



# STATEMENT OF ACCOUNTS

**2005 - 2006**

**GOVERNANCE & AUDIT COMMITTEE  
20<sup>TH</sup> SEPTEMBER 2006**

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## **FOREWORD TO THE 2005/06 STATEMENT OF ACCOUNTS**

This foreword aims to help readers understand Knowsley Council's Statement of Accounts for 2005/06. It explains the various accounting statements within the overall Accounts, and provides a brief explanation of the Council's overall financial position at 31 March 2006.

### **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 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 Responsibilities**

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

#### **Statement on the System of Internal Control**

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

#### **Statement of Accounting Policies**

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

### **Main Financial Statements and Explanatory Notes**

#### **Consolidated Revenue 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.

#### **Collection Fund**

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

#### **Consolidated Balance Sheet**

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

#### **Statement of Total Movement in Reserves**

This shows changes in how much money the Council has set aside for future expenditure.

#### **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.

### **SUMMARY OF THE 2005/06 ACCOUNTS**

#### **How the Council spent its money**

Knowsley decides how to spend its money when it sets its annual budget. This is part of a rolling three-year plan which gives each service "Portfolio" an annual amount of money (a "cash limit") to spend on providing Council services. As part of setting the budget, the Council adjusts cash limits to meet new service demands and to promote efficiency savings that redirect money to priority areas. Not surprisingly, service demands for more money far outweigh what is actually available in the year so the Council has to ensure that it allocates the extra money to areas of high priority, and that it continues to link its use of resources to achieving improved performance.

The day-to-day costs of providing Council services are known as “revenue” expenditure. The total revenue cost during 2005/06 was £470.134m, and this is shown in the revenue account using the Government’s “Best Value” analysis of expenditure. The table below shows how much was spent by each Council Portfolio:

<b>Service Portfolio</b>	<b>£m</b>	<b>%</b>
Education and Lifelong Learning	166.076	35
Finance and Information Society Technologies	85.836	18
Health and Social Care	79.961	17
Regeneration and Neighbourhoods	51.027	11
Environment and Operational Services	28.982	6
Leisure, Community and Culture	27.938	6
Corporate and Customer Services	14.184	3
Community Safety and Social Inclusion	8.545	2
Leader’s Portfolio	7.585	2
<b>TOTAL</b>	<b>470.134</b>	<b>100</b>

In providing these services, the Council spent its money on the following type of expenditure:

<b>Category of Expenditure</b>	<b>£m</b>	<b>%</b>
Running Expenses	197.451	42
Employees	185.259	39
Benefits payments	50.046	11
Capital Charges	37.378	8
<b>TOTAL</b>	<b>470.134</b>	<b>100</b>

### Where the money comes from

In 2005/06, the Council used money from several sources to pay for the revenue costs of services. Most of this money came directly from the Government as either general Revenue Support Grant or other grants for specific services. Only 9% of the Council’s money came from the Council Tax. Each year, the Council reviews its charging policies to ensure that it receives the optimum amount of income from fees and charges to help provide services within its limited financial resources.

<b>Source</b>	<b>£m</b>	<b>%</b>
Government Grants for specific services	144.199	31
Government’s Revenue Support Grant	137.203	29
Use of Council’s reserves for specific services	56.534	12
Business Rates Grants	50.065	11
Council Tax receipts	43.294	9
Fees and charges for services	39.005	8
<b>TOTAL</b>	<b>470.300</b>	<b>100</b>

The difference between the total cost of services (£470.134m) and the total funding (£470.300m) is the Council’s overall surplus of £0.166m for the year. As a result of the overall surplus, the Council’s general balances at 31 March 2006 have increased to £4.593m, which represents 2% of the Council’s 2005/06 budget and is in line with the Council’s policy. The Council’s general balances 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 Assets and Liabilities

The balance sheet shows the Council's assets and liabilities as at 31 March 2006. As well as the general balances, the Council holds a number of specific reserves which Portfolios have set aside for the future. At 31 March 2006, the total of these reserves was £31.769m, and full details of these are set out within Note 15 to the Council's balance sheet.

In 2005/06, the Council spent £36.298m on acquiring or improving buildings and other assets (known as "capital" expenditure). These are shown as "additions and other expenditure" on the Council's balance sheet and are summarised in Note 1 to the balance sheet. The table below shows the expenditure for each Council Portfolio:

Service Portfolio	£m	%
Regeneration and Neighbourhoods	17.917	50
Education and Lifelong Learning	9.252	25
Leisure, Community and Culture	5.437	15
Finance and Information Society Technologies	1.576	4
Environment and Operational Services	1.247	3
Health and Social Care	0.649	2
Corporate and Customer Services	0.220	1
<b>TOTAL</b>	<b>36.298</b>	<b>100</b>

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

Source of Funding	£m	%
Government Grants	15.281	42
Borrowing	11.988	33
Capital Receipts	7.447	21
Contributions from revenue	1.176	3
Other Contributions	0.406	1
<b>TOTAL</b>	<b>36.298</b>	<b>100</b>

## 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.

At the end of 2005/06, the Council's share of the Fund was a net liability of £151.228m, compared with £147.781m the previous year (an increase of 1%). However, as a result of the policy to balance the Fund in the long term, the Council's 'share' of the Fund is now 69% funded (compared to 65% at the end of 2004/05). This position is expected to improve further in subsequent years and is closely monitored by the Pension Fund.

## Major Influences on the 2005/06 Accounts

In 2005, the Audit Commission changed the way that it measures a Council's performance by increasing the focus on financial management. In October 2005, the Council's external auditors (PricewaterhouseCoopers) completed their "Use of Resources Assessment" and the results showed that the Council was one of the best performing local authorities in the country. The results also 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.

There have been no major changes in the accounting policies that the Council has applied when compiling the 2005/06 Accounts and there are no unusual or exceptional items included within the costs of services.

This year, the Council will also publish a summarised version of the audited accounts, which will provide a more user-friendly overview of the key figures for 2005/06. This will be available on the Council's website.

## Future Developments

The Council has again achieved the Government's requirement for approval of the Accounts by 30 June each year. However, for 2006/07, the national requirements for preparing the Accounts are expected to contain significant changes in the content and structure of the accounting statements - designed to make them more user friendly and understandable. The Council will develop its processes for preparing the accounting statements to ensure that it meets these new requirements whilst continuing to achieve the approval timetable.

In 2006/07, the Council will invest more money in priority services while continuing to ensure affordable levels of Council Tax. The Council will do this by continuing to make efficiency savings a central part of its financial plans. There will also be the development of innovative new approaches to neighbourhood service delivery. The Council's budget for 2006/07 and its reserves at 31 March 2006 include resources that have been set aside for these initiatives.

A further change in the Council's budget for 2006/07 is that schools will be funded by direct grant, and not through the general Revenue Support Grant the Council receives from the Government to pay for its services.

Full details of the Council's budget for 2006/07 and of how Council Tax bills are calculated are set out in the 2006/07 Budget leaflet.

## 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. If you have any comments on any aspect of the Statement of Accounts, please contact Dan Barlow by email at [dan.barlow@knowsley.gov.uk](mailto:dan.barlow@knowsley.gov.uk) or by phone on 0151 443 3622.



**MIKE HARDEN CPFA**  
**BOROUGH TREASURER**

## 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 2005/06 Statement of Accounts presents fairly the financial position of the Council at 31 March 2006 and its income and expenditure for the year ended 31 March 2006.



MIKE HARDEN 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 28 June 2006.



COUNCILLOR RON ROUND JP  
Chairman of the Governance and Audit Committee

## STATEMENT ON INTERNAL CONTROL 2005/06

### 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 ensuring that there is a sound system of internal control which facilitates the effective exercise of the Council's functions and which includes arrangements for the management of risk.

### 2. The Purpose of the System of Internal Control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives. Therefore, the system of internal control can 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.

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.

The system of internal control has been in place at the Council for the year ended 31 March 2006 and up to the date of approval of the annual report and accounts.

### 3. The Internal Control Environment

The Council's system of internal control is based fundamentally around the Constitution and is supported by numerous procedure rules, codes of practice, procedure manuals, management supervision, and a system of delegation and accountability. A policy framework representing the governance arrangements of the Council has been formally adopted into a local Code of Corporate Governance, including the establishment of the Governance and Audit Committee charged with governance matters. This brings together all aspects of corporate governance, grouped by community focus, service delivery arrangements, structure and processes, risk management and internal control, and standards of conduct, which are cross referenced to actual practices and activities. The elements which make up the Constitution are reviewed at least once each year and amended if necessary.

A significant part of the Code of Corporate Governance is the internal control environment and the key elements that the Council had in place in 2005/06 include:-

- The Constitution, which defines and facilitates policy and decision-making processes, and also defines the:-
  - role of Scrutiny Committees;
  - Member and Employee Codes of Conduct;
  - Scheme of Delegation;
  - 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;
  - mechanisms for ensuring compliance with established policies, procedures, laws and regulations;
  - arrangements for whistle-blowing, investigating suspected financial irregularities, and complaints procedures; and,
  - Anti-Fraud and Corruption Policy;
- The Corporate Risk Management Strategy, 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.
- The 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 independent external auditor and other inspection bodies, for example the Benefit Fraud Inspectorate, the Commission for Social Care Inspection, and Office for Standards in Education.

#### **4. Review of Effectiveness**

The Council has responsibility for conducting, at least annually, a review of the effectiveness of the system of internal control. The review of the effectiveness of the system of internal control is informed by the work of internal audit and the managers within the Council who have responsibility for the development and maintenance of the internal control environment and also by comments made by the external auditors in their Annual Audit Letter and other review agencies' and inspectorates' reports.

The more stringent Comprehensive Performance Assessment from 2005 places greater emphasis on outcomes for local people and value for money. Under these criteria, the Council is recognised as a top performing four-star authority and 'improving well'. Favourable comments were made about the management of performance, public satisfaction ratings and priority service delivery in many areas, including education, social services, benefits, and regeneration.

One of the Council's key review mechanisms is the various Scrutiny Committees, which have examined independently various services and review topics, including a significant role in the budget setting process and the identification of efficiency savings.

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. In discharging these functions during the year, neither officer was required to report any adverse matters under these Acts. In February 2006, the Standards Board for England commenced an investigation into a Member's conduct. There were no complaints to the Ombudsman in 2005/06 that found maladministration against the Council or causing any injustice to the complainant.

During the year, governance was strengthened by the introduction of a money laundering policy, and both the arrangements for investigating suspected financial irregularities and also the policies on Elected Members' and employees' use of computers (including email and internet) were revised fully. The latter policies make clear the responsibilities of users in maintaining secure access to computers and maintaining the integrity of electronic processing and authorisation and state that failure to do so may result in disciplinary action. In accordance with the Council's Anti-Fraud and Corruption Policy, and to ensure that the Council has a flexible and effective response, a specialist Corporate Counter-Fraud Unit was established in 2005/06 to manage and co-ordinate all investigative and counter-fraud activity. The Council's Irregularity Panel met at various times during the year to deal with a total of thirteen suspected financial irregularities. None of the cases were major financial irregularities and appropriate action was taken in all instances to ensure that any control weaknesses were properly addressed. From the system and risk-based audits undertaken across the Council during 2005/06 and the actions taken by management, the Head of Audit Operations is able to conclude that there are sound internal financial control systems in place. The Head of Audit Operations 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, is submitted to the Governance and Audit Committee.

Principally, it is the managers within the Council who are responsible for the development and maintenance of the internal control environment. Therefore, in order to provide assurance that those controls and arrangements are in place, senior officers within each Directorate are required to complete an evidenced self-assessment review document and a resultant action plan for strengthening internal controls further. The self-assessment checklist is based on the recommended practices contained in the Chartered Institute of Public Finance and Accountancy's Rough Guide to the Statement on Internal Control. An internal audit on the internal control self-assessment review process identified that Directorates did revisit their action plans and that, on average, 80% of tasks to improve internal controls were found to be completed or at least partially implemented. Outstanding internal control actions are carried forward into the 2006/07 action plans and will be fully implemented at a later date. In addition, the requirement to review internal controls has become more clearly embedded in the management of each Directorate.

