



STATEMENT OF ACCOUNTS

2007 - 2008

CONTENTS

	Page
1 Explanatory Foreword	2
2 Introductory Statements	
Statement of Accounting Policies	8
Statement of Responsibilities	13
Annual Governance Statement	14
3 Main Financial Statements	
Income and Expenditure Account	22
Statement of Movement on the General Fund Balance	23
Statement of Total Recognised Gains and Losses	23
Balance Sheet	24
Cash Flow Statement	26
4 Explanatory Notes to Main Financial Statements	
Notes to the Income and Expenditure Account	27
Notes to Statement of Movement on General Fund Balance	38
Notes to the Balance Sheet	39
Notes to the Cash Flow Statement	67
5 Collection Fund Income and Expenditure Account and Explanatory Notes	70
6 Independent Auditor's Report to the Members of Knowsley Metropolitan Borough Council	73
7 Glossary of Terms	76

EXPLANATORY FOREWORD TO THE 2007/08 STATEMENT OF ACCOUNTS

This foreword aims to help readers understand Knowsley Council's Statement of Accounts for 2007/08. It explains the various accounting statements and provides a brief explanation of the Council's overall financial position at 31 March 2008.

PURPOSE OF THE ACCOUNTING STATEMENTS

The Council prepares its Statement of Accounts, based on legal and national requirements, in order to show its financial position at the end of the financial year. It is an important part of the Council's financial management arrangements and is composed of a number of individual statements. These statements are:

Statement of Accounting Policies

This explains how the Council accounts for its expenditure and income using the recommended accounting practices.

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 and Explanatory Notes

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 reconciliation statement summarises the differences between the outturn 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 aggregate 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.

Collection Fund

This shows the income that was collected from the Council Tax and Business Rates.

SUMMARY OF THE 2007/08 ACCOUNTS

How the Council spends its money

Knowsley Council decides how to spend its money when it sets its annual budget which is part of a rolling three-year financial plan. Every year, the Council gives each service a sum of money (a "cash limit") to spend in the year. Service demands for more money usually outweigh what is actually available in the year because of changes in how the Borough's population is made up, or costs of new legislation, so the Council adjusts cash limits to allocate money to areas of high priority and to focus resources on achieving improved performance.

Where the money comes from

The Council receives money (income) from several sources to pay for its expenditure. In 2007/08 most of this money came directly from the Government as either general Revenue Support Grant or other grants for specific services – including the dedicated schools grant which was introduced in 2006/07. Only 10% of the Council's money came from the Council Tax. The Council also pays for some of its larger items of expenditure on its assets through borrowing or loans. Income is also generated from fees and charges to customers for some of the Council's 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.

The Council's Income and Expenditure Account

The money spent in the year on day-to-day costs of Council services is shown in the Council's Income and Expenditure account, along with all the income that is received. This 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. The table below provides a summary of the Income and Expenditure Account for 2007/08:

Summary of Income and Expenditure Account	Gross Expenditure £m	Gross Income £m	Net Expenditure £m
Net Operating Expenditure			
Cost of Council Services *			
Adult Social Care	72.991	(38.369)	34.622
Central Services to the Public	20.061	(17.278)	2.783
Cultural, Environmental & Planning Services	87.234	(47.606)	39.628
Children's and Education Services	184.268	(157.324)	26.944
Highways, Roads & Transport Services	17.147	(0.744)	16.403
Housing Services	59.010	(57.819)	1.191
Other costs of council operations	16.166	(2.498)	13.668
	456.877	(321.589)	135.239
Other Operating Expenditure			2.553
			137.792
Amount from Government Grant and Taxpayers			
Council Tax Receipts			(46.928)
Government Revenue Support Grant			(15.606)
Share of the National Non Domestic Rate pool			(92.989)
			(155.523)
Income and Expenditure Account Surplus			(17.731)

* The cost of council services includes a provision of £6.345m for the Council's estimate of the maximum expected costs for compensation claims under the Equal Pay Act Regulations 2003. This figure reflects the required accounting treatment and does not indicate an expected settlement figure nor prejudice the Council's ongoing negotiations on this matter.

For 2007/08 the Income and Expenditure Account shows a surplus of £17.731m – however this surplus does not include expenditure relating to the creation of reserves for future years as well as a number of other statutory adjustments such as those relating to the revenue impact of the Council's capital programme and the Council's Pension Fund liabilities. The surplus must therefore be adjusted in order to determine how much money is actually available to be added to the General Fund Balance at the end of the year. These adjustments are recorded in the Statement of Movement on the General Fund Balance as detailed in Note 1 to that Statement and summarised below:

<u>Summary of Movement on The General Fund Balance</u>	2007/08 £m
Income and Expenditure Account Surplus	(17.731)
Less Statutory Accounting Adjustments	17.489
Increase in General Fund balance	(0.242)

The overall increase in the General Fund balance of £0.242m represents the Council's overall surplus against its budget for the year. In line with the Council's financial strategy, this surplus is added to the Council's general balances to make sure that they remain at 3% of the Council's 2008/09 budget. The Council's general balances at 31 March 2008 are £4.876m, and these are important as they provide the capacity to spend money while awaiting income. They also provide the Council with flexibility to meet unforeseen expenditure pressures.

The Council's Balance Sheet

The Balance Sheet shows the Council's assets and liabilities at 31 March 2008 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 2008, the total of the Council's reserves (excluding schools) was £42.511m, and full details of these are set out in Note 18 to the Council's Balance Sheet. 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 2007/08, the Council spent £31.964m on acquiring or improving buildings and other assets (known as “capital” expenditure). This expenditure is detailed in Note 1 to the Balance Sheet and the table below shows the expenditure for each Council Portfolio:

Service Portfolio	£m	%
Regeneration and Neighbourhoods	12.158	38
Children’s Services	8.737	27
Leisure, Community and Culture	5.997	19
Neighbourhood Delivery	2.444	8
Health and Social Care	2.303	7
Finance and Information Society Technology	0.231	1
Corporate and Customer Services	0.094	0
TOTAL	31.964	100

The Council paid for its capital expenditure from the following sources:

Source of Funding	£m	%
Government Grants	16.196	51
Borrowing	6.381	20
Capital Receipts	6.315	20
Contributions from revenue	1.396	4
Other Contributions	1.676	5
TOTAL	31.964	100

The various sources of funding for capital expenditure are analysed in the Balance Sheet and the accompanying notes.

One of the most significant fixed asset acquisitions relates to the opening of the new Leisure Centre in Kirkby. During the year, the Council also disposed of some fixed assets and these are included within Note 1a to the balance sheet. The most significant disposal during the year related to the sale of office accommodation at Derby Street in Prescot.

Pensions Fund Liability

The Balance Sheet also reflects the Council’s participation in the Local Government Pension Scheme (administered by Merseyside Pension Fund). The Pension Fund is a defined benefit scheme, which means that the Council and its employees pay contributions into the Fund at a rate (determined by the Pension Fund’s independent actuary) which is calculated to balance the Fund’s total liabilities and assets over the longer term.

Note 17 to the Balance Sheet shows that at the end of 2007/08, the Council’s share of the Fund (excluding Teachers) was a net liability of £210.921m, compared with £131.266m the previous year (an increase of 60.7%). This significant increase reflects the outcome of the Fund’s recent triennial revaluation of its assets and liabilities at 31 March 2008. However, it is still the policy of the Fund to balance assets and liabilities in the long term, so contribution rates will be set to achieve this and the position will be closely monitored by the Fund.

Major Influences on the 2007/08 Accounts

For the last three years the Audit Commission has increased its focus on financial management as part of the way it measures a Council's performance. In 2007 the Council's external auditors (PricewaterhouseCoopers) completed their annual Use of Resources Assessment and the results showed that the Council continues to be one of the best performing metropolitan authorities in the country. The 2007 results included a maximum score for the financial standing of the Council, showing that the Council was performing strongly in monitoring and maintaining the financial health of the organisation.

The Council has again achieved the Government's requirement for approval of the Accounts by 30 June each year, while at the same time it has significantly improved how it reports its financial information to ensure that the Statement of Accounts is as accurate and clear as possible. Each year, all Councils have a statutory responsibility to publish their Accounts in line with national requirements (set out in a Statement of Recommended Practice or "SORP"). To improve consistency with the private sector and other countries there has been continued development of these requirements which has led to significant change in the Council's accounting policies and how the Council's Accounts are reported.

The main changes in 2007/08 relate to the treatment of fixed assets and financial instruments:

- This year sees the introduction of a new Revaluation Reserve and Capital Adjustment Account (see fixed assets accounting policy). These new accounts replace the Fixed Asset Restatement Account and the Capital Financing Account of previous years. The new approach to the recording and valuation of fixed assets has meant that the 2006/07 figures have also been restated to allow proper comparison.
- Financial instruments are any contract that gives rise to a financial asset or liability for the Council. These are measured in the accounts at "fair value" – which is the value of the instrument if it were to be bought or sold at today's prices. The Balance Sheet includes a new note that sets out the risk associated with these financial instruments and how that risk is being managed.

The Statement of Accounts also reflects the recommended accounting practice for potential compensation claims under the Equal Pay regulations in relation to equal pay for work of equal value. The Council has accounted for its estimate of the maximum expected costs of £6.345m in the Income and Expenditure Account but, in line with recommended practice, the impact has been offset to avoid an overall charge to the Council's general balances. The Council is currently conducting a comprehensive job evaluation and harmonisation review which is aimed at resolving this issue. 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.

In 2007/08 there have been no other unusual or exceptional items included within the cost of services, however, due to the changes in accounting requirements some of the figures for 2006/07 have been restated to allow comparison with the 2007/08 figures.

Future Developments

Future developments for the 2008 SORP include changes in the calculation of the Minimum Revenue Provision and disclosure notes for the FRS 17 pension calculation. The Government also has an ambition that accounts produced by Local Authorities from 2010/11 will be compliant with International Accounting Standards, so there are likely to be further changes to the SORP in 2008 and 2009.

Your Comments

This foreword and the accounts that follow are an important part of the Council's arrangements for financial management and accountability. I hope that you find them useful and informative. This year, the Council will again publish a summarised version of the audited accounts, which will provide a more user-friendly overview of the key figures for 2007/08. This will be available on the Council's website after the conclusion of the audit. If you have any comments on any aspect of the Statement of Accounts or to request a version which is more accessible, for example translated into another language, please contact Dan Barlow by email at dan.barlow@knowsley.gov.uk or by phone on 0151 443 3622.

**JAMES DUNCAN CPFA
BOROUGH TREASURER**

STATEMENT OF ACCOUNTING POLICIES

The Council's accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting – A Statement of Recommended Practice (SORP) 2007, and the Best Value Accounting Code of Practice 2007, issued by the Chartered Institute of Public Finance and Accountancy.

ACCOUNTING CONCEPTS

a) Accruals

The Council's financial statements, other than the cash flow information, are prepared on an accruals basis (however within the schools, this approach cannot be enforced but it is recommended). This requires the impact of a financial transaction to be shown in the period when it is experienced rather than when cash is actually paid or received. For example, income is accounted for when it becomes due, rather than when cash is actually received, and expenditure is shown when goods and services are provided rather than when cash payments are made.

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

The fundamental principle of local authority accounting is that where specific legislative requirements and accounting principles conflict, legislative requirements are applied.

BALANCES

The Council's policy is to maintain general balances at 3% of the approved 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. Under the "Right to Buy" sharing agreement that was negotiated as part of the Large Scale Voluntary Transfer of housing stock in 2002/03, the Council's share of the receipts from each former council house sale is below the minimum value for the income to be treated as a capital receipt under the regulations.

