



# STATEMENT OF ACCOUNTS

**2006 - 2007**

**GOVERNANCE & AUDIT COMMITTEE  
18<sup>th</sup> SEPTEMBER 2007**

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## **EXPLANATORY FOREWORD TO THE 2006/07 STATEMENT OF ACCOUNTS**

This foreword aims to help readers understand Knowsley Council's Statement of Accounts for 2006/07. It explains the various accounting statements and provides a brief explanation of the Council's overall financial position at 31 March 2007.

### **PURPOSE OF THE ACCOUNTING STATEMENTS**

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

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

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

#### **Statement of Responsibilities**

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

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

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

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

#### **Income and Expenditure Account**

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

#### **Statement of Movement on the General Fund Balance**

This reconciliation statement summarises the differences between the outturn on the Income and Expenditure Account and the General Fund Balance

#### **Statement of Total Recognised Gains and Losses**

This statement brings together all the gains and losses of the Council for the year and shows the aggregate increase in the Council's net worth.

#### **Balance Sheet**

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

#### **Cash Flow Statement**

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

#### **Collection Fund**

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

## SUMMARY OF THE 2006/07 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 an annual amount of money (a "cash limit") to spend. 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. Each year, changes in how the Borough's population is made up, or costs of new legislation, mean that service demands for more money usually outweigh what is available in the year - so the Council has to allocate its money to areas of high priority, and focus its use of resources on achieving improved performance.

The day-to-day costs of providing Council services are known as "revenue" expenditure. During 2006/07, total revenue expenditure was £471.067m. This is shown in the Council's Income and Expenditure account using the Government's "Best Value" analysis to show the net cost of services with adjustments for other expenditure that relates to the Council's overall operations rather than specific service provision. The table below provides a summary:

Service Provided	£m
Education Services (including schools)	170.732
Cultural, Environmental & Planning Services	104.154
Social Services	98.039
Housing Services	56.797
Central Services to the Public	22.988
Corporate & Democratic Core Costs	17.072
Highways, Roads & Transport Services	15.070
Non Distributed items	3.119
<b>NET COST OF SERVICES</b>	<b>487.971</b>
Interest payments and other operating expenditure	10.886
* Adjustment for items excluded by statute and proper practices	(27.790)
<b>GROSS OPERATING EXPENDITURE</b>	<b>471.067</b>

\* detailed in Note 1 to the Statement of Movement on the General Fund Balance.

### Where the money comes from

In 2006/07, the Council received income from several sources to pay for its revenue expenditure. Most of this money came directly from the Government as either general Revenue Support Grant or other grants for specific services – including the dedicated schools grant which was introduced in 2006/07. Only 9.5% of the Council's money came from the Council Tax. Income is also generated from fees and charges to customers for some of the Council's services. Each year, the Council reviews its charging policies to ensure that it receives the optimum amount of income - helping to provide more services within limited financial resources.

Source of Income	£m
Government Grants for specific services	168.094
Dedicated Schools Grant	91.218
Business Rates Grants	89.070
Fees and charges for services	55.171
Council Tax receipts	44.883
Government's Revenue Support Grant	17.078
<b>FUNDING FOR SERVICES</b>	<b>465.514</b>
Interest received and other operating income	5.594
<b>TOTAL INCOME</b>	<b>471.108</b>

The difference of £0.041m between the total operating expenditure and the total income is the Council's overall surplus against its budget for the year. In line with the Council's financial strategy, this surplus is added to the Council's general balances to make sure that they remain at 3% of the Council's 2007/08 budget. The Council's general balances at 31 March 2007 are £4.634m, and these are important as they provide the capacity to spend money while awaiting income. They also provide the Council with flexibility to meet unforeseen expenditure pressures.

### The Council's Assets and Liabilities

The balance sheet shows the Council's assets and liabilities as at 31 March 2007. In addition to the general balances mentioned above, the Council also sets money aside in provisions (for future expenditure relating to an event that has already occurred) and reserves (for likely future commitments and policy developments). At 31 March 2007, the total of the Council's reserves (excluding schools) was £33.917m, and full details of these are set out in Note 16 to the Council's Balance Sheet. By putting money aside now to pay for future commitments, the Council ensures that it manages the impact of its spending in a planned and prudent way – avoiding sudden changes in Council Tax and making sure that it can afford to develop and improve services in the future.

In 2006/07, the Council spent £32.996m on acquiring or improving buildings and other assets (known as "capital" expenditure). This expenditure is detailed in Note 1 to the Balance Sheet and the table below shows the expenditure for each Council Portfolio:

Service Portfolio	£m	%
Leisure, Community and Culture	10.980	33
Regeneration and Neighbourhoods	10.216	31
Children's Services	9.291	28
Health and Social Care	1.074	3
Corporate and Customer Services	0.512	2
Neighbourhood Delivery	0.490	2
Finance and Information Society Technologies	0.433	1
<b>TOTAL</b>	<b>32.996</b>	<b>100</b>

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

Source of Funding	£m	%
Government Grants	15.396	47
Capital Receipts	11.132	34
Borrowing	4.333	13
Contributions from revenue	0.625	2
Other Contributions	1.510	4
<b>TOTAL</b>	<b>32.996</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 2006/07, the Council's share of the Fund was a net liability of £131.266m, compared with £151.228m the previous year (a decrease of 13.2%). However, as a result of the policy to balance the Fund in the long term, the Council's 'share' of the Fund is now 74% funded (compared to 69% at the end of 2005/06). This position is expected to improve further in subsequent years and is closely monitored by the Pension Fund.

## Major Influences on the 2006/07 Accounts

For the last three years the Audit Commission has increased its focus on financial management as part of the way it measures a Council's performance. In 2006 the Council's external auditors (PricewaterhouseCoopers) completed their annual Use of Resources Assessment and the results showed that for the second year running the Council was one of the best performing metropolitan 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.

The Council has again achieved the Government's requirement for approval of the Accounts by 30 June each year, while at the same time it has significantly improved how it reports its financial information to ensure that the Statement of Accounts is as accurate and clear as possible. Each year, all Councils have a statutory responsibility to publish their Accounts in line with national requirements (set out in a Statement of Recommended Practice or "SORP"). In recent years there has been a gradual move towards making sure that the public sector adopts the same principles as those used in the private sector – and this has led to a number of major changes in how the Accounts are reported. The main changes in 2006/07 are around accounting for fixed assets and the introduction of the Income and Expenditure Account to show how the Council has paid for the running costs of its services during the year.

The Statement of Accounts also reflects the recommended accounting practice for potential compensation claims under the Equal Pay Act (Amendment) Regulations 2003 in relation to equal pay for work of equal value. The Council has accounted for its estimate of the maximum potential liability of £26.351m in the Income and Expenditure Account but, in line with recommended practice, the impact has been offset to avoid an overall charge to the Council's general balances. The Council is currently conducting a comprehensive job evaluation and harmonisation review which is aimed at resolving this issue. The figure included in the accounts does not indicate an expected settlement figure and does not prejudice the Council's ongoing negotiations on this matter.

In 2006/07 there have been no other unusual or exceptional items included within the costs of services, however due to the changes in accounting requirements many of the figures for 2005/06 have been restated to allow comparison with the 2006/07 figures.

This year, the Council will again publish a summarised version of the audited accounts, which will provide a more user-friendly overview of the key figures for 2006/07. This will be available on the Council's website after the conclusion of the audit.

## Future Developments

Future developments for the 2007 SORP include further changes to how the Council accounts for its assets and for the financial instruments used in its treasury management activities. The Government also has an ambition that accounts produced by Local Authorities from 2008/09 will be compliant with International Accounting Standards, so there are likely to be further changes to the SORP in 2007 and 2008.

## 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.

**JAMES DUNCAN CPFA  
ACTING BOROUGH TREASURER**

## STATEMENT OF ACCOUNTING POLICIES

The Council's accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting – A Statement of Recommended Practice (SORP) 2006, and the Best Value Accounting Code of Practice 2006, issued by the Chartered Institute of Public Finance and Accountancy.

### ACCOUNTING CONCEPTS

#### a) Accruals

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

#### b) Going Concern

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

#### c) Primacy of Legislative Requirements

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

### BALANCES

The Council's policy is to maintain general balances at 3% of the approved net revenue budget for the following year.

### CAPITAL RECEIPTS

Income from the disposal of fixed assets is credited to the useable capital receipts reserve and can be used to finance future capital expenditure. Any proportion reserved for the repayment of external loans has been credited to the capital 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 the previous financial year have been changed, these are marked with an asterisk. Details of these restatements are shown in the notes to the accounting statements.

### DEBTORS AND CREDITORS

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

### EQUAL PAY ACT (AMENDMENT) REGULATIONS 2003

The Statement of Accounts reflects the recommended accounting practice for potential compensation claims under the Equal Pay Act (Amendment) Regulations 2003 in relation to equal pay for work of equal value - as defined in Local Authority Accounting Panel Bulletin 68. The Council has accounted for its estimate of the maximum potential liability in the Income and Expenditure Account and the impact has been offset to avoid an overall charge to the Council's general balances. The Council is currently conducting a comprehensive job evaluation and harmonisation review which is aimed at resolving this issue. The figure included in the accounts does not indicate an expected settlement figure and it does not prejudice the Council's ongoing negotiations on this matter.

## **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 Institute 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 associated with operational buildings, operational properties and other operational assets are valued at the lower of net current replacement cost and net realisable value as at 31 March 2006;
- non-operational assets, including investment properties, development land 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 March 2006.
- miscellaneous leases and surplus properties were last revalued at 31 March 2005. In the case of investment properties, these are normally valued at open market value. Tangible fixed assets under construction are included at historical cost;
- infrastructure assets are valued at historical cost, net of depreciation; and,
- community assets are valued 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.
- the valuation of vehicles, plant and equipment has been adjusted to reflect a change in the Council's accounting policy for fixtures and fittings. In previous years the Council's balance sheet has included a notional valuation of fixtures and fittings based on an assumed proportion of the valuation of its buildings. For 2006/07 the value of any fixtures and fittings is now assumed to be incorporated in the value of the asset itself rather than being a notional addition to it. As a consequence the value of vehicles, plant and equipment shown in the balance sheet has been adjusted by £22.001m to exclude the notional value of fixtures and fittings.

### **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 and patents. All intangible fixed assets in the Council's accounts relate to purchased software licences.

### **c) Impairment**

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

- Where an impairment loss is caused through a general fall in prices it is treated as a revaluation on the balance sheet with no impact on the cost of service.
- Where an impairment loss is identified due to a clear consumption of economic benefits it is recognised as a charge to the cost of service in the year in which the event has occurred.

#### **d) Depreciation and Capital charges**

Depreciation is provided for on all fixed assets with a finite useful life which can be determined at the time of acquisition or revaluation. Newly acquired assets are not depreciated in the year of acquisition, and assets under construction are not depreciated until they are brought into use. Depreciation is calculated using the straight line method and is charged to the cost of service for all fixed assets used in the provision of a service. Depreciation on surplus assets held for disposal is charged to Non Distributed Costs. From 2006/07, in line with recommended practice, financing costs (such as interest payable) are no longer recharged to the cost of service.

#### **GOVERNMENT GRANTS**

Government grants and subsidies are accrued and credited to the appropriate revenue and capital accounts to match the expenditure to which they relate. If a revenue grant is received in advance it is treated as a creditor. Government grants related to capital expenditure and therefore creating a fixed asset are credited to the government grants deferred account. Therefore the fixed asset is recorded at its gross amount in the balance sheet. An amount matching the depreciation of the asset is written off against the relevant service revenue account over the life of the asset.

#### **GROUP ACCOUNTS**

Councils with material and controlling interests in subsidiary and associated companies and joint ventures (and which would be regarded as such under the Companies Acts) are required to prepare summarised group accounts. Where such arrangements are with other local authorities, these group accounts are not required.