The issues arising from the internal control review were reported to the Council's Governance and Audit Committee on 28 June 2006. A common theme contained within the resultant action plans is the focus on ensuring that employee awareness of procedures and processes is improved. Greater importance has been given to employee communication as Directorates reorganise and activities move towards the neighbourhood-centred Concept Knowsley.

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 the priorities within Directorate 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 use to enable the tracking of controls and actions taken. The inter-departmental Corporate Risk Management Group meets regularly to co-ordinate, monitor and develop risk management across the Council. During the year, appropriate Members were given awareness training on risk management.

Each year, Financial Procedure Rules are reviewed to ensure there are effective financial controls that reflect any changes and developments in the Council's financial administration. 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.

Rapid improvements in the Benefits service have shifted its assessment from a Benefit Fraud Inspectorate score of '1' in 2002 to '4' in 2005. The 2005 Comprehensive Performance Assessment report issued by the Benefit Fraud Inspectorate commented positively on the sustained improvement which had been achieved over the previous two years. The Council met or exceeded the Standard for all Performance Measures for processing claims, security, and user focus. In addition, the Council met the majority of 'enablers', which are the other key criteria against which the service is assessed.

The Office for Standards in Education reviewed the education and children's social care services in June 2005 and judged the Council's capacity to improve its services as excellent. This judgement was based upon the Council's track record of improving outcomes for children and young people, its positive response to the 'every child matters' agenda, the extent of current joint working, and the clarity of its strategic planning and vision. Previous criticisms about surplus school places are being addressed via the Statement of Implementation, published in October 2004. This detailed a range of proposals to improve school place planning, a subset of which were approved by the School Organisation Committee in 2005/06.

In January 2006, the Audit Commission reported that the arrangements established by the Council for ensuring the legality of significant financial transactions were robust, governance is generally sound, no significant weaknesses were identified in the arrangements for preventing and detecting fraud and corruption, and that strong financial management is supported by risk management. Regarding the National Fraud Initiative, the Commission stated that the Council is thorough in its approach to reviewing matches, reporting outcomes, and taking appropriate remedial action. However, the actions that were brought to the Council's attention can be summarised as:-

- priority needs to be given to ensuring there are robust arrangements for reconciling key financial systems to the main accounting system; and,
- key employee policies, in particular the early retirement policy, need to be kept up to date.

In each case, appropriate action by the relevant officers is being taken to make improvements in these areas.

In overall terms, it was stated that the control environment is sound and is reviewed and supported by an effective internal audit function. Financial standing is strong and the arrangements for preparing and publishing the financial statements are good and improving.

The Use of Resources assessment is a new assessment by the Audit Commission which focuses on financial management and the links to the Council's strategic management. It looks at how resource management is integrated with strategy and corporate management, supports Council priorities, and delivers value for money. One of the five aspects reviewed is internal control. The assessment concluded that the Council is performing at a high level and is indeed one of the best performing metropolitan authorities, with an overall achievement of 'Level 3' (consistently above minimum requirements and performing well).

On 28 June 2006, the Governance & Audit Committee on 28 June 2006 considered the implications of the review of the effectiveness of the system of internal control and noted that plans to address weaknesses and ensure continuous improvement of the system are in place.

## 5. Significant Internal Control Issues

Taking into account the actions of the Chief Financial Officer and the Monitoring Officer, the review performed by senior managers, internal audit, and the various external reviews that were reported to the Council, the Cabinet, or the Governance and Audit Committee during 2005/06, we can conclude reasonably that there are no unresolved and significant internal control issues.

The rapid pace of developments and changes in the way the Council undertakes its business, for example neighbourhood delivery of services, partnerships, trusts, joint ventures, and eCouncil initiatives, mean that internal controls need to develop, continue to be monitored closely, and be subject to regular review.

Signed:-



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



**Sheena Ramsey  
Chief Executive**



**Mike Harden CPFA  
Borough Treasurer**

**28 June 2006**

## STATEMENT OF ACCOUNTING POLICIES

The Council's accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting (2005/06) as issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). Expenditure and income in the Consolidated Revenue Account, including the cost of support services, have been analysed in accordance with the Best Value Accounting Code of Practice.

## ACCOUNTING CONCEPTS

### Accruals

The financial statements, other than the cash flow information, are prepared on an accruals basis. An accruals basis means that the non-cash effects of transactions are reflected in the accounts in the period when experienced and not in the period when the cash is paid or received. Hence, employee costs are accounted for in the period, within which they worked, goods and services when they are consumed or received, income when it is due, and external interest income or interest payable on borrowings in the period that reflects the overall economic effect of the transactions.

### 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.

### Primacy of Legislative Requirements

Councils derive their powers from statute and the financial and accounting framework is closely controlled by primary and secondary legislation. To the extent that law prescribes accounting treatments, the accounting concepts may not apply in all cases. 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 balances provide the Council with flexibility to meet unforeseen expenditure pressures. Decisions on the Council's level of balances form part of the medium term financial plan and annual budget setting process. As in previous years, the Council's policy for 2005/06 is to ensure that general balances equate to 2% of the net budget requirement.

## 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 financing reserve. 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 2004/05 have been changed, these are marked with an asterisk and the background of these restatements are detailed in the notes to the accounting statements.

## 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.

## FIXED ASSETS

### 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 Institution of Chartered Surveyors, by Mr M Fagan, Fellow of the Royal Institute of Chartered Surveyors, a Knowsley Borough Council employee. They are classified into the groupings required by the 2004 Code of Practice on Local Authority Accounting and the valuations have been determined as follows:

- land, operational properties and other operational assets are valued at the lower of net current replacement and net realisable value and were valued as at 31<sup>st</sup> March 2006;
- non-operational assets, including investment properties and industrial properties are valued at the lower of net current replacement cost and net realisable value. The last valuation of these assets was as at 31<sup>st</sup> March 2006. Miscellaneous leases and surplus properties were last revalued at 31<sup>st</sup> March 2005. In the case of investment properties, this is normally open market value. Tangible fixed assets under construction are included, at historical cost;
- infrastructure assets are at historical cost, net of depreciation; and,
- community assets are at historical cost, net of depreciation.

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.

### b) Intangible fixed assets

An intangible item can be 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, artistic original 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 a fixed asset's market value during the period, obsolescence or physical damage to the fixed asset, a significant adverse change in the Council's statutory environment, or a significant reorganisation. Where a material impairment loss occurs and the loss can be attributed to the clear consumption of economic benefits, the service revenue accounts are charged in the year in which the impairment has arisen. The Council's Asset Management Group is responsible for monitoring and identifying any impairment events.

### **d) Capital charges**

All revenue accounts are charged with a capital charge for fixed assets used in the provision of services. The charge covers the annual provision for depreciation plus a capital financing charge determined by applying the specified notional rate of 3.5% for assets carried at current cost and 4.6% for assets carried at historic cost. After being charged to services, capital charges are reversed out via the Asset Management Revenue Account and replaced with depreciation and external interest. The aggregate charge to individual services is determined on the basis of the capital employed in each service.

### **e) Depreciation**

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, whilst assets in the course of construction are not depreciated until they are brought into use. Depreciation is calculated using the straight line method.

## **GOVERNMENT GRANTS**

Government grants and subsidies are credited to the appropriate revenue and capital accounts to match the expenditure to which they relate. Accruals have been made for balances known to be receivable for the period to 31st March 2006. Where the acquisition of a fixed asset has been financed either wholly or partly by a government grant, the amount of the grant is credited initially to the government grants deferred account. Amounts are released to the asset management revenue account over the useful life of the asset to which it relates to match the depreciation charged on the asset.

## **GROUP ACCOUNTS**

Councils with, in aggregate, material and controlling interests in subsidiary and associated companies and joint ventures, 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. An assessment of these criteria has shown that the Council is not required to produce group accounts for the period to 31<sup>st</sup> March 2006.

## **INTERNAL INTEREST**

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

## LEASING

The Council's policy on leasing is generally to encourage the use of prudential borrowing for the acquisition of vehicles and equipment, and thereby avoid the use of operating leases or finance leases, as this is a more economic approach for the Council. Where material leasing arrangements are still in existence, the Council accounts for these in its revenue accounts and on the balance sheet as an operating lease. The Council currently has operating leases relating to vehicles, plant, furniture and equipment. Rental payments under operating leases are included in the accounts as revenue transactions.

## OVERHEADS

In order to reflect fully the total cost of services, overheads such as the cost of support staff and offices, are allocated in accordance with the Best Value Accounting Code of Practice (BVACOP). The costs of Corporate and Democratic Core and non-distributable costs are not charged or apportioned to services but are separately classified on the Consolidated Revenue Account. Corporate and Democratic Core costs are those associated with democratic representation and management and include all aspects of Members' activities. Corporate Management concerns the cost of the infrastructure that allows services to be provided. Non-distributed costs comprise certain pension costs and the costs of unused share of IT facilities and other assets.

## PENSIONS

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 Education and Skills (DfES). Although the scheme is unfunded, the Government has established a notional fund as the basis for calculating employers' contributions. The contributions to the Consolidated Revenue Account are charged as they become payable.

### 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 Funds actuary. This is based on a triennial valuation which was last completed in March 2004. Under pension fund regulations the contribution rates are required to meet 100% of the statutory liabilities of the fund. The average age of the Council's active members of the scheme has changed from 42.3 years as at 31 March 2001 to 41.5 years at 31 March 2004.

The costs of providing retirement benefits are shown in the accounts when they are earned by employees, rather than when the benefits are eventually paid as pensions, in accordance with Financial Reporting Standard 17 Retirement Benefits. There is no effect on the net surplus/deficit in the Consolidated Revenue Account, and the Total Liability shown in the Balance Sheet is offset by an equivalent contribution from the Council's Pension Reserve. Full details are shown in Note 11 to the Consolidated Revenue Account, Note 14 to the Balance Sheet and Note 1 to the Statement of Total Movements in Reserves.

## **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 that have been incurred, although there may be uncertainty as to the precise amounts concerned or the dates on which the liabilities arise. The accounting policy adopted is to create a provision by debiting revenue when a reliable estimate of the liability can be made and then charge the eventual settlement against the provision. Provisions for bad debts are calculated by using an assessment of the likely level of future write-off, taking into account factors such as the age of the debt, or (in the case of Council Tax debt) the status of debt collection. Details of Provisions held at 31st March 2006 are shown in Note 10 to the Consolidated Balance Sheet.

## **REPURCHASE OF BORROWING**

Gains (discounts received) or losses (premiums paid) from the repurchase or early settlement of borrowing are recognised in the Consolidated Revenue Account in the period when the repurchase or early settlement is made. Where the repurchase of borrowing was coupled with a refinancing or restructuring of borrowing with substantially the same overall economic effect when viewed as a whole, any net gains or losses are recognised over the life of the replacement borrowing.

## **RESERVES**

These are amounts earmarked for specific policy purposes, and balances, which represent set aside resources such as general contingencies. Each year, the Council undertakes a rigorous review of reserves to ensure that they remain appropriate and aligned to the Council's priorities. The accounting policy for reserves is that the amount is appropriated from revenue after net operating expenditure and these are available to be appropriated back to the consolidated revenue account in the year the expenditure is incurred. Details of Reserves held at 31st March 2006 are shown in the Statement of Total Movement in Reserves and Notes 11 - 15 to the Consolidated Balance Sheet.

## **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 has developed a new system that will be introduced during 2006/07 that is compliant with SSAP 9. Work in progress is valued at cost including an allocation of overheads.



## NOTES TO THE CONSOLIDATED REVENUE ACCOUNT

### 1. 2004/05 COMPARATIVE FIGURES

The 2004/05 comparative figures have been adjusted to ensure comparability with the 2005/06 figures. The restatements include:

- a) removal of the surpluses on trading operations from the net cost of Council services and show them as a separate item (see Note 3 below)
- b) Reclassification of Housing and Council Tax Benefits income and expenditure, from Central Services to the Public to Housing Services in accordance with the Best Value Accounting Code of Practice classification.
- c) Adjustments to reflect the exclusion of contributions to, and appropriations from Reserves in accordance with the Best Value Accounting Code of Practice classification.