COMPARATIVE FIGURES

Where comparative figures for the previous financial year have been changed, these are marked with an asterisk. Details of these restatements are shown in the notes to the accounting statements.

CORPORATE AND DEMOCRATIC CORE AND NON DISTRIBUTABLE COSTS

In line with the Best Value Accounting Code of Practice, the costs of corporate and democratic core and non-distributable costs are not apportioned to service costs in the Income and Expenditure Account and are classified separately. Corporate and democratic core costs are those associated with democratic representation and management (such as all aspects of Members' activities) and corporate management (such as the cost of the Council's organisational infrastructure that allows services to be provided). Non-distributed costs comprise certain pension costs and the costs of any unused capacity of IT facilities and other assets.

DEBTORS AND CREDITORS

The transactions of the Council are recorded on an income and expenditure basis. All sums due to or from the Council, with certain exceptions where the changes from year to year are not material, are included irrespective of whether the cash has actually been received or paid. Debtors are shown net of a provision for bad debts.

EQUAL PAY ACT (AMENDMENT) REGULATIONS 2003

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. The Council has accounted for its estimate of the maximum expected costs in the Income and Expenditure Account and the impact has been offset to avoid an overall charge to the Council's general balances. The Council is currently conducting a comprehensive job evaluation and harmonisation review which 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.

FINANCIAL INSTRUMENTS

Financial Instruments are accounted for in accordance with Financial Reporting Standards and 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 their 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.

Gains (discounts received) or losses (premiums paid) from the repurchase or early settlement of borrowing are recognised in the Council's accounts in the period when the repurchase or early settlement is made. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted or added to the amortised cost of the new modification loan and the write down to the Income and Expenditure Account is spread over the life of the loan.

b) Financial Assets

Loans and receivables are initially measured at fair value and carried at their 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 interest rate for the instrument.

FIXED ASSETS

From 1 April 2007, the Fixed Asset Restatement Account and Capital Financing Account have been replaced by the Revaluation Reserve and Capital Adjustment Account. The 2006/07 comparative figures on the Balance Sheet have been restated. The balance on the Revaluation Reserve is shown as nil and the balance on the Capital Adjustment Account is shown as the combined total of the Fixed Asset Restatement Account and the Capital Financing Account. Any increases in valuations of assets since the 1 April 2007 are reflected in the Revaluation Reserve. Gains arising before that date have been consolidated into the Capital Adjustment Account.

a) Tangible fixed assets

Tangible fixed assets are physical property or resources which have a value to the Council for more than one year, for example land, buildings or equipment. All expenditure on the acquisition, creation or enhancement of Tangible fixed assets is capitalised and classified as a fixed asset. Tangible fixed assets are valued, on the basis recommended by Chartered Institute of Public Finance and Accountancy and 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.

Tangible fixed assets are classified into the groupings required by the Code of Practice on Local Authority Accounting and the valuations have been determined as follows:

- land associated with operational buildings, operational properties and other operational assets are valued at the lower of depreciated replacement cost and existing use value as at 31 March 2007 (Rolling Programme of Valuations);
- non-operational assets, including investment properties, development land and industrial properties are valued at market value. The last valuation of these assets was as at 31 March 2007 (Rolling Programme of Valuations);
- miscellaneous leases and surplus properties were last revalued at 31 March 2005. In the case of investment properties, these are normally valued at open market value;
- tangible fixed assets under construction are included at historical cost;
- revaluations of tangible fixed assets are planned on a rolling five-year programme, although material changes to asset valuations are adjusted in the interim period, as they occur in line with the requirements of Financial Reporting Standard 11 – Impairment of Fixed Assets and Goodwill.
- infrastructure assets are valued at historical cost, net of depreciation; and
- community assets are valued at historical cost, net of depreciation.

b) Intangible fixed assets

An intangible item is defined as a non-financial fixed asset that does not have a physical substance but is identifiable and is controlled by the Council through custody of or legal rights. Examples of intangible fixed assets are software licences, trademarks and patents. All intangible fixed assets in the Council's accounts relate to purchased software licences.

c) Impairment

Impairment occurs when there has been a significant decline in an asset's valuation due to a general fall in market process or by a consumption of economic benefit such as obsolescence or physical damage. The Council's Asset Management Group is responsible for monitoring and identifying any impairment events and impairments are treated as follows:

- Where an impairment loss is caused through a general fall in prices it is treated as a revaluation on the balance sheet with no impact on the cost of service. However, from 1 April 2007, as the opening balance on the Revaluation Reserve is nil, all impairments will have to be treated as a consumption of economic benefit and will therefore have a direct impact on the cost of service.
- Where an impairment loss is identified due to a clear consumption of economic benefits it is recognised as a charge to the cost of service in the year in which the event has occurred.

d) Depreciation and Capital charges

Depreciation is provided for on all fixed assets with a finite useful life which can be determined at the time of acquisition or revaluation. Newly acquired assets are not depreciated in the year of acquisition, and assets under construction are not depreciated until they are brought into use. Depreciation is calculated using the straight line method and is charged to the cost of service for all fixed assets used in the provision of a service. Depreciation on surplus assets held for disposal is charged to Non Distributed Costs. 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.

e) Deferred Charges

Deferred charges represent expenditure that may be capitalised under statutory provision but does not result in the creation of tangible fixed assets. Deferred charges incurred during the year have been written off as expenditure to the relevant service account in the year. Where the cost has been met from existing capital resources or by borrowing, the amount is reversed out of the Statement of Movement on General Fund Balance so there is no impact on the level of Council Tax.

GOVERNMENT GRANTS

Government grants and subsidies are accrued and 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. 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.

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.

LEASING

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. Where leasing arrangements are in place, the Council applies the requirements and definitions of SSAP21 relating to leases such that:

- operating leases are treated as a revenue transaction. The asset remains on the balance sheet of the lessor and the rental stream is accounted for as amounts become payable;
- finance leases result in the recognition of the asset in the lessee's balance sheet, with matching liabilities for rentals, and the value of the asset is treated as capital expenditure by the lessee.

OVERHEADS

Costs of services are shown in the Income and Expenditure Account in accordance with the Best Value Accounting Code of Practice and include appropriate allocations of overheads such as costs of support staff and offices.

PENSIONS AND RETIREMENT BENEFITS

In accordance with Financial Reporting Standard 17 on Retirement Benefits, the costs of providing pensions and retirement benefits are shown in the accounts in the cost of service when they are earned by employees, rather than when the benefits are eventually paid as pensions. Adjustments are made to ensure that there is no net effect on the Council's General Fund Balance and the Total Liability shown in the Balance Sheet is offset by an equivalent contribution from the Council's Pension Reserve.

The Council participates in two pension schemes:

Teachers' Pension Scheme

The teachers' pension scheme is a defined contribution scheme and is administered by the Teachers' Pension Agency on behalf of the Department for Children, Schools and Families (DCSF). Although the scheme is unfunded, the Government has established a notional fund as the basis for calculating employers' contributions.

Merseyside Pension Fund

The main employees' pension scheme is the Merseyside Pension Fund, which is administered by Wirral Metropolitan Borough Council. This is a defined benefit scheme meaning that 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 pays a contribution into the fund at a rate determined by the Fund's actuaries, based on a triennial valuation. Under pension fund regulations the contribution rates are required to meet 100% of the statutory liabilities of the fund.

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, these financial statements reflect only the Council's share(s) of the overall budget and exclude the share(s) attributable to partner organisations.

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. The accounting policy adopted is that provisions are recognised as a charge to the income and expenditure account when a reliable estimate of the liability can be made. When payments are incurred to which the provision relates these are charged direct to the provision. 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. Where a provision from a previous year is subsequently to be reduced or reversed, the amount of the original provision is credited back to the appropriate cost of service in the income and expenditure account for that year. Details of any provisions held by the Council are shown in the notes to the Balance Sheet.

RESERVES

In addition to its general balances, the Council holds a number of specific reserves which are set aside by Portfolios for future commitments and policy initiatives. The Council also holds a number of council-wide and corporate reserves relating to specific risk areas, commitments and future policy developments. By putting money aside 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 levels and making sure that it can afford to develop and improve services in the future. The Council continually reviews these reserves to ensure that they remain at an appropriate level and aligned to the Council's priorities. Any contributions to reserves are charged to the cost of service in the income and expenditure account in that year and are appropriated back to the cost of service in the year that future expenditure is incurred.

STOCKS, STORES AND WORK IN PROGRESS

These items are included in the accounts 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:

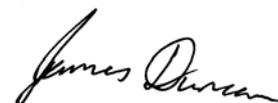
- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that were reasonable and prudent; and,
- complied with the Code of Practice.

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 2007/08 Statement of Accounts presents fairly the financial position of the Council at 31 March 2008 and its income and expenditure for the year ended 31 March 2008.



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 2008.



COUNCILLOR VINCE CULLEN
Chairman of the Governance and Audit Committee

ANNUAL GOVERNANCE STATEMENT 2007/08

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 2008 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 plan setting out the vision and priorities for the Borough.

The Council sets out its priorities, in the context of the community plan, 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 plan. The community plan 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. The targets are contained in the Best Value Performance Plan 2007-2010. Performance is reported 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 internal audit 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 Borough Solicitor and Secretary 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, and 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; and,
- Anti-Fraud and Corruption Policy.

Whistle blowing 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 undertakings, 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 has been prepared for the competencies and training is available in the form of courses, and computer based learning. All officers are part of a performance review and development scheme ensuing 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 Area Partnership Boards and Area 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, and the Knowsley Partnership shapes the community plan which is implemented through Local Area Action Plans. 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.

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 Chief Internal Auditor'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 from the standards board. Their work has included the revised Code of Conduct for Members and preparing for the new requirements for dealing with investigations into Members' conduct.

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. 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 Chief Internal Auditor 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 2007/08, and the resultant actions taken by management. The Chief Internal Auditor 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 2008. Action will be taken to ensure that the 7% 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 Irregularity Panel met 20 times during the year to deal with a total of 18 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 Irregularity Panel's work was submitted to the Governance and Audit Committee on 22 April 2008.

In February 2008, the Audit Commission reported that *"Knowsley Council is performing well. The Council and its key partners share an ambitious vision to improve people's lives and are determined to resolve the deep seated problems of inter-generational deprivation and disadvantage which continue to affect significant parts of the borough. The Council and its partners have developed an ambitious joint approach to address inequality across the borough. Much progress has been made and despite the scale of the challenge, the Council has received a succession of positive external assessments for its performance over a sustained period"*.

The Audit Commission reported that improvement was needed in order to support the delivery of Knowsley Partnership's key priorities and the Local Area Agreement in that *"the Council should accelerate plans to develop an integrated performance management framework for all its major partnerships. The framework should include more consistent arrangements for sharing data and intelligence between partners in order that resources are targeted more clearly at needs and priorities"*. As a start, there has been action to develop mechanisms to improve data quality throughout the Council and these are reflected in a data quality policy.

The Audit Commission's recent service assessments for adult social care, housing, and benefits all produced the highest rating (four). Environmental services were found to be above the minimum standards (three) with children services and cultural services meeting the minimum standards (two). Furthermore, the Council performs strongly and demonstrates good practice in the key Use of Resources governance areas of financial standing and internal control. 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 2007 concluded that the Council is performing overall at the highest level (four) with one of the five aspects reviewed being the key governance issue of internal control, which was rated individually as a four. Local Service Agreements are used for budget monitoring, controlling expenditure, and estimating available external funding. This is a mechanism for linking and reporting the financial resources deployed to produce a given level of service performance. In this way, value for money can be assessed, funding can be allocated to achieve a set of specific service outcomes, budget pressures are identified earlier, and resources can be reallocated between portfolios.