#### **INTERNAL INTEREST**

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

#### **LEASING**

The Council's general approach is to optimise the balance between the use of operating leases, finance leases and prudential borrowing for the acquisition of vehicles and equipment to ensure the most economic approach for the Council. The Council will assess whether it is appropriate to borrow money to purchase an asset, or alternatively enter into a lease agreement. Where leasing arrangements are in place, the Council applies the requirements and definitions of SSAP21 relating to leases such that:

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

#### **OVERHEADS**

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

## **PENSIONS AND RETIREMENT BENEFITS**

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

The Council participates in two pension schemes:

### **Teachers' Pension Scheme**

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

### **Merseyside Pension Fund**

The main employees' pension scheme is the Merseyside Pension Fund, which is administered by Wirral Metropolitan Borough Council. This is a defined benefit scheme meaning that the Council and employees pay contributions into the fund, calculated at a level estimated to balance the pension's liabilities with investment assets. The Council pays a contribution into the fund at a rate determined by the Fund's actuaries, based on a triennial valuation. Under pension fund regulations the contribution rates are required to meet 100% of the statutory liabilities of the fund. The average age of the Council's active members of the scheme as at the last valuation on 31st March 2004 was 41.5 years. The results of the triennial valuation undertaken as at 31 March 2007 will be known during the later part of 2007 and will be reported in the 2007/08 accounts.

## **POOLED BUDGETS**

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

## **PROVISIONS**

These are amounts set aside which may need to be paid in respect of obligations arising from a past event, but where there is uncertainty as to the precise amounts or timing of the liability. 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 using an assessment of the likely level of future write-off, taking into account factors such as the age of debt or the status of debt collection. Details of any provisions held by the Council are shown in the notes to the Balance Sheet.

## **REPURCHASE OF BORROWING**

Gains (discounts received) or losses (premiums paid) from the repurchase or early settlement of borrowing are recognised in the Council's accounts in the period when the repurchase or early settlement is made. From 2007/08, 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 will be recognised over the life of the replacement borrowing.

## **RESERVES**

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

## **STOCKS, STORES AND WORK IN PROGRESS**

These items are included in the accounts at actual or current cost, rather than at the lower of cost and net realisable value as specified in Statement of Standard Accounting Practice 9 (SSAP 9). It is considered that the difference between the two methods of valuation is not significant in relation to the total value of stocks held. For 2007/08 the Council has introduced a new system that is compliant with SSAP9. Work in progress is valued at cost including an allocation of overheads.

## 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 2006/07 Statement of Accounts presents fairly the financial position of the Council at 31 March 2007 and its income and expenditure for the year ended 31 March 2007.



JAMES DUNCAN CPFA  
Acting 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 27 June 2007.



COUNCILLOR VINCE CULLEN  
Chairman of the Governance and Audit Committee

## STATEMENT ON INTERNAL CONTROL 2006/07

### 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 2007 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 & 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 2006/07 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; and,

**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;
- 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; and,

**The Governance & Audit Committee**, which:-

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

#### 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 the annual audit and inspection letter and other review agencies' and inspectorates' reports.

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 financial efficiencies.

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. There were no complaints to the Ombudsman in 2006/07 that found maladministration against the Council or causing any injustice to the complainant.

The Council's Irregularity Panel met 18 times during the year to deal with a total of 22 suspected financial irregularities. None of the cases were major financial irregularities, and proper action was taken in all instances to ensure that any control weaknesses were properly addressed, appropriate disciplinary action was taken, and where necessary the matter was referred to the Police. An annual report of the Irregularity Panel's work is submitted to the Governance and Audit Committee.

There was a new requirement that all secondary schools must attain the Department for Education and Skills' Financial Management Standard in Schools (FMSiS) by March 2007, and for the Section 151 Officer to declare whether each school met the Standard or that appropriate action was needed to ensure compliance. The Standard is a statement of the characteristics expected to be found in a school that is well managed financially. This provides an additional source of assurance. The internal audit service, after becoming accredited as assessors, carried out an evaluation of each of the Authority's ten secondary schools. All were assessed to have met the standard.

The Audit Services Manager is able to conclude that there are sound internal financial control systems in place by taking assurance from the system and risk-based audits undertaken across the Council during 2006/07, the reviews of the major financial systems by the external auditor, and the resultant actions taken by management. The Audit Services Manager reports the findings of audits to executive directors and action is agreed to address these findings as necessary. The annual internal audit report on audit activity and findings, together with a review on the implementation of the previous year's recommendations, were submitted to the Governance and Audit Committee on 27 June 2007.

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 maintain an evidence based 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 review of the internal control self-assessment process identified that that much has been achieved in embedding the internal control review process in management structures and processes, and that action had been taken to improve internal controls. However, the process generally started later in the year rather than being a continuous review. The Audit Services Manager is satisfied that the requirement to review internal controls in the management of directorates alongside the routine monitoring of finance, performance, and risk is now clearly understood. Outstanding internal control actions have been carried forward into the 2007/08 action plans and progress toward their implementation will be monitored.

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 to use to enable the tracking of controls and actions taken. The inter-departmental Corporate Risk and Resilience Group meets regularly to coordinate, monitor and develop risk management across the Council.

Each year, the Council's Financial and Contract 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.

An independent review was undertaken by IPF using the principles of the Chartered Institute of Public Finance and Accountancy's Financial Management Model. The results showed that the building blocks of financial management are firmly in place at the Council in relation to governance, internal control, risk management, internal audit, budgets, financial accounting/reporting, and probity/propriety. Implementing changes as a result of the review will strengthen the ability of the Borough Treasurer to fulfil statutory duties by integrating corporate and directorate finance functions, thus ensuring a consistent standard of financial management across the Council.

The 2006 Comprehensive Performance Assessment report issued by the Benefit Fraud Inspectorate commented that the Council met or exceeded the standard for all performance measures for processing claims, security, resource management and user focus, resulting in an overall top score of excellent. In addition, the Council met 85% of the 'enablers', which are the other key criteria against which the service is assessed.

In 2007, the Office for Standards in Education assessed “improving outcomes for children’ services and social care services, and the capacity to improve” as excellent. In addition, the Commission for Social Care Inspection rated the adult social care services as excellent. Neither of these inspection bodies identified any concerns about internal control matters.

In March 2007, the Audit Commission reported that the Council performs strongly and demonstrates good practice in the areas of financial standing and internal control, and that financial standing strengths are evidenced through the monitoring and scrutiny of reserves and financial health indicators and the involvement of portfolio holders. Also, the Comprehensive Performance Assessment for 2006 recognised the Council as a top performing four-star authority and improving well.

Furthermore, the Use of Resources assessment by the external auditor focuses on financial management and how resource management is integrated with strategy and corporate management, supports priorities, and delivers value for money. The assessment for 2006 concluded that the Council is performing at a high level, and is indeed one of the top five metropolitan authorities, with an overall achievement of ‘Level 3’ (consistently above minimum requirements and performing well). One of the five aspects reviewed is internal control, which was rated ‘Level 4’ about which it was stated “this was achieved through a robust assurance framework and risk management strategy, a strong counter fraud culture, and recognition of notable practice in each of these areas”.

However, the relevant actions that were brought to the Council’s attention can be summarised as:-

- ensuring that there are fewer priorities and that each have clear outcomes and improvement targets;
- the Council should consider the membership of the Governance & Audit Committee and the way it operates; and,
- improve costs and value for money in comparison with other councils.

Overall, it was concluded that the Council is performing consistently above minimum requirements.

On 27 June 2007, the Governance & Audit Committee 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. In addition, as part of the new statutory requirement to review formally the system of internal audit each year, the Governance & Audit Committee concluded that there were no significant concerns.

## **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 2006/07, we can reasonably conclude that there are no unresolved and significant internal control issues.

Commencing in 2007/08, the Chairman and Vice-Chairman of the Governance and Audit Committee are now independent of the Cabinet, reflecting both good practice and comments made by the external auditor. Also during 2007/08, the Council's Code of Corporate Governance will be reviewed as new national guidance is due to be published by CIPFA/SOLACE, and it is likely to result in changes to the form of the Statement.

Meanwhile, partnership working, neighbourhood delivery, and the service reviews that seek to improve performance and efficiency require that internal controls need to develop, continue to be monitored closely, and be subject to regular review. In particular, partnership arrangements will be audited with the intention to continue the process of strengthening financial and other governance arrangements.

Signed:-



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



**Sheena Ramsey  
Chief Executive**



**James Duncan CPFA  
Acting Borough Treasurer**

**27 June 2007**

## INCOME AND EXPENDITURE ACCOUNT

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

2005/06 *		Note	Expenditure £000	Income £000	2006/07 Net £000
<b>Net</b>					<b>Net</b>
£000			£000	£000	£000
	<b>Council Services</b>				
3,129	Central Services to the Public		22,988	(17,652)	5,336
53,843	Cultural, Environmental & Planning Services		104,154	(41,282)	62,872
100,526	Education Services	18	170,732	(151,433)	19,299
9,758	Highways, Roads & Transport Services		15,070	(308)	14,762
1,707	Housing Services		56,797	(54,775)	2,022
49,761	Social Services		98,039	(38,070)	59,969
9,517	Corporate & Democratic Core		17,072	(10,963)	6,109
(4,926)	Non Distributed Items		3,119	0	3,119
<b>223,315</b>	<b>Net Cost of Services</b>	<b>2</b>	<b>487,971</b>	<b>(314,483)</b>	<b>173,488</b>
2,054	(Gain)/Loss on the Disposal of Fixed Assets				(1,575)
966	Parish Precepts				1,012
(374)	Trading Operations Surplus	3			(159)
5,701	Interest Payable and Similar Charges				5,186
135	Contribution to Housing Pooled Capital Receipts				97
(777)	Income from Right to Buy Sales				(364)
(2,965)	Interest and Investment Income				(3,496)
6,044	Pensions interest cost and expected return	9			4,591
<b>234,099</b>	<b>Net Operating Expenditure</b>				<b>178,780</b>
(43,294)	Demands on the Collection Fund				(44,883)
(137,203)	Government Grants				(17,078)
(50,065)	Distribution from National Non-Domestic Rate pool				(89,070)
<b>3,537</b>	<b>Income and Expenditure Account Deficit for the year</b>	<b>2</b>			<b># 27,749</b>

# The cost of services within the Income and Expenditure Account above includes the impact of the provision for the Equal Pay Act Regulations 2003 (detailed in Note 2 to the Income and Expenditure Account), which is reversed in the amounts credited to the General Fund Balance for the year (detailed in the Statement of Movement on General Fund Balance). For clarification, these amounts are presented beneath the Income and Expenditure Account so that the reader may clearly reconcile the General Fund Balance to the Council's reported outturn position.

(3,703)	# Amounts credited to the General Fund Balance for the year	detailed in Statement of Movement on General Fund Balance and accompanying notes	(27,790)
<b>(166)</b>	<b>Increase in General Fund Balance for the year</b>		<b>(41)</b>
(4,427)	General Fund Balance at beginning of year		(4,593)
<b>(4,593)</b>	<b>Balance on General Fund to be carried forward</b>		<b>(4,634)</b>

\* 2005/06 comparative figures have been restated to reflect the required changes to the format of accounts for 2006/07. These restatements are analysed in Note 1 to the Income and Expenditure Account.

## STATEMENT OF MOVEMENT ON THE GENERAL FUND BALANCE

This statement summarises the difference between the balance on the Income and Expenditure Account and the Council's actual General Fund Balance. A full reconciliation of this difference is shown at Note 1 to this Statement.

