress Fund	41	3	(2)	42
Long standing trust fund - for hardship cases within the area of Huyton.				
Client Records In Social Services Provision	28	0	(28)	0
Balance of CRISSP user fund - part belongs to other authorities.				
Children's Services Trust Funds ^{Note ii)}	8	0	0	8
Larry Nolan	0	41	0	41
Created in August 2007 and became a trust fund in Oct 2008. The plans for the fund include prizes for the Larry Nolan Award, funding of a memorial and the development of a young persons area in Huyton Library.				
Sean Hughes ^{Note iii)}	0	15	0	15
Established in 1990, deed amended in May 2000 - to promote the study of history and/or politics by awarding scholarships or bursaries and to create a dedicated section within Huyton Library providing books on history and/or politics purchased through the fund.				
	1,078	114	(125)	1,067

Note i) These funds include:

Criminal Injury Client Funds

Client funds held in trust due to criminal injuries.

Edmund S Morrow

Client funds to be released to learning disability revenue.

Area Child Protection

Contribution in excess of expenditure for Knowsley Child Protection Committee - developments under way to use some of this money in the next few years.

Note ii) These funds include:

Huyton Higher Education Prize

Established in 1944 (approximately) as an annual prize for attendance and progress at evening classes.

Huyton with Roby CE Endowment

The Trust was transferred from Lancashire to Knowsley in 1974 and is thought to date back to 1829.

NOTES TO THE BALANCE SHEET

21. TRUST FUNDS (Cont'd)

Other funds administered by the Council

	Balance 31.3.2008 £000	Receipts £000	Payments £000	Balance 31.3.2009 £000
Charles McGee	6	0	0	6
Established in 1982 - to provide holidays for the disabled who reside in the Borough				
Fred Curran	50	2	0	52
Established in 1990 - to provide funding assistance for disabled athletes who reside in the Borough relevant to training for and participation in Special Olympics				
Sean Hughes ^{Note iii)}	15	0	(15)	0
Established in 1990, deed amended in May 2000 - to promote the study of history and/or politics by awarding scholarships or bursaries and to create a dedicated section within Huyton Library providing books on history and/or politics purchased through the fund				
Mayors Charity	25	57	(52)	30
Established in 1975 - to raise funds for charitable purposes in the Borough as the trustees think fit				
	96	59	(67)	88

Note iii) Sean Hughes Fund:

As there has been no activity on this individual account for a number of years the separate bank account was closed on 29/8/08, and is now held with the other funds the Council administers as sole trustee.

This was an administrative move so that once the trustees reach a decision how to utilise the remaining funds this can be done without delay and avoid having to change signatures on the account each time a senior officer/councillor changes.

NOTES TO THE BALANCE SHEET

22. INTEREST IN COMPANIES

Knowsley Development Partnership Ltd.

Knowsley Development Partnership Ltd. was set up on 23 October 1998 as a formally incorporated public/private sector partnership between the Council and Caddick Developments Ltd. for the purpose of developing industrial units at Knowsley Industrial Park. Caddick Developments Ltd. has a majority shareholding of 829 (83%) of the 999 £1 ordinary shares. The Council's holding of 170 shares is therefore a minority share and is less than that required for the company to be regarded as an influenced company. As the company is a private company limited by shares, the Council has no liability to contribute to any debts of the company including accumulated losses. The company ceased trading on 1st August 2008. At this time, the company had nil net assets after a dividend of £0.028m (of which £0.005m was received by Knowsley) was paid to the shareholders.

Copies of the company's accounts can be obtained from the Secretary, Knowsley Development Partnership Ltd., Castlegarth Grange, Scott Lane, Wetherby, West Yorkshire, LS22 6LH.

2020 Knowsley Ltd.

2020 Knowsley Ltd. was set up on 1 April 2005 as a formally incorporated Joint Venture Company between the Council and 2020 Liverpool Ltd (itself a Joint Venture Company between Liverpool City Council and Mouchel Parkman Services Ltd.) for the purpose of providing a range of design consultancy services as described in its Services Partnering Agreement between the company and the Council. 2020 Liverpool Ltd. has a majority shareholding of 801 (80.1%) of the 1000 £1 ordinary shares. The Council's holding of 199 shares is therefore a minority share and is less than that required for the company to be regarded as an influenced company. As the company is a private company limited by shares, the Council has no liability to contribute to any debts of the company including accumulated losses.