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 first tranche of primary schools during 2007/08. 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 twenty primary schools and only one failed to meet the standard.

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

- the formation of a Corporate Governance Group of senior officers that reviewed 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 now embedded.

A common theme contained within the resultant action plans arising from the review of governance arrangements and the control environment is the focus on ensuring that communications are more effective internally and with the wider community, specifically schools and parents. Regarding partnerships, the integration of the various business cycles and the maintenance of common risk registers were reported issues.

A plan to address weaknesses and ensure continuous improvement of the system is in place.

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 2007/08, we can reasonably conclude that there are no unresolved and significant internal control issues.

Partnership working and the service reviews that seek to improve performance and efficiency require that controls need to develop, to be monitored closely, and be subject to regular review. In particular, partnership arrangements will be a challenge to ensure effective governance arrangements and successful outcomes.

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 2008

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.

2006/07 *		Note	Expenditure £000	Income £000	2007/08 Net £000
Net £000					
	Council Services				
46,426 *	Adult Social Care		72,991	(38,369)	34,622
5,336	Central Services to the Public		20,061	(17,278)	2,783
62,872	Cultural, Environmental & Planning Services		87,234	(47,606)	39,628
32,842 *	Children's and Education Services	17	184,268	(157,324)	26,944
14,762	Highways, Roads & Transport Services		17,147	(744)	16,403
2,022	Housing Services		59,010	(57,819)	1,191
6,109	Corporate & Democratic Core		9,804	(2,498)	7,306
3,119	Non Distributed Items		6,362	0	6,362
173,488	Net Cost of Services <small>see i) below</small>	1	456,877	(321,638)	135,239
(1,575)	(Gain)/Loss on the Disposal of Fixed Assets				(2,475)
1,012	Parish Precepts				1,049
(159)	Trading Operations Surplus	2			(393)
5,186	Interest Payable and Similar Charges				5,631
97	Contribution to Housing Pooled Capital Receipts				79
(364)	Income from Right to Buy Sales				0
(3,496)	Interest and Investment Income				(5,307)
4,591	Pensions interest cost and expected return	8			3,969
178,780	Net Operating Expenditure				137,792
(44,883)	Demands on the Collection Fund				(46,928)
(17,078)	Government Grants				(15,606)
(89,070)	Distribution from National Non-Domestic Rate pool				(92,989)
27,749	Income and Expenditure Account (Surplus)/Deficit for the year	1			(17,731)

i) Equal Pay Act Regulations 2003: The net cost of service includes the impact of revisions to the Council's 2006/07 estimate of the maximum expected costs under the Equal Pay Act Regulations 2003. The year-on year movement in the cost of service relating to these revisions is a reduction of £46.357m (detailed in Note 1 to the Income and Expenditure Account). The 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).

* 2006/07 Comparative Figures: In the 2007/08 Statement of Accounts the Council has adopted the new Best Value Code of Practice service analysis which reclassifies elements of the former Social Services classification. To allow proper comparison, the previously reported 2006/07 Social Services expenditure of £59.969m has now been restated so that £46.426m is classified as Adult Social Care and the remaining £13.543m is included in the Children's and Education Services classification.

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.

2006/07		2007/08	Note
£000		£000	
	General Fund Balances		
	(Surplus)/Deficit for year on Income and Expenditure Account	(17,731)	
27,749	Net additional amount required by statute and non-statutory proper practices to be debited or credited to the General Fund Balance for the year	17,489	1
<u>(27,790)</u>	Increase in General Fund Balance for the year	<u>(242)</u>	
(41)	Balance at beginning of year	(4,634)	
(4,593)	Reclassification of earmarked balances	0	
0		0	
<u>(4,634)</u>	Balance on General Fund to be carried forward	<u>(4,876)</u>	
	Amount of general Fund Balance generally available for new expenditure	4,876	
<u>4,634</u>		<u>4,876</u>	
<u>4,634</u>		<u>4,876</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.

2006/07		2007/08
£000		£000
27,749	(Gain) / Loss for the year on the Income and	(17,731)
28,957	(Gain) / Loss arising on revaluation of fixed assets	(8,938)
(25,629)	Actuarial (gains)/losses on pension fund assets and liabilities	76,098
184	Loss for the year on the Collection Fund	148
<u>31,261</u>	Total Recognised Loss for the year	<u>49,577</u>

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 31.3.2007 £000		£000	Balance at 31.3.2008 £000	Note
	Net Fixed Assets			
3,559	<i>Intangible Fixed Assets</i>		3,394	1
	<i>Tangible Fixed Assets</i>			
	Operational Assets			
278,063	- Land and Buildings	294,096		
11,330	- Vehicles, Plant, Furniture and Equipment	10,508		
136,627	- Infrastructure	138,919		
1,230	- Community Assets	1,202	444,725	1
	Non-operational Assets			
10,862	- Assets under Construction	1,364		
19,588	- Investment Properties	21,302		
7,409	- Surplus Assets held for Disposal	13,467	36,133	1
468,668	Total Fixed Assets		484,252	
3	Long Term Investments		5,212	2
	Long Term Debtors			
1,166	Mortgagors	820		
129	Car Loans	118	938	
469,966	Total Long Term Assets		490,402	
	Current Assets			
630	Work in Progress/Stock in Hand	478		3
68,980	Investments	83,740		4
27,980	Debtors	26,926		5
4,556	Imprest/Cash in Hands of Collectors	4,393	115,537	
572,112	Total Assets		605,939	
	Less Current Liabilities			
758	Short Term Borrowing	798		6
32,495	Creditors	36,491		7
10,146	Cash Overdrawn	11,635	48,924	8
528,713	Total Assets less Current Liabilities		557,015	
	Less Long Term Liabilities			
118,026	Long Term Borrowing	125,151		9
85,669	* Government Grants Deferred	86,494		
0	Grants Unapplied	7,956		
148,971	Pension Liability	230,630		
26,351	Provision for Equal Pay Act ^{see ii) below}	6,345		10
5,311	Provisions	5,631	462,207	11
144,385	Total Assets less Liabilities		94,808	

BALANCE SHEET (cont'd)

Balance at 31.3.2007 £000	£000	Balance at 31.3.2008 £000	Note
Financed By:			
0 Revaluation Reserve <small>see i) below</small>		8,146	14
260,320 * Capital Adjustment Account <small>see i) below</small>		255,977	15
0 Financial Instruments Adjustment Account		(51)	
758 Deferred Capital Receipts		546	
13,071 Usable Capital Receipts Reserve		8,163	16
(26,351) Equal Pay Back Pay Account <small>see ii) below</small>		(3,170)	10
(148,971) Pensions Reserve		(230,630)	17
41,273 Reserves		51,447	18
Revenue Balances			
4,634 - General Fund	4,876		
(350) - Collection Fund	(498)		
		<u>4,379</u>	
<u>144,385</u> Total Equity		<u>94,808</u>	

*** Government Grants Deferred**

The 2006/07 figures for Government Grants Deferred have been restated to account for Grants held which do not relate to a specific asset. These amounts have been charged to the Capital Adjustment Account, where they should have been charged once the Council disposed of the assets. An ongoing analysis is being undertaken to establish that only correct amounts are held as Government Grants Deferred.

i) Revaluation Reserve and Capital Adjustment Account

The Balance Sheet figures for 31 March 2007 have been restated to accommodate the implementation of the Council's new Fixed Assets Accounting Policies. The Revaluation Reserve and Capital Adjustment Account now replace the previous Fixed Asset Restatement Account and the Capital Financing Account. The debit balance of £58.653m on the Fixed Asset Restatement Reserve and the credit balance of £318.963m on the Capital Financing Account at 31 March 2007 have been written off to the new Capital Adjustment Account with a resulting credit balance of £260.320m. The new Revaluation Reserve is included in the Balance Sheet with a zero balance at 31 March 2007, and the closing balance at 31 March 2008 therefore shows revaluation gains accumulated since 1 April 2007.

ii) Equal Pay Act (Amendment) Regulations 2003

In accordance with recommended accounting practice, a provision of £6.345m 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 £3.170m within the Equal Pay Back Pay Account and £2.869m 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). Further details of these items are shown in Notes 10 and 15 to the Balance Sheet. 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.

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.

2006/07		2007/08	
£000	REVENUE ACTIVITIES	£000	£000
	Cash Outflows		
193,001	Cash paid to and on behalf of employees	196,094	
217,322	Other operating cash payments	208,633	
52,309	Housing Benefit paid out	54,732	
32,575	National Non Domestic Rate Payments to National Pool	31,882	
8,453	Precepts Paid	8,870	
503,660	Cash outflows on revenue activities		500,211
	Cash Inflows		
(40,532)	Council Tax income	(38,340)	
(89,070)	National Non Domestic Rate	(92,989)	
(31,630)	Non-domestic rate receipts	(29,222)	
(17,078)	Revenue Support Grant	(15,606)	
(51,214)	Dept for Work and Pensions Grants for Benefits (Note 1)	(54,446)	
(171,034)	Other Government Grants (Note 1)	(176,455)	
(51,503)	Cash received for goods and services	(49,947)	
(66,078)	Other operating cash receipts	(58,432)	(515,437)
(14,479)	Cash inflows on revenue activities		(15,226)
	Servicing of Finance		
	Cash Outflows		
3,456	Interest paid	5,168	
	Cash Inflows		
(3,533)	Interest received	(4,924)	244
(14,556)	NET REVENUE ACTIVITIES (Note 2)		(14,982)
	CAPITAL ACTIVITIES		
	Cash Outflows		
27,126	Purchase of Fixed Assets	23,020	
0	Purchase of Long Term Investments	5,000	
8,118	Other Capital Cash Payments	1,528	29,548
	Cash Inflows		
(1,936)	Sale of fixed assets	(1,645)	
(22,611)	Capital Grants received (Note 1)	(20,353)	
(6,936)	Other capital cash receipts	(134)	(22,132)
(10,795)	NET CASH INFLOW before financing		(7,566)
	FINANCING		
	Cash Outflows		
40,390	Repayments of amounts borrowed		85,414
	Cash Inflows		
(37,846)	New loans raised		(90,956)
2,544	Net Financing cashflows		(5,542)
	Management of Liquid Resources		
6,794	Short term Investments	14,760	
1,457	Net Decrease in cash (Note 3)	(1,652)	13,108
10,795	Total Movement in Net Debt (Note 4)		7,566

NOTES TO THE INCOME AND EXPENDITURE ACCOUNT

1. NET COST OF SERVICES

1.1 CORPORATE AND DEMOCRATIC CORE

Corporate and Democratic Core represents costs associated with democratic representation and management and corporate management. Democratic representation and management includes all aspects of Members' activities. Corporate management concerns the cost of the infrastructure that allows services to be provided and the cost of providing information that is required for public accountability. Such costs form part of total service expenditure, but are excluded from the costs of any particular service.

1.2 NON DISTRIBUTED COSTS

As with Corporate and Democratic Core costs, there are other costs which are not recharged to particular services. These are known as non distributed costs and comprise certain pension costs and the costs of any unused capacity of IT facilities and other assets.

1.3 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 2006/07 estimate of the expected maximum costs under the Equal Pay Act Regulations. The provision of £26.351m that was included in 2006/07 has been credited back to the 2007/08 cost of services and replaced by a new provision of £6.345m. This results in a net credit to the 2007/08 cost of services of £20.006m. The overall year on year movement in the cost of services arising from this treatment is therefore £46.357m.

