



KNOWSLEY METROPOLITAN BOROUGH COUNCIL

STATEMENT OF ACCOUNTS

2009 - 2010

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EXPLANATORY FOREWORD

1. INTRODUCTION

This foreword aims to help readers understand Knowsley Council's Statement of Accounts for 2009/10. It explains the various accounting statements; provides a summary of the Council's overall financial position at 31 March 2010; and explains the most significant matters that are reported in the detailed Statements.

In preparing the Statement of Accounts the Council adopts the relevant national and international accounting requirements and ensures that they are completed prior to the statutory deadline of 30 June. To comply with these accounting requirements, the Statement of Accounts is a long and complex document. As in previous years, the Council will also publish a summarised version of the audited accounts which will provide a more user-friendly overview of the key figures for 2009/10 and will be available on the Council's website (www.knowsley.gov.uk) after the conclusion of the audit.

You can also use the Council's website to access further related information including:

- Electronic versions of the Statement of Accounts
- Council Tax information leaflet
- Council budget reports
- Corporate Plan

Your Comments

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

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

2. PURPOSE OF THE ACCOUNTING STATEMENTS

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

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

3. THE ACCOUNTING STATEMENTS

The individual statements within the overall Statement of Accounts are as follows:

Statement of Accounting Policies: This explains how the Council accounts for its expenditure and income using the recommended accounting practices. Other than the items set out in this foreword there have been no major changes to the Council's accounting policies in 2009/10.

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

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

Main Financial Statements

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

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

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

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

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

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

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

4. 2009/10 INCOME AND EXPENDITURE

The Council receives money from several sources to pay for the day to day costs of providing services. Larger items of expenditure on capital assets are also paid for by borrowing or loans.

The Income and Expenditure Account shows the overall income and expenditure relating to all of the Council's services in the year; the principal sources of finance (such as Government grants and Council Tax); and the net position at the end of the year. The Council uses the Government's "Best Value" analysis to show the cost of services, with adjustments for other expenditure that relates to the Council's overall operations rather than specific service provision.

In 2009/10 most of the Council's operating costs were funded directly by the Government through the Revenue Support Grant and other general grants (£48.438m) and allocations of national non-domestic rates (£94.853m). In 2009/10 the Council received £49.880m from the overall Council Tax receipts within the Collection Fund.

The Income and Expenditure Account does not include amounts set aside by the Council in reserves for future years, or a number of other statutory adjustments that the Government requires to avoid any undue impact on the Council Tax payer. These adjustments are recorded in the Statement of Movement on the General Fund Balance, which shows how much money has actually been added to the Council's General Fund at the end of the year.

In 2009/10 the Council's final outturn position (reported to the Cabinet on 16 June 2010) was a small surplus of £0.121m against the total net budget for the year. The Council's accounts reflect this as an increase in the General Fund balance at 31 March 2010.

The overall levels of Council income and expenditure are summarised in the table below.

<u>2009/10 Income and Expenditure</u>			
	Gross Expenditure £m	Gross Income £m	Net Expenditure £m
Operating Expenditure (detailed in the Income and Expenditure Account)			
Cost of Council Services	674.236	(396.911)	277.325
Interest Payable			9.656
Other Operating Expenditure			14.737
Total			301.718
Funding from Government Grant and Taxpayers			
Council Tax Receipts (including parish precepts)			(50.982)
Area Based Grant			(26.545)
Government Revenue Support Grant			(21.893)
National Non Domestic Rates allocation			(94.853)
Total			(194.273)
Income and Expenditure Account Deficit			107.445
<u>Less</u>			
Statutory Accounting Adjustments (detailed in Statement of Movement on General Fund Balance)			(107.566)
Increase in General Fund Balance			(0.121)

5. THE COUNCIL'S ASSETS AND LIABILITIES

The Balance Sheet and the accompanying notes show the Council's financial position at the year end and reflect everything that the Council owes and is owed at that date. As a result of the Income and Expenditure Account final position, the total General Fund balance at 31 March 2010 has risen to £5.120m which is in line with the Council's approved policy of maintaining the balance at 3% of the Council's net revenue budget to provide a prudent financial safety-net for unforeseen events.

In addition to General Fund balances, 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). 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. At 31 March 2010, the total of the Council's reserves (excluding those held by schools) was £51.915m.

The Council's bank overdraft facility amounts to £5.933m, but cash balances are monitored on a daily basis and investments adjusted to ensure any overdraft charges are minimised.

Capital Expenditure

All capital expenditure, and how the Council paid for it, is detailed in the Balance Sheet and the accompanying notes. In 2009/10, the Council's total capital expenditure (including revenue expenditure funded from capital resources) was £93.247m – which was spent on acquiring or improving Council buildings and other capital assets.

Most of this expenditure (£70.434m) related to the Council's new Centres for Learning (see below) which is paid for under the Private Finance Initiative credit arrangements. A full analysis of borrowing and loan maturities is given in the notes to the Balance Sheet. The next main source of funding is capital grant from the Government (£15.436m). During the year, the Council also received total proceeds from disposals of land, buildings and repayments of mortgage advances of £0.591m.

Pension Fund Liability

The Balance Sheet also reflects the Council's participation in the Local Government Pension Scheme (administered by Merseyside Pension Fund). At the end of 2009/10, the Council's share of the overall Fund liability (excluding Teachers) was £273m – compared with £183m the previous year.

This liability is determined in accordance with Financial Reporting Standard (FRS) 17 and reflects the difference between the current value of pension fund liabilities and assets. Asset returns in 2009/10 exceeded original expectations, indeed the overall value of assets has risen by almost 33%. However fund liabilities have also risen significantly. Interest rate movements have added about 3% to the value of the Council's liabilities, while the financial and demographic assumptions used for 2009/10 are much more conservative than last year. The result has been a large increase in liabilities of 38% over the year. The combined effect of the above two items is a 49% increase in the net liability to £273m.

While the Accounts show the pension liability position at 31st March 2010, in reality the actual pension payments will not be made until many years into the future. Therefore in the short term the Council's share of the overall Fund liability has had a significant negative impact on the net worth of the Council. This will however be recovered, as the Council and its employees pay contributions into the Pension Fund at a rate which is calculated by the Fund's actuary to ensure that the position is balanced in the longer term based upon forecast movements in investment values and changes in actuarial assumptions.

Private Finance Initiative (PFI) Schemes

On 13 December 2007, the Council entered into a Private Finance Initiative (PFI) arrangement with Transform Schools for the provision of seven new Centres for Learning. The contract includes facilities management for a 25 year period, after which ownership of the assets will pass to the Council. As part of the transition to International Financial Reporting Standards (IFRS), the Council has adopted new requirements for how PFI schemes are shown in the Accounts. The main change is that because the Council has effective control of these assets they should be shown on the Council's balance sheet from the date they become operational. As a result the 2009/10 balance sheet includes £91.451m of fixed assets relating to the four new Learning Centres owned by the Council, and also a new long term liability to the private sector company of £92.875m. The balance sheet also reflects the reduction in asset values (or 'impairment') of £65.169m due to the demolition of the Council's old assets (i.e. the replaced schools). The Centres for Learning that are voluntary aided are not included on the Council's Balance Sheet as the Liverpool Archdiocese has legal ownership of the land and the residual interest at the end of the agreement.

The new treatment of the PFI scheme, and the inclusion of the long term liability, has contributed to the negative position on the Council's net worth shown on the balance sheet. However, this liability is programmed to be fully repaid under the funding package for the scheme. In total the Council is due to receive over £434m of government grant and other funding towards the estimated total costs of the scheme of £613m over the 25 year contract period.

This treatment for PFI schemes ensures that the value of the Council's new assets is reflected properly on the Balance Sheet. However, the in-year impairment in the value of the replaced schools has to be shown as a one-off cost in the Income and Expenditure Account. As a result the Statements show a significant resultant impact on the overall Income and Expenditure Account deficit for the year; however as required under the accounting regulations, the Council offsets this so that there is no actual financial impact on the Council's overall balances at outturn.

The Council's Net Worth

As a result of the above factors there has been an unusually high movement in the 'net worth' of the Council as shown on the balance sheet. The Council's net worth is its total assets minus its total liabilities to external organisations, and this has moved from a position of net assets of £124.755m to net liabilities of £61.251m. For a private company, net worth is more significant as it identifies the amount of equity available to shareholders, and the ability to raise funding at the balance sheet date. For the Council these factors do not come into play, and the position is more important in illustrating how the Council has planned to fund these significant liabilities (for pensions and the new Centres for Learning) over the longer term.

6. MAJOR INFLUENCES ON THE 2009/10 ACCOUNTS

During 2009/10 there have been a number of developments that have had an unusual influence on the Council's Accounts. The major items are set out below:

Equal Pay Act (Amendment) Regulations 2003

As in previous years, the 2009/10 Statement of Accounts reflects the recommended accounting practice for potential compensation claims under the Equal Pay Act (Amendment) Regulations 2003 in relation to equal pay for work of equal value. The Council has accounted for its estimate of the potential liability of £20.029m, and, as required under the accounting regulations, offsets this so that there is no impact of the new liability on the Council's balances.

It should be noted that the Council's comprehensive job evaluation and harmonisation review is ongoing and is aimed at resolving this issue. The figure included in the accounts does not indicate an expected settlement figure and it does not prejudice the Council's ongoing negotiations on this matter.

Employee Remuneration

In addition to the changes in the published 2009 SORP, the Government has introduced further amendments to the disclosure requirements for employee remuneration with the view to improving transparency of reporting of senior officer remuneration in public bodies. Under the new regulations, individual details of all employee remuneration for those with salaries over £0.150m are disclosed, as well as certain senior officers. The overall numbers of employees whose remuneration is over £0.050m must also be disclosed but this will now be in bands of £0.005m rather than the £0.010m previously.

Instability in the Global Economy

During the year there were continued concerns about the stability of the UK economy and banking sector, and the impact on the security and value of local authority investments. Knowsley Council has a very prudent approach to the way it makes investments and only lends to institutions with very high credit ratings. As a result of this approach it avoids exposure to the same risks that have affected other UK authorities and organisations. However the unprecedented events in the banking sector in recent years demonstrate that even top-rated institutions can be vulnerable so the Council makes sure it constantly reviews its investments to minimise any undue risks.

International Financial Reporting Standards

The Government believes that in the increasingly global economy there should be easier comparison of organisations and of their accounts. To achieve this, the Government has made a commitment that public sector organisations should adopt International Financial Reporting Standards (IFRS) - with full compliance in the 2010/11 Statement of Accounts. This transition will involve complex accounting changes and significant additional disclosure of information in future years.

ANNUAL GOVERNANCE STATEMENT 2009/10

1. Scope of Responsibility

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

In discharging this overall responsibility, the Council is also responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of the Council's functions and which includes arrangements for the management of risk.

The Council has approved and adopted a Code of Corporate Governance, which is consistent with the principles of the CIPFA/SOLACE Framework Delivering Good Governance in Local Government, and is available on the Authority's website (www.knowsley.gov.uk) as part of the Constitution.

This Statement explains how the Council has complied with the Code and also meets the requirements of regulation 4(2) of the Accounts and Audit Regulations 2003 as amended by the Accounts and Audit (Amendment) (England) Regulations 2006 in relation to the publication of a statement on internal control.

2. The Purpose of the Governance Framework

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

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

The governance framework has been in place at the Council for the year ended 31 March 2010 and up to the date of approval of the Statement of Accounts.

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

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

3. The Governance Framework

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

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

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

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

The Council sets out its priorities, in the context of the Sustainable Community Strategy, in the Corporate Plan 2009-2011. A Local Area Agreement has also been developed between the Council, the Knowsley Partnership, and the Government which reflects these priorities. The Sustainable Community Strategy and the Corporate Plan reflect the outcome of extensive consultation, analysis of current and future needs, and consideration of current performance.

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

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

The Council's Medium-term Financial Plan and Capital Programme allocate resources to priorities. Monitoring reports are submitted routinely to the Cabinet. Service improvements are identified, and there is a change and transformation programme in progress with a view to achieving significant service efficiencies and savings over the coming years.

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

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

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

- Committees Terms of Reference;
- Roles of Scrutiny Committees;
- Member and Officers Codes of Conduct;
- Scheme of Delegation;
- Member and Officer Protocol (for working together effectively);
- Contract Procedure Rules;

- Financial Procedure Rules, which determine the financial management of the Council, the reporting of financial matters, and safeguard financial standing;
- arrangements for identifying, establishing, and managing the key strategic and operational aims of the Council; and,
- mechanisms for ensuring compliance with established policies, procedures, laws, and regulations.

Ensuring compliance with these policies is the responsibility of the Executive Directors, while the Counter Fraud and Internal Audit service checks compliance with policies. Where incidents of non-compliance are identified, appropriate action is taken.

The Council's Chief Executive is the Head of Paid Service and leads the Council's officers and chairs the Corporate Management Team. All staff, including senior management, have clear conditions of employment and job descriptions which set out their roles and responsibilities.

In accordance with Section 5 of the Local Government and Housing Act 1989, the Executive Director of Corporate Resources is 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, and that financial management arrangements conform to the governance requirements of CIPFA's Statement on the Role of the Chief Financial Officer in Local Government (2010).

Any proposals, decisions, or omissions which give rise to unlawfulness or maladministration would be reported to the Council by the above officers as appropriate. Such a report would have the effect of halting the proposal or implementation of the decision until the Council considered the report.

CIPFA's statement on the Role of the Chief Financial Officer in Local Government (2010) suggests that the Council's Section 151 Officer be professionally qualified, report directly to the Chief Executive, and be a member of the leadership team with a status at least equivalent to other members. The Statement also suggests that, if different organisational arrangements are adopted, the reasons for these should be explained publicly in this Annual Governance Statement, together with how these deliver the same impact. Knowsley's Borough Treasurer is not a permanent member of the Corporate Management Team and, in terms of line management, reports to the Executive Director of Corporate Resources.

However, the Borough Treasurer remains able to operate effectively and perform the core responsibilities of the chief financial officer as described in CIPFA's Statement. In particular, the Borough Treasurer has an unrestricted right of access to the Chief Executive and the Corporate Management Team, and all draft proposals and reports with financial implications are dealt with in consultation with the Borough Treasurer's office. All key financial reports to the Corporate Management Team are presented by the Borough Treasurer, who also attends the Corporate Management Team whenever key strategic financial issues are discussed. In addition, the Borough Treasurer chairs the Senior Management Group which deals with operational matters, which are then reported to the Corporate Management Team. The Borough Treasurer is the Section 151 Officer, controls the Counter Fraud and Internal Audit service, and is not burdened with non-financial services ensuring a focus on the finance role as described in CIPFA's Statement. Crucially, the Borough Treasurer leads the promotion and delivery of good financial management across the Council, so that public money is safeguarded and used appropriately, economically, efficiently, and effectively at all times.

The Council's governance arrangements are overseen by the Governance and Audit Committee which undertakes the core functions as identified in CIPFA's Audit Committees – Practical Guidance for Local Authorities, and 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 counter fraud and internal audit, and the review of the system of internal audit;
- reviews the treasury management strategy and performance; and,
- oversees the financial reporting process.