The impact of these adjustments are shown in the table below.

#### Amendments to Draft Statement of Accounts

	<b>2004/05 Original</b>	<b>2004/05 Restated</b>
	<b>£000</b>	<b>£000</b>
<b><u>Services</u></b>		
Central Services to the Public	3,735	2,932
Cultural, Environmental & Planning Services	52,494	53,126
Education Services	109,991	102,201
Highways, Roads & Transport Services	13,636	14,157
Housing Services	772	1,575
Social Services	47,380	44,360
Corporate & Democratic Core	15,227	13,209
Non Distributed Income	4,076	4,076
<b>Net Cost of Services</b>	<b>247,311</b>	<b>235,636</b>
Contributions to Reserves		
- Schools Balances	(499)	543
- Other Reserves	(3,771)	6,862
	<b>(4,270)</b>	<b>7,405</b>

## NOTES TO THE CONSOLIDATED REVENUE ACCOUNT

### 2. NET COST OF SERVICES

#### 2.1 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.

#### 2.2 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 unused shares of IT facilities and other assets.

### 3. 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.

	2004/05			2005/06		
	Turnover	Total Spend	(Surplus) /Deficit	Turnover	Total Spend	(Surplus) /Deficit
Organisation	£000	£000	£000	£000	£000	£000
Highways and Sewerage	3,830	4,188	358	4,093	4,544	451
Transport	3,605	3,768	163	3,602	3,321	(281)
School Meals	5,046	4,785	(261)	5,508	5,017	(491)
Building Cleaning	3,610	3,698	88	4,033	3,980	(53)
<b>Net (Surplus)/Deficit</b>	<b>16,091</b>	<b>16,439</b>	<b>348</b>	<b>17,236</b>	<b>16,862</b>	<b>(374)</b>

## NOTES TO THE CONSOLIDATED REVENUE ACCOUNT

### 4. ASSET MANAGEMENT REVENUE ACCOUNT

	<b>2004/05</b>	<b>2005/06</b>
	<b>£000</b>	<b>£000</b>
Capital charges made to service revenue accounts		
- General Fund	(28,009)	(30,420)
- Trading Operations	(64)	(63)
- Impairment of assets	(345)	(2,283)
	<u>(28,418)</u>	<u>(32,766)</u>
Provision for depreciation	9,481	9,508
External interest charges	5,317	5,701
Adjustment for Impairment Loss	345	2,283
	<u>15,143</u>	<u>17,492</u>
<b>Transfer to Consolidated Revenue Account</b>	<u>(13,275)</u>	<u>(15,274)</u>

### 5. PROVISION FOR REPAYMENT OF EXTERNAL LOANS

This represents the actual principal repayments of other external loans. These comprise payments for transferred debt held by other authorities.

	<b>2004/05</b>	<b>2005/06</b>
	<b>£000</b>	<b>£000</b>
Transferred Debt Repayments	583	617
Transferred Debt Income	<u>(10)</u>	<u>(10)</u>
<b>Net Charge to the Revenue Account</b>	<u>573</u>	<u>607</u>

### 6. STATUTORY AMOUNT TO BE SET ASIDE FOR THE REPAYMENT OF LOANS PRINCIPAL

	<b>2004/05</b>	<b>2005/06</b>
	<b>£000</b>	<b>£000</b>
Minimum Revenue Provision	4,553	4,090
Less: Amounts charged to the Revenue Account		
Amount charged as depreciation against the Revenue Account	(10,788)	(11,965)
Depreciation on Government Grant write off	1,305	2,457
Deferred Charges (net of grant)	<u>(4,035)</u>	<u>(5,862)</u>
<b>Net Charge to the Revenue Account</b>	<u>(8,965)</u>	<u>(11,280)</u>

## NOTES TO THE CONSOLIDATED REVENUE ACCOUNT

### 7. 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 consolidated revenue account, within the net cost of services and is separately identified in the table below:

	2004/05 £000	2005/06 £000
Recruitment Advertising and Other Publicity	1,786	1,583
Media and Customer Relations Unit	155	145
	<b>1,941</b>	<b>1,728</b>

### 8. SECTION 137 PAYMENTS

Section 137 of the Local Government Act 1972 enables a local authority to incur expenditure up to the product of £5.00 per head of relevant population, for the benefit of people in its area, on activities or projects not specifically authorised by other powers. Expenditure amounted to £0.029m in 2005/06 (£0.029m in 2004/05) compared to a maximum allowable level of £0.749m. The majority of this expenditure relates to the provision of grants to voluntary bodies.

### 9. AGENCY WORK

The Council has had no agency agreements in place during 2005/06.

### 10. LOCAL AUTHORITY (GOODS AND SERVICES) ACT 1970

Under this Act, the Council provided no significant services to public bodies during 2005/06. This Act allows local authorities to form consortia to enable more effective procurement of goods and services. The Council is a member of the Yorkshire Purchasing Organisation, a consortium with other local authorities. Expenditure on purchases made through this consortium totalled £1.030m in 2005/06 (£1.050m in 2004/05) and the Council received £0.200m (£0.190m in 2004/05) as a share of profits for being a member of this consortium.

## NOTES TO THE CONSOLIDATED REVENUE ACCOUNT

### 11. PENSION COSTS

The Council participates in two pension schemes. Further details of these are set out in the Statement of Accounting Policies.

**Teachers:** In 2005/06, the Council paid an employer's contribution of £6.498m (£6.355m in 2004/05), representing 13.5% (13.5% in 2004/05) of employees' pensionable pay, to the Department for Education and Skills 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 2005/06, these amounted to £1.421m (£1.520m in 2004/05), representing 3% (3.2% in 2004/05) of pensionable pay.

**Other Employees and Members:** In 2005/06, the Council paid an employer's contribution of £11.630m (£10.734m in 2004/05), representing 14.9% (14.4% in 2004/05) 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 2005/06, these amounted to £1.875m, representing 2.4% of pensionable pay (including in-year retirements costs which amounted to £0.163m).

The transactions that are included in the 2005/06 Consolidated Revenue 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 Consolidated Revenue Account after Net Operating Expenditure.

	Merseyside Pension Fund		Teachers Added Years		Total	
	2004/05 £000	2005/06 £000	2004/05 £000	2005/06 £000	2004/05 £000	2005/06 £000
<b>Net Cost of Services</b>						
Current Service Cost	11,017	12,584	0	0	11,017	12,584
Past Service or Curtailment or Settlement Costs	2,761	(6,399)	63	0	2,824	(6,399)
	<u>13,778</u>	<u>6,185</u>	<u>63</u>	<u>0</u>	<u>13,841</u>	<u>6,185</u>
<b>Net Operating Expenditure</b>						
Interest Cost	20,826	23,196	969	945	21,795	24,141
Expected Return on Assets	(16,132)	(18,097)	0	0	(16,132)	(18,097)
	<u>4,694</u>	<u>5,099</u>	<u>969</u>	<u>945</u>	<u>5,663</u>	<u>6,044</u>
<b>Amount to be met from Government grant and local taxpayers</b>						
Movement on pensions reserve	(6,339)	2,040	251	354	(6,088)	2,394
	<u>(6,339)</u>	<u>2,040</u>	<u>251</u>	<u>354</u>	<u>(6,088)</u>	<u>2,394</u>
<b>Actual amount charged in the year</b>						
Employer contributions	12,133	13,324	1,283	1,299	13,416	14,623
	<u>12,133</u>	<u>13,324</u>	<u>1,283</u>	<u>1,299</u>	<u>13,416</u>	<u>14,623</u>

Source: Mercer Human Resource Consulting Ltd

## NOTES TO THE CONSOLIDATED REVENUE ACCOUNT

### Changes to Local Government Pension Scheme – 2006/07

With effect from 6 April 2006, a change to the Local Government Pension Scheme means that members can opt to increase their lump sum by reducing their annual pension entitlement. If a retiree takes up the option, the overall value of their retirement benefits is projected to fall, therefore giving the Authority a pension gain. The figures in this statement of accounts have not taken into account the potential effect in 2006/07 which this may have on any pension gain or loss in 2005/06. An estimate of the effect cannot be made until some experience is known during 2006/07 which will give a representative sample on which to estimate the potential impact of these changes.

### Reference to other notes in the accounts

Note 14 to the Consolidated Balance Sheet contain details of the assumptions made in estimating the above figures. Note 1 to the Statement of Total Movements in Reserves details the movement in the pensions reserve arising from actuarial gains or losses.

## 12. EMPLOYEE'S REMUNERATION OVER £50,000

The table below shows the number of employees whose remuneration for 2005/06, 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	
	2004/05	2005/06
£50,000 - £59,999	41	47
£60,000 - £69,999	20	28
£70,000 - £79,999	5	4
£80,000 - £89,999	6	2
£90,000 - £99,999	1	5
£100,000 - £109,999	4	1
£110,000 - £119,999	0	2
£120,000 - £129,999	2	2
£130,000 - £139,999	1	1
£140,000 - £149,999	0	0
£150,000 - £159,999	0	0
£160,000 - £169,999	0	1
£170,000 - £179,999	0	0
£180,000 - £189,999	0	1
£230,000 - £239,000	1	0
<b>TOTAL</b>	<b>81</b>	<b>94</b>

## NOTES TO THE CONSOLIDATED REVENUE ACCOUNT

### 13. MEMBERS' ALLOWANCES

During 2005/06, the Council paid a total of £0.783m in respect of Members' Allowances (£0.755m in 2004/05). Further details can be obtained from the Head of Democratic Services, Corporate Resources Department, Municipal Buildings, Huyton.

### 14. 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 2005/06:

#### 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.

#### Subsidiary and Associated Companies

Details of the Council's interests in companies are set out in Note 17 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 19 to the Consolidated Revenue Account). The Partnership Board includes four Members and six 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.

- **Pension Fund**

Full details of the Council's Pension Fund transactions are disclosed in Note 11 to the Revenue 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 £9.728m in payments and £6.882m in receipts. Three Members of the Council are Board Members and have declared an interest.

#### Members' Interests

Members of the Council have direct control over the Council's financial and operational policies. During 2005/06, works and services totalling £0.109m were commissioned from companies in which three Members had an interest. Contracts were entered into in full compliance with the Council's Constitution. Payments and grants totalling £5.086m were paid to housing associations, hospital trusts, and voluntary organisations in which 29 Members had an interest. In all cases, the relevant Members have declared their interest and taken no part in any discussion or decision relating to the transactions.

## NOTES TO THE CONSOLIDATED REVENUE ACCOUNT

### 15. 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.

	<b>2004/05</b>		<b>2005/06</b>	
	<b>Total</b>	<b>Chargeable</b>	<b>Non</b>	<b>Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b><u>Expenditure</u></b>				
Employee Expenses	255	141	94	235
Premises	10	6	4	10
Supplies and Services	38	94	63	157
Central and Support Services	52	45	30	75
<b>Total Expenditure</b>	<b>355</b>	<b>286</b>	<b>191</b>	<b>477</b>
<b><u>Income</u></b>				
Building Regulation Charges	(327)	(313)	0	(313)
<b><u>Net (Surplus)/Deficit</u></b>	<b>28</b>	<b>(27)</b>	<b>191</b>	<b>164</b>

## NOTES TO THE CONSOLIDATED REVENUE ACCOUNT

### 16. OPERATING AND FINANCE LEASES

#### 16.1 Council as a Lessee

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

	2004/05			2005/06		
	Operating Lease £000	Finance Lease £000	Total £000	Operating Lease £000	Finance Lease £000	Total £000
Wheeled Bins	111	0	111	119	0	119
Vehicles	1,104	0	1104	989	0	989
Other	666	0	666	513	1	514
	<b>1,881</b>	<b>0</b>	<b>1,881</b>	<b>1,621</b>	<b>1</b>	<b>1,622</b>

The Council has future operational leasing obligations amounting to £1.146m for periods up to 2013 (£2.368m in 2004/05), and future finance lease obligations amounting to £0.003m for periods up to 2007.