The company had net liabilities of £0.077m at 31 March 2009 and reported a pre tax profit of £0.080m as at that date.

Copies of the company's accounts can be obtained from Pete Seddon, 2020 Knowsley Ltd. 9 West Street, Prescott Knowsley, Merseyside, L34 1LF.

23. GROUP ACCOUNTS

The Council, where it has an interest in entities that would otherwise be regarded as subsidiaries, associates or joint ventures under the Companies Acts, is required to produce supplementary information in the form of summarised group accounts. The Council has reviewed its relationships with third parties under these requirements and has concluded that for 2008/09 it has no such interests.

NOTES TO THE BALANCE SHEET

24. POST BALANCE SHEET EVENTS

Since the financial year end of 31 March 2009, there have been no significant post balance sheet events that have occurred during the preparation of the Council's Statement of Accounts which would require additional adjustment or disclosure. Events after the balance sheet date are reflected up to 26 June 2009, as authorised by the Borough Treasurer.

25. CONTINGENT LIABILITIES

The Council is aware that there is a risk that possible future costs could arise from the forthcoming local implementation of the national single status agreement on 1 April 2010. The Council has undertaken a comprehensive job evaluation exercise and is currently moderating with the aim of resolving the issue with a break even outcome in respect of future costs. It is, however recognised that there may be a one-off cost to the Council in respect of back pay settlements and protected pay arrangements, but the Council is currently working towards achieving a settlement that is cost neutral.

There are no other contingent liabilities at 31 March 2009 other than those that have been properly recorded and disclosed in the financial statements. In particular:

- there is no other significant pending or threatened litigation, other than those already disclosed in the financial statements; and,
- there are no other material commitments or contractual issues, other than those already disclosed in the financial statements.

26. CONTINGENT ASSETS

The Council is currently pursuing a VAT reclaim from HM Revenues and Customs. This covers output tax overpaid by the Council between 1989/90 and 1993/94 due to discrepancies between UK and European law during that period. It is not yet known whether the claim will be successful, and no reliable estimate of the likely settlement is currently available.

Following extensive flooding in one part of the Borough during 2007/08, United Utilities offered to reimburse the Council for expenditure incurred in repairing damaged properties. However at 31 March 2009 £0.334m remains outstanding and there is now a possibility the Council may take legal action to recover this amount.

NOTES TO THE CASH FLOW STATEMENT

1. ANALYSIS OF OTHER GOVERNMENT GRANTS

Type of Grant	Revenue £000	Capital £000
Department for Children, Schools and Families		
Dedicated Schools Grant	96,764	
Standards Fund	16,333	12,279
Early Years & Sure Start	6,082	
Aim Higher – Post 16	425	
Information Sharing and Assessment	341	
Care Matters	223	
Other	67	85
Learning and Skills Council		
Sixth Form Funding	2,396	
Adult Education	1,068	
Other	121	
Department for Communities and Local Government		
Supporting People	8,743	
New Deal for Communities	1,279	5,460
North West Development Agency	1,127	17
Local Public Service Agreement Reward Grant	962	1,274
Regional Housing Pot Capital Grant		2,912
Highways Supported Capital Grant		2,592
Other	565	2,752
Department for Work and Pensions		
Council Tax/Housing Benefit Rebates Grant	77,916	
Benefit Verification Framework / Fraud Incentive / Tax Credits	2,370	
Other	791	
Department of Health		
Social Care Reform Grant	343	
Modernisation Grant	212	
Partnerships for Older People's Project	212	
Mental Health	124	5
Carers Grant	106	
Other	1,206	386
Home Office – other	375	
Department for Environment, Food & Rural Affairs - other	62	262
Grand Total Other Government Grants	220,213	28,024

NOTES TO THE CASH FLOW STATEMENT

2. RECONCILIATION OF REVENUE ACTIVITIES

The General Fund Balance includes transactions which do not result in cash flows. The following table identifies these transactions and reconciles the General Fund Balance surplus with the actual net revenue cash flows shown on the Cash Flow Statement.