Promoting our values and upholding high standards of conduct and behaviour

The Council supports a culture and forms of behaviour based on a series of ethical standards and values in the Constitution which are contained within the Member and Officer Codes of Conduct, including a requirement for declarations of outside interests to be completed. The conduct of Members is monitored by the Standards Committee, which has an independent Chairman as well as independent and parish/town council members alongside Elected Members of the Council. The Standards Committee (supported by specific Sub-Committees) also investigates allegations of misconduct by Members.

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

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

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

Taking informed and transparent decisions and managing risk

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

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

Many other decisions are made by Executive Director(s) in consultation with the relevant Portfolio Holder(s) under delegated powers which are detailed in the Council's Scheme of Delegation.

The Council's Corporate Risk Management Strategy requires that consideration of risk is embedded in all key decisions undertaken, which:-

- identifies, analyses, evaluates, and manages the key strategic and operational risks facing the Council, including those arising from joint working and partnerships;

- ensures potential losses, service disruption, failure to achieve corporate aims, negative publicity, reputational risks, and insurance claims compensation are minimised; and,
- promotes informed decisions on policy, service delivery options, and opportunities.

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

Effective management - capacity and capability of Members and officers

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

There is a Member Development Programme to assist Members and strengthen their capacity as confident and effective political and community leaders, who are capable of forming healthy and productive relationships, networks, and partnerships.

The scheme of Members' Allowances, which is part of the Constitution, sets out the basic and special responsibility allowances for Members in carrying out their duties. These were adopted by the Council having regard to the recommendations of an Independent Remuneration Panel.

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

Engaging with local people and other stakeholders to ensure robust accountability

The Council's planning and decision making processes are designed to include consultation with stakeholders and the submission of views by local people. Arrangements for consultation and for gauging local views include the tracker and place surveys about the Council's services, and using the internet to collect and show the results of consultations. Those involved may also be invited to take part in other activities such as discussion groups and telephone interviews to talk about certain issues in more detail.

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

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

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

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

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

4. Review of Effectiveness

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

In addition, the Council has various review mechanisms that operate continuously throughout the year. A key review mechanism is the various Scrutiny Committees, which have examined independently various services and review topics.

The Governance and Audit Committee met four times during 2009/10 to provide independent assurance to the Council in relation to the effectiveness of the governance, internal control environment, and risk management framework.

The Standards Committee has met regularly throughout the year to consider and review issues relating to the conduct of Members including any referrals. Their work has included agreeing the procedures for dealing with local investigations into Members' conduct. Guidance on how to make a complaint about a Member is available on the Council's web site. During 2009/10, four complaints were submitted to the Standards Committee alleging breaches of the Code of Conduct which have yet to be concluded. In three of the cases, the complaint was referred for investigation by the Monitoring Officer, and the remaining case was considered by the Initial Assessment Sub-Committee early in 2010/11.

Regarding the Section 151 Officer and Monitoring Officer, in discharging these functions during the year, neither officer was required to report any adverse matters as required under the various Acts. There were no complaints to the Ombudsman in 2009/10 that found maladministration against the Council or causing any injustice to the complainant.

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

The Knowsley Partnership recently revised its governance structure to ensure more effective decision making by focusing on needs analysis, performance management, and commissioning ensuring a greater emphasis on the delivery of services that meet local needs. The Area Partnership Boards continue to evolve, and in light of the need for partners to cooperate, further work will be necessary to ensure that the capacity of both Boards and their members continues to develop.

The Council's Counter Fraud and Internal Audit service, as an independent and objective assurance service, completed a programme of reviews throughout the year in order to provide an opinion on internal control, risk management, and governance arrangements. The Internal Audit Manager is able to conclude that there are sound internal financial control systems in place by taking assurance from the system and risk-based audits undertaken across the Council during 2009/10, and the resultant actions taken by management. The Internal Audit Manager reports the findings of audits to Executive Directors and action is agreed to address these findings as necessary. The Annual Counter Fraud and 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 28 June 2010.

In addition, the Counter Fraud and Internal Audit service undertakes fraud investigations and the Council's Investigation Panel met 13 times during the year to deal with a total of 20 suspected financial irregularities. None of the cases were major financial irregularities, or had an adverse effect on the Council's reputation. Proper action was taken in all instances to ensure that any control weaknesses were addressed, appropriate disciplinary action taken, and where necessary the matter was referred to the police. An annual report on the Investigation Panel's activities was submitted to the Governance and Audit Committee on 20 April 2010.

Public attention nationally has been focussed on several issues that have governance implications, namely the recession, personal data losses, and losses from investments in Icelandic banks. The Council's position on these matters is commented on below. Responding to the impact of the recession, the Council has maintained the resources directed to counter fraud activities.

The financial challenges facing the Council are only likely to intensify further. The Authority's funding settlement for 2009/10 was based on an expectation that local authorities and their partners should use efficiency savings to prepare for tough economic challenges in future years. The Council will continue to work hard to maintain service levels, whilst having a systematic approach to identifying efficiencies, savings, and transforming services. Against this background, the Audit Commission published "Protecting the Public Purse: Local Government Fighting Fraud" in September 2009 that considered the key fraud risks and pressures facing councils and identified good practice. The report identified that the economic downturn could increase the incentive for some people to commit fraud and also warned that internal controls could be weakened as councils face difficult decisions on how and where to reduce costs. Therefore, the Governance and Audit Committee performed a self-assessment against the report's checklist to gain assurance that the Council has governance and counter-fraud arrangements which are fit for purpose. There were a few areas where the Council does not fully comply and these will be picked up as part of the 2010/11 Counter Fraud and Internal Audit Plan.

High profile losses of personal data have forced public bodies to improve their data handling methods. Having met the requirements of the Code of Connection, the Council is accredited to use the secure Gov-Connect data sharing network and is actively working to the information technology security principles of ISO 27001. The Council has a Records Management Strategy which covers the broader aspects of information security and compliance with standards and codes of practice, and the intention is to make further improvements during 2010/11. A corporate officer working group is responsible for

implementing the controls and reviewing the effective management of information rights legislation and information security. The Executive Director of Corporate Resources is designated as the Senior Information Risk Owner, whose role provides a focal point for the resolution of information risk issues, thereby ensuring that the Council is alert to information risk issues.

The Council invests any daily cash balances on a short-term basis, and aims to achieve an optimum return on investments commensurate with ensuring security of the money and liquidity. Following Icelandic banks defaulting in 2008, CIPFA amended the Treasury Management Code to affirm that the effective management and control of risk are prime objectives of the Council's treasury management activities. The Council adopted this Code and the responsibility for risk management and control is defined. It is not delegated to, for example, outside advisors. The Council's approach is cautious and would in fact never have involved lending to the defaulting banks, and the Authority continues to use a lending list of highly credit rated institutions as a starting point along side market data and intelligence, the financial press, the degree of government support for banks, and the sovereign credit ratings of the particular government.

In April 2009, the Comprehensive Area Assessment was introduced to assess the Council and its partner organisations through the Area Assessment, and the Council through the Organisational Assessment. The Area Assessment used flags, green for outstanding performance or innovation, and red where there was an uncertainty that services were improving enough. The Area Assessment represented the combined judgements of six inspectorates - the Audit Commission, the Care Quality Commission, OFSTED, and the HM Inspectorates of Constabulary, Probation, and Prisons.

Two key challenges facing the Council were assessed as red flags, namely housing and community cohesion. In response, the Council is working with Knowsley Housing Trust, and Villages Housing to review issues such as homelessness and the availability of affordable homes. In addition, a Community Cohesion Strategy was launched in 2009/10 setting out a robust plan to tackle the associated challenges.

The Organisational Assessment was comprised of two parts, Managing Performance and the Use of Resources. In respect of Managing Performance, the Council was assessed as 2 out of 4 ("performs adequately") but there were no governance or internal control matters raised. The report stated that "OFSTED rated services for children and young people as adequate. Most other Council services work well and are improving. The Borough is cleaner and there is more recycling. The Council works well with partners to reduce levels of crime and anti-social behaviour. The Council has provided good support for local people and businesses affected by the recession. The Care Quality Commission rate adults' services as excellent".

The Use of Resources assessment by the external auditor reflected the impacts and outcomes of resource management arrangements as well as the adequacy of those arrangements. The assessment for 2009 concluded that the Council's overall score was level 3 out of 4 ("exceeds minimum requirements and performs well"). The external auditor's conclusion was that "in overall terms, the Authority's arrangements for the use of resources in 2009 are considered to be well above minimum requirements." However, there was still scope to develop and embed aspects of the Use of Resources arrangements further, and work has been taken to improve matters in 2009/10.

Following a recent announcement by the Government, all work by inspectorates on updating the Area Assessment and Organisational Assessment for 2010 will cease with immediate effect. Discussions are being held with the Government, the Audit Commission, the Local Government Association and other representative bodies about the future approach to inspection.

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

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 agreed and monitored by the Corporate Management Team and the Cabinet, whilst each Directorate identifies and controls the risks associated with their business plan priorities. This requirement is not only described in the Corporate Risk Management Strategy, but also is included in the Corporate Plan. It provides a robust approach to business planning and better informed decision making, allowing uncertainty not to slow progress or stifle innovation. All reports and briefing papers include a risk assessment paragraph as standard. All identified strategic and operational risks are held in a database, which is readily accessible for management to use to enable the tracking of controls and actions taken. The inter-Directorate Corporate Risk and Resilience Group meets regularly to coordinate, monitor and develop risk management across the Council.

The requirement that all schools must attain the Government's Financial Management Standard in Schools (FMSiS) was extended to the final tranche of primary schools during 2009/10. The standard is a statement of the characteristics expected to be found in a school which is well managed financially. It is for the Section 151 Officer to declare whether each school has met the standard or that appropriate action is needed to ensure compliance. The Counter Fraud and Internal Audit service, as accredited assessors, carried out an evaluation of 15 primary schools in 2009/10 and none failed to meet the standard.

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

- A Corporate Governance Officer Working Group of senior officers reviewed the Constitution and the Council's own governance arrangements against the best practice framework endorsed by CIPFA/SOLACE. This Group is responsible for reviewing the draft of this Statement, evaluating the assurances and self-assessments, and judging whether or not there is consistency with existing policies and the Council's governance framework; and,
- As it is the managers within the Council who are responsible principally for the development and maintenance of the governance environment, each Directorate is required to maintain an evidence based self-assessment document in order to provide assurance that those controls and arrangements are in place. The outcomes, where applicable, are set out in action plans for further strengthening governance controls. Assurance is obtained from Executive Directors that there are satisfactory internal controls in place. They are also asked to identify any significant internal control issues which need to be reported in this Statement. The requirement to review internal controls alongside the routine monitoring of finance, performance, and risk is embedded in the management of Directorates.

A theme arising from the Directorates' reviews of governance arrangements and the control environment is the introduction of the Council's new performance management system to create consistency of monitoring service delivery and outcomes. Regarding partnerships, work has been undertaken on further integrating processes and risk management.

5. Significant Internal Control Issues

Taking into account the actions of the Section 151 Officer and the Monitoring Officer, the review performed by senior managers, assurances obtained from Executive Directors, the work of the Counter Fraud and Internal Audit service, and the various external reviews that were reported to the Council, the Cabinet, or the Governance and Audit Committee during 2009/10, we can reasonably conclude that there are no unresolved and significant internal control issues.

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

Signed:-



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



**Sheena Ramsey
Chief Executive**



**James Duncan
Borough Treasurer**

28 June 2010

STATEMENT OF ACCOUNTING POLICIES

These Accounts are prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice (the SORP), and the Best Value Accounting Code of Practice, issued by the Chartered Institute of Public Finance and Accountancy. The accounting convention adopted is historical cost, modified by the revaluation of certain categories of tangible fixed assets.

ACCOUNTING CONCEPTS

a) Accruals of income and expenditure

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

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

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

b) Going Concern

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

c) Primacy of Legislative Requirements

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

BALANCES

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

CAPITAL RECEIPTS

Income from the disposal of fixed assets is credited to the useable capital receipts reserve and can be used to finance future capital expenditure. A proportion of any receipts relating to housing disposals is payable to Government.

DEBTORS AND CREDITORS

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

EQUAL PAY ACT (AMENDMENT) REGULATIONS 2003

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

ESTIMATION TECHNIQUES

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

FINANCIAL INSTRUMENTS

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

a) Financial Liabilities

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

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

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

b) Financial Assets

Financial assets are classified into two types:

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

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

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

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

FIXED ASSETS

a) Tangible fixed assets

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

b) Intangible fixed assets

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

c) Recognition of Assets

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

d) Measurement of Value

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

- investment properties and assets surplus to requirements: lower of net current replacement cost (defined as market value) or net realisable value as at 31 March 2008;
- operational land and buildings and other operational assets: lower of net current replacement cost or net realisable value in existing use as at 31 March 2010. For specialised operational properties, net current replacement cost is depreciated replacement cost.
- infrastructure assets and community assets: depreciated historical cost.

e) Revaluation of Assets

Assets included in the Balance Sheet at current value are revalued where there have been material changes in the value, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Income and Expenditure Account where they arise from the reversal of an impairment loss previously charged to a service revenue account. The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

f) Disposals

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

g) Impairment of Assets

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

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

h) Depreciation

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

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

i) Grants and Contributions

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

j) Revenue Expenditure funded from Capital under Statute

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

k) Charges to Revenue for Fixed Assets

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

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

The Council is not required to raise Council Tax to cover depreciation, impairment losses or amortisations. However, it is required to make an annual provision from revenue to contribute towards the reduction in its overall borrowing requirement. This amount is known as the Minimum Revenue Provision (MRP) and is calculated by the Council on a prudent basis in accordance with statutory guidance. Depreciation, impairment losses and amortisations are therefore reversed and replaced by the MRP in the Statement of Movement on the General Fund Balance.

GOVERNMENT GRANTS

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

GROUP ACCOUNTS

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

INTERNAL INTEREST

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

LEASES

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

a) Finance Leases

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

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

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

b) Operating Leases

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

OVERHEADS AND SUPPORT SERVICE COSTS

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

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

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

PENSIONS AND RETIREMENT BENEFITS

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

a) Teachers' Pension Scheme

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

b) The Local Government Pensions Scheme

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

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

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

The liabilities of the fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates and projections of projected earnings for current employees.

POOLED BUDGETS

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

PRIVATE FINANCE INITIATIVE (PFI)

PFI contracts are agreements to receive services, where the responsibility for making available the fixed assets required to provide the services passes to the PFI contractor. As part of the transition to International Financial Reporting Standards, the Council has adopted new requirements for how PFI schemes are shown in the accounts (* see Note). As the Council is deemed to control the services that are provided under its PFI schemes and as ownership of the assets will pass to the Council at the end of the contract for no additional charge, the Council now carries the fixed assets used under these contracts on the Balance Sheet.

The original recognition of these assets is balanced by the recognition of a liability for amounts due to the scheme operator to pay for the assets. Fixed assets recognised on the Balance Sheet are revalued and depreciated in the same way as property, plant and equipment owned by the Council.

The amounts payable to the PFI operators each year are analysed into five elements:

- fair value of the services received during the year - charged to the relevant service in the Income and Expenditure Account;
- finance cost - an interest charge on the outstanding Balance Sheet liability which is charged to Interest Payable and Similar Charges in the Income and Expenditure Account;
- contingent rent – increases in the amount to be paid for the property arising during the contract which is charged to Interest Payable and Similar Charges in the Income and Expenditure Account;
- payment towards liability – applied to write down the Balance Sheet liability; and
- lifecycle replacement costs – recognised as fixed assets on the Balance Sheet.