#### 16.2 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:

	2004/05 £000	2005/06 £000
Shops	624	631
Industrial & business unites	570	487
Other	177	129
	<b>1,371</b>	<b>1,247</b>

### 17. IMPAIRMENT

Impairment to an asset is caused either by a consumption of economic benefits or by a general fall in prices.

Kirkby Baths was closed during 2005/06 following physical damage to the building. Pool facilities are now provided in other buildings within the Borough. An adjustment of £2.283m has been made to the accounts to reflect the reduced value of the asset.

The Kirkby Sports Centre is due to close within two years and the asset will therefore be sold according to the prevailing market conditions for the property. As the asset remains operational no impairment adjustment has been reflected in the accounts.

**NOTES TO THE CONSOLIDATED REVENUE ACCOUNT**

**18. AUDITOR’S REMUNERATION**

In 2005/06, Knowsley MBC incurred the following fees relating to external audit and inspection:

	2004/05	2005/06		Total
	£000	Pricewaterhouse Coopers £000	Audit Commission £000	
Fees payable with regard to external audit services carried out by the appointed auditor	207	226	12	238
Fees payable in respect of Statutory Inspection under (Section 10 Local Government Act 1999)	50	0	0	0
Fees payable for the certification of grant claims and returns (Section 28 Audit Commission Act 1998)	162	121	77	198
<b>Total</b>	<b>419</b>	<b>347</b>	<b>89</b>	<b>436</b>

Under the Audit Commission’s Rotation Policy, PricewaterhouseCoopers LLP became the Council’s appointed Auditors from 1<sup>st</sup> April 2005.

**19. 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 2005/06, the Council was involved with four pooled budgets each of which has a “host” organisation. Three of the pools are hosted by the Health and Social Care Portfolio and one is hosted by Knowsley Primary Care Trust. Details of all the pooled budgets are shown below.

**19.1 Pooled Budgets Hosted by the Council**

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

<b>Pooled Budget</b>	<b>Purpose</b>
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

**NOTES TO THE CONSOLIDATED REVENUE ACCOUNT**

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

<b>Gross Funding</b>	<b>Older People</b>		<b>Mental Health</b>		<b>Learning Disabilities</b>	
	<b>2004/05</b>	<b>2005/06</b>	<b>2004/05</b>	<b>2005/06</b>	<b>2004/05</b>	<b>2005/06</b>
	£000	£000	£000	£000	£000	£000
Reserve B/fwd	-	-	-	-	(46)	(494)
Knowsley Primary Care Trust	-	(304)	-	(307)	(3,364)	(4,269)
Knowsley MBC	-	(1,111)	-	(962)	(733)	(218)
<b>Total Funding</b>	<b>-</b>	<b>(1,415)</b>	<b>-</b>	<b>(1,269)</b>	<b>(4,143)</b>	<b>(4,981)</b>
Pooled Expenditure	-	1,262	-	1,297	3,649	4,713
<b>Total Expenditure</b>	<b>-</b>	<b>1,262</b>	<b>-</b>	<b>1,297</b>	<b>3,649</b>	<b>4,713</b>
<b>Net (Underspend) Carried Forward</b>	<b>-</b>	<b>(153)</b>	<b>-</b>	<b>28</b>	<b>(494)</b>	<b>(268)</b>

<b>Movement in Reserves</b>	<b>2005/06</b>		
	<b>Older People</b>	<b>Mental Health</b>	<b>Learning Disabilities</b>
	£000	£000	£000
Revenue reserves B/fwd	-	-	(494)
Net (surplus) / deficit in year	(153)	28	226
<b>Balance carried forward</b>	<b>(153)</b>	<b>28</b>	<b>(268)</b>

**Summary Memorandum Account - Hosted Pooled Budgets**

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

<b>2004/05</b>	<b>Gross Funding</b>	<b>2005/06</b>
£000		£000
(46)	Reserve B/fwd	(494)
(3,364)	Knowsley Primary Care Trust	(4,879)
(733)	Knowsley MBC	(2,292)
<b>(4,143)</b>	<b>Total Funding</b>	<b>(7,665)</b>
3,649	Pooled Expenditure	7,272
<b>3,649</b>	<b>Total Expenditure</b>	<b>7,272</b>
<b>(494)</b>	<b>Net Underspend Carried Forward</b>	<b>(393)</b>

<b>Movement in Reserves</b>	<b>2005/06</b>
	£000
Revenue reserves B/fwd	(494)
Net (surplus) / deficit in year	101
<b>Balance carried forward</b>	<b>(393)</b>

## NOTES TO THE CONSOLIDATED REVENUE ACCOUNT

### 19.2 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

	2004/05 £000	2005/06 £000
<b>Funding</b>		
Balance of funds brought forward	0	0
Knowsley Metropolitan Borough Council	(323)	(291)
Knowsley Primary Care Trust	(422)	(541)
St Helens Metropolitan Borough Council	(424)	(403)
St Helens Primary Care Trust	(356)	(429)
<b>Total Funding</b>	<b>(1,525)</b>	<b>(1,664)</b>
<b>Total Expenditure</b>	<b>1,610</b>	<b>1,605</b>
<b>Net (under) / overspend carried forward</b>	<b>85</b>	<b>(59)</b>

**COLLECTION FUND**  
**INCOME AND EXPENDITURE ACCOUNT**

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

(32,435)	Council Tax Receivable	(34,628)
	Transfers from/to General Fund	
<u>(15,199)</u>	- Council Tax Benefit	<u>(15,122)</u>
(47,634)		(49,750)
<u>(24,561)</u>	Income Collectable from Business Ratepayers	<u>(26,051)</u>
<u><b>(72,195)</b></u>	<b>Total Income</b>	<u><b>(75,801)</b></u>
	<b>Expenditure</b>	
	Precepts and Demands	
40,534	- Knowsley Metropolitan Borough Council	43,294
2,133	- Fire and Civil Defence Authority	2,269
4,518	- Police Authority	<u>4,872</u>
		50,435
24,427	Payment to National Non Domestic Rate Pool	25,920
134	Costs of Collection	<u>131</u>
		26,051
<u><b>71,746</b></u>	<b>Total Expenditure</b>	<u><b>76,486</b></u>
0	Contribution to / (from) provision for bad and doubtful Council Tax debt	(462)
<u><b>(449)</b></u>	<b>(Surplus)/Deficit for the year</b>	<u><b>223</b></u>
	<b>Collection Fund Balances</b>	
392	Balance at beginning of year	(57)
<u>(449)</u>	(Surplus)/Deficit for year	<u>223</u>
<u><b>(57)</b></u>	<b>Balance at end of year (Surplus) / Deficit</b>	<u><b>166</b></u>

**NOTES TO THE COLLECTION FUND**

**1. COUNCIL TAX BASE 2005/06**

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

Band	Value	Number of Dwellings	Band D Equivalent
A	Up to £40,000	37,345	24,897
B	£40,001 to £52,000	11,991	9,326
C	£52,001 to £68,000	8,395	7,462
D	£68,001 to £88,000	3,513	3,513
E	£88,001 to £120,000	1,412	1,726
F	£120,001 to £160,000	258	373
G	£160,001 to £320,000	126	210
H	Over £320,000	17	34
		<u>63,057</u>	<u>47,541</u>
Less Exemptions and Discounts			(4,997)
			<u>42,544</u>
Collection Rate (Estimated)			99%
<b>Council Tax Base 2005/06</b>			<u><u>42,118</u></u>

**2. 2005/06 COUNCIL TAX**

The 2005/06 basic amount of Council Tax for properties at Band D was calculated as follows:

	£'000	£'000
<b>Total Budget Requirement</b>		<u><u>230,617</u></u>
<u>Less Resources:</u>		
Revenue Support Grant	(137,258)	
National Non-Domestic Rate Pool	(50,065)	(187,323)
		<u><u>43,294</u></u>
<b>Demand on the Collection Fund</b>		
Demand on the Collection Fund (£m)	=	<u>43,294</u>
<u>Council Tax Base (Band D Equivalents)</u>		<u>42,118</u>
<b>= Basic Amount of Council Tax at Band D</b>		<u><u>1,027.93</u></u>

## **NOTES TO THE COLLECTION FUND**

### **3. NATIONAL NON-DOMESTIC RATES (BUSINESS RATES)**

National Non Domestic Rate (more commonly known as Business Rates) 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 (45.6p in 2004/05 and 42.2p for 2005/06).

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 2005/06 was £26.051m and was based on a rateable value as at 31 March 2005 of £70.274m (£68.787m at 31 March 2004).

**CONSOLIDATED BALANCE SHEET**

The Consolidated Balance Sheet shows what the Council owns, and what the Council is owed, at the end of the financial year (31 March 2006).

<b>Balance at 31.3.2005 £000</b>	<b>£000</b>	<b>Balance at 31.3.2006 £000</b>	<b>Note</b>
<b>Net Fixed Assets</b>			
4,323 <i>Intangible Fixed Assets</i>		4,263	1
<b>Tangible Fixed Assets</b>			
<b>Operational Assets</b>			
281,315 - Land and Buildings	284,491		
31,586 - Vehicles, Plant, Furniture and Equipment	33,444		
122,948 - Infrastructure	132,056		
1,299 - Community Assets	<u>1,271</u>		
<b>Total Operational Assets</b>		451,262	1
36,363 <b>Non-operational Assets</b>			
- Assets under Construction	1,830		
- Investment Properties	23,967		
- Surplus Assets held for Disposal	<u>7,997</u>		
<b>Total Non Operational Assets</b>		<u>33,794</u>	1
<u>477,834</u> Total Fixed Assets		<u>489,319</u>	
2,003 <b>Long Term Investments</b>		5,503	2
<b>Long Term Debtors</b>			
1,702 Mortgages	1,924		
246 Car Loans	148		
		<u>2,072</u>	
<u>481,785</u> Total Long Term Assets		<u>496,894</u>	
<b>Current Assets</b>			
556 Work in Progress/Stock in Hand	622		3
49,415 Investments	56,685		4
39,862 Debtors	33,685		5
2,819 Imprest/Cash in Hands of Collectors	2,834		
		<u>93,826</u>	
<u>574,437</u> Total Assets		<u>590,720</u>	
<b>Less Current Liabilities</b>			
9,767 Short Term Borrowing	10,720		6
36,068 Creditors	34,217		7
12,473 Cash Overdrawn	9,868		8
		<u>54,805</u>	
<u>516,129</u> Total Assets less Current Liabilities		<u>535,915</u>	
<b>Less Long Term Liabilities</b>			
99,324 Long Term Borrowing	110,608		9
167,930 Pension Liability	169,892		
8,689 Provisions	6,838		10
		<u>287,338</u>	
<u>240,186</u> Total Assets less Liabilities		<u>248,577</u>	

**CONSOLIDATED BALANCE SHEET**

<b>Balance at 31.3.2005 £000</b>	<b>£000</b>	<b>Balance at 31.3.2006 £000</b>	<b>Note</b>
<b>Financed by</b>			
(26,184) - Fixed Asset Restatement Account		(28,486)	11
324,180 - Capital Financing Account		314,220	12
70,795 - Government Grants Deferred		81,218	
1,445 - Deferred Capital Receipts		1,446	
9,499 - Usable Capital Receipts Reserve		13,875	13
(167,930) - Pensions Reserve		(169,892)	14
23,897 - Reserves		31,769	15
<b>Revenue Balances</b>			
4,427 - General Fund	4,593		
57 - Collection Fund	(166)		
<b>240,186 Total Equity</b>		<b>4,427</b>	
		<b>248,577</b>	