The 2007/08 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 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	2006/07			2007/08		
	Turnover	Total Spend	(Surplus) /Deficit	Turnover	Total Spend	(Surplus) /Deficit
	£000	£000	£000	£000	£000	£000
Highways	3,387	3,840	453	4,007	4,335	328
Transport	3,802	3,744	(58)	3,583	3,337	(246)
School Meals	5,355	5,000	(355)	5,337	5,144	(193)
Building Cleaning	4,093	3,894	(199)	4,361	4,079	(282)
	16,637	16,478	(159)	17,288	16,895	(393)

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.

	2006/07	2007/08
	£000	£000
Transferred Debt Repayments	653	695
Transferred Debt Income	(9)	(9)
Net Charge	<u>644</u>	<u>686</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:

	2006/07	2007/08
	£000	£000
Recruitment Advertising and Other Publicity	1,388	1,326
Media and Customer Relations Unit	212	223
	<u>1,600</u>	<u>1,549</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 2007/08 (£0.030m in 2006/07) compared to a maximum allowable level of £0.757m. 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 2007/08.

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 2007/08. The Council is a member of the Yorkshire Purchasing Organisation, a consortium with other local authorities. Expenditure on purchases made through this consortium totalled £0.936m in 2007/08 (£0.823m in 2006/07) and there was no dividend payable to the Council (£0.197m in 2006/07).

NOTES TO THE INCOME AND EXPENDITURE ACCOUNT

8. PENSION COSTS

The Council participates in two pension schemes:

Teachers: In 2007/08, the Council paid an employer's contribution of £6.699m (£6.481m in 2006/07), representing 14.1% (13.6% in 2006/07) 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 2007/08, these amounted to £1.423m (£1.631m in 2006/07), representing 3% (3.4% in 2006/07) of pensionable pay.

Other Employees and Members: In 2007/08, the Council paid an employer's contribution of £13.537m (£12.694m in 2006/07), representing 15.9% (15.4% in 2006/07) 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 2007/08, these amounted to £2.344m (£1.978m in 2006/07), representing 2.8% (2.4% in 2006/07) of pensionable pay (including in-year retirements costs which amounted to £0.590m).

The transactions that are included in the 2007/08 Income and Expenditure Account in respect of the Council's pensions scheme are set out in the table below, 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.

	Merseyside Pension Fund		Teachers Added Years		Total	
	2006/07 £000	2007/08 £000	2006/07 £000	2007/08 £000	2006/07 £000	2007/08 £000
Net Cost of Services						
Current Service Cost	14,770	13,155	0	0	14,770	13,155
Past Service or Curtailment or Settlement Costs	1,628	5,015	0	0	1,628	5,015
	<u>16,398</u>	<u>18,170</u>	<u>0</u>	<u>0</u>	<u>16,398</u>	<u>18,170</u>
Net Operating Expenditure						
Interest Cost	24,299	26,824	882	919	25,181	27,743
Expected Return on Assets	(20,590)	(23,774)	0	0	(20,590)	(23,774)
	<u>3,709</u>	<u>3,050</u>	<u>882</u>	<u>919</u>	<u>4,591</u>	<u>3,969</u>
Amount to be met from Govt grant and local taxpayers						
Movement on pensions reserve	(19,962)	79,655	(959)	2,004	(20,921)	81,659
	<u>(19,962)</u>	<u>79,655</u>	<u>(959)</u>	<u>2,004</u>	<u>(20,921)</u>	<u>81,659</u>
Actual amount charged in year						
Employer contributions	14,954	15,207	1,327	1,371	16,281	16,578
	<u>14,954</u>	<u>15,207</u>	<u>1,327</u>	<u>1,371</u>	<u>16,281</u>	<u>16,578</u>

Source: Mercer Human Resource Consulting Ltd

Note 17 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, whose remuneration for 2007/08, excluding pensions contributions was £50,000 or more. Remuneration relates to all payments arising from their employment, including 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, excluding Merseyside Police Authority remuneration. It also includes payments made in respect of retirement and/or redundancy.

Total Remuneration	Number of Employees	
	2006/07	2007/08
£50,000 - £59,999	58	67
£60,000 - £69,999	24	24
£70,000 - £79,999	11	17
£80,000 - £89,999	1	6
£90,000 - £99,999	5	1
£100,000 - £109,999	1	2
£110,000 - £119,999	2	2
£120,000 - £129,999	0	0
£130,000 - £139,999	0	0
£140,000 - £149,999	0	0
£150,000 - £159,999	0	0
£160,000 - £169,999	1	0
£170,000 - £179,999	1	1
£180,000 - £189,999	0	0
£190,000 - £199,999	0	0
£200,000 - £209,999	0	0
£210,000 - £219,999	0	1
TOTAL	104	121

10. MEMBERS' ALLOWANCES

During 2007/08, the Council paid a total of £0.850m in respect of Members' Allowances (£0.799m in 2006/07). 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 2007/08:

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 the majority of 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 20 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 £6.424m in payments and £3.351m in receipts. 10 Members of the Council have declared an interest, including one acting as Chair and three as Board Members.

- **Councils for Voluntary Services - Knowsley**

Payments totalled £0.104m. One Member declared an interest.

- **New Deal For Communities**

Payments to New Deal for Communities totalled £0.015m. Three Members have expressed an interest; two Board Members and one Director.

Transactions relating to Other Public Bodies also included

- Merseytravel £0.121m – Two Members have expressed an interest.
- Merseyside Waste Disposal Authority £6.057m – One Member has expressed an interest.
- Merseyside Passenger Transport Authority £11.632m – Two Members have expressed an interest.
- Merseyside Fire and Rescue Service £0.052m - Three Members have expressed an interest.
- Merseyside Police Authority £0.612m – One Member has expressed an interest

Members' Interests

Members of the Council have direct control over the Council's financial and operational policies. During 2007/08, works and services totalling £1.216m were commissioned from organisations in which nine Members had an interest. Contracts were entered into in full compliance with the Council's Constitution. Payments and grants totalling £6.861m were paid to housing associations, hospital trusts, and voluntary organisations, in which there were 62 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 2007/08, one Service Director declared an interest in Community Integrated Care, to which payments totalling £0.494m 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.

	2006/07	2007/08		Total
	Total	Chargeable	Non Chargeable	
	£000	£000	£000	£000
<u>Expenditure</u>				
Employee Expenses	314	176	118	294
Transport	12	7	4	11
Supplies and Services	100	80	54	134
Central and Support Services	48	38	25	63
Total Expenditure	474	301	201	502
<u>Income</u>				
Building Regulation Charges	(337)	(259)	0	(259)
<u>Net (Surplus)/Deficit</u>	137	42	201	243

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:

	2006/07			2007/08		
	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	727	0	727	447	0	447
Other	167	0	167	99	0	99
	946	0	946	598	0	598

The Council was committed at 31 March 2008 to making payments of £0.274m, under operating leases in 2008/09, comprising of the following elements:

	Leases Expiring in 2008/09 £000	Leases expiring between 2009/10 and 2012/2013 £000	Leases expiring after 2013/2014 £000
Wheeled Bins	0	52	0
Vehicles	141	58	0
Other	12	11	0
	153	121	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:

	2006/07 £000	2007/08 £000
Shops	654	723
Industrial & business unites	694	655
Other	160	186
	1,508	1,564

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. During the year the items of impairment detailed below have been identified resulting from either a general fall in prices or expenditure incurred did not add pound for pound value. However, as the value in the Revaluation Reserve is nil they have been recognised as charges to the appropriate cost of service as follows:

Asset Description	Cost of Service	Value £000
Ravenscourt	Regeneration and Neighbourhoods	1,739
Hillside Road Shops	Regeneration and Neighbourhoods	276
Manor Farm Road Shops	Regeneration and Neighbourhoods	29
Moorfields Shops	Regeneration and Neighbourhoods	42
Richard Hesketh Drive Shops	Regeneration and Neighbourhoods	1
Industrial Garages	Regeneration and Neighbourhoods	12
Total		<u>2,099</u>

15. AUDITOR'S REMUNERATION

In 2007/08, Knowsley MBC incurred the following fees relating to external audit and inspection:

	2006/07	2007/08		Total
	£000	Pricewaterhouse Coopers £000	Audit Commission £000	
Fees payable with regard to external audit services carried out by the appointed auditor	259	243	9	252
Fees payable in respect of Statutory Inspection under (Section 10 Local Government Act 1999)	0	0	125	125
Fees payable for the certification of grant claims and returns (Section 28 Audit Commission Act 1998)	136	94	0	94
Fees payable for other services	0	1	0	1
Total	<u>395</u>	<u>338</u>	<u>134</u>	<u>472</u>

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 2007/08, 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 for older people
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.

	Older People		Mental Health		Learning Disabilities	
	2006/07	2007/08	2006/07	2007/08	2006/07	2007/08
	£000	£000	£000	£000	£000	£000
Gross Funding						
Reserve B/fwd	(153)	(166)	28	(42)	(268)	(360)
Knowsley Primary Care Trust	(1,355)	(1,002)	(1,368)	(987)	(3,693)	(9,336)
Knowsley MBC	-	(587)	-	(520)	(1,371)	(676)
Total Funding	(1,508)	(1,755)	(1,340)	(1,549)	(5,332)	(10,372)
Pooled Expenditure	1,342	1,582	1,298	1,411	4,972	9,787
Total Expenditure	1,342	1,582	1,298	1,411	4,972	9,787
Net (Underspend) Carried Forward	(166)	(173)	(42)	(138)	(360)	(585)

NOTES TO THE INCOME AND EXPENDITURE ACCOUNT

Movement in Reserves	2007/08			Total
	Older People	Mental Health	Learning Disabilities	
	£000	£000	£000	£000
Revenue reserves B/fwd	(166)	(42)	(360)	(568)
Net surplus in year	(7)	(96)	(225)	(328)
Balance carried forward	(173)	(138)	(585)	(896)

Summary Memorandum Account - Hosted Pooled Budgets

A summary of the three hosted pooled budget accounts is shown in the table below.

2006/07	Gross Funding	2007/08
£000		£000
(393)	Reserve B/fwd	(568)
(6,416)	Knowsley Primary Care Trust	(11,325)
(1,371)	Knowsley MBC	(1,783)
(8,180)	Total Funding	(13,676)
7,612	Pooled Expenditure	12,780
7,612	Total Expenditure	12,780
(568)	Net Underspend Carried Forward	(896)

Movement in Reserves	2007/08
	£000
Revenue reserves B/fwd	(568)
Net surplus in year	(328)
Balance carried forward	(896)

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

	2006/07 £000	2007/08 £000
Funding		
Balance of funds brought forward	(59)	(56)
Knowsley Metropolitan Borough Council	(288)	(303)
Knowsley Primary Care Trust	(450)	(479)
St Helens Metropolitan Borough Council	(415)	(438)
St Helens Primary Care Trust	(468)	(642)
	<hr/>	<hr/>
Total Funding	(1,680)	(1,918)
Total Expenditure	1,624	1,871
	<hr/>	<hr/>
Net underspend carried forward	(56)	(47)

17. DEDICATED SCHOOLS GRANT

The Council's expenditure on schools is funded by the Dedicated Schools Grant (DSG) provided by the Department for Children, Schools and Families (DCSF). The Dedicated Schools Grant is ring-fenced and can only be applied to meet expenditure properly included in the Schools Budget. The Schools Budget includes elements for a restricted range of services provided on an authority-wide basis, and for the Individual Schools Budget which is divided into a budget share for each school. Over and underspends on the two elements are required to be accounted for separately. Details of the deployment of the Dedicated Schools Grant receivable for 2007/08 are shown in the following table.