** Note: This change in accounting policy has impacted on the value of assets and liabilities held on the Balance Sheet as at 31 March 2009 and 31 March 2010. A prior period adjustment has been made to the 2008/09 Balance Sheet to reflect additional assets brought into operational use in 2008/09 of £24.871m and associated liabilities of £25.885m. The impact on the 2009/10 Balance Sheet has been a further increase in assets of £66.580m and liabilities of £68.825m. Details of the impact are shown in Note 1 to the Income and Expenditure Account.*

PROVISIONS

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

Provisions for bad debts are calculated using an assessment of the likely level of future write-off based on the 'incurred losses' method, taking into account the past experience of each type of debt.

RESERVES

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

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

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

RESTATEMENT OF PRIOR YEAR FIGURES

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

STOCKS, STORES AND WORK IN PROGRESS

These items are included in the Balance Sheet at cost based on a first in first out basis.

VAT

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

DISCLOSURE OF CHANGES IN ACCOUNTING TREATMENT

In preparing the 2009/10 Statement of Accounts, the Council has adopted new accounting policies that impact on the comparative figures for 2008/09. The main changes in accounting treatment are as follows:

- i) As part of the transition to International Financial Reporting Standards, the Council has adopted new requirements for how PFI schemes are shown in the accounts. As the Council is deemed to control the services that are provided under its PFI schemes and as ownership of the assets will pass to the Council at the end of the contract for no additional charge, the new accounting treatment requires the Council to carry the fixed assets used under these contracts on the Balance Sheet. One Centre for Learning would have therefore been added to the 2008/09 Balance Sheet if the accounting treatment had been in place at that time, with the remainder now shown in the 2009/10 Balance Sheet.
- ii) Under the 2009 Statement of Recommended Practice, the Council (as a billing authority) is now defined as an agent - collecting council tax and non-domestic rates on behalf of itself, major preceptors and the Government. The required new accounting treatment for the Collection Fund therefore includes the Council's element only of the Collection Fund transactions, and does not include the transactions relating to the major preceptors.

As a result of these changes, the comparative figures for 2008/09 shown in the 2009/10 Accounts have been restated compared with those published in the 2008/09 Statement of Accounts. A summary of the restatements is shown below for information.

Summary of Restatements Arising From Changes in Accounting Treatment

1) Extracts from the Income and Expenditure Account and Statement of Movement on General Fund Balance

	2008/09 Published Net Expenditure £000	2008/09 Restated Net Expenditure £000
Income and Expenditure Account Extracts		
<u>Private Finance Initiative restatements</u>		
Education and Children's Services	37,720	38,819
Net Cost of Services	198,885	199,984
<u>Collection Fund restatements</u>		
Demands on the Collection Fund	(48,824)	(48,698)
Total Impact on Deficit for the year	22,240	23,465
Statement of Movement on General Fund Balance Extracts		
<u>Private Finance Initiative restatements</u>		
Depreciation and Impairment of Fixed Assets	(24,255)	(25,291)
Minimum Revenue Provision	5,268	5,290
Net Contribution to Reserves	7,825	7,740
<u>Collection Fund restatements</u>		
Amount by which Council Tax differs from the General Fund Balance	0	(126)
Total Impact on Net amount credited to General Fund Balance	(22,363)	(23,588)
Balance on General Fund carried forward	(4,999)	(4,999)

2) Extracts from the Balance Sheet

	Published Balance as at 31.03.09 £000	Restated Balance as at 31.03.09 £000
<u>Private Finance Initiative restatements</u>		
Land and Buildings	297,652	322,523
Private Finance Initiative Debtor	87	0
Sundry Creditors	(13,951)	(15,560)
Deferred Liabilities	0	(24,276)
Capital Adjustment Account	245,106	244,092
Reserves	59,273	59,186
<u>Collection Fund restatements</u>		
Collection Fund Debtors	5,939	3,569
Collection Fund Creditors	(4,184)	(550)
Collection Fund Adjustment Account	0	(552)
Impact on Total Equity	125,763	124,755

3) Extract from Statement of Total Recognised Gains and Losses

	2008/09 Published Balance £000	2008/09 Restated Balance £000
(Gain)/Loss for the year on the Income and Expenditure Account	22,240	23,465
(Gain)/Loss arising on the revaluation of fixed assets	(13,775)	(13,775)
Actuarial (Gain)/Loss on pension fund assets and liabilities	(40,285)	(40,285)
Loss or the year on the Collection Fund	147	0
Total	<u>(31,673)</u>	<u>(30,595)</u>

In addition to the above, Regulation 4 of the Accounts and Audit (Amendment No.2) (England) Regulations 2009 has introduced a new legal requirement 'to increase transparency and accountability' in Local Government for reporting remuneration of senior employees. Disclosure Note 6 to the Income and Expenditure Account has therefore been prepared in compliance with the regulatory requirements and uses CIPFA's *LAAP Bulletin 85 Senior Officer Remuneration* as guidance in doing so.

Five disclosure notes have also been removed under the requirements of the 2009 SORP:

- Expenditure on Publicity;
- Section 137 expenditure;
- Income under the Local Authorities Goods & Services Act;
- Building Control Account; and
- Business Improvement District Schemes.

The first four of these are relevant to this Council and were previously included as disclosures in the Statement of Accounts.

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:

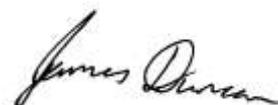
- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that were reasonable and prudent; and,
- complied with the Code of Practice.

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

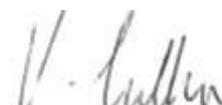
The Council's 2009/10 Statement of Accounts present a true and fair view of the financial position of the Council at 31 March 2010 and its income and expenditure for the year ended 31 March 2010.



JAMES DUNCAN CPFA
Borough Treasurer

STATEMENT OF THE CHAIRMAN OF THE GOVERNANCE AND AUDIT COMMITTEE

I confirm on behalf of the Council that these accounts were approved by the Governance and Audit Committee at its meeting held on 28 June 2010, and that the Committee approved the outcome of the audit of the accounts at its meeting on 21 September 2010.



COUNCILLOR VINCE CULLEN
Chairman of the Governance and Audit Committee

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.

2008/09 *	Net £000	Expenditure £000	Income £000	2009/10 Net £000
	Council Services			
55,663	Adult Social Care	106,560	(48,192)	58,368
2,514	Central Services to the Public	22,568	(20,140)	2,428
74,102	* Cultural, Environmental, Regulatory & Planning Services	120,635	(68,968)	51,667
38,819	* Education and Children's Services	320,779	(187,188)	133,591
19,606	* Highways, Roads & Transport Services	21,860	0	21,860
894	Housing Services	72,806	(71,873)	933
5,980	Corporate & Democratic Core	5,679	(550)	5,129
2,406	Non Distributed Items	3,349	0	3,349
199,984	Net Cost of Services <small>see i) below</small>	674,236	(396,911)	277,325
(2,058)	(Gain)/Loss on the Disposal of Fixed Assets			(440)
1,084	Parish Precepts			1,112
(177)	Trading Operations Surplus			(118)
5,678	Interest Payable and Similar Charges			9,656
37	Contribution to Housing Pooled Capital Receipts			36
(5,688)	Interest and Investment Income			(2,334)
12,310	Pensions interest cost and expected return			16,481
211,170	Net Operating Expenditure			301,718
(48,698)	* Demands on the Collection Fund			(50,982)
(38,239)	General Government Grants <small>see ii) below</small>			(48,438)
(100,768)	Distribution from National Non-Domestic Rate pool			(94,853)
23,465	Income and Expenditure Account Deficit for the year			107,445

* 2008/09 Comparative Figures:

- a) Private Finance Initiative: The 2008/09 figures for Education and Children's Services have been restated to reflect changes in the 2009 Statement of Recommended Practice as detailed in the Accounting Policies.
 - b) Best Value Accounting Code of Practice: The 2008/09 figures for Cultural, Environmental, Regulatory and Planning Services and Highways, Roads and Transport Services have been restated to reflect a misstatement in categorisation of expenditure.
 - c) Collection Fund: The 2008/09 figures have been restated to reflect changes in the 2009 Statement of Recommended Practice relating to the Collection Fund as detailed in the Accounting Policies.
- i) Equal Pay Act Regulations 2003: As in previous years the net cost of service includes the impact of the Equal Pay Act Regulations 2003 as detailed in Note 1 to the Income and Expenditure Account.
 - ii) General Government Grants includes £21.893m of Revenue Support Grant and £26.545m of Area Based Grant which is allocated by the Government to Councils as a non ring-fenced general grant.

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.

2008/09		2009/10	
£000		£000	Note
	General Fund Balances		
23,465	Deficit for year on Income and Expenditure	107,445	
(23,588)	Net additional amount required by statute and non-statutory proper practices to be debited or credited to the General Fund Balance for the year	(107,566)	1
<u>(123)</u>	Increase in General Fund Balance for the year	<u>(121)</u>	
(4,876)	Balance at beginning of the year	(4,999)	
<u>(4,999)</u>	Balance on General Fund to be carried forward	<u>(5,120)</u>	
4,999	Amount of General Fund Balance generally available for new expenditure	5,120	
<u>4,999</u>		<u>5,120</u>	

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

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

2008/09		2009/10
£000		£000
23,465	(Gain) / Loss for the year on the Income and Expenditure Account	107,445
(13,775)	(Gain) / Loss arising on revaluation of fixed assets	(4,498)
(40,285)	Actuarial (Gain) / Loss on pension fund assets and Liabilities <i>(detailed in Note 20 to the Balance Sheet)</i>	83,059
<u>(30,595)</u>		<u>186,006</u>

BALANCE SHEET

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

Balance at * 31.3.2009 £000	£000	Balance at 31.3.2010 £000	Note
Net Fixed Assets			
2,793 <i>Intangible Fixed Assets</i>		1,966	1
Tangible Fixed Assets			
Operational Assets			
322,523 * - Land and Buildings	312,525		
14,688 - Vehicles, Plant, Furniture and Equipment	13,675		
140,054 - Infrastructure	141,471		
1,174 - Community Assets	1,146		
478,439 Total Operational Assets		468,817	1
Non-operational Assets			
1,364 - Assets under Construction	1,419		
20,095 - Investment Properties	20,526		
16,980 - Surplus Assets held for Disposal	16,870		
38,439 Total Non Operational Assets		38,815	1
519,671 Total Fixed Assets		509,598	
10,523 Long Term Investments		3	2
767 * Long Term Debtors		1,222	3
530,961 Total Long Term Assets		510,823	
Current Assets			
388 Work in Progress/Stock in Hand	319		4
124,529 Investments	111,038		5
18,255 * Debtors	26,480		6
3,661 Imprest/Cash in Hands of Collectors	6,136		
		143,973	
677,794 Total Assets		654,796	
Less Current Liabilities			
16,548 *Short Term Borrowing	1,972		7
40,183 *Creditors	41,396		8
10,101 Cash Overdrawn	5,933		9
		49,301	
610,962 Total Assets less Current Liabilities		605,495	
Less Long Term Liabilities			
125,733 *Long Term Borrowing	125,435		10
24,276 *Deferred Liabilities	92,853		11
93,754 Government Grants Deferred	102,080		
20,485 Government Grants Unapplied	27,811		
200,116 Pension Liability	292,224		20
15,557 Provision for Equal Pay Back Pay ^{see i) below}	20,335		12
6,286 Provisions	6,008		13
		666,746	
124,755 Total Assets less Liabilities		(61,251)	

BALANCE SHEET (cont'd)

Balance at 31.3.2009 £000		Balance at 31.3.2010 £000	Note
	Financed By:		
21,581	Revaluation Reserve	25,996	16
244,092	*Capital Adjustment Account	154,610	17
(552)	*Collection Fund Adjustment Account	(563)	
(53)	Financial Instruments Adjustment Account	(75)	18
434	Deferred Capital Receipts	330	
0	Usable Capital Receipts Reserve	0	19
(4,816)	Equal Pay Back Pay Account ^{see i) below}	(9,594)	12
(200,116)	Pensions Reserve	(292,224)	20
59,186	* Reserves	55,149	21
	Revenue Balances		
4,999	- General Fund Surplus	5,120	
124,755	Total Equity	(61,251)	

* 2008/09 Comparative Figures:

- a) Private Finance Initiative: The 2008/09 figures have been restated to reflect changes in the 2009 Statement of Recommended Practice as detailed in the Accounting Policies.
- b) Collection Fund: The 2008/09 figures have been restated to reflect changes in the 2009 Statement of Recommended Practice relating to the Collection Fund as detailed in the Accounting Policies. The debtor and creditor figures have been adjusted accordingly and the Council's share of the overall deficit is shown in the Collection Fund Adjustment Account.
- c) Interest on Loans and Investments: The 2009 Statement of Recommended Practice clarifies the position regarding interest accruals on loans or investments and requires that if interest is due to be settled in less than 1 year it should be carried in the short term. The 2008/09 long and short term borrowing figures have been restated to reflect this position.
- d) Long Term Debtors: The 2008/09 figures in relation to long term debtors have also been restated to reflect the new treatment of PFI schemes under the 2009 Statement of Recommended Practice. The long term debtor of £0.087m created for the PFI scheme has now been reversed and is included in the reserves figure.

i) Equal Pay Act (Amendment) Regulations 2003

As in previous years, and in accordance with recommended accounting practice, a provision of £20.029m (excluding tribunal costs of £0.306m) is included in the Balance Sheet relating to the Council's estimate of the maximum expected costs that may arise from the Equal Pay Act (Amendment) Regulations 2003. The Balance Sheet Total Equity also includes £9.594m within the Equal Pay Back Pay Account and £10.435m within the Capital Adjustment Account to reflect the reversal of the impact on the Council's General Fund Balances until such time as any future cash settlements are made (see Note 1 to the Statement of Movement on General Fund Balances). The Council is currently conducting a comprehensive job evaluation and harmonisation review which is aimed at resolving this issue and the inclusion of this does not indicate an expected final settlement figure or prejudice the Council's ongoing negotiations on this matter.

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.