## NOTES TO THE CONSOLIDATED BALANCE SHEET

## 1 a) FIXED ASSETS - MOVEMENTS

<b><u>Operational Assets</u></b>	Land & Building	Vehicle Plant & Equipment	Infrastructure	Community Assets	Total
	£000	£000	£000	£000	£000
Gross book value 1.4.2005	307,750	47,388	129,055	1,378	485,571
Opening Revaluations	0	(8)	0	0	(8)
Restatements	0	0	0	0	0
	<u>307,750</u>	<u>47,380</u>	<u>129,055</u>	<u>1,378</u>	<u>485,563</u>
Additions	7,946	4,955	10,973	0	23,874
Other Expenditure	1,591	76	0	0	1,667
Disposals	0	0	0	0	0
Revaluations	1,793	(15)	0	0	1,778
<b>Gross book value at 31.3.2006</b>	<b><u>319,080</u></b>	<b><u>52,396</u></b>	<b><u>140,028</u></b>	<b><u>1,378</u></b>	<b><u>512,882</u></b>
<b>Depreciation and Impairment</b>					
Balance as at 1.4.2005	26,435	15,802	6,107	79	48,423
Depreciation	5,871	3,150	1,865	28	10,914
Impairment	2,283	0	0	0	2,283
Balance at 31.3.2006	<u>34,589</u>	<u>18,952</u>	<u>7,972</u>	<u>107</u>	<u>61,620</u>
<b>Net book value as at 31.3.2006</b>	<b><u>284,491</u></b>	<b><u>33,444</u></b>	<b><u>132,056</u></b>	<b><u>1,271</u></b>	<b><u>451,262</u></b>
<b><u>Non-Operational Assets</u></b>		Assets under Construction	Investment Properties	Surplus Assets held	Total
		£000	£000	£000	£000
Gross book value 1.4.2005		177	21,346	15,849	37,372
Additions		1,653	33	0	1,686
Other Expenditure		0	3	0	3
Disposals		0	(100)	(7,852)	(7,952)
Revaluations		0	3,880	0	3,880
<b>Gross book value at 31.3.2006</b>		<b><u>1,830</u></b>	<b><u>25,162</u></b>	<b><u>7,997</u></b>	<b><u>34,989</u></b>
<b>Depreciation and Impairment</b>					
Balance as at 1.4.2005		0	1,009	0	1,009
Depreciation		0	186	0	186
Balance at 31.3.2006		<u>0</u>	<u>1,195</u>	<u>0</u>	<u>1,195</u>
<b>Net book value as at 31.3.2006</b>		<b><u>1,830</u></b>	<b><u>23,967</u></b>	<b><u>7,997</u></b>	<b><u>33,794</u></b>
<b><u>Intangible Assets</u></b>				Intangibles	Total
				£000	£000
Gross book value 1.4.2005				4,323	4,323
Additions				805	805
Disposals				0	0
<b>Gross book value at 31.3.2006</b>				<b><u>5,128</u></b>	<b><u>5,128</u></b>
<b>Depreciation and Impairment</b>					
Depreciation				865	865
<b>Net book value as at 31.3.2006</b>				<b><u>4,263</u></b>	<b><u>4,263</u></b>

## NOTES TO THE CONSOLIDATED BALANCE SHEET

### 1 b) FIXED ASSETS – DEPRECIATION METHODS

Depreciation, other than for Infrastructure (which is written down by the amount of capitalised maintenance in the year) 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

### 1 c) FIXED ASSETS – CAPITAL FINANCING

Capital expenditure was financed as follows:

	<b>2004/05</b>	<b>2005/06</b>
	<b>£000</b>	<b>£000</b>
Capital Expenditure		
Operational Assets	23,151	25,541
Deferred Charges	9,256	8,263
Non-Operational Assets	301	1,689
Intangible Assets	4,323	805
	<u>37,031</u>	<u>36,298</u>
Sources Of Finance		
Grants	21,012	15,281
Loans	8,389	11,988
Capital Receipts	5,743	7,447
Capital Expenditure from Revenue Account	196	1,176
Reserves	570	264
Contributions from Partners and Developers	887	142
Accruals	234	0
	<u>37,031</u>	<u>36,298</u>

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

The main items of capital expenditure during 2005/06 were:

	<b>£000</b>
<b><u>Regeneration and Neighbourhoods</u></b>	
Prescot Regeneration	2,744
A580 East Lancashire Road (Coopers Lane)	2,188
A580 East Lancashire Road – Moorgate Road	1,102
Renovation Grants	922
Private Tenants Grants	852
A580 East Lancashire Road	829
Tower Hill Renovations	469
Raven Court Development	325
Environmental Improvements	294
Energy Efficiency Grants	232
Disability Discrimination Act – Compliance Work	181
<b><u>Education and Lifelong Learning</u></b>	
Building Schools for the Future	1,373
Malvern School	555
St Margaret Mary's Junior School Gym	310
Space for Sports and Arts – St Marie's	291
St Mark's Children's Centre	225
<b><u>Finance and Information Society Technologies</u></b>	
North West eGovernment Group	394
Customer Relationship Manager System	286
Sharepoint Project	183
<b><u>Corporate and Customer Services</u></b>	
Administrative Buildings – Emergency Works	87
<b><u>Leisure , Community and Culture</u></b>	
Kirkby Sports Strategy	1,203
Tower Hill Community Centre	834
Tower Hill Pitches	646
Northwood Community Centre	186
<b><u>Health and Social Care</u></b>	
Improving Health Through Exercise	105
<b><u>Environment and Operational Services</u></b>	
Grass Cutting Equipment	109

## NOTES TO THE CONSOLIDATED BALANCE SHEET

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

Significant commitments for future capital expenditure as at 31 March 2006 include the following:

Scheme	Purpose	Expected Period	£000
Kirkby Sports Centre	State of the art leisure centre with facilities to better support the needs of the community.	2006/07 & 2007/08	10,636
Prescot Regeneration	To improve the image of and accessibility to the town centre. Also, to increase the economic vitality and viability of the town centre in order to maximise Prescots' tourism potential.	2006/07	419
Huyton Municipal Buildings Refurbishment	Refurbishment and Rationalisation of Huyton Administrative Buildings	2006/07 & 2007/08	2,889
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.	2006/07 & 2007/08	3,606
A580 New Junction to 50 Acre Site (Alchemy)	Creation of a new junction to open up the site for Langtree Developments.	2006/07 & 2007/08	2,083
Prescot Pitches	New synthetic pitch and multi-games area to improve outdoor sports facilities within the Borough.	2006/07 & 2007/08	453
Supported Housing	Financial Assistance to Resgistered Social Landlord partners to enable them to provide Supported People housing projects.	2006/07	1,024
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.	2006/07	3,165

## NOTES TO THE CONSOLIDATED BALANCE SHEET

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

Strategic Highways Network	This is a programme of measures by which the Council fulfils many of its statutory functions as Highway Authority. It includes the maintenance of roads, bridges and street lighting and the management and control of the efficiency of the road network.	2006/07	1,476
Childrens Centres	Childcare facilities for children 0-5 (with crèches, parent facilities, etc).	2006/07	2,355
SPACES for Sports & Arts	To provide Sports and PE facilities at St Marie's RC Primary.	2006/07	488
Building Schools for the Future	Technical, design, financial & legal advice to the Executive Support Team. Also funding for the Design Festival and purchase of office equipment.	2006/07	1,089

## NOTES TO THE CONSOLIDATED 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	31.3.2005	31.3.2006	
Administrative buildings	5	5	
Offices	20	19	
Depots and Workshops	3	3	
Magistrates Courts	1	0	
Museums	1	1	
Leisure and Sports Centres	8	8	
Club House	1	1	
Civic halls and suites	2	2	
Community and Youth Centres	21	21	
Libraries	7	7	
Parks, playing fields, and open spaces	488	488	Hectares
Market	1	1	
Cemeteries	2	2	
Allotments	122	122	Plots
Schools - Primary	27	27	
- Secondary	7	7	
- Other	8	8	
Homes for people with learning disabilities	1	1	
Centres for people with learning/physical disabilities	5	5	
Day centres for the Elderly	2	2	
Hostels for the Homeless	0	0	
Other Social Services establishments	11	11	
Commercial properties - rented/leased	202	203	
- void	20	20	
Industrial properties - rented/leased	399	397	
- void	4	12	
Public conveniences	1	1	
Roads - principal	85	101	Km
- other	450	457	Km
Bridges	117	133	
Lamp units	19,077	18,250	
Vehicles and plant	428	452	
Community Assets	20	20	

## NOTES TO THE CONSOLIDATED BALANCE SHEET

### 1 g) LEASES

No new operating or finance leases are being taken out at this time as the acquisition of new vehicles and equipment is being 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	587
2 – 5 years	0	529
5 years & above	0	30
<b>Total</b>	0	1,146

### 2. LONG TERM INVESTMENTS

At 31 March 2006, the Council held £0.003m of investments in 3.5% Treasury Stock, and a total of £5.5m in non-specified fixed term deposits. There were two investments with Chelsea Building Society, with £3m maturing on 3 March 2008 and £2.5m maturing on 31 March 2008.

### 3. STOCKS AND WORK IN PROGRESS

	31.3.2005 £000	31.3.2006 £000
Work in Progress	138	161
<u>Stocks</u>		
- Environmental and Operational Services	392	445
- Leisure Community and Culture	9	6
- Other General Fund	17	10
<b>Total Stocks</b>	418	461
<b>Total</b>	556	622

### 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.

**NOTES TO THE CONSOLIDATED BALANCE SHEET****5. DEBTORS**

	<b>31.3.2005</b>	<b>31.3.2006</b>
	<b>£000</b>	<b>£000</b>
Amounts falling due in one year:		
Government Departments	15,970	7,963
Other Local Authorities	595	428
Employee Related	34	29
Sundry Debtors	13,311	14,595
Car loans	68	37
Payments in Advance	3,949	1,706
Collection Fund	11,775	13,122
Total Amounts falling due within one year:	<u>45,702</u>	<u>37,880</u>
Provision for bad debts:		
General	(3,433)	(2,639)
Collection Fund	(2,407)	(1,556)
Total Provision for bad debts:	<u>(5,840)</u>	<u>(4,195)</u>
Total Debtors	<u><u>39,862</u></u>	<u><u>33,685</u></u>

**6. SHORT TERM BORROWING**

<b>Source of Loan</b>	<b>Range of interest rates payable (%)</b>	<b>31.3.2005</b>	<b>31.3.2006</b>
		<b>£000</b>	<b>£000</b>
Public Works Loan Board	Fixed (2.5% to 7.35%)	65	10,066
Public Works Loan Board	Variable	9,084	0
Other Local Authorities	Variable	618	654
		<u>9,767</u>	<u>10,720</u>

**7. CREDITORS**

	<b>31.3.2005</b>	<b>31.3.2006</b>
	<b>£000</b>	<b>£000</b>
Amounts falling due in one year:		
Government Departments	11,424	6,237
Other Local Authorities	668	1,167
Employee Related	5,042	5,349
Interest	1,017	1,154
Sundry Creditors	8,973	9,869
Income in Advance	4,981	7,602
Collection Fund	3,963	2,839
Total Creditors	<u><u>36,068</u></u>	<u><u>34,217</u></u>

## NOTES TO THE CONSOLIDATED BALANCE SHEET

### 8. CASH

At 31 March 2006, the actual bank account balance was £0.856m overdrawn. However, cheques raised but unpresented at the bank and other miscellaneous balances totalled £9.012m, which produces a cash overdrawn figure of £9.868m.

### 9. LONG TERM BORROWING

Source of Loan	Range of interest rates payable (%)	31.3.2005 £000	31.3.2006 £000
Public Works Loan Board	Fixed (2.5% to 7.35%)	92,547	93,481
Lender Offer Borrower Option	Fixed (3.71% to 3.86%)	0	11,000
Other Local Authorities *	Variable	6,777	6,127
		<u>99,324</u>	<u>110,608</u>
An analysis of loans by maturity is:			
Maturing in 1-2 years		11,415	1,498
Maturing in 2-5 years		2,598	4,042
Maturing in 5-10 years		8,930	18,742
Maturing in more than 10 years		76,381	86,326
		<u>99,324</u>	<u>110,608</u>

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

## NOTES TO THE CONSOLIDATED BALANCE SHEET

### 10. PROVISIONS

These monies have been set aside to cover the following liabilities.