<u>Revenue Activities</u>	2007/08 £000	2008/09 £000	£000
General Fund Balance - Surplus for the year	242		123
Non Cash Transactions			
Contribution to reserves / provisions	19,835		35,525
Capital transactions charged to revenue:			
Impairment	(2,099)	(15,788)	
Minimum Revenue Provision / Revenue Expenditure Funded from Capital Under Statute	(10,123)	(6,582)	
Revenue Contribution to Capital	1,925	3,278	(19,092)
	<u>9,780</u>		<u>16,556</u>
Items on an accruals basis			
(Increase)/decrease in stocks	152	90	
(Increase)/decrease in debtors	1,054	7,661	
Increase/(decrease) in creditors	<u>3,996</u>	<u>3,182</u>	<u>10,933</u>
Net cashflow from revenue activities	<u><u>14,982</u></u>		<u><u>27,489</u></u>

3. RECONCILIATION OF NET CASH FLOW TO THE MOVEMENT IN NET DEBT

The following table reconciles the net cash flow movement as identified in the Cash Flow Statement to the value of net debt as shown in the Balance Sheet.

<u>Analysis of Net Debt</u>	£000	£000
Net Debt as at 1st April 2008		(47,828)
<u>Changes in Net Debt:</u>		
Increase in cash in the period	802	
Cash outflow from decrease in debt	(16,203)	
Cash inflow from a decrease in liquid resources	<u>39,831</u>	
		24,430
Net Debt as at 31st March 2009		<u><u>(23,398)</u></u>

NOTES TO THE CASH FLOW STATEMENT

4. ANALYSIS OF CHANGES IN NET DEBT

The following table reconciles items under the Financing and Management of Liquid Resources section to Opening and Closing balances per the Balance Sheet.

	2007/08	2008/09	Cashflow (Increase) / Decrease £000
	£000	£000	
Debt principal due within one year	(797)	(14,796)	(13,999)
Debt principal due after one year	(123,529)	(125,733)	(2,204)
	<u>(124,326)</u>	<u>(140,529)</u>	<u>(16,203)</u>
 <u>Management of Liquid Resources</u>			
Cash in Hand	4,393	3,661	(732)
Overdraft / Trust Funds Cash	(11,635)	(10,101)	1,534
Increase / (Decrease) in Cash	<u>(7,242)</u>	<u>(6,440)</u>	<u>802</u>
Temporary Loans	0	0	-
Short Term Investments	83,740	123,571	39,831
	<u>83,740</u>	<u>123,571</u>	<u>39,831</u>
Total movement in net debt	<u>(47,828)</u>	<u>(23,398)</u>	<u>24,430</u>

COLLECTION FUND
INCOME AND EXPENDITURE ACCOUNT

The Collection Fund Income and Expenditure Account shows income collected from the Council Tax and Business Rates.

2007/08		2008/09	
£000		£000	£000
	Income		
(38,461)	Council Tax Receivable		(39,982)
	Transfers (from)/to General Fund		
<u>(16,111)</u>	- Council Tax Benefit		<u>(17,101)</u>
(54,572)			(57,083)
<u>(29,891)</u>	Income Collectable from Business Ratepayers		<u>(36,150)</u>
<u>(84,463)</u>	Total Income		<u>(93,233)</u>
	Expenditure		
	Precepts and Demands		
46,928	- Knowsley Metropolitan Borough Council	48,824	
2,438	- Merseyside Fire and Rescue Service	2,537	
<u>5,384</u>	- Police Authority	<u>5,656</u>	
			57,017
29,760	Payment to National Non Domestic Rate Pool	36,017	
<u>131</u>	Costs of Collection	<u>133</u>	
			36,150
<u>84,641</u>	Total Expenditure		<u>93,167</u>
(30)	Contribution (from)/to provision for bad and doubtful Council Tax debt		213
<u>148</u>	Deficit for the year		<u>147</u>
	Collection Fund Balances		
350	Balance at beginning of year		498
<u>148</u>	Deficit for year		<u>147</u>
<u>498</u>	Deficit at end of year		<u>645</u>

NOTES TO THE COLLECTION FUND

1. COUNCIL TAX BASE 2008/09

Most dwellings within the Borough are subject to Council Tax and each dwelling is allocated to one of eight bands according to its open Market capital value at 1 April 1991. Each band is then converted to a "Band D Equivalent" to establish the Tax Base.