The Income and Expenditure Account shows the Council's actual financial performance during the year. However, the Authority is required to raise Council Tax on a different accounting basis, the main differences being:

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

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

<b>2005/06</b>		<b>2006/07</b>	Note
<b>£000</b>		<b>£000</b>	
	<b>General Fund Balances</b>		
3,537	Deficit for year on Income and Expenditure Account	27,749	
	Net additional amount required by statute and non-statutory proper practices to be debited or credited to the		
(3,703)	General Fund Balance for the year	(27,790)	1
(166)	<b>Increase in General Fund Balance for the year</b>	(41)	
(4,427)	Balance at beginning of year	(4,593)	
0	Reclassification of earmarked balances	0	
<b>(4,593)</b>	<b>Balance on General Fund to be carried forward</b>	<b>(4,634)</b>	
	Amount of general Fund Balance generally available for		
4,593	new expenditure	4,634	
<b>4,593</b>		<b>4,634</b>	

## STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

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

<b>2005/06</b>		<b>2006/07</b>
<b>£000</b>		<b>£000</b>
3,537	Loss for the year on the Income and Expenditure	27,749
(5,742)	(Gain) / Loss arising on revaluation of fixed assets	28,957
4,356	Actuarial (gains)/losses on pension fund assets and	(25,629)
223	Loss for the year on the Collection Fund	184
<b>2,374</b>	<b>Total Recognised Loss for the year</b>	<b>31,261</b>

**BALANCE SHEET**

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

<b>Balance at 31.3.2006 £000</b>	<b>£000</b>	<b>Balance at 31.3.2007 £000</b>	<b>Note</b>
<b>Net Fixed Assets</b>			
4,263		3,559	1
<b>Intangible Fixed Assets</b>			
<b>Tangible Fixed Assets</b>			
<b>Operational Assets</b>			
284,491	- Land and Buildings	278,063	
33,444	- Vehicles, Plant, Furniture and Equipment	11,330	
132,056	- Infrastructure	136,627	
1,271	- Community Assets	1,230	1
<b>Non-operational Assets</b>			
1,830	- Assets under Construction	10,862	
23,967	- Investment Properties	19,588	
7,997	- Surplus Assets held for Disposal	7,409	1
489,319	<b>Total Fixed Assets</b>	468,668	
5,503	<b>Long Term Investments</b>	3	2
<b>Long Term Debtors</b>			
1,924	Mortgagors	1,166	
148	Car Loans	129	
496,894	<b>Total Long Term Assets</b>	1,295	
<b>Current Assets</b>			
622	Work in Progress/Stock in Hand	630	3
56,685	Investments	68,980	4
33,685	Debtors	27,980	5
2,834	Imprest/Cash in Hands of Collectors	4,556	
590,720	<b>Total Assets</b>	102,146	
<b>Less Current Liabilities</b>			
10,720	Short Term Borrowing	758	6
34,217	Creditors	32,495	7
9,868	Cash Overdrawn	10,146	8
535,915	<b>Total Assets less Current Liabilities</b>	43,399	
<b>Less Long Term Liabilities</b>			
110,608	Long Term Borrowing	118,026	9
81,218	Government Grants Deferred	93,956	
169,892	Pension Liability	148,971	
0	Provision for Equal Pay Act Regulations 2003	26,351	10
6,838	Provisions	5,311	11
167,359	<b>Total Assets less Liabilities</b>	392,615	
		<b>136,098</b>	

**BALANCE SHEET (contd)**

<b>Balance at 31.3.2006 £000</b>	<b>£000</b>	<b>Balance at 31.3.2007 £000</b>	<b>Note</b>
<b>Financed By:</b>			
(28,486)		(58,643)	12
314,220		310,676	13
1,446		759	
13,875		13,071	14
0 #	Equal Pay Act Regulations 2003 - notional reversal of provision	(26,351)	10
(169,892)	Pensions Reserve	(148,971)	15
31,769	Reserves	41,273	16
<b>Revenue Balances</b>			
4,593	- General Fund	4,634	
(166)	- Collection Fund	(350)	
		4,284	
<b>167,359</b>	<b>Total Equity</b>	<b>136,098</b>	

**# Equal Pay Act Regulations 2003**

In accordance with recommended accounting practice, this item represents the reversal of the provision in the balance sheet relating to the Council's estimate of the maximum potential liability that may arise from the Equal Pay Act (Amendment) Regulations 2003. This treatment ensures that the inclusion of the provision does not have an impact on the Council's General Fund Balance until such time as any future cash settlements are made. The Council is currently conducting a comprehensive job evaluation and harmonisation review which is aimed at resolving this issue and the inclusion of this does not indicate an expected final settlement figure or prejudice the Council's ongoing negotiations on this matter.

## CASH FLOW STATEMENT

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

2005/06		2006/07	
£000		£000	£000
	<b>REVENUE ACTIVITIES</b>		
	<b>Cash Outflows</b>		
185,259	Cash paid to and on behalf of employees	193,001	
194,643	* Other operating cash payments	217,322	
50,047	Housing Benefit paid out	52,309	
31,986	National Non Domestic Rate Payments to National Pool	32,575	
8,108	Precepts Paid	8,453	
<b>470,043</b>	<b>Cash outflows on revenue activities</b>		<b>503,660</b>
	<b>Cash Inflows</b>		
(38,075)	* Council Tax income	(40,532)	
(50,065)	National Non Domestic Rate	(89,070)	
(29,113)	* Non-domestic rate receipts	(31,630)	
(137,203)	Revenue Support Grant	(17,078)	
0	Dedicated Schools Grant	(91,218)	
(49,092)	Dept for Work and Pensions Grants for Benefits	(51,214)	
(99,222)	* Other Government Grants (Note 1)	(79,816)	
(40,427)	Cash received for goods and services	(51,503)	
(43,622)	* Other operating cash receipts	(66,078)	(518,139)
<b>(16,776)</b>	<b>Cash inflows on revenue activities</b>		<b>(14,479)</b>
	<b>Servicing of Finance</b>		
	<b>Cash Outflows</b>		
5,701	Interest paid	3,456	
	<b>Cash Inflows</b>		
(3,008)	Interest received	(3,533)	(77)
<b>(14,083)</b>	<b>NET REVENUE ACTIVITIES</b>		<b>(14,556)</b>
	<b>CAPITAL ACTIVITIES</b>		
	<b>Cash Outflows</b>		
28,248	Purchase of Fixed Assets	27,126	
8,239	Other Capital Cash Payments	8,118	35,244
	<b>Cash Inflows</b>		
(5,898)	Sale of fixed assets	(1,936)	
(15,281)	Capital Grants received (Note 1)	(22,611)	
(2,374)	Other capital cash receipts	(6,936)	(31,483)
<b>(1,149)</b>	<b>NET CASH INFLOW before financing</b>		<b>(10,795)</b>
	<b>FINANCING</b>		
	<b>Cash Outflows</b>		
10,349	Repayments of amounts borrowed		40,390
	<b>Cash Inflows</b>		
(22,587)	New loans raised		(37,846)
<b>(12,238)</b>	<b>Net Financing cashflows</b>		<b>2,544</b>
	<b>Management of Liquid Resources</b>		
10,771	Short term Investments	6,794	
2,616	Net Decrease in cash (Note 3)	1,457	<b>8,251</b>
<b>1,149</b>	<b>Total Movement in Net Debt (Note 4)</b>		<b>10,795</b>

## NOTES TO THE INCOME AND EXPENDITURE ACCOUNT

### 1. 2005/06 COMPARATIVE FIGURES

In the 2006/07 Statement of Accounts, the Council has adopted three significant new accounting policies that impact on the comparative figures for 2005/06 in the Income and Expenditure Account:

- a) Capital financing charges for the use of fixed assets are no longer made to service revenue accounts, support services and trading accounts.
- b) Credits for government grants deferred are now posted to service revenue accounts, support services and trading accounts rather than credited as a corporate income item.
- c) Gains and losses on the disposal of fixed assets are recognised in the Income and Expenditure Account.

These changes have had the following impact on the comparative figures for 2005/06 compared with those published in the 2005/06 Statement of Accounts.

	Consolidated Revenue Account 2005/06  £000	Removal of Capital Financing Charges  £000	Relocation of Government Grants Deferred Credits  £000	Gains and losses on disposal of fixed assets  £000	Revised Income and Expenditure Account 2005/06  £000
<b><u>Impact on Cost of Service</u></b>					
<b><u>Services</u></b>					
Central Services to the Public Cultural, Environmental & Planning Services	3,183	(54)	-	-	3,129
Education Services	59,681	(5,439)	(399)	-	53,843
Highways, Roads & Transport Services	108,910	(7,361)	(1,024)	-	100,525
Housing Services	14,830	(5,059)	(13)	-	9,758
Social Services	1,775	(25)	(42)	-	1,708
Corporate & Democratic Core	50,212	(393)	(58)	-	49,761
Non Distributed Income	10,625	(187)	(921)	-	9,517
	(4,926)	-	-	-	(4,926)
<b>Impact on Net Cost of Services</b>	<b>244,290</b>	<b>(18,518)</b>	<b>(2,457)</b>	<b>-</b>	<b>223,315</b>
<b><u>Impact on Net Operating Expenditure</u></b>					
Loss on Disposal of Fixed Assets	-	-	-	2,054	2,054
Asset Management Revenue Account	(15,274)	18,518	2,457	-	5,701
Other appropriations	3,029				3,029
<b>Impact on Net Operating Expenditure</b>	<b>232,045</b>	<b>-</b>	<b>-</b>	<b>2,054</b>	<b>234,099</b>

## NOTES TO THE INCOME AND EXPENDITURE ACCOUNT

### 2. NET COST OF SERVICES

#### 2.1 CORPORATE AND DEMOCRATIC CORE

The 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 any unused capacity of IT facilities and other assets.

#### 2.3 EQUAL PAY ACT (AMENDMENT) REGULATIONS 2003

The Statement of Accounts reflects the recommended accounting practice for potential compensation claims under the Equal Pay Act (Amendment) Regulations 2003 in relation to equal pay for work of equal value - as defined in Local Authority Accounting Panel Bulletin 68.

The Cost of Services includes a provision of £26.351m which has been made in relation to the Council's estimate of the maximum potential liability that may arise from the Equal Pay Act (Amendment) Regulations 2003. The provision is a prudent accounting assessment of the maximum potential liability to which the Council might be exposed, so that the possible effect on the Council's financial position can be assessed properly. The Council is currently conducting a comprehensive job evaluation and harmonisation review which is aimed at resolving this issue. The making of the provision should not be regarded as an acceptance of liability in any particular case. The amount of provision made does not indicate an expected final settlement figure or prejudice the Council's ongoing negotiations on this matter.

### 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.

	2005/06			2006/07		
	Turnover	Total Spend	(Surplus) /Deficit	Turnover	Total Spend	(Surplus) /Deficit
Organisation	£000	£000	£000	£000	£000	£000
Highways	4,093	4,544	451	3,387	3,840	453
Transport	3,602	3,321	(281)	3,802	3,744	(58)
School Meals	5,508	5,017	(491)	5,355	5,000	(355)
Building Cleaning	4,033	3,980	(53)	4,093	3,894	(199)
	<u>17,236</u>	<u>16,862</u>	<u>(374)</u>	<u>16,637</u>	<u>16,478</u>	<u>(159)</u>

## NOTES TO THE INCOME AND EXPENDITURE ACCOUNT

### 4. PROVISION FOR REPAYMENT OF TRANSFERRED DEBT

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

	<b>2005/06</b>	<b>2006/07</b>
	<b>£000</b>	<b>£000</b>
Transferred Debt Repayments	617	653
Transferred Debt Income	(10)	(9)
<b>Net Charge</b>	<u>607</u>	<u>644</u>

### 5. PUBLICITY

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

	<b>2005/06</b>	<b>2006/07</b>
	<b>£000</b>	<b>£000</b>
Recruitment Advertising and Other Publicity	1,583	1,388
Media and Customer Relations Unit	145	212
	<u>1,728</u>	<u>1,600</u>

### 6. 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 £0.030m in 2006/07 (£0.029m in 2005/06) compared to a maximum allowable level of £0.749m. The majority of this expenditure relates to the provision of grants under these powers to certain voluntary bodies.