	Balance	Reclassified	Provided	Applied	Balance
		from or (to)	in year	in year	
	31.3.2005	Reserves			31.3.2006
	£000	£000	£000	£000	£000
Building Works – Performance Improvement Fund	100	-		100	0
Business Rates	0	-	112	-	112
Early Retirement and Severance Costs	31	-	121	31	121
Huyton Family Centre Maintenance	9	-	-	9	0
Insurance	7,500	(2,000)	3,528	3,389	5,639
Maldon Close	3	-	-	3	0
Mental Health Act - Section 117	1011	-	-	45	966
Older People's Unified Service Area Manager Regrading	35	-	-	35	0
	8,689	(2,000)	3,761	3,612	6,838

#### **Building Works Performance Improvement Fund**

Provision for costs of building works commissioned to ensure conformance to the Disability Discrimination Act.

#### **Business Rates**

Provision for revised Business Rates charge for Heatwaves Leisure Centre due to revaluation exercise and liability for surface and multi-storey car parks not charged in 2005/06.

#### **Early Retirement and Severance Costs**

Provision to meet anticipated costs associated with the early retirement and severance of a number of employees within the Neighbourhood Delivery and Corporate Resources Directorates.

#### **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 15). The Insurance Provision covers claims up to £110,000 per incident 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.

#### **Maldon Close**

Provision to fund for replacement carpets on these premises which was delayed from 2004/05.

#### **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.

#### **Older Peoples Unified Service Area Manager Regrading**

Provision to fund backdated salary due in payment of a regrading claim.

## NOTES TO THE CONSOLIDATED BALANCE SHEET

### 11. FIXED ASSET RESTATEMENT ACCOUNT

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

	<b>2004/05</b>	<b>2005/06</b>
	<b>£000</b>	<b>£000</b>
Balance at beginning of year	(30,538)	(26,184)
Surplus/(Deficit) on revaluation and restatement of fixed assets	13,460	5,650
Disposal of fixed assets		
- Operational Assets	(1,881)	0
- Non Operational Assets	(7,225)	(7,952)
Balance at end of year	<u>(26,184)</u>	<u>(28,486)</u>

### 12. CAPITAL FINANCING ACCOUNT

This account contains the 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. It also contains the difference between amounts provided for depreciation and that required to be charged to revenue to repay the principal element of external loans.

	<b>2004/05</b>	<b>2005/06</b>
	<b>£000</b>	<b>£000</b>
Balance at beginning of year	310,461	324,180
Capital receipts set aside	116	256
Capital Receipts applied for 2005-08 capital expenditure	15,000	0
Transferred Debt receipts set aside	16	17
Capital financing - capital receipts	5,743	1,131
- revenue	196	1,176
- other	1,457	406
- prior year adjustment	(82)	0
Transfer from Government Grants Deferred	1,305	2,457
Less		
Net Adjustment for Statutory Loan Repayment	(5,651)	(7,258)
Write down of deferred charges (net of grant)	(4,036)	(5,862)
Impairment	(345)	(2,283)
Balance at end of year	<u>324,180</u>	<u>314,220</u>

## NOTES TO THE CONSOLIDATED BALANCE SHEET

### 13. USABLE CAPITAL RECEIPTS RESERVE

Income from the disposal of fixed assets is credited to the Usable Capital Receipts Reserve. It is then used to finance current capital spending as well to being set aside for future capital spending and debt repayments.

	<b>2004/05</b>	<b>2005/06</b>
	<b>£000</b>	<b>£000</b>
Balance at beginning of year	21,776	9,499
Prior year financing adjustment	0	0
Capital receipts in year for sales of assets	8,582	5,898
	30,358	15,397
Less: Set aside for loan redemption	(116)	(256)
	30,242	15,141
Capital Receipts applied for 2005-08 capital expenditure	(15,000)	0
ODPM Payments re Pooling Housing Capital Receipt	0	(135)
Capital Receipts applied during year - tangible assets	(5,737)	(863)
Capital Receipts applied during year - intangible assets	(6)	(268)
Balance at end of year	9,499	13,875

### 14. PENSIONS LIABILITY AND RESERVE

#### 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 11 to the Consolidated Revenue Account details the Council's participation in these schemes. The underlying assets and liabilities for retirement benefits attributable to the Council at 31 March are as follows:

	<b>Merseyside Pension</b>		<b>Teachers Pensions</b>		<b>Total</b>	
	<b>Fund</b>		<b>Added Years</b>			
	<b>31.3.2005</b>	<b>31.3.2006</b>	<b>31.3.2005</b>	<b>31.3.2006</b>	<b>31.3.2005</b>	<b>31.3.2006</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Estimated Assets	279,568	344,317	0	0	279,568	344,317
Estimated Liabilities	(429,349)	(495,545)	(18,149)	(18,664)	(447,498)	(514,209)
Net Asset/(Liability)	(149,781)	(151,228)	(18,149)	(18,664)	(167,930)	(169,892)

The total liabilities (including Teacher's Pensions) exceed assets by £169.892m. Under Superannuation Regulations, the Fund's Actuary is required to set contribution rates to meet 100% of the overall liabilities of the Fund. Contribution rates are set based on based on triennial valuations - the last available valuation being at 31<sup>st</sup> March 2005.

## NOTES TO THE CONSOLIDATED BALANCE SHEET

### FUND ASSETS

The assets in the Merseyside Pension Fund and their estimated rates of return have been analysed in the table below.

	31.3.2005			31.3.2006		
	Rate of	Value		Rate of	Value	
	Return	£000	%	Return	£000	%
Equities	7.5	161,031	57.6	7.0	210,034	61.0
Government Bonds	4.7	52,838	18.9	4.3	57,845	16.8
Other Bonds	5.4	13,699	4.9	4.9	16,527	4.8
Property	6.5	27,677	9.9	6.0	17,216	5.0
Cash / Liquidity	4.75	11,183	4.0	4.5	29,267	8.5
Other Assets	7.5	13,140	4.7	7.0	13,428	3.9
		<u>279,568</u>			<u>344,317</u>	

### FUND LIABILITIES

The Liabilities of the Fund show the underlying commitments that the Council has to pay for retirement benefits in the future. Liabilities 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. The main assumptions are listed in the table below.

The increase in the total net liability in 2005/06 amounted to £1.962m. This is primarily represented by an actuarial loss in 2005/06 of £3.487m. In addition to the actuarial loss, there was also an increase of £12.584m in the current service cost of the Council's pensionable payroll which was due to a lower real discount rate being used in 2005/06 as can be seen from the table below.

ACTUARIAL ASSUMPTIONS	31.3.2005	31.3.2006
	%	%
Rate of inflation	2.90	2.90
Rate of increase in salaries	4.15	4.15
Rate of increase in pension	2.90	2.90
Discount rate	5.40	4.90

## NOTES TO THE CONSOLIDATED BALANCE SHEET

### 15. RESERVES

Details of the main reserves held by the Council at 31 March 2006 are set out below.

Reserve	Description	Balance 31.3.2005 £000	Movement In year £000	Balance 31.3.2006 £000
<b>COUNCIL - WIDE</b>				
Cash Limit	To fund Portfolios' committed expenditure in 2005/06.	1,318	(1,318)	0
Medium Term Financial Plan	This reserve is to fund budget pressures identified during the medium term financial planning process.	1,439	2,281	3,720
Corporate Policy Development	To support identified corporate policy development.	3,945	(121)	3,824
Enterprise Initiatives	Government Grant awarded for Local Authority Business Growth Initiatives.	0	965	965
Kirkby Development	To fund professional consultancy and advice for the Kirkby Development Programme.	0	200	200
Insurance	This reserve represents the sum held to cover potential further insurance claims.	0	2,000	2,000
Neighbourhood Renewal Fund	To cover costs related to Neighbourhood Renewal Fund schemes.	328	840	1,168
Workforce Remodelling	Set aside for the Council's integrated workforce development strategy to ensure future workforce flexibility.	0	1,627	1,627
Capital Financing Costs	To meet the future costs of capital financing (including the potential costs of debt restructuring and the impact of early repayment of prudential borrowing), and to enable the Council to manage fluctuations in interest rates on its capital financing activities within its Medium-Term Financial Plan.	0	1,081	1,081
Yorkshire Purchasing Organisation	This is Knowsley's allocation of profits distributed from the group. These are used for a variety of corporate purposes.	219	(142)	77
<b>Total Council-Wide Reserves</b>		<b>7,249</b>	<b>7,413</b>	<b>14,662</b>

## NOTES TO THE CONSOLIDATED BALANCE SHEET

## RESERVES (Cont'd)

Reserve	Description	Balance 31.3.2005 £000	Movement In year £000	Balance 31.3.2006 £000
<b>EDUCATION AND LIFELONG LEARNING</b>				
Building Schools for the Future	To fund consultancy work and blueprints for the Building Schools for the Future Programme.	0	319	319
Disability Discrimination Act	The cost of ensuring buildings comply with the Disability Discrimination Act.	211	(211)	0
Education Initiatives	To fund Teenage Pregnancy Initiatives in 2006/07.	640	(608)	32
Extra District Contributions	To fund outstanding extra district claims.	366	(291)	75
Performance Improvement	To support service developments for performance improvement.	54	(39)	15
Risk Management	Funding for future risk management initiatives.	268	785	1,053
Social Inclusion Pupil Support	Underwrite Social Inclusion and Pupil Support Programme as a result of future commitments relating to Special Educational Needs, High Level Workforce Reform and 14-19 Collegiate.	0	294	294
Staffing	To support programme initiatives and other related staffing and development costs.	63	338	401
Schools Standard Fund	To be utilised for future standards fund match requirements.	94	(74)	20
Teachers Pensions	Reserve for the payment of lump sum pension costs for teachers retiring prematurely.	1,149	291	1,440
<b>Total Education and Lifelong Learning Reserves</b>		<b>2,845</b>	<b>804</b>	<b>3,649</b>
<b>SCHOOLS</b>				
School Balances	Consists of individual school balances on delegated budgets and is used to fund future expenditure requirements for the schools' operation.	5,068	(1,602)	3,466
School Capital Reserves	Set aside for Match Funding to attract Targeted Capital Grant.	1,132	0	1,132
<b>Total School Reserves</b>		<b>6,200</b>	<b>(1,602)</b>	<b>4,598</b>

## NOTES TO THE CONSOLIDATED BALANCE SHEET

## RESERVES (Cont'd)

Reserve	Description	Balance 31.3.2005 £000	Movement In year £000	Balance 31.3.2006 £000
<b>REGENERATION AND NEIGHBOURHOODS</b>				
Capital	To fund future costs within the Portfolio's capital programme.	205	(205)	0
European Social Fund	Amount set aside to fund expected shortfall in programme funding.	200	(3)	197
Insurance Excess	To fund future insurance excess costs affecting the Regeneration and Neighbourhoods Portfolio.	195	(137)	58
Maintenance and Trading Reserves	This represents the combined surpluses for the Portfolio's trading services and reserves set up for additional costs in severe weather.	56	65	121
Neighbourhood and Economic Regeneration	To fund new Council priorities in relation to Neighbourhood Regeneration.	1,446	(304)	1,142
Neighbourhood Renewal Fund	To cover costs related to Neighbourhood Renewal Fund schemes.	0	128	128
Staffing	Staffing related costs - related mainly to temporary and fixed-term placements, and completion of short term programmes	289	90	379
<b>Total Regeneration and Neighbourhoods Reserves</b>		<b>2,391</b>	<b>(366)</b>	<b>2,025</b>
<b>ENVIRONMENT AND OPERATIONAL SERVICES</b>				
Environmental Initiatives	To fund air improvement initiatives, waste minimisation and exhibition areas.	74	(74)	0
Performance Improvement	To support service developments for performance improvement.	89	(44)	45
Service Trading Reserves	This represents the combined surpluses for the Portfolio's trading services. The reserves are earmarked for future service improvement and development	42	71	113
<b>Total Environment and Operational Services Reserves</b>		<b>205</b>	<b>(47)</b>	<b>158</b>