Band	Value	Number of Dwellings	Band D Equivalent
A	Up to £40,000	37,009	24,673
B	£40,001 to £52,000	12,919	10,048
C	£52,001 to £68,000	8,728	7,758
D	£68,001 to £88,000	3,833	3,833
E	£88,001 to £120,000	1,465	1,791
F	£120,001 to £160,000	264	381
G	£160,001 to £320,000	126	210
H	Over £320,000	17	34
		64,361	48,728
Less Exemptions and Discounts			(6,062)
			42,666
Collection Rate (Estimated)			99%
Council Tax Base 2008/09			42,239

2. 2008/09 COUNCIL TAX

The 2008/09 basic amount of Council Tax for properties at Band D was calculated as follows:

	£000	£000
Total Budget Requirement		163,620
<u>Less Resources:</u>		
Revenue Support Grant	(14,028)	
National Non-Domestic Rate Pool	(100,768)	(114,796)
		48,824
Demand on the Collection Fund		48,824
Demand on the Collection Fund (£)	=	48,824,459
Council Tax Base (Band D Equivalents)		42,239
= Basic Amount of Council Tax at Band D (£)		1,155.91

NOTES TO THE COLLECTION FUND

3. NATIONAL NON-DOMESTIC RATES (BUSINESS RATES)

The National Non Domestic Rate (more commonly known as the Business Rate) is organised on a national basis. The Government specifies a rate in the pound and, subject to any transitional arrangements, local businesses pay rates calculated by multiplying the rateable value of their property by the rate in the pound set at 46.2p for 2008/09 (44.4p in 2007/08).

The Council is responsible for collecting Business Rates from payers within its area on behalf of the Government. Sums collected are held initially within the Council's Collection Fund and then paid into the National Non Domestic Rate Pool administered by the Government. The Government redistributes the sums paid into the Pool back to Local Authorities on the basis of a fixed amount per head of population.

The Business Rates income to the General Fund in 2008/09 was based on a rateable value as at 31 March 2008 of £88.552m (£87.300m at 31 March 2007).

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF KNOWSLEY METROPOLITAN BOROUGH COUNCIL

Opinion on the financial statements

We have audited the financial statements of Knowsley MBC for the year ended 31 March 2009 under the Audit Commission Act 1998. The financial statements comprise the Income and Expenditure Account, the Statement of Movement on the General Fund Balance, the Balance Sheet, the Statement of Total Recognised Gains and Losses, the Cash Flow Statement, the Collection Fund and the related notes. These financial statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

Respective responsibilities of the Borough Treasurer and auditor

The Borough Treasurer's responsibilities for preparing the financial statements in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008 are set out in the Statement of Responsibilities for the Statement of Accounts.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

This report, including the opinion, has been prepared for and only for Knowsley Metropolitan Borough Council's members as a body in accordance with the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 49 of the Statement of Responsibilities of Auditors and of Audited Bodies, prepared by the Audit Commission. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements present fairly, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008 the financial position of the Authority and its income and expenditure and cash flows for the year.

We review whether the governance statement reflects compliance with 'Delivering Good Governance in Local Government: A Framework' published by CIPFA/SOLACE in June 2007. We report if it does not comply with proper practices specified by CIPFA/SOLACE or if the statement is misleading or inconsistent with other information we are aware of from our audit of the financial statements. We are not required to consider, nor have we considered, whether the governance statement covers all risks and controls. Neither are we required to form an opinion on the effectiveness of the Authority's corporate governance procedures or its risk and control procedures.

We read the other information published with the financial statements, and consider whether it is consistent with the audited financial statements. This other information comprises only the Explanatory Foreword. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the financial statements and related notes, and of whether the accounting policies are appropriate to the Authority's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and related notes.

Opinion

In our opinion the financial statements present fairly, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008, the financial position of the Authority as at 31 March 2009 and its income and expenditure and cash flows for the year then ended.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
101 Barbirolli Square
Lower Mosley Street
Manchester
M2 3PW

23 September 2009

CONCLUSION ON ARRANGEMENTS FOR SECURING ECONOMY, EFFICIENCY AND EFFECTIVENESS IN THE USE OF RESOURCES

Authority's Responsibilities

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

Auditor's Responsibilities

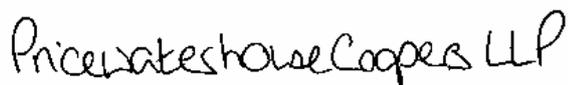
We are required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Authority for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion in relation to proper arrangements, having regard to relevant criteria specified by the Audit Commission for principal local authorities. We report if significant matters have come to our attention which prevent us from concluding that the Authority has made such proper arrangements. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Conclusion

We have undertaken our audit in accordance with the Code of Audit Practice and having regard to the criteria for principal local authorities specified by the Audit Commission and published in May 2008 and updated in February 2009, and the supporting guidance, we are satisfied that, in all significant respects, Knowsley Metropolitan Borough Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2009.