2008/09		2009/10		
£000	REVENUE ACTIVITIES	£000	£000	£000
	Cash Outflows			
206,558	Cash paid to and on behalf of employees		207,850	
253,985	Other operating cash payments		293,135	
60,370	Housing Benefit paid out		68,650	
1,084 *	Precepts Paid		1,112	
521,997	Cash outflows on revenue activities			570,747
	Cash Inflows			
(40,188) *	Council Tax income		(40,805)	
(100,768)	National Non Domestic Rate		(94,853)	
(14,028)	Revenue Support Grant		(21,893)	
(24,211)	Area Based Grant		(26,545)	
(59,962)	Dept for Work and Pensions Grants for Benefits (Note 1)		(68,181)	
(160,251)	Other Government Grants (Note 1)		(189,645)	
(52,505)	Cash received for goods and services		(52,560)	
(98,739)	Other operating cash receipts		(89,756)	(584,238)
(28,655)	Cash inflows on revenue activities			(13,491)
	Servicing of Finance			
	Cash Outflows			
0	PFI Interest paid	3,855		
5,549	Other Interest paid	5,881	9,736	
	Cash Inflows			
(4,418)	Interest received		(3,190)	6,546
(27,524)	NET REVENUE ACTIVITIES (Note 2)			(6,945)
	CAPITAL ACTIVITIES			
	Cash Outflows			
23,877	Purchase of Fixed Assets	22,568		
5,000	Purchase of Long Term Investments	0		
22 *	PFI Capital Cash Payments	1,609		
5,912	Other Capital Cash Payments	2,421	26,598	
	Cash Inflows			
(2,959)	Sale of fixed assets	(1,205)		
(28,024)	Capital Grants received (Note 1)	(22,235)		
(769)	Other capital cash receipts	0	(23,440)	3,158
(24,465)	NET CASH INFLOW before financing			(3,787)
	FINANCING			
	Cash Outflows			
4,000	Repayments of amounts borrowed			14,796
	Cash Inflows			
(20,202)	New loans raised			(2)
(16,202)	Net Financing cashflows			14,794
	Management of Liquid Resources			
39,830	Short term Investments		(23,155)	
35 *	Net Increase in other Liquid Resources		5,505	
802	Net Increase in cash (Note 3)		6,643	(11,007)
24,465	Total Movement in Net Debt (Note 4)			3,787

* The 2008/09 figures have been restated to reflect the changes in the 2009 Statement of Recommended Practice in relation to Collection Fund and Private Finance Initiative accounting arrangements.

NOTES TO THE INCOME AND EXPENDITURE ACCOUNT

1. EQUAL PAY ACT (AMENDMENT) REGULATIONS 2003

In line with the Council's accounting policies, the net cost of service includes the impact of revisions to the Council's 2009/10 estimate of the expected maximum costs under the Equal Pay Act Regulations. The provision of £15.251m that was included in 2008/09 has been increased in the 2009/10 cost of services to a new provision of £20.029m. This results in a net debit to the 2009/10 cost of services of £4.778m.

The 2009/10 provision is a prudent accounting assessment of the expected maximum costs to which the Council might be exposed, so that the possible effect on the Council's financial position can be assessed properly. The Council is currently conducting a comprehensive job evaluation and harmonisation review which is aimed at resolving this issue. The making of the provision should not be regarded as an acceptance of liability in any particular case. The amount of provision made does not indicate an expected final settlement figure or prejudice the Council's ongoing negotiations on this matter.

2. SIGNIFICANT TRADING OPERATIONS

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

Organisation	2008/09			2009/10		
	Turnover	Total Spend	(Surplus) /Deficit	Turnover	Total Spend	(Surplus) /Deficit
	£000	£000	£000	£000	£000	£000
Highways	(2,055)	2,748	693	(1,033)	1,288	255
Transport	(2,890)	2,491	(399)	(2,751)	3,046	295
School Meals	(5,397)	5,213	(184)	(5,758)	5,488	(270)
Building Cleaning	(4,537)	4,250	(287)	(4,406)	4,008	(398)
	(14,879)	14,702	(177)	(13,948)	13,830	(118)

NOTES TO THE INCOME AND EXPENDITURE ACCOUNT

3. PROVISION FOR REPAYMENT OF TRANSFERRED DEBT

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

	2008/09	2009/10
	£000	£000
Transferred Debt Repayments	740	743
Transferred Debt Income	(9)	(218)
Net Charge	731	525

4. AGENCY WORK

As in 2008/09, the Council had no agency agreements in place during 2009/10.

5. PENSION COSTS

The Council participates in two pension schemes:

Teachers: In 2009/10, the Council paid an employer's contribution of £6.910m (£6.793m in 2008/09), representing 14.1% (14.1% in 2008/09) of employees' pensionable pay, to the Department for Children, Schools and Families (DCSF), in respect of teachers' pensionable pay. In addition, the Council is responsible for all pension payments relating to added years benefits it has awarded, together with the related increases. In 2009/10, these amounted to £1.456m (£1.519m in 2008/09), representing 3.0% (3.2% in 2008/09) of pensionable pay.

Other Employees and Members: In 2009/10, the Council paid an employer's contribution (excluding unfunded benefit contributions) of £15.574m (£15.679m in 2008/09), representing 18.0% (18.0% in 2008/09) 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 2009/10, these amounted to £3.152m (£3.036m in 2008/09), representing 3.65% (3.5% in 2008/09) of pensionable pay (including in-year retirements costs which amounted to £1.993m (£0.637m in 2008/09)).

The transactions that are included in the 2009/10 Income and Expenditure Account in respect of the Council's pensions scheme are set out in the following table, based upon information provided to the Council by the Pension Fund's independent actuary. The cost of retirement benefits is shown in the Net Cost of Services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge to be met in the year is based on the amounts set by the Pension Fund, so the real cost of accrued retirement benefits is reversed out of the accounts as indicated in the Statement of Movement on General Fund Balance.

NOTES TO THE INCOME AND EXPENDITURE ACCOUNT

5. PENSION COSTS (Cont'd)

	Merseyside Pension Fund		Teachers Added Years		Total	
	2008/09 £000	2009/10 £000	2008/09 £000	2009/10 £000	2008/09 £000	2009/10 £000
Net Cost of Services						
Current Service Cost	14,497	8,866	0	0	14,497	8,866
Past Service or Curtailment or Settlement Costs	1,064	2,499	0	0	1,064	2,499
	<u>15,561</u>	<u>11,365</u>	<u>0</u>	<u>0</u>	<u>15,561</u>	<u>11,365</u>
Net Operating Expenditure						
Interest Cost	34,871	33,841	1,159	1,139	36,030	34,980
Expected Return on Assets	(23,720)	(18,499)	0	0	(23,720)	(18,499)
	<u>11,151</u>	<u>15,342</u>	<u>1,159</u>	<u>1,139</u>	<u>12,310</u>	<u>16,481</u>
Net Charge to Income & Expenditure account	<u>26,712</u>	<u>26,707</u>	<u>1,159</u>	<u>1,139</u>	<u>27,871</u>	<u>27,846</u>

Statement of Movement on the General Fund Balance

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

	<u>(26,712)</u>	<u>(26,707)</u>	<u>(1,159)</u>	<u>(1,139)</u>	<u>(27,871)</u>	<u>(27,846)</u>
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Actual amount charged against the General Fund Balance for pensions in the year:

Employers' contributions payable to scheme

	<u>17,384</u>	<u>17,349</u>	<u>1,434</u>	<u>1,448</u>	<u>18,818</u>	<u>18,797</u>
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Source: Mercer Limited

In addition to the recognised gains and losses included in the Income and Expenditure Account, an actuarial loss of £83.059m (£40.285m gain 2008/09) is included in the Statement of Total Recognised Gains and Losses.

Note 20 to the Balance Sheet details the assumptions used to estimate these figures.

NOTES TO THE INCOME AND EXPENDITURE ACCOUNT

6.1 EMPLOYEE REMUNERATION: Senior Officers

In accordance with national regulations and guidance, the senior officers included within this disclosure note are the Chief Executive, the Council's Executive Directors, and also those officers who are not Executive Directors but whose appointment is required by statutory provision.

Post Title and Name	Notes	2009/10 Salary £	2009/10 Benefits in Kind (Note 1) £	2009/10 Pension Contributions made by the Council £	2009/10 Total £
a) Senior Officers whose annual salary is £150,000 or more					
Chief Executive - S M Ramsey	2	181,896	10,135	32,741	224,772
b) Senior Officers whose annual salary is between £50,000 and £150,000					
Executive Director Wellbeing Services (also Chief Executive NHS Knowsley)	3	146,845	10,511	26,432	183,788
Executive Director of Regeneration, Economy & Skills		122,215	11,211	20,206	153,632
Executive Director of Corporate Resources	4	124,171	7,789	20,647	152,607
Executive Director of Children and Family Services	5	114,705	9,401	20,647	144,753
Executive Director of Neighbourhood Services	6	65,282	4,961	11,751	81,994
c) Officers Appointed Under Statutory Requirements					
Director of Health and Social Care	7	98,773	6,110	17,779	122,662
Borough Treasurer	8	90,702	6,251	16,287	113,240

NOTES

1. Benefits in Kind are the estimated financial value of non-cash, taxable benefits received by an employee that are chargeable to UK income tax – for example charges for Leased Cars. The figures set out in the table above do not represent the actual costs to the Council which are generally lower.
2. The Chief Executive of the Council also fulfils the statutory role of Head of the Paid Service as set out in the Local Government and Housing Act 1989.
3. The Executive Director of Wellbeing Services also fulfils the position of Chief Executive of NHS Knowsley and thereby occupies a single post jointly appointed and funded by both organisations. The Council received funding of £92,347 in 2009/10 from NHS Knowsley towards the total remuneration costs for this post.
4. The Executive Director of Corporate Resources also fulfils the statutory responsibility of Monitoring Officer for the Authority as set out in the Local Government and Housing Act 1989.
5. The Executive Director of Children and Family Services also fulfils the statutory responsibility of Director of Children's Services as set out in the Children's Act 2004.
6. The post of Executive Director Neighbourhood Services was vacant until 17 August 2009 when the current post holder was appointed on a salary of £104,676.
7. The post of Director of Health and Social Care fulfils the statutory role of Director of Adult Social Services under as set out in the Local Authority Social Services Act 1970 as amended by the Children Act 2004. The post is jointly appointed and funded by the Council and NHS Knowsley. The Council received funding of £62,621 in 2009/10 from NHS Knowsley towards the total remuneration costs for this post.
8. The post of Borough Treasurer fulfils the statutory role of Chief Finance Officer as set out in the Local Government Act 1972.

Senior Officers Remuneration: 2008/09 Comparator Figures

In accordance with national regulations and guidance, the senior officers included within this disclosure note are the Chief Executive, the Council's Executive Directors, and also those officers who are not Executive Directors but whose appointment is required by statutory provision.

Post Title and Name	Notes	2008/09 Salary £	2008/09 Benefits in Kind (Note 1) £	2008/09 Pension Contributions made by the Council £	2008/09 Total £
a) Senior Officers whose annual salary is £150,000 or more					
Chief Executive - S M Ramsey	2	177,762	10,969	31,997	220,728
b) Senior Officers whose annual salary is between £50,000 and £150,000					
Executive Director Wellbeing Services (also Chief Executive NHS Knowsley)	3	146,778	10,017	26,420	183,215
Executive Director of Corporate Resources	4	114,921	7,789	20,647	143,357
Executive Director of Children and Family Services	5	114,705	9,113	20,647	144,465
Executive Director of Regeneration, Economy & Skills		109,033	14,263	19,582	142,878
Executive Director of Neighbourhood Services	6	0	0	0	0
c) Officers Appointed Under Statutory Requirements					
Borough Solicitor and Secretary	4	142,035	4,688	11,615	158,338
Director of Health and Social Care	7	98,732	7,211	17,772	123,715
Borough Treasurer	8	88,425	6,251	15,916	110,592

NOTES

1. Benefits in Kind are the estimated financial value of non-cash, taxable benefits received by an employee that are chargeable to UK income tax – for example charges for Leased Cars. The figures set out in the table above do not represent the actual costs to the Council which are generally lower.
2. The Chief Executive of the Council also fulfils the statutory role of Head of the Paid Service as set out in the Local Government and Housing Act 1989.
3. The Executive Director of Wellbeing Services also fulfils the position of Chief Executive of NHS Knowsley and thereby occupies a single post jointly appointed and funded by both organisations. The Council received funding of £91,923 in 2008/09 from NHS Knowsley towards the total remuneration costs for this post.
4. The Executive Director of Corporate Resources also fulfils the statutory responsibility of Monitoring Officer for the Authority (as set out in the Local Government and Housing Act 1989) following the retirement of the previous Monitoring Officer, the Borough Solicitor and Secretary, who retired from the Authority on 31 December 2008 and whose post was deleted from that time.
5. The Executive Director of Children and Family Services also fulfils the statutory responsibility of Director of Children's Services as set out in the Children's Act 2004.
6. The post of Executive Director Neighbourhood Services was vacant during 2008/09.
7. The post of Director of Health and Social Care fulfils the statutory role of Director of Adult Social Services under as set out in the Local Authority Social Services Act 1970 as amended by the Children Act 2004. The post is jointly appointed and funded by the Council and NHS Knowsley. The Council received funding of £63,616 in 2008/09 from NHS Knowsley towards the total remuneration costs for this post.
8. The post of Borough Treasurer fulfils the statutory role of Chief Finance Officer as set out in the Local Government Act 1972.

NOTES TO THE INCOME AND EXPENDITURE ACCOUNT

6.2 EMPLOYEE REMUNERATION: Other officers over £50,000.

The table below shows the number of other employees (including teachers but excluding Merseyside Police Authority officers) whose remuneration for 2009/10 was £50,000 or more. As defined by the Local Authority Accounting Panel Bulletin 85 (April 2010), remuneration relates to all amounts paid to or receivable by a person, and includes sums due by way of expense allowance (so far as those sums are chargeable to UK income tax). It also includes the estimated monetary value of any other taxable benefits received by an employee otherwise than in cash, and payments made in respect of retirement and/or redundancy, but excludes employers' pension contributions.

Total Remuneration	Number of Employees	
	2008/09 *	2009/10
£50,000 - £54,999	61	71
£55,000 - £59,999	48	62
£60,000 - £64,999	34	40
£65,000 - £69,999	13	16
£70,000 - £74,999	6	9
£75,000 - £79,999	8	7
£80,000 - £84,999	7	5
£85,000 - £89,999	9	12
£90,000 - £94,999	3	7
£95,000 - £99,999	1	0
£100,000 - £104,999	0	0
£105,000 - £109,999	1	1
£110,000 - £114,999	0	0
£115,000 - £119,999	0	2
TOTAL	191	232

* The figures for 2008/09 have been restated to exclude those senior employees disclosed separately in Note 6.1 above and to reflect the definition of remuneration under Local Authority Accounting Panel Bulletin 85 (April 2010) .

7. MEMBERS' ALLOWANCES

During 2009/10, the Council paid a total of £0.858m in respect of Members' Allowances (£0.867m in 2008/09). Further details can be obtained from the Head of Democratic Services, Directorate of Corporate Resources, Municipal Buildings, Huyton.

8. 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 2009/10:

Central Government

The Government has effective control over the general operations of the Council. It is responsible for providing the statutory framework within which the Council operates and provides funding in the form of grants. Details of the material transactions with Government Departments are included in the Cash Flow Statement and in Notes 6 (Debtors) and 8 (Creditors) to the Balance Sheet.

NOTES TO THE INCOME AND EXPENDITURE ACCOUNT

Subsidiary and Associated Companies

Details of the Council's interests in companies are set out in Note 23 to the Council's Balance Sheet.

Other Public Bodies

- **Primary Care Trust**

The Council established a partnership agreement with Knowsley Primary Care Trust during 2004/05 using powers under Section 31 of the Health Act 1999 (see Note 12 to the Income and Expenditure Account) and these remain in place under section 75 of the NHS Act 2006. The Partnership Board includes three Council Members and is advised by four Officers of the Council. Under this partnership agreement, a number of the Council's officers are funded jointly by the Council and the Primary Care Trust, including the Council's Executive Director of Wellbeing Services who is also the Chief Executive of the Primary Care Trust.

- **Pension Fund**

Full details of the Council's Pension Fund transactions are disclosed in Note 5 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 £8.179m in payments and £1.685m in receipts. 12 Members of the Council have declared an interest.