Schools Budget Funded by Dedicated Schools Grant	Central Expenditure	Individual Schools Budget	Total
	£000	£000	£000
Original grant allocation to Schools Budget for the current year in the Authority's budget	(8,059)	(86,808)	(94,867)
Adjustment to finalised grant allocation DSG receivable for the year	0	0	0
	<hr/>	<hr/>	<hr/>
Actual expenditure for the year	8,326	85,617	93,943
Over/ (Underspend) for the year	267	(1,191)	(924)
Use of schools balances	0	0	0
(Underspend) from prior year	0	(696)	(696)
Over/(Underspend) carried forward to 2008/09	<hr/>	<hr/>	<hr/>
	267	(1,887)	(1,620)

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-proper practices debited or credited to the General Fund is comprised of:

2006/07		2007/08
£000		£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	
(1,026)	Amortisation of Intangible Fixed Assets	(1,090)
(14,400)	Depreciation and Impairment of Fixed Assets	(13,895)
2,826	Government Grants Deferred Amortisation	2,521
(1,017)	Deferred Charges to be financed from Capital Resources	(4,559)
1,575	Net Gain / (Loss) on Sale of Fixed Assets	2,475
0	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	(51)
(26,351)	Equal Pay Act (Amendment) Regulations 2003 ^{see i) below}	20,312
(20,989)	Net Charges made for Retirement Benefits in accordance with FRS17	(22,139)
<u>(59,382)</u>		<u>(16,426)</u>
	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	
4,624	Statutory Provision for Repayment of Debt	4,636
644	Principal Repayment on External Loans	686
625	Capital Expenditure charged in year to the General Fund Balance	1,928
	Transfer from Usable Capital Receipts to meet payments to the Housing Capital Receipts Pool	
(97)	Employers Contribution Payable to the Pension Fund and Retirement Benefits payable Direct to Pensioners	(79)
16,281		16,578
<u>22,077</u>		<u>23,749</u>
	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	
2,759	- Schools' Balances	1,581
6,756	- Other Reserves	8,585
<u>9,515</u>		<u>10,166</u>
<u>(27,790)</u>	Net additional amount required to be credited to the General Fund Balance for the year	<u>17,489</u>

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 £20.312m 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. This is explained further in Note 1 to the Income and Expenditure Account.

NOTES TO THE BALANCE SHEET

1 a) FIXED ASSETS – MOVEMENTS

<u>Operational Assets</u>	Land & Building £000	Vehicle Plant & Equipment £000	Infrastructure £000	Community Assets £000	Total £000
Gross book value 1.4.2007	321,977	33,003	146,684	1,365	503,029
Opening Revaluations	444	0	0	0	444
Opening Reclassifications	0	0	0	0	0
	<u>322,421</u>	<u>33,003</u>	<u>146,684</u>	<u>1,365</u>	<u>503,473</u>
Additions	12,498	2,346	4,515	0	19,359
Other Expenditure	696	0	0	0	696
Disposals	0	0	0	0	0
Revaluations in Year	6,666	0	0	0	6,666
Reclassifications in Year	3,845	0	0	0	3,845
Gross book value at 31.3.2008	<u>346,126</u>	<u>35,349</u>	<u>151,199</u>	<u>1,365</u>	<u>534,039</u>
Depreciation and Impairment					
Balance as at 1.4.2007	(43,914)	(21,673)	(10,057)	(135)	(75,779)
Depreciation	(6,377)	(3,168)	(2,223)	(28)	(11,796)
Impairment	(1,739)	0	0	0	(1,739)
Balance at 31.3.2008	<u>(52,030)</u>	<u>(24,841)</u>	<u>(12,280)</u>	<u>(163)</u>	<u>(89,314)</u>
Net book value as at 31.3.2008	<u>294,096</u>	<u>10,508</u>	<u>138,919</u>	<u>1,202</u>	<u>444,725</u>
<u>Non-Operational Assets</u>					
		Assets under Construction £000	Investment Properties £000	Surplus Assets held £000	Total £000
Gross book value 1.4.2007		10,862	21,024	7,409	39,295
Opening Revaluations		0	0	110	110
		<u>10,862</u>	<u>21,024</u>	<u>7,519</u>	<u>39,405</u>
Additions		0	422	368	790
Other Expenditure		0	0	0	0
Disposals		0	0	(139)	(139)
Revaluations in Year		0	1,652	66	1,718
Reclassifications in Year		(9,498)	0	5,653	(3,845)
Gross book value at 31.3.2008		<u>1,364</u>	<u>23,098</u>	<u>13,467</u>	<u>37,929</u>
Depreciation and Impairment					
Balance as at 1.4.2007		0	(1,436)	0	(1,436)
Depreciation		0	0	0	0
Impairment		0	(360)	0	(360)
Balance at 31.3.2008		<u>0</u>	<u>(1,796)</u>	<u>0</u>	<u>(1,796)</u>
Net book value as at 31.3.2008		<u>1,364</u>	<u>21,302</u>	<u>13,467</u>	<u>36,133</u>

NOTES TO THE BALANCE SHEET

<u>Intangible Assets</u>	Total £000
Gross Book Value 31.3.2007	5,450
Additions	925
Gross Book Value 31.3.2008	6,375
Depreciation as at 1.4.2007	(1,891)
Depreciation for Year	(1,090)
Balance as at 31.3.2008	(2,981)
Net Book Value as at 31.3.2008	3,394

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

1 c) FIXED ASSETS – CAPITAL FINANCING

Capital expenditure was financed as follows:

	2006/07 £000	2007/08 £000
Capital Expenditure		
Operational Assets	17,085	20,055
Deferred Charges	8,064	10,194
Non-Operational Assets	7,525	790
Intangible Assets	322	925
	32,996	31,964
Sources of Finance		
Grant	15,396	16,196
Loans	4,333	6,381
Capital Receipts	11,132	6,315
Capital Expenditure from Revenue Account	625	1,396
Reserves	1,112	816
Contributions from Partners and Developers	398	860
	32,996	31,964

NOTES TO THE BALANCE SHEET**1 d) FIXED ASSETS – CAPITAL EXPENDITURE**

The main items of capital expenditure during 2007/08 were:

	£000
<u>Council Wide</u>	
Payments under Equal Pay Act (Amendment) Regulations 2003	3,500
<u>Regeneration and Neighbourhoods</u>	
Highway Maintenance Programme	4,641
Raven Court – Public Service	1,747
Private Tenants Grants	1,625
Energy Efficiency Grants	966
A580 New Junction to 50 Acre Site (Alchemy)	898
Administrative Buildings – Emergency Works	770
<u>Children’s Services</u>	
Longview Children’s Centre	1,202
Schools’ Modernisation Programme	941
Computers for Pupils	912
Children’s’ Centres	859
Schools’ Devolved Formula Capital Programme	889
Diploma Gateway Funding	768
<u>Finance and Information Society Technologies</u>	
Storage Area Network Replacement	225
<u>Leisure , Community and Culture</u>	
Kirkby Sports Strategy	2,578
Barclaycard Spaces	770
Southdene Community Centre	453
Essential Maintenance	400
Housing Land Improvement Programme	368
<u>Health and Social Care</u>	
Supported Accommodation - Tarbock	314
Improving Care Home Environment	210
<u>Neighbourhood Delivery</u>	
Vehicle and Plant Replacement	555

NOTES TO THE BALANCE SHEET

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

Significant commitments for future capital expenditure as at 31 March 2008 include the following:

Scheme	Purpose	Expected Period	£000
Targeted Capital Primary Schools	To build 2 new primary learning centres at Northwood and Greengates with extended schools facilities and links to children centre provision.	2008/09	9,597
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.	2008/09	3,283
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.	2008/09	3,267
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.	2008/09	3,210
Raven Court	Regeneration of Raven Court shopping area to improve facilities in Halewood and have a positive impact on all population groups in the area, an essential feature if the area is to be regenerated.	2008/09	2,938
Beehive Project	This project involves the development of accommodation providing managed workspace and office space for social firms and social enterprises	2008/09	2,632
Hazel's House	Reburbishment and partial redevelopment of the Grade II Listed Hazel's House, to provide speculative office space within a premier business centre for Small and Medium Enterprises	2008/09	2,491
Vehicle and Plant Replacement	Replacement of 13 Refuse and 10 Street Cleaning Vehicles	2008/09	2,335

NOTES TO THE BALANCE SHEET**1 e) FIXED ASSETS – SIGNIFICANT FUTURE COMMITMENTS OF CAPITAL EXPENDITURE
(Cont'd)**

Scheme	Purpose	Expected Period	£000
Children's Centres and Surestart	Children's Centres will allow cohesive provision of childcare from 0-4 to complement early years provision in schools and will provide the facilities for a range of agencies including Health, Employment and Social Care to work in a co-ordinated manner from a central point within each of the neighbourhoods, close to the people who will benefit most from this support.	2008/09	2,238
Huyton Municipal Buildings Refurbishment	Refurbishment and Rationalisation of Huyton Administrative Buildings	2008/09	1,726
Specsheds	This project involves the development of speculative light industrial accommodation for Small and Medium Enterprises	2008/09	1,100
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	31.3.2007	31.3.2008	
Administrative buildings	5	5	
Offices	20	20	
Depots and Workshops	3	3	
Museums	1	1	
Leisure and Sports Centres	8	7	
Club House	1	1	
Civic halls and suites	2	2	
Community and Youth Centres	21	15	
Libraries	7	7	
Parks, playing fields, and open spaces	488	488	Hectares
Market	1	1	
Cemeteries	2	2	
Allotments	122	122	Plots
Schools - Primary	24	24	
- Secondary	7	7	
- Other	8	8	
Homes for people with learning disabilities	1	1	
Centres for people with learning/physical disabilities	4	3	
Day centres for the Elderly	2	2	
Other Health and Social Care establishments	9	9	
Commercial properties - rented/leased	202	168	
- void	20	34	
Industrial properties - rented/leased	399	385	
- void	4	7	
Public conveniences	1	1	
Roads - principal	101	101	Km
- other	460	462	Km
Bridges	141	141	
Lamp units	18,491	18,241	
Vehicles and plant	642	223	
Community Assets	20	20	

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. In 2007/08 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	Finance Leases £000	Operating Leases £000
1 -2 years	0	153
2 – 5 years	0	216
5 years & above	0	22
Total	0	391

2. LONG TERM INVESTMENTS

At 31 March 2008, the Council held an investment of £5.000m with Northern Rock Plc at an interest rate of 6.46%, maturing 10 August 2009. Interest accrued on this investment in 2007/08 is £0.209m. The Council also held £0.003m of investments in 3.5% Treasury Stock at 31 March 2008.

3. STOCKS AND WORK IN PROGRESS

	31.3.2007 £000	31.3.2008 £000
Work in Progress	255	0
<u>Stocks</u>		
- Neighbourhood Delivery	364	465
- Leisure Community and Culture	5	5
- Other General Fund	6	8
Total Stocks	375	478
Total	630	478

4. SHORT TERM INVESTMENTS

The Council's short term investments include cash on deposit with banks and building societies, plus other liquid investments with money market funds. The Council's short term investments in 2007/08 include accrued interest.