Certificate

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



PricewaterhouseCoopers LLP
101 Barbirolli Square
Lower Mosley Street
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M2 3PW

23 September 2009

- a) The maintenance and integrity of the Knowsley Metropolitan Borough Council website is the responsibility of the Council; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
- b) Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

GLOSSARY OF TERMS

ACCOUNTING POLICIES

Those principles, bases, conventions, rules and practices applied by an entity that specify how the effects of transactions and other events are to be reflected in the financial statements through recognising, selecting measurement bases for, and presenting assets, liabilities, gains, losses and changes in reserves. Accounting policies do not include estimation techniques.

ACCRUALS

An accounting concept that requires income and expenditure to be recognised as it is earned or incurred, not as money is received or paid.

ACTUARIAL GAINS AND LOSSES

For a defined benefit pension scheme, the changes in actuarial deficits or surpluses that arise because:

- (i) Events have not coincided with the actuarial assumptions made for the latest valuation (experience gains and losses); or
- (ii) The actuarial assumptions have changed.

AMORTISATION

The equivalent of depreciation for intangible fixed assets.

CAPITAL CHARGES

To reflect the value of an asset being used to provide services, a capital charge is made to the revenue accounts.

CAPITAL EXPENDITURE

Expenditure on the acquisition of a fixed asset or expenditure which adds to, rather than merely maintains, the value of an existing fixed asset. Capital expenditure is normally funded by loans, grants, external contributions, capital receipts or through a revenue contribution.

CAPITAL RECEIPTS

Income received by the Council from the sale of its capital assets.

COMMUNITY ASSETS

Assets that the Local Authority intends to hold in perpetuity, that have no determinable useful life, and that may have restrictions on their disposal. Examples of community assets are parks and historic buildings.

CURRENT SERVICE COST (PENSIONS)

The increase in the present value of a defined benefit scheme's liabilities expected to arise from employee service in the current period.

CURTAILMENT

For a defined benefit scheme, an event that reduces the expected years of future service of present employees or reduces for a number of employees the accrual of defined benefits for some or all of their future service. Curtailments include:

- (i) termination of employees services earlier than expected, for example as a result of closing or discontinuing a segment of business; and
- (ii) termination of, or amendment to the terms of, a defined benefit scheme so that some or all future service by current employees will no longer qualify for benefits or will qualify only for reduced benefits.

DEFERRED CAPITAL RECEIPTS

Amounts derived from the sale of assets, but which will be received in instalments over agreed periods of time. They arise principally from mortgages on sales of council houses which form the main part of mortgages under long term debtors.

DEFINED BENEFIT SCHEME

A pension or other retirement benefit scheme other than a defined contribution scheme. Usually, the scheme rules define the benefits independently of the contributions payable, and the benefits are not directly related to the investments of the scheme. The scheme may be funded or unfunded (including notionally funded).

DEFINED CONTRIBUTION SCHEME

A pension or other retirement benefits scheme into which an employer pays regular contributions fixed as an amount or as a percentage of pay and will have no legal or constructive obligation to pay further contributions if the scheme does not have sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

DEPRECIATION

The measure of the wearing out, consumption, or other reduction in the useful life of a fixed asset, whether arising from use, passage of time, or obsolescence through technological or other changes.

EXPECTED RATE OF RETURN (ON PENSIONS ASSETS)

For a funded defined benefit scheme, the average rate of return, including both income and changes in fair value but net of scheme expenses, expected over the remaining life of the related obligation on the actual assets held by the scheme.

FAIR VALUE

The fair value of an asset is the price at which it could be exchanged in an arm's length transaction, less, where applicable, any grants receivable towards the purchase or use of the asset.

GOVERNMENT GRANTS

Assistance by Government and inter-Government agencies and similar bodies, whether local, national or international, in the form of cash or transfers of assets to an Authority in return for past or future compliance with certain conditions relating to the activities of the Authority.

IMPAIRMENT

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

INFRASTRUCTURE ASSETS

Fixed assets that cannot be transferred and where expenditure on such is recoverable only by the continued use of the asset created. Examples of infrastructure assets are highways and footpaths.