### 7. AGENCY WORK

The Council has had no agency agreements in place during 2006/07.

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

Under this Act, the Council provided no significant services to public bodies during 2006/07. 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 £0.823m in 2006/07 (£1.030m in 2005/06) and the Council received £0.197m (£0.200m in 2005/06) as a share of profits for being a member of this consortium.

## NOTES TO THE INCOME AND EXPENDITURE ACCOUNT

### 9. PENSION COSTS

The Council participates in two pension schemes:

**Teachers:** In 2006/07, the Council paid an employer's contribution of £6.481m (£6.498m in 2005/06), representing 13.6% (13.5% in 2005/06) 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 2006/07, these amounted to £1.631m (£1.421m in 2005/06), representing 3.4% (3% in 2005/06) of pensionable pay.

**Other Employees and Members:** In 2006/07, the Council paid an employer's contribution of £12.694m (£11.630m in 2005/06), representing 15.4% (14.9% in 2005/06) 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 2006/07, these amounted to £1.978m (£1.875m in 2005/06), representing 2.4% (2.4% in 2005/06) of pensionable pay (including in-year retirements costs which amounted to £0.145 m).

The transactions that are included in the 2006/07 Income and Expenditure Account in respect of the Council's pensions scheme are set out in the table below, based upon information provided to the Council by the Pension Fund's independent actuary. The cost of retirement benefits is shown in the Net Cost of Services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge to be met in the year is based on the amounts set by the Pension Fund, so the real cost of accrued retirement benefits is reversed out of the accounts as indicated in the Statement of Movement on General Fund Balance.

	Merseyside Pension Fund		Teachers Added Years		Total	
	2005/06 £000	2006/07 £000	2005/06 £000	2006/07 £000	2005/06 £000	2006/07 £000
<b>Net Cost of Services</b>						
Current Service Cost	12,584	14,770	0	0	12,584	14,770
Past Service or Curtailment or Settlement Costs	(6,399)	1,628	0	0	(6,399)	1,628
	<u>6,185</u>	<u>16,398</u>	<u>0</u>	<u>0</u>	<u>6,185</u>	<u>16,398</u>
<b>Net Operating Expenditure</b>						
Interest Cost	23,196	24,299	945	882	24,141	25,181
Expected Return on Assets	(18,097)	(20,590)	0	0	(18,097)	(20,590)
	<u>5,099</u>	<u>3,709</u>	<u>945</u>	<u>882</u>	<u>6,044</u>	<u>4,591</u>
<b>Amount to be met from Govt grant and local taxpayers</b>						
Movement on pensions reserve	<u>2,040</u>	<u>(19,962)</u>	<u>354</u>	<u>(959)</u>	<u>2,394</u>	<u>(20,921)</u>
<b>Actual amount charged in year</b>						
Employer contributions	<u>13,324</u>	<u>14,954</u>	<u>1,299</u>	<u>1,327</u>	<u>14,623</u>	<u>16,281</u>

Source: Mercer Human Resource Consulting Ltd

Note 15 to the Balance Sheet details the assumptions used to estimate these figures.

## NOTES TO THE INCOME AND EXPENDITURE ACCOUNT

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

The table below shows the number of employees whose remuneration for 2006/07, 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	
	2005/06 *	2006/07
£50,000 - £59,999	47	58
£60,000 - £69,999	29	24
£70,000 - £79,999	2	11
£80,000 - £89,999	2	1
£90,000 - £99,999	4	5
£100,000 - £109,999	1	1
£110,000 - £119,999	2	2
£120,000 - £129,999	1	0
£130,000 - £139,999	1	0
£140,000 - £149,999	0	0
£150,000 - £159,999	0	0
£160,000 - £169,999	1	1
£170,000 - £179,999	0	1
£180,000 - £189,999	1	0
<b>TOTAL</b>	<b>91</b>	<b>104</b>

\* 2005/06 figures have been restated to include the appropriate proportion of joint funded posts.

### 11. MEMBERS' ALLOWANCES

During 2006/07, the Council paid a total of £0.799m in respect of Members' Allowances (£0.783m in 2005/06). Further details can be obtained from the Head of Democratic Services, Corporate Resources Department, Municipal Buildings, Huyton.

### 12. 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 2006/07:

#### Central Government

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

## NOTES TO THE INCOME AND EXPENDITURE ACCOUNT

### Subsidiary and Associated Companies

Details of the Council's interests in companies are set out in Note 18 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 17 to the Income and Expenditure 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, including the Council's Executive Director of Health and Social Care who is also the Chief Executive of the Primary Care Trust.

- **Pension Fund**

Full details of the Council's Pension Fund transactions are disclosed in Note 9 to the Income and Expenditure Account and the Statement of Accounting Policies. One Member of the Council is a member of the Merseyside Pension Fund Committee.

- **Knowsley Housing Trust**

Transactions to Knowsley Housing Trust consisted of £7.991m in payments and £4.179m in receipts. Seven Members of the Council have declared an interest, including three acting as Board Members.

Transactions relating to Other Public Bodies also included

- Merseytravel £10.332m – Two Members have expressed an interest,
- Merseyside Waste Disposal Authority £4.995m – One Member has expressed an interest, and;
- Merseyside Passenger Transport Executive £1.116m – Two Members have expressed an interest.

### Members' Interests

Members of the Council have direct control over the Council's financial and operational policies. During 2006/07, works and services totalling £0.981m were commissioned from organisations in which six Members had an interest. Contracts were entered into in full compliance with the Council's Constitution. Payments and grants totalling £2.798m were paid to housing associations, hospital trusts, and voluntary organisations, in which there were 49 expressions of interest from Members. In all cases, the relevant Members have declared their interest and taken no part in any prejudicial discussion or decision relating to the transactions.

### Officers Interests

During 2006/07, the Chief Executive declared an interest in the National Wildflower Centre, to which a total payment of £0.027m was made in the year. The Chief Executive did not take part in any discussion or decision relating to the transactions.

## NOTES TO THE INCOME AND EXPENDITURE ACCOUNT

### 13. 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.

	2005/06	Chargeable	2006/07		Total
	Total		Non	Chargeable	
	£000	£000	£000	£000	£000
<u>Expenditure</u>					
Employee Expenses	235	188	126		314
Premises	10	7	5		12
Supplies and Services	157	60	40		100
Central and Support Services	75	29	19		48
Total Expenditure	477	284	190		474
<u>Income</u>					
Building Regulation Charges	(313)	(337)	0		(337)
<u>Net (Surplus)/Deficit</u>	164	(53)	190		137

## NOTES TO THE INCOME AND EXPENDITURE ACCOUNT

### 14. OPERATING AND FINANCE LEASES

#### 14.1 Council as a Lessee

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

	2005/06			2006/07		
	Operating Lease £000	Finance Lease £000	Total £000	Operating Lease £000	Finance Lease £000	Total £000
Wheeled Bins	119	0	119	52	0	52
Vehicles	989	0	989	727	0	727
Other	513	1	514	167	0	167
	<b>1,621</b>	<b>1</b>	<b>1,622</b>	<b>946</b>	<b>0</b>	<b>946</b>

The Council was committed at 31 March 2007 to making payments of £0.367m, under operating leases in 2007/08, comprising of the following elements:

	Leases Expiring in 2007/08 £000	Leases expiring between 2008/09 and 2012/2013 £000	Leases expiring after 2013/2014 £000
Wheeled Bins	0	47	4
Vehicles	148	54	0
Other	63	51	0
	<b>211</b>	<b>152</b>	<b>4</b>

#### 14.2 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:

	2005/06 £000	2006/07 £000
Shops	631	654
Industrial & business unites	487	694
Other	129	160
	<b>1,247</b>	<b>1,508</b>

## NOTES TO THE INCOME AND EXPENDITURE ACCOUNT

### 15. IMPAIRMENT OF ASSETS

The Council's approach to impairment of assets is set out in the Council's accounting policies. During the year, three items of impairment have been identified as arising from a consumption of economic benefits and these have been recognised as charges to the appropriate cost of service as follows:

Asset Description	Service	Value £000s
Beechwood School	Children's Services	2,203
Halewood Resource Centre	Health and Social Care	998
Keepers Block, Cherryfield Drive	Leisure, Community and Culture	88
<b>Total</b>		<b>3,289</b>

### 16. AUDITOR'S REMUNERATION

In 2006/07, Knowsley MBC incurred the following fees relating to external audit and inspection:

	2005/06	2006/07		Total
	£000	Pricewaterhouse Coopers £000	Audit Commission £000	
Fees payable with regard to external audit services carried out by the appointed auditor	238	231	28	259
Fees payable in respect of Statutory Inspection under (Section 10 Local Government Act 1999)	0	0	0	0
Fees payable for the certification of grant claims and returns (Section 28 Audit Commission Act 1998)	198	134	2	136
<b>Total</b>	<b>436</b>	<b>365</b>	<b>30</b>	<b>395</b>

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

## NOTES TO THE INCOME AND EXPENDITURE ACCOUNT

### 17. 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 2006/07, the Council was involved with four pooled budgets each of which has a “host” organisation. Three of the pools are hosted by the Council’s Health and Social Care Portfolio and one is hosted by Knowsley Primary Care Trust. Details of all the pooled budgets are shown below.

#### 17.1 Pooled Budgets Hosted by the Council

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

<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

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

	<b>Older People</b>		<b>Mental Health</b>		<b>Learning Disabilities</b>	
	<b>2005/06</b> £000	<b>2006/07</b> £000	<b>2005/06</b> £000	<b>2006/07</b> £000	<b>2005/06</b> £000	<b>2006/07</b> £000
<b>Gross Funding</b>						
Reserve B/fwd	-	(153)	-	28	(494)	(268)
Knowsley Primary Care Trust	(304)	(1,355)	(307)	(1,368)	(4,269)	(3,693)
Knowsley MBC	(1,111)	-	(962)	-	(218)	(1,371)
<b>Total Funding</b>	<b>(1,415)</b>	<b>(1,508)</b>	<b>(1,269)</b>	<b>(1,340)</b>	<b>(4,981)</b>	<b>(5,332)</b>
Pooled Expenditure	1,262	1,342	1,297	1,298	4,713	4,972
<b>Total Expenditure</b>	<b>1,262</b>	<b>1,342</b>	<b>1,297</b>	<b>1,298</b>	<b>4,713</b>	<b>4,972</b>
<b>Net (Underspend) / Overspend</b>						
<b>Carried Forward</b>	<b>(153)</b>	<b>(166)</b>	<b>28</b>	<b>(42)</b>	<b>(268)</b>	<b>(360)</b>

**NOTES TO THE INCOME AND EXPENDITURE ACCOUNT**

<b>Movement in Reserves</b>	<b>2006/07</b>			<b>Total</b>
	<b>Older People</b>	<b>Mental Health</b>	<b>Learning Disabilities</b>	
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Revenue reserves B/fwd	<b>(153)</b>	28	(268)	<b>(393)</b>
Net surplus in year	(13)	(70)	(92)	<b>(175)</b>
<b>Balance carried forward</b>	<b>(166)</b>	<b>(42)</b>	<b>(360)</b>	<b>(568)</b>

**Summary Memorandum Account - Hosted Pooled Budgets**

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

<b>2005/06</b>	<b>Gross Funding</b>	<b>2006/07</b>
<b>£000</b>		<b>£000</b>
(494)	Reserve B/fwd	(393)
(4,879)	Knowsley Primary Care Trust	(6,416)
(2,292)	Knowsley MBC	(1,371)
<b>(7,665)</b>	<b>Total Funding</b>	<b>(8,180)</b>
7,272	Pooled Expenditure	7,612
<b>7,272</b>	<b>Total Expenditure</b>	<b>7,612</b>
<b>(393)</b>	<b>Net Underspend Carried Forward</b>	<b>(568)</b>

<b>Movement in Reserves</b>	<b>2006/07</b>
	<b>£000</b>
Revenue reserves B/fwd	(393)
Net surplus in year	(175)
<b>Balance carried forward</b>	<b>(568)</b>

## NOTES TO THE INCOME AND EXPENDITURE ACCOUNT

### 17.2 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

	2005/06 £000	2006/07 £000
<b>Funding</b>		
Balance of funds brought forward	0	(59)
Knowsley Metropolitan Borough Council	(291)	(288)
Knowsley Primary Care Trust	(541)	(450)
St Helens Metropolitan Borough Council	(403)	(415)
St Helens Primary Care Trust	(429)	(468)
<b>Total Funding</b>	<b>(1,664)</b>	<b>(1,680)</b>
<b>Total Expenditure</b>	<b>1,605</b>	<b>1,624</b>
<b>Net underspend carried forward</b>	<b>(59)</b>	<b>(56)</b>

### 18. DEDICATED SCHOOLS GRANT

The Council's expenditure on schools is funded by the Dedicated Schools Grant (DSG) provided by the Department for Education and Skills. The Dedicated Schools Grant is ring-fenced and can only be applied to meet expenditure properly included in the Schools Budget. The Schools Budget includes elements for a restricted range of services provided on an authority-wide basis, and for the Individual Schools Budget which is divided into a budget share for each school. Details of the deployment of the Dedicated Schools Grant receivable for 2006/07 are detailed in the following table.