- **Councils for Voluntary Services - Knowsley**

Payments totalled £0.099m. Two Members have expressed an interest.

- **New Deal For Communities**

Payments to New Deal for Communities totalled £0.010m. Five Members have expressed an interest.

Transactions relating to Other Public Bodies also included

- Merseytravel £1.013m – Five Members have expressed an interest.
- Merseyside Waste Disposal Authority £7.739m – One Member has expressed an interest.
- Merseyside Fire and Rescue Service £0.002m - Three Members have expressed an interest.
- Merseyside Police Authority £1.343m – Two Members have expressed an interest

Members' Interests

Members of the Council have direct control over the Council's financial and operational policies. During 2009/10, works and services totalling £0.189m were commissioned from organisations in which nine Members had an interest. Contracts were entered into in full compliance with the Council's Constitution. Payments and grants totalling £61.950m were paid to housing associations, hospital trusts, and voluntary organisations, in which there were 88 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 2009/10, one Executive Director expressed an interest in Tomorrow's People and one Service Director expressed an interest in Pro-active Management, to which payments totalling £0.130m and £0.020m respectively were made during the year. No other specific interest declarations were made surrounding activities falling outside normal duties.

NOTES TO THE INCOME AND EXPENDITURE ACCOUNT

9. OPERATING AND FINANCE LEASES

9.1 Council as a Lessee

The table below analyses the rentals paid by the Council for operating leases by asset classification. Although the Council holds no finance leases, it has entered into a Private Finance Initiative scheme which is detailed in Note 11 to the Balance Sheet.

	2008/09	2009/10
	Operating Lease	Operating Lease
	£000	£000
Wheeled Bins	52	54
Vehicles	234	101
Other *	880	855
	<u>1,166</u>	<u>1,010</u>

* Following a review of the Council's contracts, the 2008/09 figures have been restated to reflect additional leases identified.

The Council was committed at 31 March 2010 to making payments of £0.698m under operating leases in 2010/11 comprising the following elements:

	Leases Expiring in 2010/11	Leases expiring between 2011/12 and 2014/2015	Leases expiring after 2014/2015
	£000	£000	£000
Wheeled Bins	40	11	0
Vehicles	32	0	0
Other	2	613	0
	<u>74</u>	<u>624</u>	<u>0</u>

9.2 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.

NOTES TO THE INCOME AND EXPENDITURE ACCOUNT

The net book value of these assets at 31 March 2010 is £20.526m and the Council received income as follows relating to these leases:

	2008/09	2009/10
	£000	£000
Shops	773	732
Industrial & business units *	887	847
Other	203	104
	1,863	1,683

* Following a review of the Council's contracts, the 2008/09 figures have been restated to reflect additional leases identified.

10. IMPAIRMENT OF ASSETS

The Council's approach to impairment of assets is set out in the Council's accounting policies. The amounts that have been recognised as charges to cost of service are £86.245m. These charges include £65.169m in relation to former school sites associated with the building of the new Centres for Learning under the Private Finance Initiative scheme. Further impairments of £21.076m relate to a downward revaluation of primary schools. Both these values are included within Education and Children's Services. The remaining £1.131m relates to a demolished building and has been charged to cost of service under Cultural, Environmental, Regulatory and Planning Services.

11. AUDITORS' REMUNERATION

In 2009/10, Knowsley MBC incurred the following fees relating to external audit and inspection:

	2008/09	2009/10		Total
	£000	Pricewaterhouse Coopers	Audit Commission	£000
	£000	£000	£000	£000
Fees payable with regard to external audit services carried out by the appointed auditor	254	262	0	262
Fees payable in respect of Statutory Inspection under (Section 10 Local Government Act 1999)	27	0	17	17
Fees payable for the certification of grant claims and returns (Section 28 Audit Commission Act 1998)	58	67	0	67
Fees payable for other services	20	10	0	10
Total	359	339	17	356

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

12. 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 2009/10, 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.

12.1 Pooled Budgets Hosted by the Council

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

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

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

Income and Expenditure	Community Support Services		Mental Health		Learning Disabilities		Total	
	2008/09 £000	2009/10 £000	2008/09 £000	2009/10 £000	2008/09 £000	2009/10 £000	2008/09 £000	2009/10 £000
Gross Funding								
Reserve B/fwd	(173)	(298)	(138)	(134)	(585)	(304)	(896)	(736)
Knowsley Primary Care Trust	(1,472)	(2,481)	(1,596)	(2,191)	(1,208)	(9,549)	(4,276)	(14,221)
Knowsley MBC	(50)	(645)	0	(984)	(10,082)	(8,784)	(10,132)	(10,413)
Total Funding	(1,695)	(3,424)	(1,734)	(3,309)	(11,875)	(18,637)	(15,304)	(25,370)
Pooled Expenditure	1,397	3,225	1,600	3,248	11,571	18,637	14,568	25,110
Net (surplus) / deficit	(298)	(199)	(134)	(61)	(304)	0	(736)	(260)

12.2 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.

NOTES TO THE INCOME AND EXPENDITURE ACCOUNT

Integrated Community Equipment Service Pooled Budget

	2008/09 £000	2009/10 £000
Funding		
Balance of funds brought forward	(47)	(49)
Knowsley Metropolitan Borough Council	(318)	(330)
Knowsley Primary Care Trust	(498)	(517)
St Helens Metropolitan Borough Council	(469)	(487)
St Helens Primary Care Trust	(629)	(549)
	(1,961)	(1,932)
Total Funding	(1,961)	(1,932)
Total Expenditure	1,912	1,877
	(49)	(55)
Net underspend carried forward	(49)	(55)

13. DEDICATED SCHOOLS GRANT

The Council's expenditure on schools is funded primarily by grant monies provided by the Department for Children, Schools and Families, the Dedicated Schools Grant (DSG). The Dedicated Schools Grant is ring-fenced and can only be applied to meet expenditure properly included in the Schools Budget, as defined in the School Finance (England) Regulations 2008. The Schools Budget includes elements for a range of educational services provided on an authority-wide basis and for the Individual Schools Budget, which is divided into a budget share for each maintained school. Details of the deployment of the Dedicated Schools Grant receivable for 2009/10 are shown in the following table.

Schools Budget Funded by Dedicated Schools Grant	Central Expenditure £'000	Individual Schools Budget £'000	Total £'000
Final DSG for 2009/10	(15,136)	(83,563)	(98,699)
Brought Forward from 2008/09	37	(1,331)	(1,294)
Carry Forward to 2009/10 agreed in advance	0	0	0
Agreed budgeted distribution in 2009/10	(15,099)	(84,894)	(99,993)
Actual central expenditure	15,400	-	15,400
Actual ISB deployed to schools	-	84,904	84,904
Carry forward to 2009/10	301	10	311

NOTES TO THE STATEMENT OF MOVEMENT ON THE GENERAL FUND BALANCE

1. RECONCILIATION OF STATUTE AND NON-STATUTE PROPER PRACTICES

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

2008/09		2009/10
£000		£000
	Amounts included in the income and expenditure account but required by Statute to be excluded when determining the Movement on the General Fund Balance for the year	
(1,275)	Amortisation of Intangible Fixed Assets	(1,410)
(25,291) *	Depreciation and Impairment of Fixed Assets	(102,497)
3,289	Government Grants Deferred Amortisation	3,824
(978)	Revenue Expenditure funded from Capital under Statute	(427)
2,058	Net Gain on Sale of Fixed Assets	440
(2)	Differences between amounts debited/credited to the I&E Account and amount payable/receivable to be recognised under statutory provisions relating to soft loans and premiums and discounts on the early repayment of debt	(22)
(9,212)	Equal Pay Act (Amendment) Regulations 2003 ^{see i) below}	(4,778)
(27,871)	Net Charges made for Retirement Benefits in accordance with FRS17	(27,846)
	Amount by which Council Tax income included in the Income and Expenditure Account is different from the amount taken to the General Fund in accordance with regulation	
(126) *		(10)
<u>(59,408)</u>		<u>(132,726)</u>
	Amounts not included in the income and expenditure account but required by Statute to be included when determining the Movement on the General Fund Balance for the year	
5,290 *	Minimum Revenue Provision for Capital Financing	7,381
731	Principal Repayment on External Loans	525
3,278	Capital Expenditure charged in year to the General Fund Balance	2,530
(37)	Transfer from Usable Capital Receipts to meet payments to the Housing Capital Receipts Pool	(36)
18,818	Employers Contribution Payable to the Pension Fund and Retirement Benefits payable Direct to Pensioners	18,797
<u>28,080</u>		<u>29,197</u>
	Transfers to or from the General Fund Balance that are required to be taken into account when determining the Movement on the General Fund Balance for the year	
	Contributions to Earmarked Reserves	
(2,510)	- Schools' Balances	(3,193)
10,250 *	- Other Reserves	(844)
<u>7,740</u>		<u>(4,037)</u>
<u>(23,588)</u>	Net additional amount required to be credited to the General Fund Balance for the year	<u>(107,566)</u>

NOTES TO THE STATEMENT OF MOVEMENT ON THE GENERAL FUND BALANCE

i) Equal Pay Act (Amendment) Regulations 2003 - In accordance with Local Authority Accounting Panel Bulletin 68 the General Fund Balance is credited with an adjustment of £4.778m to offset the impact of revisions to the Council's provision for the estimated maximum costs that may arise from the Equal Pay Act (Amendment) Regulations 2003.

* 2008/09 Comparative Figures:

- a) Private Finance Initiative: The 2008/09 figures for Depreciation of Fixed Assets, Minimum Revenue Provision and Contribution to Reserves have been restated to reflect changes in the 2009 Statement of Recommended Practice as detailed in the Accounting Policies.
- b) Collection Fund: In accordance with the 2009 Statement of Recommended Practice, the General Fund is adjusted for £0.126m to reflect the change in accounting policies regarding the Collection Fund.

NOTES TO THE BALANCE SHEET

1 a) FIXED ASSETS – MOVEMENTS

<u>Operational Assets</u>	Land & Buildings	Vehicle Plant & Equipment	Infrastructure	Community Assets	Total
	£000	£000	£000	£000	£000
Cost or Valuation					
Balance at 1 April 2009	388,865	42,549	155,511	1,365	588,290
Opening Revaluations	652	0	0	0	652
Opening Reclassifications	(1,406)	0	0	0	(1,406)
	<u>388,111</u>	<u>42,549</u>	<u>155,511</u>	<u>1,365</u>	<u>587,536</u>
Additions	79,234	2,994	4,681	0	86,909
Other Expenditure	196	0	0	0	196
Disposals	(467)	0	0	0	(467)
Revaluations in Year	4,498	0	0	0	4,498
Reclassifications in Year	1,362	0	0	0	1,362
	<u>1,362</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>1,362</u>
Balance at 31 March 2010	<u>472,934</u>	<u>45,543</u>	<u>160,192</u>	<u>1,365</u>	<u>680,034</u>
Depreciation and Impairment					
Balance at 1 April 2009	(66,342)	(27,861)	(15,457)	(191)	(109,851)
Depreciation	(8,953)	(4,007)	(3,264)	(28)	(16,252)
Impairment	(85,114)	0	0	0	(85,114)
Disposals	0	0	0	0	0
Revaluations	0	0	0	0	0
	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Balance at 31 March 2010	<u>(160,409)</u>	<u>(31,868)</u>	<u>(18,721)</u>	<u>(219)</u>	<u>(211,217)</u>
Balance Sheet amount at 31 March 2010	<u>312,525</u>	<u>13,675</u>	<u>141,471</u>	<u>1,146</u>	<u>468,817</u>
Balance Sheet amount at 31 March 2009	<u>322,523</u>	<u>14,688</u>	<u>140,054</u>	<u>1,174</u>	<u>478,439</u>
Nature of Asset Holding					
Owned	221,074	13,675	141,471	1,146	377,366
Private Finance Initiative	91,451	0	0	0	91,451
	<u>91,451</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>91,451</u>
	<u>312,525</u>	<u>13,675</u>	<u>141,471</u>	<u>1,146</u>	<u>468,817</u>

NOTES TO THE BALANCE SHEET

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

<u>Non-Operational Assets</u>	Assets under Construction	Investment Properties	Surplus Assets held for Disposal	Total
	£000	£000	£000	£000
Cost or Valuation				
Balance at 1 April 2009	1,364	23,372	24,713	49,449
Opening Revaluations	0	0	(385)	(385)
Opening Reclassifications	0	0	1,406	1,406
	<u>1,364</u>	<u>23,372</u>	<u>25,734</u>	<u>50,470</u>
Additions	1,417	431	0	1,848
Other Expenditure	0	0	0	0
Disposals	0	0	0	0
Revaluations in Year	0	0	0	0
Reclassifications in Year	(1,362)	0	0	(1,362)
	<u>(1,362)</u>	<u>0</u>	<u>0</u>	<u>(1,362)</u>
Balance at 31 March 2010	<u>1,419</u>	<u>23,803</u>	<u>25,734</u>	<u>50,956</u>
Depreciation and Impairment				
Balance at 1 April 2009	0	(3,277)	(7,733)	(11,010)
Depreciation	0	0	0	0
Impairment	0	0	(1,131)	(1,131)
	<u>0</u>	<u>(3,277)</u>	<u>(8,864)</u>	<u>(12,141)</u>
Balance at 31 March 2010	<u>0</u>	<u>(3,277)</u>	<u>(8,864)</u>	<u>(12,141)</u>
Balance Sheet amount at 31 March 2010	<u>1,419</u>	<u>20,526</u>	<u>16,870</u>	<u>38,815</u>
Balance Sheet amount at 31 March 2009	<u>1,364</u>	<u>20,095</u>	<u>16,980</u>	<u>38,439</u>
Nature of Asset Holding				
Owned	1,419	20,526	16,870	38,815
	<u>1,419</u>	<u>20,526</u>	<u>16,870</u>	<u>38,815</u>

NOTES TO THE BALANCE SHEET

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

<u>Intangible Assets</u>	Software Licences £000
Cost or Valuation	
Balance at 1 April 2009	7,049
Opening Revaluations	<u>0</u>
	7,049
Additions	<u>583</u>
Balance at 31 March 2010	<u>7,632</u>
Amortisation and Impairment	
Balance at 1 April 2009	(4,256)
Amortisation	<u>(1,410)</u>
Balance at 31 March 2010	<u>(5,666)</u>
Balance Sheet amount at 31 March 2010	<u>1,966</u>
Balance Sheet amount at 31 March 2009	<u>2,793</u>
Nature of Asset Holding	
Owned	<u>1,966</u>
	<u>1,966</u>

1 b) FIXED ASSETS – DEPRECIATION METHODS

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

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

NOTES TO THE BALANCE SHEET

1 c) FIXED ASSETS – CAPITAL FINANCING

Capital expenditure was financed as follows:

	2008/09	2009/10
	£000	£000
Capital Expenditure		
* Private Finance Initiative acquired Assets	25,907	70,434
Other Operational Assets	22,841	16,671
Revenue Expenditure Funded from Capital Under Statute	5,934	3,711
Non-Operational Assets	361	1,848
Intangible Assets	674	583
	<u>55,717</u>	<u>93,247</u>
Sources of Finance		
* Credit Arrangements	25,907	70,434
Grant	15,505	15,436
Borrowing	5,998	3,562
Capital Expenditure from Revenue Account	3,278	2,530
Capital Receipts	4,268	1,096
Provisions	117	0
Other Contributions	644	189
	<u>55,717</u>	<u>93,247</u>

* The 2008/09 figures have been restated to reflect the new accounting treatment for the Private Finance Initiative Scheme.