INTEREST COSTS (PENSIONS)

For a defined benefit scheme, the expected increase during the period in the present value of the scheme liabilities because the benefits are one period closer to settlement.

NATIONAL NON DOMESTIC RATES

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 authority.

NET BOOK VALUE

The amount at which fixed assets are included in the balance sheet, i.e. their historical cost or current value less the cumulative amount provided for depreciation.

NET CURRENT REPLACEMENT COST

The cost of replacing or recreating the particular asset in its existing condition and in its existing use i.e. the cost of its replacement or of the nearest equivalent asset, adjusted to reflect the current condition of the existing asset.

NET REALISABLE VALUE

The open market value of the asset in its existing use (or open market value in the case of non-operational assets), less the expenses to be incurred in realising the asset.

NON-OPERATIONAL ASSETS

Fixed assets held by a Local Authority but not directly occupied, used or consumed in the delivery of services, or for the service or strategic objectives of the Authority. They may comprise:-

- (i) Assets held for the primary purpose of investment from which a commercial rental is obtained;
- (ii) Vacant property awaiting either redevelopment or disposal;
- (iii) Land and buildings currently in the course of development but not yet completed and occupied for the proposed service.

OPERATIONAL ASSETS

Fixed assets held and occupied, used or consumed by the Local Authority in the direct delivery of those services for which it has either a statutory or discretionary responsibility, or for the service or strategic objectives of the Authority.

OVERHEADS

Certain costs within Directorates providing support services are recharged to the services as shown in the Income and Expenditure Account. This is in order to reflect the full cost of operating these services.

PAST SERVICE COST/GAIN

For a defined benefit scheme, the increase or reduction in the present value of the scheme liabilities related to employee service in prior periods arising in the current period as a result of the revision of scheme benefits.

PRECEPTS

Amounts collected by the Council on behalf of the Police and Fire and Rescue Authorities and various Parish Councils.

PROJECTED UNIT METHOD

An accrued benefits valuation method in which the scheme liabilities make allowance for projected earnings. An accrued benefits valuation method is a valuation method in which the scheme liabilities at the valuation date relate to:-

- (i) the benefits for pensioners and deferred pensioners (i.e. the individuals who have ceased to be active members but are entitled to benefits payable at a later date) and their dependants, allowing where appropriate for future increases; and
- (ii) the accrued benefits for members in service on the valuation date.

PUBLIC WORKS LOANS BOARD

A Government body which provides loans to local authorities for financing capital expenditure.

RETIREMENT BENEFITS

All forms of consideration given by an employer in exchange for services rendered by employees that are payable after the completion of employment. Retirement benefits do not include termination benefits payable as a result of either:-

- (i) an employer's decision to terminate an employee's employment before the normal retirement date; or
- (ii) an employee's decision to accept voluntary redundancy in exchange for those benefits, because these are not given in exchange for services rendered by employees.

REVENUE EXPENDITURE

Day-to-day expenditure on items that will generally be consumed within twelve months from the date of purchase (e.g. salaries, service running costs, consumable materials and equipment, or the cost of financing capital assets).

REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE

Expenditure of a capital nature, where no tangible asset exists (e.g. capital grants to third parties).

REVENUE SUPPORT GRANT

The amount of general government grant support for local authority expenditure. The level of grant is intended to enable local authorities to provide a standard level of service. In addition, the Government also pays certain specific grants directly related to particular services and costs. These include the Dedicated Schools Grant, and Rent and Council Tax rebates and allowances.

SCHEME LIABILITIES

The liabilities of a defined benefits scheme for outgoings due after the valuation date. Scheme liabilities measured using the projected unit method reflect the benefits that the employer is committed to provide for service up to the valuation date.

STOCKS

The amount of unused or unconsumed stocks held in exception of future use. When use will not arise until a later period, it is appropriate to carry forward the amount to be matched to the use or consumption when it arises. Stocks comprise the following categories:-

- (i) goods or other assets purchased for resale;
- (ii) consumable stores; and
- (iii) raw materials and components purchased for incorporation into products for sale.

TRADING OPERATIONS

Services provided to clients, either within the Authority or to external organisations, on a basis other than a recharge of cost, for example, quoted price or a schedule of rates.

USEFUL LIFE

The period over which the Local Authority will derive benefits from the use of a fixed asset.