NOTES TO THE BALANCE SHEET

5. DEBTORS

	31.3.2007 £000	31.3.2008 £000
Amounts falling due in one year:		
Government Departments	10,989	11,080
Other Local Authorities	733	927
Employee Related	25	70
Sundry Debtors	10,238	8,900
Car loans	32	32
Payments in Advance	1,749	965
Collection Fund	7,782	8,264
Total Amounts falling due within one year:	<u>31,548</u>	<u>30,238</u>
Provision for bad debts:		
General	(2,675)	(2,674)
Collection Fund	(893)	(638)
Total Provision for bad debts:	<u>(3,568)</u>	<u>(3,312)</u>
Total Debtors	<u>27,980</u>	<u>26,926</u>

6. SHORT TERM BORROWING

Source of Loan	Range of interest rates payable (%)	31.3.2007 £000	31.3.2008 £000
Public Works Loan Board	Fixed (2.5% to 7.375%)	63	58
Other Local Authorities	Variable	695	740
		<u>758</u>	<u>798</u>

The Council's short term borrowing in 2007/08 includes accrued interest.

7. CREDITORS

	31.3.2007 £000	31.3.2008 £000
Amounts falling due in one year:		
Government Departments	5,536	7,392
Other Local Authorities	1,428	1,032
Employee Related	5,744	5,705
Interest *	1,160	0
Sundry Creditors	11,938	14,127
Income in Advance	5,162	7,016
Collection Fund	1,527	1,219
Total Creditors	<u>32,495</u>	<u>36,491</u>

* Accrued interest in 2007/08 is shown within short and long term borrowing, as applicable.

NOTES TO THE BALANCE SHEET

8. CASH

At 31 March 2008, the bank account balance was £1.502m overdrawn. However, cheques raised but unpresented at the bank and other miscellaneous balances totalled £10.133m, which produces a cash overdrawn figure of £11.635m.

9. LONG TERM BORROWING

Source of Loan	Range of interest rates payable (%)	31.3.2007 £000	31.3.2008 £000
Public Works Loan Board	Fixed (2.5% to 7.375%)	101,594	103,030
Lender Offer Borrower Option	Fixed (3.71% to 4.08%)	11,000	17,429
Other Local Authorities *	Variable	5,432	4,692
		<u>118,026</u>	<u>125,151</u>

An analysis of loans by maturity is:

Maturing in 1-2 years	1,540	1,043
Maturing in 2-5 years	895	13,281
Maturing in 5-10 years	12,341	6,339
Maturing in more than 10 years	103,250	104,488
	<u>118,026</u>	<u>125,151</u>

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

The Council's long term borrowing in 2007/08 includes accrued interest.

10. EQUAL PAY ACT (AMENDMENT) REGULATIONS 2003

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 £6.345m is therefore 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 £3.170m within the Equal Pay Back Pay Account and £2.869m within the Capital Adjustment Account (see Note 15) 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.

NOTES TO THE BALANCE SHEET

11. PROVISIONS

In addition to the provision relating to the Equal Pay Act Regulations (detailed in Note 10 to the Balance Sheet) a number of further provisions have been set aside to cover the following liabilities.

	Balance 31.3.2007	Provided in year	Applied in year	Balance 31.3.2008
	£000	£000	£000	£000
Austin Trading Estate	0	363	0	363
Business Rates	74	273	13	334
Capital Contract Retention	3	0	3	0
Early Retirement and Severance Costs	486	60	375	171
Insurance	4,604	2,030	2,763	3,871
KCVS Grant	0	128	0	128
Mental Health Act - Section 117	144	0	0	144
Prescot Regeneration	0	532	0	532
Service Charge Refunds	0	88	0	88
	5,311	3,474	3,154	5,631

Austin Trading Estate

To provide cover in respect of rental income collected by the Council and due to English Partnerships.

Business Rates

Service charges to be repaid to occupiers of Nutgrove Villa and Page Moss One Stop Shop due to reimbursement of business rates.

Capital Contract Retention

Provision to pay retention monies on a capital contract entered into by the Council.

Early Retirement and Severance Costs

Provision to meet anticipated costs associated with the early retirement and severance of a number of employees across the Council.

Insurance

This provision provides cover for the 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 18). 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.

KCVS Grant

2007/08 Grant Payments not yet made to KCVS due to an ongoing review.

Mental Health Act 1983 Section 117 (Provision of After Care)

Following a judgement in the House of Lords, the Council must refund any charges made to recipients of community care services under section 117 of this Act. This provision is for payments due as a result of this legislation.

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

Provision for the repayment of service charges not used for Furniture for Network Housing - likely to be repaid within six months.

NOTES TO THE BALANCE SHEET

12. 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, or annually if duration is more than one year; and
- the fair value of trade and other receivables is taken to be the invoiced or billed amount.

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, which is not included in the fair value calculation since any motivation other than securing a fair price should be ignored.

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 2008, using bid prices where applicable.

The fair values calculated are as follows:

	Carrying Amount £000	Fair Value £000
Financial Liabilities		
Lender Offer Borrower Option Loan	17,429	16,399
Public Works Loan Board Loan	103,086	103,311
	120,515	119,710
 Financial Assets		
Fixed Term Deposits	76,267	76,333
Money Market Funds	12,683	12,683
	88,950	89,016

NOTES TO THE BALANCE SHEET

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.

Public Works Loan Board

The fair value is higher than the carrying amount because the Council's Public Works Loan Board portfolio includes a number of fixed rate loans where interest payable is higher than the rates available for similar loans at the balance sheet date. This commitment to pay interest above current market rates increases 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.

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.

13. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

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

- Credit risk – the possibility that other parties might fail to pay amounts due to the Council;
- Liquidity risk – the possibility that the Council might not have funds available to meet its commitments to make payments; and
- Market risk – the possibility that 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 the resources available to fund services. Risk management is carried out by a central team with written policies. This is strengthened by policies approved by the Council in the 2007/08 treasury management strategy that include specific areas, such as interest rate risk, credit risk, and the investment of surplus cash.

The Council has adopted CIPFA's Treasury Management in the Public Services: Code of Practice and has set treasury management indicators to control key financial instrument risks in accordance with CIPFA's Prudential Code.

NOTES TO THE BALANCE SHEET

Credit risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Council's customers. The Council uses Fitch ratings to derive its investment counterparty criteria. 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, its further use as a new investment is withdrawn immediately.

The following analysis 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 2008 (carrying amount) £000 A	Historical Experience of default %	Historical Experience adjusted for market conditions at 31 March 2008 %	Estimated Maximum exposure to default and uncollectability £000 (A x C)
		B	C	
Investments	88,950	0	0	0
Mortgagors	820	1	1	8
Car Loans/Employee Related Debtors	220	0	0	0
Other Debtors	10,276	5	5	514

The Council does not expect any losses from non-performance by any of its counterparties in relation to investments.

On 31 March 2008 the Council held 175 mortgage accounts. The historical experience of default on mortgage debtors is very low with two mortgage accounts being referred for legal action within the last three years. Repayments resumed on both of these accounts once threatened with legal action and the value of the Mortgagee's home is secured as collateral against the default risk. 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.

Other debtors at 31 March 2008 includes £8.900m of sundry debtors, £0.965m of payments in advance and £0.411m of contractually based other local authority debtors. The Council does not generally allow credit for customers, such that £5.845m of the £8.900m 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	5.269
Three to six months	0.171
Six months to one year	0.095
More than one year	0.310
	5.845

NOTES TO THE BALANCE SHEET

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

As the Council has ready access to borrowings from the Public Works Loans Board, 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 borrowings 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 £000	Lender Offer Borrower Option £000	Total £000	Actual % Maturity of Fixed Rate Borrowing
Under 12 months	15%	58	0	58	0
1-2 years	15%	54	0	54	0
2-5 years	50%	148	12,392	12,540	11
5-10 years	80%	67	5,037	5,104	4
10 years and above	100%	102,760	0	102,760	85

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. The Council also has the use of a £15.000m overdraft facility; as at 31 March 2008, £1.502m of this facility was used and the balance of unrepresented cheques was £10.133m.

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 – the interest expense 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 – the interest income credited to the Income and Expenditure Account will rise; and
- investments at fixed rates – the fair value of the assets will fall.

NOTES TO THE BALANCE SHEET

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 2008. 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 2008, if interest rates had been 1% higher with all other variables held constant, the financial effect would be:

	£000
Decrease in fixed rate investment assets (no impact on Income and Expenditure Account or STRGL)	165
Decrease in fair value of fixed rate borrowings liabilities (no impact on Income and Expenditure Account or STRGL)	19,468

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 thus has no exposure to loss arising from movements in currency exchange rates.

Price risk

The Council does not generally invest in equity shares and is therefore not exposed to losses arising from movements in the prices of shares.

NOTES TO THE BALANCE SHEET

14. REVALUATION RESERVE

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

	2007/08
	£000
Balance at beginning of year	0
Revaluation of fixed assets	(8,310)
Adjustment for Depreciation	164
Balance at end of year	<u>(8,146)</u>

From 1 April 2007, the Revaluation Reserve and Capital Adjustment Account replace the Fixed Asset Restatement Account and the Capital Financing Account. The debit and credit balances of £58.643m and £318.963m on the Fixed Asset Restatement Reserve and the Capital Financing Account respectively at 31 March 2007 have been written to the Capital Adjustment Account with a resulting credit balance of £260.320m. The Revaluation Reserve has been included in the Balance Sheet with a zero balance. The closing balance on the Revaluation Reserve at 31 March 2008 only shows revaluation gains accumulated since 1 April 2007.

15. 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.

	2006/07	2007/08
	£000	£000
Balance at beginning of year	322,507	318,963
Balance transferred from Fixed Asset Restatement Account	0	(58,643)
Capital receipts set aside	193	159
Transferred Debt receipts set aside	17	19
Capital financing - capital receipts	2,450	6,315
- revenue	625	1,396
- other	1,510	1,677
Capitalisation of Equal Pay Provision	0	(2,869)
Transfer from Government Grants Deferred	2,826	2,521
Adjustments on Revaluation	0	489
Less		
Net Adjustment for Statutory Loan Repayment Calculation	(6,859)	(7,391)
Write down of deferred charges (net of grant)	(1,017)	(4,559)
Impairment	(3,289)	(2,099)
Balance at end of year	<u>318,963</u>	<u>255,978</u>

NOTES TO THE BALANCE SHEET

16. 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.

	2006/07	2007/08
	£000	£000
Balance at beginning of year	13,875	13,071
Capital receipts in year for sales of assets	<u>1,936</u>	<u>2,174</u>
	15,811	15,245
Less: Set aside for loan redemption	<u>(193)</u>	<u>(159)</u>
	15,618	15,086
ODPM Payments re Pooling Housing Capital Receipt	(97)	(79)
Capital Receipts applied during year - tangible assets	(2,228)	(6,781)
Capital Receipts applied during year - intangible assets	<u>(222)</u>	<u>(63)</u>
Balance at end of year	<u>13,071</u>	<u>8,163</u>

NOTES TO THE BALANCE SHEET

17. 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 2008 are as follows:

	Merseyside Pension Fund		Teachers Pensions Added Years		Total	
	31.3.2007	31.3.2008	31.3.2007	31.3.2008	31.3.2007	31.3.2008
	£000	£000	£000	£000	£000	£000
Estimated Assets	365,700	360,551	0	0	365,700	360,551
Estimated Liabilities	(496,966)	(571,472)	(17,705)	(19,709)	(514,671)	(591,181)
Net Asset/(Liability)	(131,266)	(210,921)	(17,705)	(19,709)	(148,971)	(230,630)

Total liabilities (including Teacher's Pensions) exceed assets by £230.630m. The Fund's Actuary is required to set contribution rates to meet 100% of the overall liabilities of the Fund. Contribution rates are based on the recent triennial valuation at 31 March 2008. The increase in the total net liability in 2007/08 of £81.659m reflects an actuarial loss in the year of 76.098m which arose mainly from the revaluation exercise where assets and liabilities were fully recalculated.

b) FUND ASSETS

The assets in the Merseyside Pension Fund and their estimated rates of return are as follows:

	31.3.2007			31.3.2008		
	Rate of Return	Value		Rate of Return	Value	
	%	£000	%	%	£000	%
Equities	7.5	213,202	58.3	7.5	207,316	57.5
Government Bonds	4.7	61,438	16.8	4.6	58,049	16.1
Other Bonds	5.4	21,576	5.9	6.1	21,273	5.9
Property	6.5	35,839	9.8	6.5	31,368	8.7
Cash / Liquidity	5.3	19,748	5.4	5.3	16,225	4.5
Other Assets	7.5	13,897	3.8	7.5	26,320	7.3
		365,700			360,551	

c) FUND 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.