NOTES TO THE BALANCE SHEET

1 d) FIXED ASSETS – CAPITAL EXPENDITURE

The main items of capital expenditure during 2009/10 were:

	£000
<u>Children and Family Services Portfolio</u>	
Centres for Learning – Private Finance Initiative	70,434
Schools’ Devolved Formula Capital Programme	1,657
Schools’ Modernisation Programme	867
Future Schooling in Knowsley – Targeted Capital Primary Fund	819
Halewood Adult Learning Centre	745
Early Years	594
City Learning Centres	554
<u>Leisure, Community and Culture Portfolio</u>	
Play Pathfinder	1,800
New Huyton Leisure Centre	409
<u>Neighbourhood Delivery Portfolio</u>	
Vehicle and Plant Replacement	586
<u>Regeneration, Economy and Skills Portfolio</u>	
Highway Maintenance Programme	4,206
Huyton Municipal	1,193
Private Tenants Grants	1,431
Energy Efficiency Grants	825
North Huyton Revive Programme – Owner Occupier Acquisitions	769
Housing Assistance – Renovation grants	403

NOTES TO THE BALANCE SHEET

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

Significant commitments at 31 March 2010 for future capital expenditure include the following:

Scheme	Purpose	Expected Period	£000
Targeted Capital Primary Schools	To build 2 new primary/special needs learning centres at Northwood and Greengates and 2 primary learning centres at North Huyton Joint Catholic and Church of England and Parkbrow with extended schools facilities and links to children centre provision.	2010/11	30,780
Stockbridge Village Regeneration	This programme will have a positive impact upon the children and families of the Stockbridge Village community, providing them with a state of the art learning environment whilst also offering a range of other activities for families through dedicated community provision with the additional facilities of a family health centre, a new neighbourhood centre / leisure facility and library	2010/11 to 2011/12	25,500
Leisure Facilities	The implementation of Phase III will see the centre of the Borough have one main leisure hub facility with a main public pool, with satellite sites that will consist of a smaller specialist water facility and a number of dry facilities in Stockbridge Village and Prescot. This is in keeping with the model adopted in the North and South of the Borough.	2010/11	24,975
Building and Property Alterations	Included in this block is the refurbishment of the Huyton Municipal Buildings (£4.016m) and minor improvements to Leisure facilities (£0.334m).	2010/11	4,848
Devolved Formula Capital	Allowances provided to schools on a formulaic basis to allow local decision making on asset management subject to identification of priority within the asset plan.	2010/11	3,581
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.	2010/11	3,004

NOTES TO THE BALANCE SHEET

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

Scheme	Purpose	Expected Period	£000
Our Place	The building and furnishing of the youth facility funded by MyPlace (DCSF) funding via big Lottery Fund.	2010/11	2,943
Addressing the Need for Supported Housing	To provide extra care housing for older persons to assist older people to live more independent lives than would be possible in residential care or nursing homes, but with the level of care and support required. Also to assist the prevention of homelessness.	2010/11	2,924
Strategic Highway Network	Structural maintenance of the carriageways and bridges and schemes aimed at improving the management and control of traffic (both within and through the borough) with signals and signs.	2010/11	2,758
School 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.	2010/11	2,667
Safety and Security of Neighbourhoods	A programme of measures aimed at reducing road casualties and improving security and quality of life in our neighbourhoods. These include parking and access schemes, traffic calming and miscellaneous schemes aimed primarily at addressing environmental issues.	2010/11	1,485
Market Renewal and Affordable Housing Options	Financial assistance under the "Power of Well Being" to provide assistance to help eligible Knowsley residents obtain a first step onto the property ladder and into owner occupation.	2010/11	988

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	31.3.2009	31.3.2010	
Administrative buildings	5	7	
Allotments	122	122	Plots
Bridges	136	142	
Cemeteries	2	2	
Centres for people with learning/physical disabilities	2	2	
Civic halls and suites	2	2	
Club House	1	1	
Commercial properties - rented/leased	164	158	
- void	9	15	
Community Assets	20	20	
Community and Youth Centres	15	13	
Day Centres for the Elderly	2	2	
Depots and Workshops	3	3	
Homes for people with learning disabilities	1	1	
Industrial properties - rented/leased	374	379	
- void	18	13	
Lamp units	18,875	18,892	
Leisure and Sports Centres	7	6	
Libraries	7	5	
Market	1	1	
Museums	1	1	
Offices	15	12	
Other Health and Social Care establishments	11	5	
Parks, playing fields, and open spaces	488	488	Hectares
Public conveniences	1	0	
Roads – principal	101	101	Km
- other	465	470	Km
Schools – Primary	24	24	
- Secondary	7	7	
- Other	8	8	
Vehicles and plant	273	366	

NOTES TO THE BALANCE SHEET

1 g) LEASES

As noted in the Council's accounting policy, the Council regularly reviews its procurement arrangements to optimise the balance between the use of leases and prudential borrowing. At 31 March 2010 the Council held no finance leases and during 2009/10 no new operating or finance leases were taken out as the acquisition of new vehicles and equipment was funded by prudential borrowing. The Council has however, entered into Private Finance Initiative scheme which is detailed in Note 11 to the Balance Sheet. The outstanding obligations with regard to existing lease arrangements are therefore reducing, as equipment and vehicles are returned at the end of the lease.

Outstanding Obligations	Operating Leases £000
1 -2 years	81
2 – 5 years	3,066
5 years & above	0
Total	3,147

2. LONG TERM INVESTMENTS

The Council held £0.003m of investments in 3.5% Treasury Stock at 31 March 2010. A further £10.520m investment was also held as at 31 March 2009 but this became a short term investment during the year.

3. LONG TERM DEBTORS

At 31 March 2010, the Council had long term debtors of £1.222m.

Long Term Debtor	31.03.2009 £000	31.03.2010 £000
Mortgagors	645	511
Soft Loan to Huyton Churches	0	367
Coroners transferred debt	0	193
Car Loans	122	151
Total	767	1,222

4. STOCKS AND WORK IN PROGRESS

	31.03.2009 £000	31.03.2010 £000
Work in Progress	0	0
<u>Stocks</u>		
- Neighbourhood Delivery	375	305
- Leisure, Community and Culture	6	5
- Other General Fund	7	9
Total Stocks	388	319
Total	388	319

NOTES TO THE BALANCE SHEET

5. SHORT TERM INVESTMENTS

The Council's short term investments of £111.038m (£124.529m in 2008/09) include cash on deposit with banks and building societies, plus other liquid investments with money market funds.

6. DEBTORS

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

	31.3.2009	31.3.2010
	£000	£000
Amounts falling due in one year:		
Government Departments	5,838	10,471
*Other Local Authorities	1,462	600
Employee Related	41	154
Sundry Debtors	8,052	9,613
Car loans	31	38
Payments in Advance	2,294	3,498
*Collection Fund	3,569	3,994
Total Amounts falling due within one year:	21,287	28,368
Provision for bad debts:		
General	(2,732)	(1,417)
*Collection Fund	(300)	(471)
Total Provision for bad debts:	(3,032)	(1,888)
Total Debtors	18,255	26,480

*The 2008/09 figures have been restated to reflect the changes in Collection Fund accounting under the agency arrangement as determined by the 2009 Statement of Recommended Practice.

7. SHORT TERM BORROWING

Source of Loan	Range of interest rates payable %	31.03.2009	31.03.2010
		£000*	£000
Public Works Loan Board	Fixed (2.5% to 7.375%)	5,611	1,531
Lender Offer Borrowing Option	Fixed (3.71% to 4.08%)	193	194
Temporary Loan	Fixed (0.55%)	10,001	0
Other Local Authorities ^(Note i)	Variable	743	247
		16,548	1,972

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

*The 2008/09 figures have been restated to reflect that accrued interest on borrowing is due to be settled in less than 1 year.

NOTES TO THE BALANCE SHEET

8. CREDITORS

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

	31.3.2009	31.3.2010
	£000	£000
Amounts falling due in one year:		
*Government Departments	10,484	8,057
Other Local Authorities	1,209	1,818
Employee Related	6,637	6,816
*Sundry Creditors	15,560	18,172
Income in Advance	5,743	5,695
*Collection Fund	550	591
Government Departments - Capital	0	227
Sundry Creditors - Capital	0	20
Total Creditors	<u>40,183</u>	<u>41,396</u>

*The 2008/09 figures have been restated to reflect the changes in Private Finance Initiative and Collection Fund accounting as determined by the 2009 Statement of Recommended Practice.

9. CASH

At 31 March 2010, the bank account balance was £1.636m in hand. However, cheques raised but unpresented at the bank and other miscellaneous balances totalled £7.569m, which produces a cash overdrawn figure of £5.933m (£10.101m in 2008/09).

10. LONG TERM BORROWING

Source of Loan	Range of interest rates payable %	31.03.2009	31.03.2010
		£000*	£000
Public Works Loan Board	Fixed (2.5% to 7.375%)	104,484	104,432
Lender Offer Borrowing Option	Fixed (3.71% to 4.08%)	17,300	17,300
Other Local Authorities ^(Note i)	Variable	3,949	3,703
		<u>125,733</u>	<u>125,435</u>

An analysis of loans by maturity is

Maturing in 1-2 years	546	9,843
Maturing in 2-5 years	16,168	11,834
Maturing in 5-10 years	6,272	1,261
Maturing in more than 10 years	102,747	102,497
	<u>125,733</u>	<u>125,435</u>

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

*The 2008/09 figures have been restated to reflect that accrued interest on borrowing is due to be settled in less than 1 year.

NOTES TO THE BALANCE SHEET

11. PRIVATE FINANCE INITIATIVE TRANSACTIONS

On 13 December 2007, the Council entered into a Private Finance Initiative (PFI) arrangement with Transform Schools for the provision of seven Centres for Learning. The contract includes Hard Facilities Management for a period of 25 years from service commencement, with a contract expiry date of 31 August 2034. During 2008/09, two Learning Centres became operational and the 2008/09 Statement of Accounts reflected this. As the emphasis at that time for recognising an asset constructed under a PFI arrangement was regarding ownership rather than control, no assets were included on the Council's Balance Sheet. However, the accounts did include a long term debtor of £0.087m for the difference in the amount paid for the asset at the end of the contract and its residual value. This entry has now been reversed following the change in accounting treatment. One of the Centres for Learning which is Council owned opened during 2008/09. Under the 2009 Statement of Recommended Practice requirements this should now be recognised on the 2008/09 Balance Sheet and therefore the 2008/09 comparative figures have been restated where appropriate to reflect this.

a) Assets held under PFI arrangements

The remaining five Centres for Learning became operational during 2009/10. Four of the total seven Centres for Learning are Council owned and, these Centres have now been added to the Council's Balance Sheet. The Centres for Learning that are voluntary aided have not been included on the Council's Balance Sheet on the basis that Liverpool Archdiocese has legal ownership of the land and of the residual interest at the end of the agreement. Therefore the fixed asset figures in the Balance Sheet include the following values for the Centres for Learning.

	2008/09 £000	2009/10 £000
Balance at beginning of year	0	24,871
Additions	25,907	70,434
Depreciation	(1,036)	(3,854)
Balance at 31 March	24,871	91,451

b) Value of Liabilities under PFI arrangements

As well as assets being held on the Balance Sheet the Council also has to include the outstanding liability to Transform Schools. This liability is split between long and short term liabilities on the Balance Sheet and comprises the following figures.

	2008/09 £000	2009/10 £000
Balance at beginning of year	0	25,885
Additions	25,907	70,434
Principal repayments during year	(22)	(1,609)
Balance at 31 March	25,885	94,710

NOTES TO THE BALANCE SHEET

c) **Payments due to be made under PFI arrangements**

The outstanding payments due to Transform Schools in relation to the Council owned Centres for Learning are detailed in the table below.

	Repayment of Liability £000	Interest £000	Service Charges £000	Total £000
Within 1 year	1,857	7,533	3,096	12,486
Within 2 to 5 years	8,847	28,456	13,708	51,011
Within 6 to 10 years	12,982	31,307	22,001	66,290
Within 11 to 15 years	18,423	25,343	25,356	69,122
Within 16 to 20 years	24,249	16,920	32,839	74,008
Within 21 to 25 years	28,352	5,895	36,439	70,686
	94,710	115,454	133,439	343,603

12. **EQUAL PAY ACT (AMENDMENT) REGULATIONS 2003**

As in previous years the Statement of Accounts reflects the recommended accounting practice for potential compensation claims under the Equal Pay Act (Amendment) Regulations 2003 in relation to equal pay for work of equal value - as defined in Local Authority Accounting Panel Bulletin 68. A provision of £20.029m is included in the Balance Sheet relating to the Council's estimate of the maximum expected costs that may arise from the regulations. The Balance Sheet Total Equity also includes £9.594m within the Equal Pay Back Pay Account and £10.435m within the Capital Adjustment Account (see Note 17) to reflect the reversal of the impact on the Council's General Fund Balances until such time as any future cash settlements are made (see Note 1 to the Statement of Movement on General Fund Balances). The Council is currently conducting a comprehensive job evaluation and harmonisation review which is aimed at resolving this issue. The making of the provision should not be regarded as an acceptance of liability in any particular case. The amount of the provision made does not indicate an expected final settlement figure or prejudice the Council's ongoing negotiations on this matter.

NOTES TO THE BALANCE SHEET

13. PROVISIONS

In addition to the provision relating to the Equal Pay Act Regulations (detailed in Note 12 to the Balance Sheet) a number of further provisions have been set aside at 31 March 2010 to cover the following liabilities:

	Balance 31.3.2009	Provided in year	Applied in year	Balance 31.3.2010
	£000	£000	£000	£000
Austin Trading Estate	379	0	(379)	0
Business Rates	261	16	(74)	203
Highways/Drainage Service	47	0	(47)	0
Early Retirement and Severance Costs	111	152	(11)	252
Insurance	4,843	2,061	(1,789)	5,115
Mental Health Act - Section 117	25	0	(8)	17
Prescot Regeneration	532	0	(312)	220
Service Charge Refunds	88	0	0	88
Land Charges Fees	0	113	0	113
Total	6,286	2,342	(2,620)	6,008

Detail of Council Provisions

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

Business Rates: Service charges to be repaid to occupiers of Nutgrove Villa, and Halewood New Centre due to reimbursement of business rates. The provision is expected to be fully utilised in 2010/11.

Highways/Drainage Service: exit costs associated with cessation of the in house provision of these services which will be required in 2010/11.

Early Retirement and Severance Costs: to meet anticipated costs associated with the early retirement and severance of a number of employees across the Council. These costs are expected to be incurred over the next five years.

Insurance: estimated settlement cost of claims received at the Balance Sheet date. A separate reserve is held for the estimated settlement costs of future claims (see Note 21). 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. The timing of the liability is dependent on the individual claims process.

Mental Health Act 1983 Section 117 (Provision of After Care): provision for refund of charges made to recipients of community care services under section 117 of this Act. The provision is expected to be utilised in 2010/11.