## NOTES TO THE CONSOLIDATED BALANCE SHEET

## RESERVES (Cont'd)

Reserve	Description	Balance 31.3.2005 £000	Movement In year £000	Balance 31.3.2006 £000
<b>CORPORATE AND CUSTOMER SERVICES</b>				
Community Chest	Funding for community small grant applications to support community development in the borough.	0	43	43
Customer Care Charter / Performance Improvement	This is required for publicity and benchmarking in 2006/07 due to the introduction of additional One Stop Shop services and update of the Customer Care Charter.	(326)	357	31
Environmental Initiatives	To fund air improvement initiatives, waste minimisation and exhibition areas.	32	(32)	0
IT Systems and Software	Funding for the phased replacement of IT equipment and support for Public Health / Land Charges Software Project Support	0	149	149
Staffing	To support workforce development and provide funding for temporary staff for 2006/07	0	201	201
<b>Total Corporate and Customer Services Reserves</b>		<b>(294)</b>	<b>718</b>	<b>424</b>
<b>HEALTH AND SOCIAL CARE</b>				
Community Care	To provide for the future costs of the range of Social Services provided by the Council.	300	(300)	0
IT Systems and Software	To meet e-Government and Department of Health targets for the implementation of an electronic social care record system	473	230	703
Performance Improvement	Funding for Performance Improvement Initiatives, service growth and admin services review	713	(189)	524
Social Services - Pooled Budget	To provide for future costs of pooled budget – supported accommodation.	180	(17)	163
Social Services - Initiatives	Includes reserves for 'Workstep' and disability services – multi agency training.	168	(41)	127
<b>Total Health and Social Care Reserves</b>		<b>1,834</b>	<b>(317)</b>	<b>1,517</b>

## NOTES TO THE CONSOLIDATED BALANCE SHEET

## RESERVES (Cont'd)

Reserve	Description	Balance 31.3.2005 £000	Movement In year £000	Balance 31.3.2006 £000
<b>LEADER'S PORTFOLIO</b>				
Equality and Diversity	Equality and Diversity Training which is required in 2006/07.	0	82	82
Thingwall Hall Reserve	Set aside to meet the costs of a Public Enquiry.	59	(59)	0
Service Trading Reserve	This represents the combined surpluses for the Portfolio's trading services. The reserves are earmarked for future service improvement and development.	185	(50)	135
<b>Total Leader's Portfolio Reserves</b>		<b>244</b>	<b>(27)</b>	<b>217</b>
<b>COMMUNITY SAFETY AND SOCIAL INCLUSION</b>				
Community Safety	To provide funding for two temporary posts and contribute to the succession strategy for mainstreaming the Neighbourhood Wardens Service	0	670	670
IT Systems and Software	Development of a Database for the Neighbourhood Wardens Service	100	(33)	67
Neighbourhood Renewal Fund	To cover costs related to Neighbourhood Renewal Fund schemes.	0	127	127
Youth Services	To fund relocation costs for the Youth Offending Service and contribute towards costs of placement of Vulnerable Youths	0	292	292
<b>Total Community Safety and Social Inclusion Reserves</b>		<b>100</b>	<b>1,056</b>	<b>1,156</b>

## NOTES TO THE CONSOLIDATED BALANCE SHEET

## RESERVES (Cont'd)

Reserve	Description	Balance 31.3.2005 £000	Movement In year £000	Balance 31.3.2006 £000
<b>LEISURE, COMMUNITY AND CULTURE</b>				
Asset Maintenance	To carry out extensive essential maintenance to Leisure Assets due to their age and condition.	170	(170)	0
Capital	To fund future costs within the Portfolio's capital programme.	204	505	709
Debtor / Creditor Reserve	Funds set aside to write off debtors following completion of review and to meet amount payable to Customs and Excise for interest due on VAT payment	105	3	108
Environmental Initiative	To support various environmental initiatives including monitoring of Methane emissions	23	(23)	0
Leisure – Various	Includes reserves for improving parks, community and youth facilities, Prescot Museum and best value review	704	(426)	278
Neighbourhood Renewal Fund	To cover costs related to Neighbourhood Renewal Fund schemes.	168	(132)	36
Staffing	Reserve set aside for continuation of employment programme in community and youth, and redundancy costs	0	335	335
<b>Total Leisure, Community and Culture Reserves</b>		<b>1,374</b>	<b>92</b>	<b>1,466</b>
<b>FINANCE AND INFORMATION SOCIETY TECHNOLOGIES</b>				
Environmental Initiatives	Refurbishment of Huyton Cash Office	176	(10)	166
Performance Improvement	To fund E-procurement efficiency plan, asset replacement and IT services development.	1,523	(31)	1,492
Service Trading Reserves	This represents the surpluses for the portfolio's trading services. The reserves are earmarked for future service improvement and development	50	189	239
<b>Total Finance and Information Society Technologies Reserves</b>		<b>1,749</b>	<b>148</b>	<b>1,897</b>
<b>Total Council Reserves</b>		<b>23,897</b>	<b>7,872</b>	<b>31,769</b>

## NOTES TO THE CONSOLIDATED BALANCE SHEET

### 16. 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 31.3.2005	Receipts	Payments	Balance 31.3.2006
	£000	£000	£000	£000
King George V Playing Fields	837	0	9	828
Huyton Distress Fund	35	3	1	37
Social Services Trust Funds	120	21	4	137
Education Trust Funds	7	0	0	7
Client Records In Social Services Provision (CRISSP) User Fund	36	2	0	38
	<u>1,035</u>	<u>26</u>	<u>14</u>	<u>1,047</u>

### 17. 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 included accumulated losses. The company had net assets of £0.035m at 31 August 2005 and reported a loss of £0.029m 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 included accumulated losses.

The company had net liabilities of £0.177m at 31 March 2006 and reported a pre tax loss of £0.164m as at that date.

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

## NOTES TO THE CONSOLIDATED BALANCE SHEET

### 18. 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 2005/06 it has no such interests.

### 19. EURO COSTS

The possible national introduction of the Euro currency has been identified as a business risk for the Council. No expenditure has been incurred during 2005/06 in preparing for the possible national introduction of the Euro currency and there are no commitments in respect of costs to be incurred.

### 20. POST BALANCE SHEET EVENTS

Since the financial year end of 31 March 2006, there have been no significant post balance sheet events that have occurred which would require additional adjustment or disclosure in the financial statements.

### 21. CONTINGENT LIABILITIES

The Council is aware that under the Equal Pay Act 1970 as modified by the Equal Pay Act (Amendment) Regulations 2003, there is a possibility that compensation claims could be made in relation to equal pay for work of equal value. The Council is currently conducting a comprehensive job evaluation and harmonisation review which is aimed at resolving this issue.

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

- there are 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.

### 22. CONTINGENT ASSETS

The Council will be submitting its outturn position on performance on its Local Public Service Agreement to the Audit Commission for consideration during 2006/07. Successful achievement of performance targets is recognised by the Government through a "reward grant" payable to the Council. Under the requirements of Financial Reporting Standard 12, this has been treated as a possible asset that may arise from past events, but which will only be confirmed by completion of the audit of the Council's submission. The possible income has not been treated as accrued income for 2005/06, as the Government has specified that any reward grants made will only become payable in 2006 and 2007. When realisation of the contingent asset becomes certain it will be accounted for as revenue or capital income as appropriate.

**TOTAL MOVEMENT IN RESERVES**

The Statement of Total Movement in Reserves brings together all of the recognised gains and losses of the Council during the year.

<b>2004/05</b>		<b>2005/06</b>	<b>Notes</b>
<b>£000</b>		<b>£000</b>	
	Movements on:		
387	General Fund	166	
449	Collection Fund	(223)	
7,405	Specific Revenue Reserves	7,872	
(6,087)	Appropriations (from)/to Pensions Reserve	2,393	
(61,604)	Actuarial gains/(losses) on Pensions	(4,356)	
<b>(59,450)</b>	<b>Total increase/(decrease) in revenue resources</b>	<b>5,852</b>	<b>1</b>
(12,277)	Usable capital receipts	4,376	
<b>(12,277)</b>	<b>Total increase/(decrease) in realised capital resources</b>	<b>4,376</b>	<b>2</b>
13,460	Gains/(losses) on revaluation of fixed assets	10,394	
0	Impairment losses on fixed assets due to general change in prices	(4,744)	
<b>13,460</b>	<b>Total increase/(decrease) in unrealised value of fixed assets</b>	<b>5,650</b>	<b>3</b>
<b>(9,106)</b>	<b>Value of assets sold, disposed of or decommissioned</b>	<b>(7,952)</b>	<b>3</b>
20,875	Capital receipts set aside	1,404	
(7,156)	Revenue Resources Set Aside	(11,364)	
14,486	Movement on Government Grants Deferred	10,423	
(128)	Movement on Deferred Capital Receipts	1	
<b>28,077</b>	<b>Total increase/(decrease) in amounts set aside to finance capital investment</b>	<b>464</b>	<b>4</b>
<b>(39,296)</b>	<b>Total Recognised Gains and Losses</b>	<b>8,390</b>	

## NOTES TO THE STATEMENT OF TOTAL MOVEMENT IN RESERVES

### 1. MOVEMENTS IN REVENUE RESOURCES

	<b>General Fund</b>	<b>Collection Fund</b>	<b>Specific Revenue Reserves</b>	<b>Pensions Reserve</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Surplus/(Deficit) for the year	166	(223)	0	0
Appropriations to/from revenue	0	0	7,872	2,393
Actuarial gains and losses	0	0	0	(4,356)
<b>Total (increase)/decrease in revenue resources</b>	<b>166</b>	<b>(223)</b>	<b>7,872</b>	<b>(1,963)</b>
Balance brought forward at 1 April 2005	4,427	57	23,895	(167,930)
Balance carried forward at 31 March 2006	<u>4,593</u>	<u>(166)</u>	<u>31,767</u>	<u>(169,893)</u>
Further information on Pages	18	31	49	47

## NOTES TO THE STATEMENT OF TOTAL MOVEMENT IN RESERVES

The actuarial gains and losses identified as movements on the Pensions Reserve can be further analysed as detailed in the table below:

	2002/03		2003/04		2004/05		2005/06	
	£000	%	£000	%	£000	%	£000	%
<b>Local Government Pension Scheme</b>								
Difference between the expected and actual return on assets	(58,129)	28.1%	28,826	11.6%	13,733	4.9%	45,495	13.2%
Differences between actuarial assumptions about liabilities and actual experience	0	0.0%	0	0.0%	(1,580)	0.4%	(9,647)	1.9%
Changes in discount rate used to estimate scheme liabilities	0	0.0%	0	0.0%	(45,985)	10.1%	0	0.0%
Changes in the demographic and financial assumptions used to estimate liabilities	0	0.0%	0	0.0%	(25,673)	5.9%	(39,335)	7.9%
<b>Sub Total</b>	<b>(58,129)</b>		<b>28,826</b>		<b>(59,505)</b>		<b>(3,487)</b>	
<b>Teachers' Pension Scheme</b>								
Difference between the expected and actual return on assets	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Differences between actuarial assumptions about liabilities and actual experience	0	0.0%	0	0.0%	(241)	1.3%	0	0.0%
Changes in discount rate used to estimate scheme liabilities	0	0.0%	0	0.0%	(1,310)	7.2%	0	0.0%
Changes in the demographic and financial assumptions used to estimate liabilities	0	0.0%	0	0.0%	(548)	3.0%	(869)	4.7%
<b>Sub Total</b>	<b>0</b>		<b>0</b>		<b>(2,099)</b>		<b>(869)</b>	
<b>TOTAL</b>	<b>(58,129)</b>		<b>28,826</b>		<b>(61,604)</b>		<b>(4,356)</b>	

**NOTES TO THE STATEMENT OF TOTAL MOVEMENT IN RESERVES**

**2. MOVEMENTS IN REALISED CAPITAL RESOURCES**

<b>Usable Capital Receipts</b>	<b>£000</b>
Amounts receivable in the year	5,624
Amounts applied to finance new capital investment	(1,248)
<b>Total (increase)/decrease in realised capital resources in 2004/05</b>	<b>4,376</b>
Balance brought forward at 1 April 2005	<u>9,499</u>
Balance carried forward at 31 March 2006	<u><u>13,875</u></u>