ACCUARIAL ASSUMPTIONS	31.3.2007	31.3.2008
	%	%
Rate of inflation	3.10	3.60
Rate of increase in salaries	4.35	4.85
Rate of increase in pension	3.10	3.60
Discount rate	5.40	6.10

NOTES TO THE BALANCE SHEET

18. RESERVES

The Council holds a number of earmarked reserves for future expenditure commitments and policy development. During the year, all reserves are reviewed by the Council to ensure that they remain appropriate and in line with Council policy.

Reserve	Description	Balance at 31 March 2007 £'000	Movement (increase) / decrease £'000	Balance at 31 March 2008 £'000
CORPORATE RESERVES				
2007/08 Budget Allocations	Contribution of resources to service priorities approved as part of the 2007/08 budget.	(4,030)	3,359	(671)
2008/09 Budget Allocations	Contribution of resources to service priorities approved as part of the 2008/09 budget.	0	(6,055)	(6,055)
BSF Advance works agreement	Underwriting of advance works agreement to ensure the timetable for completion of the Learning Centres is achieved.	(459)	459	0
Budget Risk Assessments	To reflect potential budget pressures that may arise from changes in the annual budget assumptions.	(2,806)	778	(2,028)
Future Is Knowsley	To launch a sustained marketing campaign raising the profile and desirability of the borough.	0	(250)	(250)
Medium Term Financial Plan	To fund budget pressures identified during the medium term financial planning process.	(2,430)	838	(1,592)
LAA Pump Priming Grant	To fund expenditure incurred by Local Area Agreement projects during the year.	0	(211)	(211)
Pooled Budget	Resources set aside for the Council's future contributions to its pooled budgets with the Primary Care Trust.	0	(4,500)	(4,500)
Treasury Management	To reflect potential budget pressures that may arise from changes in the Treasury Management Plan assumptions	(500)	0	(500)
Total Corporate Reserves		(10,225)	(5,582)	(15,807)

18. RESERVES (contd)

Reserve	Description	Balance at 31 March 2007 £'000	Movement (increase) / decrease £'000	Balance at 31 March 2008 £'000
COUNCIL – WIDE RESERVES				
Building Schools for the Future	To fund capital work carried out under the Council's Building Schools for the Future Programme	0	(3,575)	(3,575)
Enterprise Initiatives	ODPM Grant awarded for Local Authority Business Growth Initiatives.	(1,922)	1,922	0
Kirkby Town Centre Development	Contribution towards development work on Kirkby Town Centre project.	(737)	567	(170)
Neighbourhood Initiatives	To fund the Council's programme of Neighbourhood Initiatives.	(426)	0	(426)
Neighbourhood Renewal Fund	To cover costs related to Neighbourhood Renewal Fund schemes.	(442)	(837)	(1,279)
Street Lighting PFI	Contribution to development work on Public Finance Initiative scheme.	0	(465)	(465)
Stockbridge Village Regeneration	To cover the costs of initial feasibility and development work associated with the redevelopment of the Stockbridge Village Area.	0	(200)	(200)
Workforce Remodelling	Contribution towards potential costs of remodelling the workforce to ensure future flexibility	(3,553)	(264)	(3,817)
Yorkshire Purchasing Organisation	This is Knowsley's allocation of profits distributed from the group. These are used for a variety of corporate purposes.	(16)	16	0
Total Council-Wide Reserves		(7,096)	(2,836)	(9,932)
INSURANCE RESERVE				
Insurance	This reserve represents the sum held to cover potential future insurance claims.	(3,973)	(1,112)	(5,085)
Total Insurance Reserves		(3,973)	(1,112)	(5,085)

18. RESERVES (contd)

Reserve	Description	Balance at 31 March 2007 £'000	Movement (increase) / decrease £'000	Balance at 31 March 2008 £'000
CHILDREN'S SERVICES PORTFOLIO				
Building Schools for the Future	To fund consultancy work and blueprints for Building Schools for the Future (now consolidated within Council-Wide Reserves).	(749)	749	0
Education Initiatives	To fund Teenage Pregnancy Initiatives.	(49)	(8)	(57)
Extra District Contributions	To fund potential extra district claims.	(76)	76	0
Maintenance Works	To undertake essential building maintenance work.	0	(394)	(394)
Performance Improvement	To support service developments for performance improvement.	(8)	8	0
Risk Management	Funding for future risk management initiatives.	(1,446)	929	(517)
Schools Finance Support	School finance support service surplus to be re-invested with Knowsley schools.	(46)	(1)	(47)
School Improvement Partners	To enable School Improvement Partners provide support to the borough's schools.	0	(74)	(74)
Schools Standard Fund	To be utilised for future standards fund match requirements.	(20)	20	0
Staffing	To support fixed term staff costs for programme initiatives and development.	(210)	165	(45)
Teachers Pensions	Reserve for the payment of lump sum pension costs for teachers retiring prematurely.	(1,320)	1,320	0
Youth	To support the achievement of Children and Young People's Strategic Priorities	0	(337)	(337)
Total Children's Services Reserves		(3,924)	2,453	(1,471)
COMMUNITY SAFETY AND SOCIAL INCLUSION PORTFOLIO				
Community Safety Initiatives	To develop the Wardens Service delivery.	(222)	222	0
Crime and Disorder Initiatives	To develop the Anti-social Behaviour Unit and other crime and disorder initiatives.	(162)	(811)	(973)
Strategy Reserve	To integrate, refocus and restructure services for the portfolio.	(68)	68	0
Youth Services	To implement Youth Offending Service relocation and secure accommodation.	(40)	40	0
Youth Offending	To facilitate service improvement in line with the Improvement Plan, Criminal Justice and Information Act and the new Youth Rehabilitation Order	0	(133)	(133)
Total Community Safety and Social Inclusion Reserves		(492)	(614)	(1,106)

18. RESERVES (contd)

Reserve	Description	Balance at 31 March 2007 £'000	Movement (increase) / decrease £'000	Balance at 31 March 2008 £'000
CORPORATE AND CUSTOMER SERVICES PORTFOLIO				
Corporate Resources IT Systems	To develop new I.T. services and systems.	(94)	45	(49)
Corporate Resources Service Development	To integrate, refocus and restructure services for the portfolio.	(80)	(582)	(662)
Customer Services Improvements	For publicity and benchmarking due to the introduction of additional One Stop Shop services and update of the Customer Care Charter.	(80)	80	0
Environmental Initiatives	To maximise existing use of accommodation.	0	(252)	(252)
Performance Improvement	Resources set aside for service transformation and business process re-engineering.	(258)	148	(110)
Total Corporate and Customer Services Reserves		(512)	(561)	(1,073)
FINANCE AND INFORMATION TECHNOLOGY PORTFOLIO				
IT Systems	To develop current and new IT systems for the portfolio and the Council as a whole.	(1,019)	502	(517)
Service Development	To integrate, refocus and restructure services for the portfolio and Council as a whole.	(235)	85	(150)
Environmental Initiatives	Refurbishment of Huyton Cash Office.	(167)	77	(90)
Performance Improvement	Resources set aside for service transformation and business process re-engineering.	(238)	(87)	(325)
Total Finance and Information Technology Reserves		(1,659)	577	(1,082)

18. RESERVES (contd)

Reserve	Description	Balance at 31 March 2007 £'000	Movement (increase) / decrease £'000	Balance at 31 March 2008 £'000
HEALTH AND SOCIAL CARE PORTFOLIO				
Community Care	To provide for the future costs of the range of social services provided by the Council.	(15)	(350)	(365)
IT / Systems Strategy	e-Government and Department of Health targets for electronic social care record system.	(1,071)	22	(1,049)
Performance Improvement	Performance Improvement Initiatives, service growth and administrative services review.	(353)	70	(283)
Pooled Budget *	To provide for future costs of the pooled budget – supported accommodation.	(170)	39	(131)
Social Services - Initiatives	Includes reserves for 'Workstep' and disability services – multi agency training.	(131)	7	(124)
Total Health and Social Care Reserves		(1,740)	(212)	(1,952)
* The opening balance has been restated to reflect the treatment of reserves that are pooled with Knowsley Primary Care Trust				
LEADER'S PORTFOLIO				
Performance Awareness	Resources for 'Future is Knowsley' campaign (consolidated within Corporate Reserves).	(25)	25	0
Performance Improvement	Resources set aside for the Pride Campaign, Equality and Diversity and other service developments.	(148)	(142)	(290)
Total Leader's Portfolio Reserves		(173)	(117)	(290)
LEISURE, COMMUNITY AND CULTURE PORTFOLIO				
08/09 Income Reserve	Income in advance relating to developing business opportunities	0	(64)	(64)
Business Rates Reserve	Business Rates to be charged in 2008/09	0	(59)	(59)
Capital Reserve	For future contributions towards the portfolio's capital programme.	(223)	(750)	(973)
Learn Direct	Contribution towards the refurbishment of Huyton Library	(9)	0	(9)
Leisure – Various	Resources set aside for new leisure services and policy development.	(26)	0	(26)
Neighbourhood Renewal Fund	To cover costs related to Neighbourhood Renewal Fund schemes.	(221)	221	0
Staffing	Contributions towards fixed term staff related expenditure.	(257)	257	0
Strategy Reserve	To integrate, refocus and restructure services for the portfolio.	(24)	(27)	(51)
Youth Services	Initiatives to develop the Portfolio's Youth Service.	(41)	41	0
Total Leisure, Community and Culture Reserves		(801)	(381)	(1,182)