Schools Budget Funded by Dedicated Schools Grant	Central Expenditure £000	Individual Schools Budget £000	Total £000
Original grant allocation to Schools Budget for the current year in the Authority's budget	(8,315)	(83,479)	(91,803)
Adjustment to finalised grant allocation DSG receivable for the year	585 (7,739)	0 (83,479)	585 (91,218)
Actual expenditure for the year	7,739	82,783	90,522
Underspend for the year	0	(696)	(696)
Use of schools balances	0	0	0
Underspend carried forward to 2007/08	0	(696)	(696)

For 2006/07, the arrangements for Government support for the funding of schools changed. Previously funds were provided as part of the Council's overall Revenue Support Grant. In 2006/07, the Council received the Dedicated Schools Grant as a specific grant, and £91.218m has therefore been credited to the Education cost of service that would previously have been treated as part of the Revenue Support Grant in corporate income. The difference between 2006/07 figures and comparative figures for 2005/06 for these two lines is substantially explained by this change.

**NOTES TO THE STATEMENT OF MOVEMENT ON THE GENERAL FUND BALANCE****1. RECONCILIATION OF STATUTE AND NON-STATUTE PROPER PRACTICES**

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

<b>2005/06</b>		<b>2006/07</b>
<b>£000</b>		<b>£000</b>
<b>Amounts included in the income and expenditure account but required by Statute to be excluded when determining the Movement on the General Fund Balance for the year</b>		
(865)	Amortisation of Intangible Fixed Assets	(1,026)
(13,383)	Depreciation and Impairment of Fixed Assets	(14,400)
2,457	Government Grants Deferred Amortisation	2,826
(5,862)	Deferred Charges to be financed from Capital Resources	(1,017)
(2,054)	Net Gain / (Loss) on Sale of Fixed Assets	1,575
0	Equal Pay Act (Amendment) Regulations 2003 (#)	(26,351)
(12,229)	Net Charges made for Retirement Benefits in accordance with FRS17	(20,989)
<b>(31,936)</b>		<b>(59,382)</b>
<b>Amounts not included in the income and expenditure account but required by Statute to be included when determining the Movement on the General Fund Balance for the year</b>		
4,090	Statutory Provision for Repayment of Debt	4,624
607	Principal Repayment on External Loans	644
1,176	Capital Expenditure charged in year to the General Fund Balance	625
(135)	Transfer from Usable Capital Receipts to meet payments to the Housing Capital Receipts Pool	(97)
14,623	Employers Contribution Payable to the Pension Fund and Retirement Benefits payable Direct to Pensioners	16,281
<b>20,361</b>		<b>22,077</b>
<b>Transfers to or from the General Fund Balance that are required to be taken into account when determining the Movement on the General Fund Balance for the year</b>		
(1,009)	Contributions to Earmarked Reserves - Schools' Balances	2,759
8,881	- Other Reserves	6,756
<b>7,872</b>		<b>9,515</b>
<b>(3,703)</b>	<b>Net additional amount required to be credited to the General Fund Balance for the year</b>	<b>(27,790)</b>

**# Equal Pay Act (Amendment) Regulations 2003**

In accordance with Local Authority Accounting Panel Bulletin 68 the General Fund Balance is credited with an adjustment to offset the impact of the provision relating to the Council's estimate of the maximum potential liability that may arise from the Equal Pay Act (Amendment) Regulations 2003. This is explained further in Note 2.3 to the Income and Expenditure Account.

## NOTES TO THE BALANCE SHEET

**1 a) FIXED ASSETS – MOVEMENTS**

<b><u>Operational Assets</u></b>	Land & Building <b>£000</b>	Vehicle Plant & Equipment* <b>£000</b>	Infrastructure <b>£000</b>	Community Assets <b>£000</b>	Total <b>£000</b>
Gross book value 1.4.2006	319,080	52,396	140,028	1,378	512,882
Opening Revaluations	(674)	(22,001)	0	0	(22,675)
Opening Reclassifications	(1,186)	0	0	0	(1,186)
	<u>317,220</u>	<u>30,395</u>	<u>140,028</u>	<u>1,378</u>	<u>489,021</u>
Additions	2,098	2,608	4,110	0	8,816
Other Expenditure	7,795	474	0	0	8,269
Disposals	(560)	0	0	0	(560)
Revaluations in Year	(5,637)	(474)	0	(13)	(6,124)
Reclassifications in Year	1,061	0	2,546	0	3,607
<b>Gross book value at 31.3.2007</b>	<b><u>321,977</u></b>	<b><u>33,003</u></b>	<b><u>146,684</u></b>	<b><u>1,365</u></b>	<b><u>503,029</u></b>
<b>Depreciation and Impairment</b>					
Balance as at 1.4.2006	(34,589)	(18,952)	(7,972)	(107)	(61,620)
Depreciation	(6,036)	(2,721)	(2,085)	(28)	(10,870)
Impairment	(3,289)	0	0	0	(3,289)
<b>Balance at 31.3.2007</b>	<b><u>(43,914)</u></b>	<b><u>(21,673)</u></b>	<b><u>(10,057)</u></b>	<b><u>(135)</u></b>	<b><u>(75,779)</u></b>
<b>Net book value as at 31.3.2007</b>	<b><u>278,063</u></b>	<b><u>11,330</u></b>	<b><u>136,627</u></b>	<b><u>1,230</u></b>	<b><u>427,250</u></b>
<b><u>Non-Operational Assets</u></b>					
		Assets under Construction <b>£000</b>	Investment Properties <b>£000</b>	Surplus Assets held <b>£000</b>	Total <b>£000</b>
Gross book value 1.4.2006		1,830	25,162	7,997	34,989
Opening Reclassifications		1,186	0	0	1,186
		<u>3,016</u>	<u>25,162</u>	<u>7,997</u>	<u>36,175</u>
Additions		7,500	0	0	7,500
Other Expenditure		0	0	25	25
Disposals		0	0	(640)	(640)
Revaluations in Year		0	145	(303)	(158)
Reclassifications in Year		346	(4,283)	330	(3,607)
<b>Gross book value at 31.3.2006</b>		<b><u>10,862</u></b>	<b><u>21,024</u></b>	<b><u>7,409</u></b>	<b><u>39,295</u></b>
<b>Depreciation and Impairment</b>					
Balance as at 1.4.2006		0	(1,195)	0	(1,195)
Depreciation		0	(241)	0	(241)
<b>Balance at 31.3.2007</b>		<b><u>0</u></b>	<b><u>(1,436)</u></b>	<b><u>0</u></b>	<b><u>(1,436)</u></b>
<b>Net book value as at 31.3.2007</b>		<b><u>10,862</u></b>	<b><u>19,588</u></b>	<b><u>7,409</u></b>	<b><u>37,859</u></b>

\* **Vehicles, plant and equipment:** The revaluation of vehicles, plant and equipment reflects the change set out in the in Council's Accounting Policies for fixed assets to exclude the notional value of fixtures and fittings.

## NOTES TO THE BALANCE SHEET

<u>Intangible Assets</u>	Total £000
Gross Book Value 31.3.2006	5,128
Additions	322
<b>Gross Book Value 31.3.2007</b>	<b>5,450</b>
Depreciation as at 1.4.2006	(865)
Depreciation for Year	(1,026)
<b>Balance as at 31.3.2007</b>	<b>(1,891)</b>
 <b>Net Book Value as at 31.3.2007</b>	 <b>3,559</b>

### 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
Leased Assets	Lease Life

### 1 c) FIXED ASSETS – CAPITAL FINANCING

Capital expenditure was financed as follows:

	2005/06 £000	2006/07 £000
Capital Expenditure		
Operational Assets	25,543	17,085
Deferred Charges	8,263	8,064
Non-Operational Assets	1,689	7,525
Intangible Assets	805	322
	<u>36,300</u>	<u>32,996</u>
Sources Of Finance		
Grants	15,281	15,396
Loans	11,988	4,333
Capital Receipts	7,449	11,132
Capital Expenditure from Revenue Account	1,176	625
Reserves	264	1,112
Contributions from Partners and Developers	142	398
	<u>36,300</u>	<u>32,996</u>

## NOTES TO THE BALANCE SHEET

### 1 d) FIXED ASSETS – CAPITAL EXPENDITURE

The main items of capital expenditure during 2006/07 were:

	<b>£000</b>
<b><u>Regeneration and Neighbourhoods</u></b>	
Highway Maintenance Programme	3,270
Private Tenants Grants	1,470
Tower Hill Renovations	1,243
A580 New Junction to 50 Acre Site (Alchemy)	1,185
Knowsley Lane Maintenance Feasibility	526
Raven Court Development	512
Renovation Grants	485
A5080 Roby Road at Archway Road	455
A580 East Lancashire Road – Moorgate Road	335
Prescot Regeneration	275
<b><u>Children's Services</u></b>	
Childrens' Centres	3,037
Schools' Devolved Formula Capital Programme	1,252
Building Schools for the Future	1,089
Schools' Modernisation Programme	551
Space for Sports and Arts – St Marie's	485
Knowsley City Learning Centre Building Capitalisation	393
<b><u>Finance and Information Society Technologies</u></b>	
CRM Integration	391
<b><u>Corporate and Customer Services</u></b>	
Administrative Buildings – Emergency Works	442
<b><u>Leisure , Community and Culture</u></b>	
Kirkby Sports Strategy	7,500
Parks Packed with People	592
Scotchbarn Pitches	437
Housing Land Improvement Programme	377
<b><u>Health and Social Care</u></b>	
Interim Support Services	160
<b><u>Neighbourhood Delivery</u></b>	
School Meals Facilities	220

## NOTES TO THE BALANCE SHEET

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

Significant commitments for future capital expenditure as at 31 March 2007 include the following:

Scheme	Purpose	Expected Period	£000
Targetted Capital Primary Schools	To build a new two form entry primary school with special needs support facility and children's centre provision on the site of the Ruffwood Campus	2007/08 & 2008/09	9,632
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	2007/08	3,095
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.	2007/08	2,731
Kirkby Sports Centre	State of the art leisure centre with facilities to better support the needs of the community.	2007/08	2,686
Huyton Municipal Buildings Refurbishment	Refurbishment and Rationalisation of Huyton Administrative Buildings	2007/08	2,496
Hazel's House	Reburbishment and partial redevelopment of the Grade II Listed Hazel's House, to provide speculative office space within a premier business centre for SMEs	2007/08 & 2008/09	2,491
Devolved Formula Capital Allowances provided to schools	Allowances provided to schools on a formulaic basis to allow local decision making on asset management subject to identification of priority within the Asset Plan.	2007/08	2,488

## NOTES TO THE BALANCE SHEET

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

Scheme	Purpose	Expected Period	£000
Modernisation	The Capital Modernisation Programme assures the condition of the school building stock. Adequate maintenance supports the raising of standards of achievement of pupils by ensuring that teaching and learning takes place in suitable environments.	2007/08	2,101
Supported Housing	Financial Assistance to Registered Social Landlord partners to enable them to provide Supported People housing projects.	2007/08	1,970
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.	2007/08	1,300
A580 New Junction to 50 Acre Site (Alchemy)	Creation of a new junction to open up the site for Langtree Developments.	2007/08	945
Children's Centres	Children's Centres will allow cohesive provision of childcare from 0 -4 to complement early years provision in schools and will provide the facilities for a range of agencies including Health, Employment and Social Care to work in a co-ordinated manner from a central point within each of the neighbourhoods, close to the people who will benefit most from this support.	2007/08	846
Information Technology Strategy	IT system for Health and Social Care and partner agencies will be procured and implemented to meet government requirements	2007/08 & 2008/09	452
Building Schools for the Future	Although not classified as a capital scheme the Council is also undertaking a major Private Finance Initiative to build seven new Learning Centres to provide completely new secondary education provision across the borough.		