Prescot Regeneration: Pending the outcome of a review, the Government Office for the North West has advised the Council to set aside a provision to meet the maximum potential grant clawback relating to the Prescot Regeneration Scheme. A decision is expected to be reached during 2010/11.

Service Charge Refunds: for the repayment of service charges not used for Furniture for Network Housing. The provision is expected to be utilised in 2010/11.

Land Charges Fees: for repayment of fees relating to Land Charges which will be required in 2010/11.

NOTES TO THE BALANCE SHEET

14. SIGNIFICANCE OF FINANCIAL INSTRUMENTS FOR FINANCIAL POSITION AND PERFORMANCE

A financial instrument is any contract which gives rise to a financial asset of one entity (such as cash, an equity instrument or a right to receive cash or an equity instrument) and a financial liability of another (such as an obligation to deliver cash or another financial asset).

a) Financial Instrument Balances

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

	Long Term		Short Term	
	Balance at 31 March 2009 £000	Balance at 31 March 2010 £000	Balance at 31 March 2009 £000	Balance at 31 March 2010 £000
Financial liabilities at amortised cost - analysed by:				
- Loans outstanding (excluding transferred debt)	121,784	121,732	15,805	1,725
- Current liabilities (short-term creditors and cash overdrawn)	0	0	48,675	47,329
Total borrowings	121,784	121,732	64,480	49,054
Loans and receivables - analysed by:				
- Investments outstanding	10,523	3	124,529	111,038
- Current assets (short-term debtors and petty cash)	0	0	21,916	32,616
- Long-term debtors	767	1,222	0	0
Total investments	11,290	1,225	146,445	143,654

Transferred debt arising from local government reorganisation in 1974 and 1986 that is administered by other local authorities on behalf of the Council has been excluded from the financial instrument balances due to its statutory nature.

NOTES TO THE BALANCE SHEET

b) Financial Instruments Gains and Losses

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

	Financial Liabilities – measured at amortised cost £000	Financial Assets – loans and receivables £000	Total £000
2008/09			
Interest expense	(5,399)	0	(5,399)
Interest payable and similar charges	(5,399)	0	(5,399)
Interest income	0	5,688	5,688
Interest and investment income	0	5,688	5,688
Net gain/(loss) for the year	(5,399)	5,688	289
2009/10			
Interest expense	(9,310)	0	(9,310)
Interest payable and similar charges	(9,310)	0	(9,310)
Interest income	0	2,334	2,334
Interest and investment income	0	2,334	2,334
Net gain/(loss) for the year	(9,310)	2,334	(6,976)

The interest expense excludes statutory transferred debt interest of (and therefore differs from the figure reported in Income and Expenditure Account by) £0.346m in 2009/10 (£0.279m in 2008/09).

The large swing from net gain in 2008/09 to net loss in 2009/10 can be explained as follows:

- in accordance with the 2009 Statement of Recommended Practice the Council's Private Finance Initiative (PFI) scheme for the new Centres for Learning is now shown on the Balance Sheet. Where previously all of the unitary charge would have been shown in cost of service it is now separated into the elements of fair value for services, interest repayments and principal repayment of debt. Therefore the Income & Expenditure Account is presented differently in 2009/10, with the additional interest charge of £3.885m included in the figures above; and
- the interest income for 2009/10, which is significantly lower than that for 2008/09, reflects the generally lower interest rates available during the economic recession.

NOTES TO THE BALANCE SHEET

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

Financial liabilities and financial assets represented by loans and receivables are carried in the Balance Sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments, using the following assumptions which do not have a material effect on the fair value of the instrument:

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

The following methodology has been adopted:

Public Works Loan Board debt

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

Inclusion of accrued interest

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

Discount rates used to calculate present value

The rates used in the fair value calculation were obtained from the market on 31 March 2010, using bid prices where applicable.

The fair values calculated are as follows:

	31 March 2009		31 March 2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	£000	£000	£000	£000
Financial Liabilities				
Lender Offer Borrower Option Loan	17,493	16,243	17,494	18,525
Public Works Loan Board Loan	110,095	109,366	105,963	102,051
Temporary Loans	10,001	10,000	0	0
	137,589	135,609	123,457	120,576
Financial Assets				
Fixed Term Deposits	110,742	111,602	88,480	88,711
Money Market Funds	24,310	24,310	22,561	22,561
Interest Free Loan	1,177	1,177	538	538
	136,229	137,089	111,579	111,810

NOTES TO THE BALANCE SHEET

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

Financial liabilities

Lender Offer Borrower Option

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

Public Works Loan Board

The fair value is less than the carrying amount because the Council's Public Works Loan Board portfolio includes a number of fixed rate loans where interest payable is lower than the rates available for similar loans at the balance sheet date. This commitment to pay interest below current market rates reduces the amount that the Council would have to pay if the lender requested or agreed to early repayment of the loans. The Public Works Loan Board's alternative calculations, based on the rates relevant to the premature repayment of loans, show the fair value of loans outstanding as at 31 March 2010 is £109.584m. This represents a variance of £7.533m when compared to the valuations above, prepared using rates available for new loans.

Financial Assets

Fixed term deposits

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

Money Market Funds

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

Interest Free Loan

On 22 December 2008 an interest free loan of £1.184m was made to Huyton Churches, the repayment terms of which were renegotiated during 2009/10. In line with the Council's accounting policies for soft loans an additional notional loss of interest based on 3.75%, the prevailing market rate when the loan was granted, has been charged to the Income and Expenditure account. Following this adjustment, and receipt of £0.611m repayment during 2009/10, this leaves a carrying value at the balance sheet date of £0.538m, comprising a £0.367m long term debtor and a £0.171m short term debtor. As there is no active market for the loan the carrying amount, which has been calculated using an effective interest rate, is deemed to be a reasonable approximation of the fair value.

NOTES TO THE BALANCE SHEET

15. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

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

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

The Council's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on Council resources. Risk management is carried out by a central team with written policies. The Council's approach to financial instruments is strengthened by its adoption of CIPFA's Code of Practice on Treasury Management in the Public Services; its 2009/10 Treasury Management Strategy (approved by the Council on 4 March 2009); and its Treasury Management Practices (TMPs) that include specific areas such as interest rate risk, credit risk, and the investment of surplus cash. In this way the Council aims to achieve the optimum return on its investments whilst ensuring proper levels of security and liquidity.

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

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

Credit risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Council's customers. The Council's policy is to ensure that high investment rates are not secured at the expense of unacceptable credit risk, by capping its exposure to financial institutions. As many separate institutions increasingly fall under a single group umbrella, where one banking licence is held by a parent company, the Council also sets group limits in order to minimise its counterparty risk to a single banking group.

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

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

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

NOTES TO THE BALANCE SHEET

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

The lowest Fitch individual rating the Council had used at the balance sheet date was D/E and this counterparty is a part nationalised UK bank. While previously only UK fully nationalised banks were included on the Council's lending list, the UK part nationalised banks were added back in 2009. Although these banks are no longer separate institutions in their own right and may therefore have credit ratings that do not conform to the minimum credit criteria, deposits made with them are effectively being made, at least in part, to the UK Government and are therefore considered low risk by the Council as long as the UK Government support continues.

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

While the collapse of the Icelandic banks in 2008 did not directly affect the Council, it served to highlight the limitations of sole reliance on credit ratings which traditionally look at an institution's basic financial position and focus on the longer term view of the firm. The Council's advisors now provide additional analysis of the spread of credit default swaps (financial instruments which insure against debt default) held by a counterparty, as an overlay to the credit ratings to provide extra information to ascertain the market's perception of the credit quality of an institution. The Council uses this market information in conjunction with the usual credit rating analysis to provide a more rounded assessment of the creditworthiness of an institution, and thereby assess credit risk more effectively.

The Council will also lend to other local authorities from time to time, according to demand for funds and return available. While local authorities do not have any credit ratings, due to their nature they are considered to pose negligible risk for the Council's funds.

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

NOTES TO THE BALANCE SHEET

Counterparty Category	Criteria					Maximum Investment & Duration per Institution / Group	Total Exposure 31 March 2010 £000
	Country Rating	Fitch Long Term Rating	Fitch Short Term Rating	Fitch Individual Rating	Fitch Support Rating		
UK Banks	UK AAA	AA	F1+	B	1	£18m / up to one year	12,356
UK Banks	UK AAA	AA-	F1+	B	1	£18m / up to six months	31,234
UK Building Society	UK AAA	AA	F1+	B	1	£18m / up to three months	5,401
UK Bank (part nationalised)	UK AAA	AA-	F1+	C	1	£18m / up to one year	17,651
UK Bank (part nationalised)	UK AAA	AA-	F1+	D/E	1	£18m / up to six months	11,832
Money Market Funds	All AAA rated					£18m / up to one year	22,561
UK Local Authorities	Not applicable					£18m / up to one year	10,003
Total Exposure to Credit Risk from Investments at 31 March 2010							111,038

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

	Amount at 31 March 2010 (carrying amount) £000	Historical Experience of default %	Historical Experience adjusted for market conditions at 31 March 2010 %	Estimated Maximum exposure to default and uncollectability £000
Total Investments (per previous table)	111,038	0	0	0
Interest Free Loan	538	0	100	538
Mortgagors	511	0	0	0
Car Loans/Employee Related Debtors	343	0	0	0
Other Debtors	12,962	5	5	648
Total	125,392			1,186

No breaches of the Council's counterparty criteria occurred during the reporting period; there were no instances of counterparties failing to meet contractual obligations in relation to deposits maturing during the financial year; and the Council does not expect any future losses from non-performance by any of its counterparties in relation to investments outstanding at the balance sheet date.

NOTES TO THE BALANCE SHEET

The only experience of default on investments that local authorities have experienced over the last five years was from the Icelandic banks defaulting in October 2008. In accordance with the Council's investment priorities of the security of capital and the liquidity of its investments, the Council has no exposure to Icelandic Banks as they have never featured on the Councils approved lending list.

The original terms of the interest free loan to Huyton Churches incorporated two payment dates with full repayment to be received by 31 May 2009; however there remains £0.538m outstanding at 31 March 2010. The Council has renegotiated with Huyton Churches for this to be received in three equal annual instalments by 31 May 2012. The Accounts therefore recognise a potential exposure to credit risk if this loan was not repaid; however the Council does not at this stage expect this situation to arise.

On 31 March 2010 the Council held 103 mortgage accounts. Although a high proportion of these accounts have arrears, this is due to their mortgage interest payments being made via the Department of Works and Pensions and the overdue amounts are negligible. Two cases have been referred for legal action during 2009/10 as the arrears situation is unacceptable, however, contact has been made and it is expected that the threat of action will be sufficient to generate payment of the arrears. The value of the mortgagee's home is secured as collateral against the default risk. Cases with arrears exceeding three months are routinely monitored, and the Council uses a specialist Loan and Mortgages Administrative Service to manage the accounts and recover arrears.

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

Other debtors at 31 March 2010 include £9.442m of sundry debtors; £3.498m of payments in advance and £0.022m of contractually based other local authority debtors. The Council does not generally allow credit for customers, such that £1.224m of the total sundry debtors balance is past its due date for payment. The past due amount can be analysed by age as follows:

	£'000
Less than three months	742
Three to six months	190
Six months to one year	28
More than one year	264
	1,224

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

NOTES TO THE BALANCE SHEET

Liquidity Risk

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

Maturity Period of Fixed Rate Borrowing	Upper limit of Fixed Rate Borrowing to mature in each period	Public Works Loan Board Maturity at 31 March 2010 £000	Lender Offer Borrower Option Maturity at 31 March 2010 £000	Total Maturity at 31 March 2010 £000	Actual % Maturity of Fixed Rate Borrowing at 31 March 2010
Under 12 months	15%	1,531	194	1,725	1%
1-2 years	15%	3,050	6,300	9,350	8%
2-5 years	50%	93	11,000	11,093	9%
5-10 years	80%	27	0	27	0%
10 years and above	100%	101,263	0	101,263	82%
		105,964	17,494	123,458	

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

NOTES TO THE BALANCE SHEET

Market Risk

Interest Rate Risk

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

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

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

Changes in interest payable and receivable on variable rate borrowings and investments would be posted to the Income and Expenditure Account and affect the General Fund Balance pound for pound. However, the Council did not hold any variable rate borrowing as at 31 March 2010. Both the variable and fixed rate investments held by the Council are not quoted in an active market so movements in their fair value will not impact on the Income and Expenditure Account or STRGL.

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

According to this assessment strategy, at 31 March 2010, if interest rates had been 1% higher with all other variables held constant, the financial effect would be as follows:

	£000
Decrease in fair value of fixed rate investment assets (no impact on Income and Expenditure Account or STRGL)	270
Decrease in fair value of fixed rate borrowings liabilities (no impact on Income and Expenditure Account or STRGL)	18,815

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

Currency Exchange Risk

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

Price risk

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

NOTES TO THE BALANCE SHEET

16. REVALUATION RESERVE

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

	2008/09	2009/10
	£000	£000
Balance at beginning of year	8,146	21,581
Revaluation of fixed assets	13,775	4,498
Disposals	(66)	(1,458)
Adjustment for depreciation	(274)	1,375
	21,581	25,996
	21,581	25,996

17. CAPITAL ADJUSTMENT ACCOUNT

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

	2008/09	2009/10
	£000	£000
Balance at beginning of year	255,978	244,092
Prior year Adjustment	0	(40)
Capital receipts set aside	85	0
Transferred Debt receipts	18	(8)
Capital financing - capital receipts	4,268	0
- revenue	3,278	107
- other	761	2,423
Capitalisation of Equal Pay Provision	(7,567)	0
Capital Receipts applied for future expenditure <small>see i) below</small>	6,731	453
Transfer from Government Grants Deferred	3,289	3,824
Adjustments on Revaluation	(1,276)	(190)
Less		
*Net Adjustment for Statutory Loan Repayment Calculation	(9,167)	(9,379)
Write down of Revenue Expenditure funded from Capital under Statute (net of grant)	(978)	(427)
Impairment	(11,328)	(86,245)
Balance at end of year	244,092	154,610
	244,092	154,610

* The 2008/09 figures have been restated to reflect the change in accounting treatment for Private Finance Initiative schemes as required in the 2009 Statement of Recommended Practice.

i) This represents receipts that are earmarked by the Council as funding for future capital schemes. Of this amount £1.096m was spent in 2009/10.

NOTES TO THE BALANCE SHEET

18. FINANCIAL INSTRUMENTS ADJUSTMENT ACCOUNT

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

	2008/09	2009/10
	£000	£000
Balance at beginning of year	(51)	(53)
Net premium paid in year on early repayment of debt	0	0
Amortisation of net premium	6	6
Notional loss in year on interest free loan to Huyton Churches	(19)	(69)
Amortisation of notional loss	11	41
Balance at end of year	(53)	(75)

19. 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.

	2008/09	2009/10
	£000	£000
Balance at beginning of year	8,163	0
Capital receipts in year for sales of assets	2,958	489
	11,121	489
Set aside for loan redemption	(85)	0
	11,036	489
Payments re Pooling Housing Capital Receipt	(37)	(36)
Capital Receipts applied for future expenditure ^{see i) below}	(6,731)	(453)
Capital Receipts applied during year – tangible assets	(4,256)	0
Capital Receipts applied during year – intangible assets	(12)	0
Balance at end of year	0	0

i) This represents receipts that are earmarked by the Council as funding for future capital schemes. Of this amount £1.096m was spent in 2009/10.