18. RESERVES (contd)

Reserve	Description	Balance at 31 March 2007 £'000	Movement (increase) / decrease £'000	Balance at 31 March 2008 £'000
NEIGHBOURHOOD DELIVERY PORTFOLIO				
Neighbourhood Delivery	Portfolio resources set aside for service policy and performance improvement.	(108)	(147)	(255)
Contract Services Reserves	Trading balances set aside for policy and performance improvement.	(73)	59	(14)
Total Neighbourhood Delivery Reserves		(181)	(88)	(269)
REGENERATION AND NEIGHBOURHOODS PORTFOLIO				
Capital Reserve	To fund capital works at Old Rough Lane.	(186)	165	(21)
Enterprise Initiatives	To be used to fund Enterprise and Competitiveness schemes.	(144)	91	(53)
European Social Fund	Contributions towards European Social Fund schemes.	(172)	(15)	(187)
Insurance Excess	To fund future costs associated with unsuccessful highway trip claims.	(58)	58	0
Kirkby Development	Contribution to professional consultancy and advice for Kirkby Development Programme (now consolidated within Council-Wide Reserves).	(105)	105	0
Maintenance and Trading Reserves	For initiatives such as winter maintenance, dangerous tree removal and other maintenance.	(1,007)	408	(599)
Merseyside Partnership	Contribution to the Mersey Partnership for additional inward investment activity.	(50)	50	0
Neighbourhood Regeneration	To be used to fund schemes within the Neighbourhoods Programme.	(342)	(260)	(602)
Neighbourhood Renewal Fund	To fund the pilot Halewood Neighbourhood Initiative.	(10)	(205)	(215)
Performance Improvement	To undertake an in-depth review of Voluntary Sector Grant Aid	0	(91)	(91)
Staffing & Running Costs	Staffing costs for temporary and fixed-term placements, and short term programmes.	(278)	(949)	(1,227)
Strategic Development	For Local Development Framework, Sustainable Communities Strategy, Estates Strategy, Economic Regeneration Strategy.	(300)	33	(267)
Street Lighting PFI	Contribution to development work (now consolidated within Council-Wide Reserves).	(498)	498	0
Total Regeneration and Neighbourhoods Reserves		(3,150)	(112)	(3,262)
Total Council Reserves		(33,926)	(8,585)	(42,511)
SCHOOLS				
Earmarked School Reserves	Consists of individual school balances on delegated budgets and is used to fund future expenditure requirements for the schools' operation.	(7,356)	(1,581)	(8,937)
Total School Reserves		(7,356)	(1,581)	(8,937)

NOTES TO THE BALANCE SHEET

19. 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 31.3.2007	Receipts	Payments	Balance 31.3.2008
	£000	£000	£000	£000
King George V Playing Fields A permanent endowment from the sale of land which occurred from land left to KMBC from benefactors	836	0	0	836
* Health and Social Care Trust Funds	125	51	11	165
Huyton Distress Fund Long standing trust fund - for hardship cases within the area of Huyton	40	3	2	41
Client Records In Social Services Provision Balance of Crispp user fund - part belongs to other authorities - likely to be used in 2008/2009	28	0	0	28
** Children's Services Trust Funds	8	0	0	8
	1,037	54	13	1,078

* Includes -

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 in 2008/2009.

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.

** Includes -

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

Other funds administered by the Council

	Balance 31.3.2007 £000	Receipts £000	Payments £000	Balance 31.3.2008 £000
Charles McGee Established 1982 for the provision of holidays for the disabled who reside in the Borough	5	1		6
Fred Curran Established 1990 - Provision of funding assistance for disabled athletes who reside in the Borough relevant to training for and participation in Special Olympics	49	1		50
Sean Hughes 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	15	0		15
Mayor Charity Established in 1975. To raise funds for charitable purposes in the Borough as the trustees think fit	25	130	130	25
	94	132	130	96

NOTES TO THE BALANCE SHEET

20. 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 had net assets of £0.029m at 31 August 2007 and reported a loss of £0.001m as at that date.

Copies of the company's accounts can be obtained from the Director, Knowsley Development Partnership Ltd., Calder Grange, Knottingley, WF11 8DA.

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 £0.134m at 31 March 2008 and reported a pre tax profit of £0.034m 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.

21. 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 2007/08 it has no such interests.

NOTES TO THE BALANCE SHEET

22. POST BALANCE SHEET EVENTS

Since the financial year end of 31 March 2008, 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.

23. CONTINGENT LIABILITIES

There are no contingent liabilities at 31 March 2008 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.

24. CONTINGENT ASSETS

The Council has no contingent assets as at 31 March 2008.

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	94,867	
Standards Fund	15,803	7,076
Children's Services	1,571	67
Early Years & Sure Start	326	1,743
Other	780	
Learning and Skills Council		
Sixth Form Funding	2,543	
Adult Education	2,260	
Other	120	
Department for Communities and Local Government		
Neighbourhood Renewal Fund	11,318	205
Supporting People	8,345	
Local Area Agreement	6,066	600
New Deal for Communities	1,205	1,000
Regional Housing Pot Capital Grant		4,604
Highways Supported Capital Grant		1,542
Other	1,840	3,118
Department for Work and Pensions		
Council Tax/Housing Benefit Rebates Grant	70,420	
Benefit Verification Framework / Fraud Incentive / Tax Credits	3,345	
Other	215	
Department of Health		
Access and Systems Capacity	2,208	
Preserved Rights Grant	1,397	
Mental Health	1,151	
Partnerships for Older People's Project	784	
Carers Grant	782	
Training Support	671	
Other	1,513	398
Home Office – other	1,013	
Department for Environment, Food & Rural Affairs - other	358	
Grand Total Other Government Grants	230,901	20,353

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>	2006/07 £000	2007/08 £000	£000
General Fund Balance - Surplus for the year	41		242
Non Cash Transactions			
Contribution to reserves / provisions	18,283		19,835
Capital transactions charged to revenue:			
Impairment	(3,290)	(2,099)	
Minimum Revenue Provision / deferred charges	(5,705)	(10,123)	
Revenue Contribution to Capital	625	1,925	(10,297)
	9,954		9,780
Items on an accruals basis			
(Increase)/decrease in stocks	(8)	152	
(Increase)/decrease in debtors	6,331	1,054	
Increase/(decrease) in creditors	(1,721)	3,996	5,202
	14,556		14,982
Net cashflow from revenue activities	14,556		14,982

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 2007		(55,394)
<u>Changes in Net Debt:</u>		
Decrease in cash in the period	(1,652)	
Cash outflow from decrease in debt	(5,542)	
Cash inflow from a decrease in liquid resources	14,760	
	7,566	
Net Debt as at 31st March 2008		(47,828)

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.

	2006/07	2007/08	Cashflow (Increase) / Decrease £000
	£000	£000	
Debt principal due within one year	(758)	(797)	(39)
Debt principal due after one year	(118,026)	(123,529)	(5,503)
	<u>(118,784)</u>	<u>(124,326)</u>	<u>(5,542)</u>
 <u>Management of Liquid Resources</u>			
Cash in Hand	4556	4,393	(163)
Overdraft / Trust Funds Cash	(10,146)	(11,635)	(1,489)
Increase / (Decrease) in Cash	<u>(5,590)</u>	<u>(7,242)</u>	<u>(1,652)</u>
Temporary Loans	0	0	-
Short Term Investments	68,980	83,740	14,760
	<u>68,980</u>	<u>83,740</u>	<u>14,760</u>
Total movement in net debt	<u>(55,394)</u>	<u>(47,828)</u>	<u>7,566</u>

COLLECTION FUND
INCOME AND EXPENDITURE ACCOUNT

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

2006/07		2007/08	
£000		£000	£000
	Income		
(36,633)	Council Tax Receivable		(38,461)
	Transfers from/to General Fund		
<u>(15,352)</u>	- Council Tax Benefit		<u>(16,111)</u>
(51,985)			(54,572)
<u>(30,786)</u>	Income Collectable from Business Ratepayers		<u>(29,891)</u>
<u>(82,771)</u>	Total Income		<u>(84,463)</u>
	Expenditure		
	Precepts and Demands		
44,883	- Knowsley Metropolitan Borough Council	46,928	
2,343	- Merseyside Fire and Rescue Authority	2,438	
<u>5,098</u>	- Police Authority	<u>5,384</u>	
			54,750
30,654	Payment to National Non Domestic Rate Pool	29,760	
<u>132</u>	Costs of Collection	<u>131</u>	
			29,891
<u>83,110</u>	Total Expenditure		<u>84,641</u>
(155)	Contribution from provision for bad and doubtful Council Tax debt		(30)
<u>184</u>	Deficit for the year		<u>148</u>
	Collection Fund Balances		
166	Balance at beginning of year		350
<u>184</u>	Deficit for year		<u>148</u>
<u>350</u>	Deficit at end of year		<u>498</u>

NOTES TO THE COLLECTION FUND

1. COUNCIL TAX BASE 2007/08

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	36,567	24,378
B	£40,001 to £52,000	12,482	9,708
C	£52,001 to £68,000	8,640	7,680
D	£68,001 to £88,000	3,784	3,784
E	£88,001 to £120,000	1,456	1,780
F	£120,001 to £160,000	261	377
G	£160,001 to £320,000	123	205
H	Over £320,000	17	34
		63,330	47,946
Less Exemptions and Discounts			(5,304)
			42,642
Collection Rate (Estimated)			99%
Council Tax Base 2007/08			42,216

2. 2007/08 COUNCIL TAX

The 2007/08 basic amount of Council Tax for properties at Band D was calculated as follows:

	£000	£000
Total Budget Requirement		<u><u>155,523</u></u>
<u>Less Resources:</u>		
Revenue Support Grant	(15,606)	
National Non-Domestic Rate Pool	(92,989)	(108,595)
		<u><u>46,928</u></u>
Demand on the Collection Fund		<u><u>46,928</u></u>
	=	
Demand on the Collection Fund (£000)		<u>46,928</u>
Council Tax Base (Band D Equivalents)		<u>42,216</u>
= Basic Amount of Council Tax at Band D		<u><u>1,111.61</u></u>

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 (43.3p in 2006/07 and 44.4p for 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 2007/08 was based on a rateable value as at 31 March 2007 of £87.300m (£85.440m at 31 March 2006).

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF KNOWSLEY METROPOLITAN BOROUGH COUNCIL

We have audited the financial statements of Knowsley Metropolitan Borough Council for the year ended 31 March 2008 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 Statement of Total Recognised Gains and Losses, the Balance Sheet, the Cash Flow Statement, the Collection Fund and the related notes. The financial statements have been prepared under the accounting policies set out within them.

Respective Responsibilities of the Borough Treasurer and Auditors

The Borough Treasurer's responsibilities for preparing the financial statements in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007 are set out in the Statement of Responsibilities for the Financial Statements.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (United Kingdom 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 36 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 Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007, the financial position of the Council and its income and expenditure and cashflows 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 Council'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 and the code of Audit Practice issued by the Audit Commission, which requires compliance with International Standards on Auditing (United Kingdom 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. It also includes an assessment of the significant estimates and judgements made by the Council in the preparation of the financial statements and of whether the accounting policies are appropriate to the Council'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 are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we evaluated the overall adequacy of the presentation of the information in the financial statements.

Opinion

In our opinion the financial statements present fairly, in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007, the financial position of Knowsley Metropolitan Borough Council as at 31 March 2008 and its income and expenditure and cash flows for the year then ended.



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

30 September 2008

Notes:

- (a) The maintenance and integrity of the Knowsley Metropolitan Borough Council's 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.

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

Council's Responsibilities

The Council is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to regularly 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 Council 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 Council has made such proper arrangements. We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Conclusion

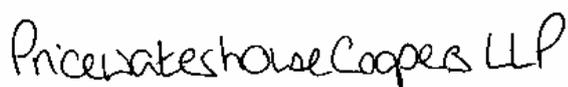
We have undertaken our audit in accordance with the Code of Audit Practice and we are satisfied that, having regard to the criteria for principal local authorities specified by the Audit Commission and published in December 2006, in all significant respects, Knowsley Metropolitan Borough Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2008.

Best Value Performance Plan

We issued our statutory report on the audit of the authority's best value performance plan for the financial year 2006/07 on 19 December 2007. We did not identify any matters to be reported to the authority and did not make any recommendations on procedures in relation to the plan.

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
Manchester
M2 3PW
30 September 2008

GLOSSARY OF TERMS

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.

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.

DEFERRED CHARGES

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

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.

OVERHEADS

Certain costs within Directorates providing support such as Accountancy and Legal 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.

PRECEPTS

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

PUBLIC WORKS LOANS BOARD

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

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 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.

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.