## NOTES TO THE BALANCE SHEET

### 1 f) FIXED ASSETS – NUMBERS

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

Analysis of Tangible Fixed Assets	31.3.2006	31.3.2007	
Administrative buildings	5	5	
Offices	19	20	
Depots and Workshops	3	3	
Magistrates Courts	0	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	24	
- Secondary	7	7	
- Other	8	8	
Homes for people with learning disabilities	1	1	
Centres for people with learning/physical disabilities	5	4	
Day centres for the Elderly	2	2	
Other Health and Social Care establishments	11	9	
Commercial properties - rented/leased	203	202	
- void	20	20	
Industrial properties - rented/leased	397	399	
- void	12	4	
Public conveniences	1	1	
Roads - principal	101	101	Km
- other	457	460	Km
Bridges	133	141	
Lamp units	18,250	18,491	
Vehicles and plant	452	642	
Community Assets	20	20	

## NOTES TO THE BALANCE SHEET

### 1 g) LEASES

As noted in the Council's accounting policy, the Council regularly reviews its procurement arrangements to optimise the balance between the use of leases and prudential borrowing. In 2006/07 no new operating or finance leases were taken out as the acquisition of new vehicles and equipment was funded by prudential borrowing. The outstanding obligations with regard to existing lease arrangements are therefore reducing, as equipment and vehicles are returned at the end of the lease.

Outstanding Obligations	Finance Leases £000	Operating Leases £000
1 -2 years	0	515
2 – 5 years	0	117
5 years & above	0	4
<b>Total</b>	0	636

### 2. LONG TERM INVESTMENTS

At 31 March 2007, the Council held £0.003m of investments in 3.5% Treasury Stock. There were no other long term investments.

### 3. STOCKS AND WORK IN PROGRESS

	31.3.2006 £000	31.3.2007 £000
Work in Progress	161	255
<u>Stocks</u>		
- Neighbourhood Delivery	445	364
- Leisure Community and Culture	6	5
- Other General Fund	10	6
Total Stocks	461	375
Total	622	630

### 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 BALANCE SHEET

## 5. DEBTORS

	31.3.2006 £000	31.3.2007 £000
Amounts falling due in one year:		
Government Departments	7,963	10,989
Other Local Authorities	428	733
Employee Related	29	25
Sundry Debtors	14,595	10,238
Car loans	37	32
Payments in Advance	1,706	1,749
Collection Fund	13,122	7,782
Total Amounts falling due within one year:	<u>37,880</u>	<u>31,548</u>
Provision for bad debts:		
General	(2,639)	(2,675)
Collection Fund	(1,556)	(893)
Total Provision for bad debts:	<u>(4,195)</u>	<u>(3,568)</u>
Total Debtors	<u><u>33,685</u></u>	<u><u>27,980</u></u>

## 6. SHORT TERM BORROWING

Source of Loan	Range of interest rates payable (%)	31.3.2006 £000	31.3.2007 £000
Public Works Loan Board	Fixed (2.5% to 7.375%)	10,066	63
Other Local Authorities	Variable	654	695
		<u>10,720</u>	<u>758</u>

## 7. CREDITORS

	31.3.2006 £000	31.3.2007 £000
Amounts falling due in one year:		
Government Departments	6,237	5,536
Other Local Authorities	1,167	1,428
Employee Related	5,349	5,744
Interest	1,154	1,160
Sundry Creditors	9,869	11,938
Income in Advance	7,602	5,162
Collection Fund	2,839	1,527
Total Creditors	<u><u>34,217</u></u>	<u><u>32,495</u></u>

## NOTES TO THE BALANCE SHEET

### 8. CASH

At 31 March 2007, the bank account balance was £0.584m overdrawn. However, cheques raised but un-presented at the bank and other miscellaneous balances totalled £9.562m, which produces a cash overdrawn figure of £10.146m.

### 9. LONG TERM BORROWING

Source of Loan	Range of interest rates payable (%)	31.3.2006 £000	31.3.2007 £000
Public Works Loan Board	Fixed (2.5% to 7.375%)	93,481	101,594
Lender Offer Borrower Option	Fixed (3.71% to 3.86%)	11,000	11,000
Other Local Authorities *	Variable	6,127	5,432
		<u>110,608</u>	<u>118,026</u>
An analysis of loans by maturity is:			
Maturing in 1-2 years		1,498	1,540
Maturing in 2-5 years		4,042	895
Maturing in 5-10 years		18,742	12,341
Maturing in more than 10 years		86,326	103,250
		<u>110,608</u>	<u>118,026</u>

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

### 10. EQUAL PAY ACT (AMENDMENT) REGULATIONS 2003

The Statement of Accounts reflects the recommended accounting practice for potential compensation claims under the Equal Pay Act (Amendment) Regulations 2003 in relation to equal pay for work of equal value - as defined in Local Authority Accounting Panel Bulletin 68.

The Balance Sheet includes a provision of £26.351m which has been made in relation to the Council's estimate of the maximum potential liability that may arise from the Equal Pay Act (Amendment) Regulations 2003. The Balance Sheet also includes an Equal Pay Act Regulations Back Pay Account which is used to hold an amount equal to the provision pending actual payment of claims.

The Council is currently conducting a comprehensive job evaluation and harmonisation review which is aimed at resolving this issue. The making of the provision should not be regarded as an acceptance of liability in any particular case. The amount of the provision made does not indicate an expected final settlement figure or prejudice the Council's ongoing negotiations on this matter.

## NOTES TO THE BALANCE SHEET

### 11. PROVISIONS

In addition to the provision relating to the Equal Pay Act Regulations 2004 (detailed in Note 10 to the Balance Sheet) a number of further provisions have been set aside to cover the following liabilities.

	Balance 31.3.2006	Provided in year	Applied in year	Balance 31.3.2007
	£000	£000	£000	£000
Business Rates	112	61	99	74
Capital Contract Retention	0	3	0	3
Early Retirement and Severance Costs	121	865	500	486
Insurance	5,639	3,299	4,334	4,604
Mental Health Act - Section 117	966	-	822	144
	6,838	4,228	5,755	5,311

#### Business Rates

Provision for revised liability for surface and multi-story car parks not charged in 2006/07

#### Capital Contract Retention

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

#### Early Retirement and Severance Costs

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

#### Insurance

This provision provides cover for the estimated settlement cost of claims received at the Balance Sheet date. A separate reserve is held for the estimated settlement costs of future claims (see Note 16). The Insurance Provision covers claims above the excess/retention levels for risks associated with property and liability. Any greater claims are covered by policies held with external insurance, along with all other types of risks.

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

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.

### 12. FIXED ASSET RESTATEMENT ACCOUNT

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

	2005/06	2006/07
	£000	£000
Balance at beginning of year	(26,184)	(28,486)
Surplus/(Deficit) on revaluation and restatement of fixed assets	5,650	(28,957)
Disposal of fixed assets		
- Operational Assets	0	(560)
- Non Operational Assets	(7,952)	(640)
Balance at end of year	(28,486)	(58,643)

## NOTES TO THE BALANCE SHEET

### 13. CAPITAL FINANCING ACCOUNT

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

	<b>2005/06</b>	<b>2006/07</b>
	<b>£000</b>	<b>£000</b>
Balance at beginning of year	324,180	314,220
Capital receipts set aside	256	193
Transferred Debt receipts set aside	17	17
Capital financing - capital receipts	1,131	2,450
- revenue	1,176	625
- other	406	1,510
Transfer from Government Grants Deferred	2,457	2,826
Less		
Net Adjustment for Statutory Loan Repayment Calculation	(7,258)	(6,859)
Write down of deferred charges (net of grant)	(5,862)	(1,017)
Impairment	(2,283)	(3,289)
Balance at end of year	<u>314,220</u>	<u>310,676</u>

### 14. USABLE CAPITAL RECEIPTS RESERVE

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

	<b>2005/06</b>	<b>2006/07</b>
	<b>£000</b>	<b>£000</b>
Balance at beginning of year	9,499	13,875
Capital receipts in year for sales of assets	<u>5,898</u>	<u>1,936</u>
	15,397	15,811
Less: Set aside for loan redemption	<u>(256)</u>	<u>(193)</u>
	15,141	15,618
ODPM Payments re Pooling Housing Capital Receipt	(135)	(97)
Capital Receipts applied during year - tangible assets	(863)	(2,228)
Capital Receipts applied during year - intangible assets	<u>(268)</u>	<u>(222)</u>
Balance at end of year	<u>13,875</u>	<u>13,071</u>

## NOTES TO THE BALANCE SHEET

### 15. PENSIONS LIABILITY AND RESERVE

#### a) OVERALL POSITION

The Council is a member of the Merseyside Pension Fund which is responsible for the provision of retirement benefits as set out by the Local Government Pensions scheme. The Council is also liable for all future added years benefits that it has awarded to teachers. Note 9 to the Income and Expenditure Account details the Council's participation in these schemes. The underlying assets and liabilities for retirement benefits attributable to the Council at 31 March 2007 are as follows:

	Merseyside Pension Fund		Teachers Pensions Added Years		Total	
	31.3.2006 £000	31.3.2007 £000	31.3.2006 £000	31.3.2007 £000	31.3.2006 £000	31.3.2007 £000
Estimated Assets	344,317	365,700	0	0	344,317	365,700
Estimated Liabilities	(495,545)	(496,966)	(18,664)	(17,705)	(514,209)	(514,671)
Net Asset/(Liability)	<u>(151,228)</u>	<u>(131,266)</u>	<u>(18,664)</u>	<u>(17,705)</u>	<u>(169,892)</u>	<u>(148,971)</u>

Total liabilities (including Teacher's Pensions) exceed assets by £148.971m. The Fund's Actuary is required to set contribution rates to meet 100% of the overall liabilities of the Fund. Contribution rates are based on the last available triennial valuation at 31 March 2005. The decrease in the total net liability in 2006/07 of £20.921m reflects an actuarial gain in the year of £25.629m which arose mainly from yields on equities and corporate bonds exceeding expectations.