Further information on page 47

**3. MOVEMENTS ON FIXED ASSET RESTATEMENT ACCOUNT**

	<b>£000</b>
Gains/(losses) on revaluation of fixed assets	10,394
Impairment losses on fixed assets due to general change in prices	<u>(4,744)</u>
<b>Total increase/(decrease) in realised capital resources</b>	<b>5,650</b>
<b>Value of assets sold, disposed of or decommissioned</b>	<u>(7,952)</u>
Total movement on reserve in the year	(2,302)
Balance brought forward at 1 April 2005	<u>(26,184)</u>
Balance carried forward at 31 March 2006	<u><u>(28,486)</u></u>

Further information on page 46

## NOTES TO THE STATEMENT OF TOTAL MOVEMENT IN RESERVES

### 6. MOVEMENT IN AMOUNTS SET ASIDE TO FINANCE CAPITAL INVESTMENT

	Capital Financing Account £000	Government Grants Deferred £000	Deferred Capital Receipts £000	Total £000
Capital receipts set aside				
- reserved receipts	273			
- transferred debt receipts	1,131			
<b>Total capital receipts set aside</b>	<b>1,404</b>			1,404
Revenue resources set aside				
- capital expenditure financed from revenue	1,176			
- capital financing other	406			
- write off of depreciation on Government Grants	2,457			
Deferred				
- impairment	(2,283)			
- write down of deferred charges	(5,862)			
- reconciling amount for provisions of loan payment	(7,258)			
<b>Total revenue resources set aside</b>	<b>(11,364)</b>			(11,364)
Grants applied to capital investment		15,281		
Amounts credited to the asset management revenue account		(4,858)		
<b>Movement on Government Grants Deferred</b>		<b>10,423</b>		10,423
Mortgage principal payments received			1	
<b>Movement on Deferred Capital Receipts</b>			<b>1</b>	1
<b>Total (Increase)/decrease in amounts set aside to finance capital investment</b>				
Total movement on reserve in the year	(9,960)	10,423	1	464
Balance brought forward at 1 April 2005	324,180	70,795	1,445	396,420
Balance carried forward at 31 March 2006	<b>314,220</b>	<b>81,218</b>	<b>1,446</b>	<b>396,884</b>

**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.

<b>2004/05</b>		<b>2005/06</b>	
<b>£000</b>		<b>£000</b>	<b>£000</b>
	<b>REVENUE ACTIVITIES</b>		
	<b>Cash Outflows</b>		
172,538	Cash paid to and on behalf of employees	185,259	
178,356	Other operating cash payments	177,691	
49,631	Housing Benefit paid out	50,047	
25,600	National Non Domestic Rate Payments to National Pool	31,986	
7,553	Precepts Paid	8,108	
<b>433,678</b>	<b>Cash outflows on revenue activities</b>		<b>453,091</b>
	<b>Cash Inflows</b>		
(31,959)	Council Tax income	(32,157)	
(42,143)	National Non Domestic Rate	(50,065)	
(16,542)	Non-domestic rate receipts	(18,079)	
(136,069)	Revenue Support Grant	(137,203)	
(49,052)	Dept for Work and Pensions Grants for Benefits	(49,092)	
(96,588)	Other Government Grants (Note 1)	(109,967)	
(37,303)	Cash received for goods and services	(40,427)	
(34,765)	Other operating cash receipts	(32,877)	(469,867)
<b>(10,743)</b>	<b>Cash inflows on revenue activities</b>		<b>(16,776)</b>
	<b>Servicing of Finance</b>		
	<b>Cash Outflows</b>		
5,317	Interest paid	5,701	
	<b>Cash Inflows</b>		
(2,212)	Interest received	(3,008)	2,693
<b>(7,638)</b>	<b>NET REVENUE ACTIVITIES</b>		<b>(14,083)</b>
	<b>CAPITAL ACTIVITIES</b>		
	<b>Cash Outflows</b>		
26,099	Purchase of Fixed Assets	28,248	
9,237	Other Capital Cash Payments	8,239	36,487
	<b>Cash Inflows</b>		
(8,702)	Sale of fixed assets	(5,898)	
(21,012)	Capital Grants received (Note 1)	(15,281)	
(1,688)	Other capital cash receipts	(2,374)	12,934
<b>(3,704)</b>	<b>NET CASH (INFLOW)/OUTFLOW before financing</b>		<b>(1,149)</b>
	<b>FINANCING</b>		
	<b>Cash Outflows</b>		
15,859	Repayments of amounts borrowed		10,349
	<b>Cash Inflows</b>		
(23,414)	New loans raised		(22,587)
<b>(7,555)</b>	<b>Net Financing cashflows</b>		<b>(12,238)</b>
	<b>Management of Liquid Resources</b>		
17,910	Short term Investments	10,771	
(6,651)	Net (Increase)/Decrease in cash (Note 3)	2,616	13,387
<b>3,704</b>	<b>Total Movement in Net Debt (Note 4)</b>		<b>1,149</b>

**NOTES TO THE CASH FLOW STATEMENT****1. ANALYSIS OF PRINCIPAL GRANTS**

<b>Type of Grant</b>	<b>Revenue £000</b>	<b>Capital £000</b>
<b>Department for Education and Skills</b>		
Standards Fund	24,030	4,845
Sure Start	4,451	380
Early Years	3,323	
Teachers Pay Reform	3,196	
School Standards Grant	3,191	
Other	2,162	303
<b>Learning and Skills Council</b>		
Sixth Form Funding	2,319	
Other	1,886	
<b>Office of the Deputy Prime Minister</b>		
Neighbourhood Renewal Fund	10,900	259
Supporting People	7,891	
European Regional Development Fund	42	4,852
Single Regeneration Budget		569
Other	1,085	1,244
<b>Department for Work and Pensions</b>		
Council Tax Rebates Grant	15,355	
Benefit Verification Framework / Fraud Incentive / Tax Credits	2,651	
Other	892	
<b>Department of Health</b>		
Access and Systems Capacity	2,426	
Preserved Rights Grant	1,721	
Children's Services	1,119	
Mental Health	978	
Carers Grant	792	
Residential Allowance	718	
Other	1,700	69
<b>Other</b>	<b>2,020</b>	<b>2,760</b>

## NOTES TO THE CASH FLOW STATEMENT

### 2. RECONCILIATION OF REVENUE ACTIVITIES

The surplus / (deficit) on the Consolidated Revenue Account includes transactions which do not result in cash flows. The following table identifies these transactions and reconciles the Consolidated Revenue Account surplus (page 18) with the actual net revenue cash flows shown on the Cash Flow Statement (page 61).

	2004/05	2005/06	
	£000	£000	£000
Consolidated Revenue Account Surplus/(Deficit) for the year	387		166
<b>Non Cash Transactions</b>			
Contribution to/(from) reserves/provisions	12,439		8,610
Capital transactions charged to revenue:			
Depreciation	9,480	9,507	
Minimum Revenue Provision	(8,965)	(11,280)	
Revenue Contribution to Capital	196	1,176	(597)
	13,537		8,179
<b>Items on an accruals basis</b>			
(Increase)/decrease in stocks	28	(66)	
(Increase)/decrease in debtors	2,739	7,821	
Increase/(decrease) in creditors	(8,666)	(1,851)	5,904
<b>Net cashflow from revenue activities</b>	7,638		14,083

### 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 (page 61) to the value of net debt as shown in the Consolidated Balance Sheet (pages 33-34).

	£000	£000
Net Debt as at 1st April 2005		(67,329)
<u>Changes in Net Debt:</u>		
Increase / (Decrease) in cash in the period	2,616	
Cash inflow from increase in debt	(12,238)	
Cash inflow from a decrease in liquid resources	10,771	
		1,149
<b>Net Debt as at 31st March 2006</b>		(66,180)

## 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 Consolidated Balance Sheet (pages 34-35).

	£000 2004-05	£000 2005-06	£000 Cashflow
Debt due within one year	(9,767)	(10,720)	(953)
Debt due after one year	(99,323)	(110,608)	(11,285)
	<u>(109,090)</u>	<u>(121,328)</u>	<u>(12,238)</u>
 <u>Management of Liquid Resources</u>			
Cash in Hand	2,819	2,834	14
Overdraft / Trust Funds Cash	(12,473)	(9,871)	2,602
Increase / (Decrease) in Cash	<u>(9,654)</u>	<u>(7,037)</u>	<u>2,616</u>
Temporary Loans	0	0	-
Short Term Investments	51,415	62,186	10,771
	<u>51,415</u>	<u>62,186</u>	<u>10,771</u>
 <b>Total movement in net debt</b>	 <b><u>(67,329)</u></b>	 <b><u>(66,180)</u></b>	 <b><u>1,149</u></b>

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

### **Opinion on the Financial Statements**

We have audited the financial statements for the year ended 31 March 2006 under the Audit Commission Act 1998. The financial statements comprise Consolidated Revenue Account, the Collection Fund, the Consolidated Balance Sheet, the Statement of Total Movements in Reserves, the Cash Flow Statement, 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 applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2005 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 Auditing Standards (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 applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2005, the financial position of the Council and its income and expenditure for the year.

We review whether the Statement on Internal Control reflects the Council's compliance with CIPFA's guidance "The Statement on Internal Control in Local Government: Meeting the Requirements of the Accounts and Audit Regulations 2003" published on 2 April 2004. We report if it does not comply with proper practices specified by CIPFA 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 whether the Statement on Internal Control 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. 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 Auditing Standards (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 applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2005, the financial position of Knowsley Metropolitan Borough Council as at 31 March 2006 and its income and expenditure and cash flows for the year then ended.

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

Date:

## **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.

Under the Local Government Act 1999, the Council is required to prepare and publish a best value performance plan summarising the Council's assessment of its performance and position in relation to its statutory duty to make arrangements to ensure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

### **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.

We are required by section 7 of the Local Government Act 1999 to carry out an audit of the Council's best value performance plan and issue a report:

- certifying that we have done so;
- stating whether we believe that the plan has been prepared and published in accordance with statutory requirements set out in section 6 of the Local Government Act 1999 and statutory guidance; and
- where relevant making any recommendations under section 7 of the Local Government Act 1999.

### **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 July 2005, 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 2006.

## **BEST VALUE PERFORMANCE PLAN**

We issued our statutory report on the audit of the Council's best value performance plan for the financial year 2005/06 on 23 December 2005. We did not identify any matters to be reported to the Council 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

Date

## **GLOSSARY OF TERMS**

### **CAPITAL CHARGES**

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

### **CAPITAL EXPENDITURE**

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

### **CAPITAL EXPENDITURE FROM REVENUE ACCOUNT**

This relates to the financing of capital expenditure directly from revenue as opposed to financing from borrowing, other credit arrangements or grants.

### **CAPITAL RECEIPTS**

This relates to income from the sale of assets.

### **CONSOLIDATED BALANCE SHEET**

The Consolidated Balance Sheet represents a summary of the assets, liabilities, funds and reserves of the Council. It brings together the accounts of the Authority including the General Fund, Trading Operations and the Collection Fund but excludes the independent trust funds administered by the Authority.

### **CONSOLIDATED REVENUE ACCOUNT**

The account which summarises the cost of all the functions for which the Council is responsible and demonstrates how the net cost has been financed from Government grants and local taxpayers.

### **DEFERRED CAPITAL RECEIPTS**

Deferred Capital Receipts are amounts derived from sales of assets, 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.

### **NATIONAL NON DOMESTIC RATE**

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

## **GLOSSARY OF TERMS**

### **OVERHEADS**

Certain costs within departments providing support such as Accountancy and Legal services are recharged to the services as shown in the Consolidated Revenue Account. This is in order to reflect the full cost of operating these services.

### **PRECEPTS**

The amounts collected by the Council on behalf of the Police, Fire and Civil Defence Authorities and various Parish Councils.

### **PROVISIONS**

Amounts set aside in the accounts for liabilities, which have arisen, however the amount and timing of the liability may be uncertain.

### **PUBLIC WORKS LOANS BOARD**

The Public Works Loan Board is a Government body, which provides loans to local authorities for financing capital expenditure.

### **RESERVES**

Amounts set aside in the accounts to meet future commitments, for example, to implement a policy or as a contingency.

### **REVENUE ACCOUNTS**

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

### **REVENUE SUPPORT GRANT**

This is 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 Rent and Council Tax rebates and allowances.

### **TRADING OPERATIONS**

Trading Operations are 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.