#### b) FUND ASSETS

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

	31.3.2006			31.3.2007		
	Rate of Return %	Value £000	%	Rate of Return %	Value £000	%
Equities	7.0	210,034	61.0	7.5	212,748	58.3
Government Bonds	4.3	57,845	16.8	4.7	61,307	16.8
Other Bonds	4.9	16,527	4.8	5.4	21,530	5.9
Property	6.0	17,216	5.0	6.5	35,762	9.8
Cash / Liquidity	4.5	29,267	8.5	5.3	19,706	5.4
Other Assets	7.0	13,428	3.9	7.5	13,867	3.8
		<u>344,317</u>			<u>364,920</u>	

#### c) FUND LIABILITIES

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

ACCUARIAL ASSUMPTIONS	31.3.2006 %	31.3.2007 %
Rate of inflation	2.90	3.10
Rate of increase in salaries	4.15	4.35
Rate of increase in pension	2.90	3.10
Discount rate	4.90	5.40

## NOTES TO THE BALANCE SHEET

## 16. RESERVES

The Council holds a number of earmarked reserves for future expenditure commitments and policy development. During the year, all reserves are reviewed by the Council to ensure that they remain appropriate and in line with Council policy. As a result of this ongoing review a number of re-classifications have been made, and these are reflected in the opening balance shown below.

Reserve	Description	Balance at 31 March 2006 £'000	Movement (increase) / decrease £'000	Balance at 31 March 2007 £'000
<b>COUNCIL – WIDE RESERVES</b>				
Enterprise Initiatives	ODPM Grant awarded for Local Authority Business Growth Initiatives.	(965)	(957)	(1,922)
Kirkby Town Centre Development	Contribution towards development work required in 2007/08 and early 2008/09.	(200)	(537)	(737)
Neighbourhood Initiatives	To fund the Council's programme of Neighbourhood Initiatives in 2007/08 and 2008/09.	0	(426)	(426)
Neighbourhood Renewal Fund	To cover costs related to Neighbourhood Renewal Fund schemes.	(1,167)	725	(442)
Yorkshire Purchasing Organisation	This is Knowsley's allocation of profits distributed from the group. These are used for a variety of corporate purposes.	(77)	61	(16)
<b>Total Council-Wide Reserves</b>		<b>(2,409)</b>	<b>(1,134)</b>	<b>(3,543)</b>
<b>CORPORATE RESERVES</b>				
2007/08 Budget Allocations	Contribution of resources to service priorities approved as part of the 2007/08 budget.	0	(4,030)	(4,030)
BSF Advance works agreement	Underwriting of advance works agreement to ensure the timetable for completion of the Learning Centres is achieved.	0	(459)	(459)
Budget Risk Assessments	To reflect potential budget pressures that may arise from changes in the annual budget assumptions.	0	(2,806)	(2,806)
Corporate Policy Development	To support identified corporate policy development.	(3,886)	3,886	0
Medium Term Financial Plan	To fund budget pressures identified during the medium term financial planning process.	(3,720)	1,290	(2,430)
Treasury Management	To reflect potential budget pressures that may arise from changes in the Treasury Management Plan assumptions	(1,081)	581	(500)
Workforce Remodelling	Contribution towards potential costs of remodelling the workforce to ensure future flexibility.	(1,627)	(1,926)	(3,553)
<b>Total Corporate Reserves</b>		<b>(10,314)</b>	<b>(3,464)</b>	<b>(13,778)</b>
<b>INSURANCE RESERVE</b>				
Insurance	This reserve represents the sum held to cover potential future insurance claims.	(2,000)	(1,973)	(3,973)
<b>Total Insurance Reserves</b>		<b>(2,000)</b>	<b>(1,973)</b>	<b>(3,973)</b>

**16. RESERVES (contd)**

Reserve	Description	Balance at 31 March 2006	Movement (increase) / decrease	Balance at 31 March 2007
<b>CHILDREN'S SERVICES PORTFOLIO</b>				
Building Schools for the Future	To fund consultancy work and blueprints for Building Schools for the Future.	(319)	(430)	(749)
Education Initiatives	To fund Teenage Pregnancy Initiatives in 2007/08.	(32)	(17)	(49)
Extra District Contributions	To fund potential extra district claims.	(76)	0	(76)
Performance Improvement	To support service developments for performance improvement.	(15)	7	(8)
Risk Management	Funding for future risk management initiatives.	(1,052)	(394)	(1,446)
Schools Finance Support	School finance support service surplus to be re-invested with Knowsley schools.	0	(46)	(46)
Schools Standard Fund	To be utilised for future standards fund match requirements.	(20)	0	(20)
Social Inclusion Pupil Support	Underwrite Social Inclusion and Pupil Support Programme	(294)	294	0
Staffing	To support fixed term staff costs for programme initiatives and development.	(401)	191	(210)
Teachers Pensions	Reserve for the payment of lump sum pension costs for teachers retiring prematurely.	(1,440)	120	(1,320)
<b>Total Children's Services Reserves</b>		<b>(3,649)</b>	<b>(275)</b>	<b>(3,924)</b>
<b>COMMUNITY SAFETY AND SOCIAL INCLUSION PORTFOLIO</b>				
Community Safety Initiatives	To develop the Wardens Service delivery.	(670)	448	(222)
Crime and Disorder Initiatives	To develop the Anti-social Behaviour Unit and other crime and disorder initiatives.	0	(162)	(162)
Neighbourhood Renewal Fund	To cover costs related to Neighbourhood Renewal Fund schemes.	(127)	127	0
Strategy Reserve	To integrate, refocus and restructure services for the portfolio.	(68)	0	(68)
Youth Services	To implement Youth Offending Service relocation and secure accommodation.	(292)	252	(40)
<b>Total Community Safety and Social Inclusion Reserves</b>		<b>(1,157)</b>	<b>665</b>	<b>(492)</b>
<b>CORPORATE AND CUSTOMER SERVICES PORTFOLIO</b>				
Corporate Resources IT Systems	To develop new I.T. services and systems.	(169)	75	(94)
Corporate Resources Service Development	To integrate, refocus and restructure services for the portfolio.	0	(80)	(80)
Customer Services Improvements	For publicity and benchmarking due to the introduction of additional One Stop Shop services and update of the Customer Care Charter.	(12)	(68)	(80)
Occupational Health Unit	Resources for development of the Occupational Health Unit in 2006/07.	(90)	90	0
Performance Improvement	Resources set aside for service transformation and business process re-engineering.	(154)	(104)	(258)
<b>Total Corporate and Customer Services Reserves</b>		<b>(425)</b>	<b>(87)</b>	<b>(512)</b>

**16. RESERVES (contd)**

Reserve	Description	Balance at 31 March 2006 £'000	Movement (increase) / decrease £'000	Balance at 31 March 2007 £'000
<b>FINANCE AND INFORMATION TECHNOLOGY PORTFOLIO</b>				
IT Systems	To develop current and new IT systems for the portfolio and the Council as a whole.	(755)	(264)	(1,019)
Service Development	To integrate, refocus and restructure services for the portfolio and Council as a whole.	0	(235)	(235)
Environmental Initiatives	Refurbishment of Huyton Cash Office.	(167)	0	(167)
Performance Improvement	Resources set aside for service transformation and business process re-engineering.	(976)	738	(238)
<b>Total Finance and Information Technology Reserves</b>		<b>(1,898)</b>	<b>239</b>	<b>(1,659)</b>
<b>HEALTH AND SOCIAL CARE PORTFOLIO</b>				
Community Care	To provide for the future costs of the range of social services provided by the council.	0	(15)	(15)
IT / Systems Strategy	e-Government and Department of Health targets for electronic social care record system.	(702)	(369)	(1,071)
Performance Improvement	Performance Improvement Initiatives, service growth and administrative services review.	(524)	171	(353)
Pooled Budget	To provide for future costs of the pooled budget – supported accommodation.	(163)	2	(161)
Social Services - Initiatives	Includes reserves for 'Workstep' and disability services – multi agency training.	(127)	(4)	(131)
<b>Total Health and Social Care Reserves</b>		<b>(1,516)</b>	<b>(215)</b>	<b>(1,731)</b>
<b>LEADER'S PORTFOLIO</b>				
Performance Awareness	Resources for the 'Future is Knowsley' Campaign.	0	(25)	(25)
Performance Improvement	Resources set aside for the Pride Campaign, Equality and Diversity and other service developments.	(156)	8	(148)
<b>Total Leader's Portfolio Reserves</b>		<b>(156)</b>	<b>(17)</b>	<b>(173)</b>
<b>LEISURE, COMMUNITY AND CULTURE PORTFOLIO</b>				
Capital Reserve	For contributions towards the costs of the portfolio's capital programme.	(434)	211	(223)
Debtor Reserve	For debtors write off and HM Revenue and Customs interest due on VAT payment.	(13)	13	0
Learn Direct	Contribution towards the refurbishment of Huyton Library	(45)	36	(9)
Leisure – Various	Resources set aside for new leisure services and policy development.	(199)	173	(26)
Neighbourhood Renewal Fund	To cover costs related to Neighbourhood Renewal Fund schemes.	(310)	89	(221)
Staffing	Contributions towards fixed term staff related expenditure.	(257)	0	(257)
Strategy Reserve	To integrate, refocus and restructure services for the portfolio.	(165)	141	(24)
Youth Services	Initiatives to develop the portfolio's Youth Service.	(40)	(1)	(41)
<b>Total Leisure, Community and Culture Reserves</b>		<b>(1,463)</b>	<b>662</b>	<b>(801)</b>

**16. RESERVES (contd)**

Reserve	Description	Balance at 31 March 2006 £'000	Movement (increase) / decrease £'000	Balance at 31 March 2007 £'000
<b>NEIGHBOURHOOD DELIVERY PORTFOLIO</b>				
Neighbourhood Delivery	Portfolio resources set aside for service policy and performance improvement.	(45)	(63)	(108)
Contract Services Reserves	Trading balances set aside for policy and performance improvement.	(113)	40	(73)
<b>Total Neighbourhood Delivery Reserves</b>		<b>(158)</b>	<b>(23)</b>	<b>(181)</b>
<b>REGENERATION AND NEIGHBOURHOODS PORTFOLIO</b>				
Capital	To fund future costs within the portfolio's capital programme.	(205)	19	(186)
Enterprise Initiatives	To be used to fund Enterprise and Competitiveness schemes.	(301)	157	(144)
European Social Fund	Contributions towards European Social Fund schemes.	(246)	74	(172)
Insurance Excess	To fund future costs associated with unsuccessful highway trip claims.	(58)	0	(58)
Kirkby Development	Contribution to professional consultancy and advice for Kirkby Development Programme.	0	(105)	(105)
Maintenance and Trading Reserves	For initiatives such as winter maintenance, dangerous tree removal and other maintenance.	(365)	(642)	(1,007)
Merseyside Partnership	Contribution to the Mersey Partnership for additional inward investment activity.	0	(50)	(50)
Neighbourhood Regeneration	To be used to fund schemes within the Neighbourhoods Programme.	(342)	0	(342)
Neighbourhood Renewal Fund	To fund the pilot Halewood Neighbourhood Initiative.	(128)	118	(10)
Staffing & Running Costs	Staffing costs for temporary and fixed-term placements, and short term programmes.	(380)	102	(278)
Strategic Development	For Local Development Framework, Sustainable Communities Strategy, Estates Strategy, Economic Regeneration Strategy.	0	(300)	(300)
Street Lighting PFI	Contribution to Public Finance Initiative development work in 2007/08 and early 2008/09.	0	(498)	(498)
<b>Total Regeneration and Neighbourhoods Reserves</b>		<b>(2,025)</b>	<b>(1,125)</b>	<b>(3,150)</b>
<b>Total Council Reserves</b>		<b>(27,170)</b>	<b>(6,747)</b>	<b>(33,917)</b>
<b>SCHOOLS</b>				
Earmarked School Reserves	Consists of individual school balances on delegated budgets and is used to fund future expenditure requirements for the schools' operation.	(4,597)	(2,759)	(7,356)
<b>Total School Reserves</b>		<b>(4,597)</b>	<b>(2,759)</b>	<b>(7,356)</b>

## NOTES TO THE BALANCE SHEET

### 17. 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.

	<b>Balance</b> <b>31.3.2006</b>	<b>Receipts</b>	<b>Payments</b>	<b>Balance</b> <b>31.3.2007</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
King George V Playing Fields	828	8		836
Health and Social Care Trust Funds	138	80	93	125
Huyton Distress Fund	37	3		40
Client Records In Social Services Provision	37		9	28
Children's Services Trust Funds	7	1		8
	<u>1,047</u>	<u>92</u>	<u>102</u>	<u>1,037</u>

### 18. INTEREST IN COMPANIES

#### Knowsley Development Partnership Ltd.

Knowsley Development Partnership Ltd. was set up on 23 October 1998 as a formally incorporated public/private sector partnership between the Council and Caddick Developments Ltd. for the purpose of developing industrial units at Knowsley Industrial Park. Caddick Developments Ltd. has a majority shareholding of 829 (83%) of the 999 £1 ordinary shares. The Council's holding of 170 shares is therefore a minority share and is less than that required for the company to be regarded as an influenced company. As the company is a private company limited by shares, the Council has no liability to contribute to any debts of the company including accumulated losses. The company had net assets of £0.030m at 31 August 2006 and reported a loss of £0.005m as at that date.

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

#### 2020 Knowsley Ltd.

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

The company had net liabilities of £0.148m at 31 March 2007 and reported a pre tax loss of £0.042m as at that date.

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

## NOTES TO THE BALANCE SHEET

### 19. 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 2006/07 it has no such interests.

### 20. 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 2006/07 in preparing for the possible national introduction of the Euro currency and there are no commitments in respect of costs to be incurred.

### 21. POST BALANCE SHEET EVENTS

Since the financial year end of 31 March 2007, there have been no significant post balance sheet events that have occurred which would require additional adjustment or disclosure in the financial statements.

### 22. CONTINGENT LIABILITIES

The Council is aware that possible future costs could arise from the forthcoming local implementation of the national single status agreement on 1 April 2008. The Council is currently conducting a comprehensive job evaluation exercise which is aimed at resolving the issue with a break even outcome.

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

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

### 23. CONTINGENT ASSETS

The Council has been awarded "reward grant" in 2006/07 relating to successful achievement to date of its Local Public Service Agreement performance targets. Additional reward grant may be payable in 2007/08 subject to the final audit in the coming year of the Council's achievement of its targets.

## NOTES TO THE CASH FLOW STATEMENT

### 1. ANALYSIS OF PRINCIPAL GRANTS

Type of Grant	Revenue £000	Capital £000
<b>Department for Education and Skills</b>		
Dedicated Schools Grant	91,218	
Standards Fund	18,755	4,203
Sure Start	3,281	101
Early Years	809	
Other	1,599	2,284
<b>Learning and Skills Council</b>		
Sixth Form Funding	2,373	
Other	1,799	
<b>Department for Communities and Local Government</b>		
Neighbourhood Renewal Fund	12,888	349
Supporting People	7,968	
Local Public Service Agreement Reward Grant	562	562
Other	95	6,442
<b>Department for Work and Pensions</b>		
Council Tax Rebates Grant	66,825	
Benefit Verification Framework / Fraud Incentive / Tax Credits	2,702	
Other	662	
<b>Department of Health</b>		
Access and Systems Capacity	2,269	
Preserved Rights Grant	1,492	
Carers Grant	805	
Training Support	652	
Children's Services	616	
Partnerships for Older People's Project	609	
Mental Health	582	
CAMHS	484	
Other	1,355	36

## NOTES TO THE CASH FLOW STATEMENT

### 2. RECONCILIATION OF REVENUE ACTIVITIES

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

<u>Revenue Activities</u>	2005/06 £000	2006/07 £000	£000
General Fund Balance - Surplus for the year	166		41
<b>Non Cash Transactions</b>			
Contribution to reserves / provisions	8,610		18,283
Capital transactions charged to revenue:			
Depreciation	9,507	(3,290)	
Minimum Revenue Provision	(11,280)	(5,705)	
Revenue Contribution to Capital	1,176	625	(8,370)
	8,179		9,954
<b>Items on an accruals basis</b>			
(Increase)/decrease in stocks	(66)	(8)	
(Increase)/decrease in debtors	7,821	6,331	
Increase/(decrease) in creditors	(1,851)	(1,721)	4,602
<b>Net cashflow from revenue activities</b>	14,083		14,556

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

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

<u>Analysis of Net Debt</u>	£000	£000
Net Debt as at 1st April 2006		(66,179)
<u>Changes in Net Debt:</u>		
Increase in cash in the period	1,457	
Cash inflow from increase in debt	2,544	
Cash inflow from a decrease in liquid resources	6,794	
		10,795
<b>Net Debt as at 31st March 2007</b>		(55,384)

## NOTES TO THE CASH FLOW STATEMENT

### 4. ANALYSIS OF CHANGES IN NET DEBT

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

	2005/06 £000	2006/07 £000	Cashflow (Increase) / Decrease £000
Debt due within one year	(10,720)	(758)	9,962
Debt due after one year	(110,608)	(118,026)	(7,418)
	<u>(121,328)</u>	<u>(118,784)</u>	<u>2,544</u>
 <u>Management of Liquid Resources</u>			
Cash in Hand	2834	4556	1,722
Overdraft / Trust Funds Cash	(9,871)	(10,136)	(265)
Increase / (Decrease) in Cash	<u>(7,037)</u>	<u>(5,580)</u>	<u>1,457</u>
Temporary Loans	0	0	-
Short Term Investments	62,186	68,980	6,794
	<u>62,186</u>	<u>68,980</u>	<u>6,794</u>
<b>Total movement in net debt</b>	<b><u>(66,180)</u></b>	<b><u>(55,384)</u></b>	<b><u>10,795</u></b>

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

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

<b>2005/06</b>		<b>2006/07</b>	
<b>£000</b>		<b>£000</b>	<b>£000</b>
	<b>Income</b>		
(34,628)	Council Tax Receivable		(36,633)
	Transfers from/to General Fund		
<u>(15,122)</u>	- Council Tax Benefit		<u>(15,352)</u>
(49,750)			(51,985)
<u>(26,051)</u>	Income Collectable from Business Ratepayers		<u>(30,786)</u>
<b><u>(75,801)</u></b>	<b>Total Income</b>		<b><u>(82,771)</u></b>
	<b>Expenditure</b>		
	Precepts and Demands		
43,294	- Knowsley Metropolitan Borough Council	44,883	
2,269	- Merseyside Fire and Rescue Authority	2,343	
4,872	- Police Authority	<u>5,098</u>	
			52,324
25,920	Payment to National Non Domestic Rate Pool	30,654	
131	Costs of Collection	<u>132</u>	
			30,786
<b><u>76,486</u></b>	<b>Total Expenditure</b>		<b><u>83,110</u></b>
(462)	Contribution from provision for bad and doubtful Council Tax debt		(155)
<b><u>223</u></b>	<b>Deficit for the year</b>		<b><u>184</u></b>
	<b>Collection Fund Balances</b>		
(57)	Balance at beginning of year		166
<u>223</u>	Deficit for year		<u>184</u>
<b><u>166</u></b>	<b>Deficit at end of year</b>		<b><u>350</u></b>

**NOTES TO THE COLLECTION FUND**

**1. COUNCIL TAX BASE 2006/07**

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.

<b>Band</b>	<b>Value</b>	<b>Number of Dwellings</b>	<b>Band D Equivalent</b>
A	Up to £40,000	36,731	24,487
B	£40,001 to £52,000	12,156	9,455
C	£52,001 to £68,000	8,495	7,551
D	£68,001 to £88,000	3,685	3,685
E	£88,001 to £120,000	1,414	1,728
F	£120,001 to £160,000	251	363
G	£160,001 to £320,000	124	207
H	Over £320,000	16	32
		<u>62,872</u>	<u>47,508</u>
Less Exemptions and Discounts			(5,110)
			<u>42,398</u>
Collection Rate (Estimated)			99%
<b>Council Tax Base 2006/07</b>			<u><u>41,974</u></u>

**2. 2006/07 COUNCIL TAX**

The 2006/07 basic amount of Council Tax for properties at Band D was calculated as follows:

	<b>£'000</b>	<b>£'000</b>
<b>Total Budget Requirement</b>		<u><u>151,031</u></u>
<u>Less Resources:</u>		
Revenue Support Grant	(17,078)	
National Non-Domestic Rate Pool	(89,070)	(106,148)
		<u><u>44,883</u></u>
<b>Demand on the Collection Fund</b>		<u><u>44,883</u></u>
Demand on the Collection Fund (£000)	=	<u>44,883</u>
<u>Council Tax Base (Band D Equivalents)</u>		<u>41,974</u>
<b>= Basic Amount of Council Tax at Band D</b>		<u><u>1,069.31</u></u>

## NOTES TO THE COLLECTION FUND

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

The National Non Domestic Rate (more commonly known as the Business Rate) is organised on a national basis. The Government specifies a rate in the pound and, subject to any transitional arrangements, local businesses pay rates calculated by multiplying the rateable value of their property by the rate in the pound set (42.2p in 2005/06 and 43.3p for 2006/07).

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 2006/07 was £30.786m and was based on a rateable value as at 31 March 2006 of £85.44m (£86.54m at 31 March 2005).

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

We have audited the financial statements of Knowsley Metropolitan Borough Council for the year ended 31 March 2007 under the Audit Commission Act 1998. The financial statements comprise the Income and Expenditure Account, the Statement of Movement on the General Fund Balance, the Statement of Total Recognised Gains and Losses, the Balance Sheet, the Cash Flow Statement, the Collection Fund and the related notes. The financial statements have been prepared under the accounting policies set out within them.

### **Respective Responsibilities of the Borough Treasurer and Auditors**

The Borough Treasurer's responsibilities for preparing the financial statements in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2006 are set out in the Statement of Responsibilities for the Financial Statements.

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

This report, including the opinion, has been prepared for and only for Knowsley Metropolitan Borough Council's members as a body in accordance with the Audit Commission Act 1998 and for no other purpose as set out in paragraph 36 of the Statement of Responsibilities of Auditors and of Audited Bodies, prepared by the Audit Commission. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2006, 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. This other information comprises only the Explanatory Foreword. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

## Basis of audit opinion

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

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

## Opinion

In our opinion the financial statements present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2006, the financial position of Knowsley Metropolitan Borough Council as at 31 March 2007 and its income and expenditure and cash flows for the year then ended.

*PricewaterhouseCoopers LLP*

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

28 September 2007

## Notes:

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

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

### **Council's Responsibilities**

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

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 December 2006, in all significant respects, Knowsley Metropolitan Borough Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2007

### **Best Value Performance Plan**

We issued our statutory report on the audit of the Council's best value performance plan for the financial year 2006/07 on 8 December 2006. 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*

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101 Barbirolli Square  
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28 September 2007

## **GLOSSARY OF TERMS**

### **CAPITAL CHARGES**

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

### **CAPITAL EXPENDITURE**

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

### **CAPITAL RECEIPTS**

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

### **DEFERRED CAPITAL RECEIPTS**

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

### **DEFERRED CHARGES**

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

### **NATIONAL NON DOMESTIC RATES**

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

### **OVERHEADS**

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

### **PRECEPTS**

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

### **PUBLIC WORKS LOANS BOARD**

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

### **REVENUE EXPENDITURE**

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

### **REVENUE SUPPORT GRANT**

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

### **TRADING OPERATIONS**

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