NOTES TO THE BALANCE SHEET

20. PENSIONS LIABILITY AND RESERVE

20.1 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 5 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 2010 are as follows:

	Funded Liabilities: Merseyside Pension Fund		Unfunded Liabilities: Teachers Pension Fund		Total	
	2008/09	2009/10	2008/09	2009/10	2008/09	2009/10
	£'000	£'000	£'000	£'000	£'000	£'000
Reconciliation of Liabilities						
1 April	(571,472)	(481,742)	(19,709)	(16,772)	(591,181)	(498,514)
Current Service Cost	(14,497)	(8,866)	-	-	(14,497)	(8,866)
Interest Cost	(34,871)	(33,841)	(1,159)	(1,139)	(36,030)	(34,980)
Contributions	(5,674)	(5,642)	-	-	(5,674)	(5,642)
Actuarial gains/(losses)	126,045	(161,061)	2,662	(3,051)	128,707	(164,112)
Benefits paid	19,791	24,734	1,434	1,448	21,225	26,182
Past Service Costs	(1,064)	(2,499)	-	-	(1,064)	(2,499)
31 March	(481,742)	(668,917)	(16,772)	(19,514)	(498,514)	(688,431)

Merseyside Pension Fund

2008/09	2009/10
£'000	£'000

Reconciliation of Assets

1 April	359,833	298,398
Expected rate of return	23,720	18,499
Actuarial gains and (losses)	(88,422)	81,053
Employer Contributions	17,384	17,349
Contributions by scheme members	5,674	5,642
Benefits paid	(19,791)	(24,734)
31 March	298,398	396,207

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

The actual return on scheme assets in the year was £99.552m (2008/09: £64.702m). Total liabilities (including Teacher's Pensions) exceed assets by £292.224m (2008/09: £200.116m). The Fund's Actuary is required to set contribution rates to meet 100% of the overall liabilities of the Fund.

NOTES TO THE BALANCE SHEET

20. PENSIONS LIABILITY AND RESERVE (Cont'd)

20.2 SCHEME HISTORY

	2005/06 £'000	2006/07 £'000	2007/08 £'000	2008/09 £'000	2009/10 £'000
Present value of liabilities:					
Merseyside Pension Fund	(495,545)	(496,966)	(571,472)	(481,742)	(668,917)
Teachers Pension Fund	(18,664)	(17,705)	(19,709)	(16,772)	(19,514)
Fair value of assets:					
Merseyside Pension Fund	344,317	364,969	359,833	298,398	396,207
Surplus / Deficit in the scheme:					
Merseyside Pension Fund	(151,228)	(131,997)	(211,639)	(183,344)	(272,710)
Teachers Pension Fund	(18,664)	(17,705)	(19,709)	(16,772)	(19,514)
Total	(169,892)	(149,702)	(231,348)	(200,116)	(292,224)

The liabilities show the underlying commitments that the authority has in the long run to pay retirement benefits. The total liability of £688.431m has a substantial impact on the net worth of the authority as recorded in the Balance Sheet, resulting in a negative overall balance of £292.224m. However, statutory arrangements for funding the deficit mean that the financial position of the authority remains healthy:

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

The total contributions expected to be made to the Merseyside Pension Fund by the Council in the year to 31 March 2011 is £17.305m.

20.3 BASIS FOR ESTIMATING ASSETS AND LIABILITIES

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

NOTES TO THE BALANCE SHEET

20. PENSIONS LIABILITY AND RESERVE (Cont'd)

The principal assumptions used by the actuary have been:

	Merseyside Pension Fund		Teachers Pension Fund	
	2008/09	2009/10	2008/09	2009/10
Long-term expected rate of return on assets in the scheme:				
Equities	7.5%	7.5%	n/a	n/a
Government bonds	4.0%	4.5%	n/a	n/a
Other bonds	6.0%	5.2%	n/a	n/a
Property	6.5%	6.5%	n/a	n/a
Cash/Liquidity	0.5%	0.5%	n/a	n/a
Other	7.5%	7.5%	n/a	n/a
Mortality assumptions:				
Longevity at 65 for current pensioners				
Men	20.3	20.4	20.3	20.4
Women	23.2	23.2	23.2	23.2
Longevity at 65 for future pensioners				
Men	21.3	21.3	21.3	21.3
Women	24.1	24.1	24.1	24.1
Actuarial assumptions:				
Rate of inflation	3.3%	3.3%	3.3%	3.2%
Rate of increase in salaries	4.55%	4.55%	n/a	n/a
Rate of increase in pensions	3.3%	3.3%	3.3%	3.2%
Rate for discounting scheme liabilities	7.1%	5.6%	7.1%	5.5%

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

	2008/09	2009/10
Equities	53.6%	63.6%
Government Bonds	17.7%	12.1%
Other Bonds	4.8%	6.6%
Property	9.3%	6.3%
Cash / Liquidity	4.2%	2.6%
Other Assets	10.4%	8.8%
	<u>100.0%</u>	<u>100.0%</u>

20.4 HISTORY OF EXPERIENCE GAINS AND LOSSES

The actuarial gains and losses identified as movements on the Pensions Reserve in 2009/10 can be analysed into the following categories, measured as a percentage of assets or liabilities at 31 March:

	2005/06	2006/07	2007/08	2008/09	2009/10
	%	%	%	%	%
Differences between the expected and actual return on assets	13.2	0.0	(8.5)	(29.6)	(20.5)
Experienced gains and losses on liabilities	(9.8)	5.1	(4.2)	0.0	0.0

NOTES TO THE BALANCE SHEET

21. RESERVES

Balance at 31 March 2009 £000	Reserve	Note	Movement in year £000	Balance at 31 March 2010 £000
6,427	Schools balances	(a)	(3,193)	3,234
2,979	Insurance Fund	(b)	(1)	2,978
* 9,262	Building Schools for the Future scheme account	(c)	(851)	8,411
2,444	Future Schooling in Knowsley programme development	(d)	(1,313)	1,131
4,919	Stockbridge Village Regeneration	(e)	61	4,980
13	Leisure Strategy	(f)	462	475
0	City Employment Strategy	(g)	1,063	1,063
302	Street Lighting PFI	(h)	1,110	1,412
489	Development of Kirkby Town Centre	(i)	(273)	216
8,106	Service Development Reserve	(j)	1,000	9,106
10,593	Neighbourhood management initiatives	(k)	(4,348)	6,245
5,281	Workforce Remodelling Reserve	(l)	343	5,624
250	Change and Transformation Agenda	(m)	0	250
337	IT and Systems Development	(n)	44	381
182	Local Area Agreement Pump Priming Grant	(o)	(182)	0
1,000	Huyton Municipal Essential Works	(p)	(1,000)	0
2,148	Medium Term Financial Plan	(q)	36	2,184
500	Treasury Management	(r)	0	500
1,634	Budget Risk Assessment	(s)	3,196	4,830
2,320	Approved Budget Allocations	(t)	(445)	1,875
0	Pooled Budgets	(u)	254	254
59,186	Total		(4,037)	55,149

* restated: the long term debtor of £0.087m created for the PFI scheme in 2008/09 has been reversed on the balance sheet and is now included in the reserves figure.

Detail of Council Reserves

These earmarked reserves represent funding set aside for future Portfolio and Council-wide expenditure commitments and service developments as follows:

- Balances held on delegated budgets to fund future schools expenditure.
- Contributions to offset the cost of future insurance claims.
- Sinking fund to finance the costs of the seven new Centres for Learning across the Borough.
- To fund ongoing development costs associated with the Future Schooling In Knowsley Programme.
- To fund the development work associated with the redevelopment of the Stockbridge Village Area.
- Sinking fund to finance the costs of the Council's Leisure strategy.

NOTES TO THE BALANCE SHEET

21. RESERVES (contd)

- g) Programme delivery costs for creating employment opportunities across the Merseyside region.
- h) Contributions to development work on the street lighting private finance initiative scheme.
- i) Contributions towards the Kirkby Town Centre programme development.
- j) Portfolio resources set aside for the development, rationalisation or re-focussing of service provision.
- k) Working Neighbourhoods Fund and other resources set aside for the Local Strategic Partnership's neighbourhood management priorities.
- l) Contributions towards the potential costs of remodelling the Council's workforce.
- m) Programme management costs to deliver fundamental change and transformation in the Council's services.
- n) To develop IT and service systems across the Council.
- o) To fund expenditure incurred by Local Area Agreement projects during the year.
- p) Redevelopment and essential replacement of facilities and equipment in Huyton Municipal Building.
- q) To fund future budget pressures identified during the medium term financial planning process.
- r) To fund the potential impact on Treasury Management budgets of changes in assumptions relating to prevailing interest rates and economic forecasts.
- s) To reflect potential pressures that may arise from claw-back of Government grant and other changes in the budget assumptions.
- t) Allocation of resources to fund specific service priorities approved as part of the Council's budgets for 2009/10 and 2010/11.
- u) Future contributions to the Council's pooled budgets with the Primary Care Trust

NOTES TO THE BALANCE SHEET

22. TRUST FUNDS

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

	Balance 31.3.2009 £000	Receipts £000	Payments £000	Balance 31.3.2010 £000
King George V Playing Fields A permanent endowment from the sale of land left to KMBC from benefactors.	836	30	(30)	836
Health and Social Care Trust Funds ^(Note i)	125	204	(85)	244
Huyton Distress Fund Long standing trust fund - for hardship cases within the area of Huyton.	42	1	0	43
Children and Family Services Trust Funds ^{Note ii)}	8	0	0	8
Larry Nolan Created in August 2007 and became a trust fund in Oct 2008. The plans for the fund include prizes for the Larry Nolan Award, funding of a memorial and the development of a young persons area in Huyton Library.	41	0	0	41
Sean Hughes Established in 1990, deed amended in May 2000 - to promote the study of history and/or politics by awarding scholarships or bursaries and to create a dedicated section within Huyton Library providing books on history and/or politics purchased through the fund.	15	0	0	15
	1,067	235	(115)	1,187

Note i) These funds include:

Criminal Injury Client Funds	Client funds held in trust due to criminal injuries.
Edmund S Morrow	Client funds to be released to learning disability revenue.
Area Child Protection	Contribution in excess of expenditure for Knowsley Child Protection Committee - developments under way to use some of this money in the next few years.
Appointee Client Funds	Client funds held by the council where the Council has been made the appointee.

Note ii) These funds include:

Huyton Higher Education Prize	Established in 1944 (approximately) as an annual prize for attendance and progress at evening classes.
Huyton with Roby CE Endowment	The Trust was transferred from Lancashire to Knowsley in 1974 and is thought to date back to 1829.

NOTES TO THE BALANCE SHEET

22. TRUST FUNDS (Cont'd)

Other funds administered by the Council

	Balance 31.3.2009 £000	Receipts £000	Payments £000	Balance 31.3.2010 £000
Charles McGee	6	0	0	6
Established in 1982 - to provide holidays for the disabled who reside in the Borough				
Fred Curran	52	1	0	53
Established in 1990 - to provide funding assistance for disabled athletes who reside in the Borough relevant to training for and participation in Special Olympics				
Mayors Charity	30	55	(55)	30
Established in 1975 - to raise funds for charitable purposes in the Borough as the trustees think fit				
	<u>88</u>	<u>56</u>	<u>(55)</u>	<u>89</u>

NOTES TO THE BALANCE SHEET

23. INTEREST IN COMPANIES

2020 Knowsley Ltd.

2020 Knowsley Ltd. was set up on 1 April 2005 as a formally incorporated Company between the Council and 2020 Liverpool Ltd (itself an incorporated 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 £0.020m at 31 March 2010 (£0.077m at 31 March 2009) and reported a pre tax profit of £0.082m as at that date (£0.080m in 2008/09). Copies of the company's accounts can be obtained from Pete Seddon, 2020 Knowsley Ltd. 9 West Street, Prescot Knowsley, Merseyside, L34 1LF.

24. 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 2009/10 it has no such interests.

25. POST BALANCE SHEET EVENTS

In his budget statement on 22 June 2010, the Chancellor announced that the government would start to increase public service pensions in line with the consumer price index (CPI) rather than the retail price index (RPI), which has been the practice in the past. As a result, future pension increases under the Merseyside Pension Fund and Teachers Pension Fund are expected to be slightly lower, on average, than would have been the case if this change had not been made. The financial effect of this announcement will be reflected in the Council's Statement of Accounts from 2010/11 onwards. The change is currently estimated to reduce future pension obligations by between 5% and 8% for most employers (between £34.422m and £55.074m based on 2009/10 figures).

Since the financial year end of 31 March 2010, there have been no other significant post balance sheet events that have occurred during the preparation of the Council's Statement of Accounts which would require additional adjustment or disclosure. Events after the balance sheet date are reflected up to 21 September 2010, as authorised by the Borough Treasurer.

NOTES TO THE BALANCE SHEET

26. CONTINGENT LIABILITIES

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

The Council is awaiting legal guidance regarding the repayment of income from Land Charges. The Council has provided in the Accounts for the possible repayment of £0.113m relating to 2009/10 charges, however subject to the final nature of this guidance there may be the potential for repayments to be backdated as far as January 2005 and may therefore exceed this sum.

There are no other contingent liabilities at 31 March 2010 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.

27. CONTINGENT ASSETS

The Council is currently pursuing a VAT reclaim from HM Revenues and Customs. This covers output tax overpaid by the Council between 1989/90 and 1993/94 due to discrepancies between UK and European law during that period. Although the claim has been successful, the amount and timing of the full settlement is still uncertain.

Following extensive flooding in one part of the Borough during 2007/08, United Utilities offered to reimburse the Council for expenditure incurred in repairing damaged properties. The Council is currently seeking agreement regarding the recovery of appropriate amounts.

NOTES TO THE CASH FLOW STATEMENT

1. ANALYSIS OF OTHER GOVERNMENT GRANTS

Type of Grant	Revenue £000	Capital £000
Department for Children, Schools and Families		
Dedicated Schools Grant	98,699	
Standards Fund	19,700	10,905
Early Years & Sure Start	4,026	815
Play Pathfinder and Playbuilder Grant	350	1,579
Information Sharing and Assessment	264	
Other	218	941
Learning and Skills Council		
Post 16 Education	1,903	
Adult Education	1,395	
Other	636	
Department for Communities and Local Government		
Private Finance Initiative Subsidy	20,687	
Supporting People	7,465	
North West Development Agency	1,459	
New Deal for Communities	1,204	
Offenders Programmes	691	
European Regional Development Fund	685	
Regional Housing Pot Capital Grant		3,224
Highways Supported Capital Grant	553	2,912
Other	769	932
Department for Work and Pensions		
Council Tax/Housing Benefit Rebates Grant	85,354	
Future Jobs Fund	6,056	
Benefit Verification Framework / Fraud Incentive / Tax Credits	2,107	
Other	1,872	
Department of Health		
Social Care Reform Grant	799	
Mental Health	129	10
Other	209	188
Home Office – other	596	
Department for Environment, Food & Rural Affairs - other		377
National Lottery		352
Grand Total Other Government Grants	257,826	22,235

NOTES TO THE CASH FLOW STATEMENT

2. RECONCILIATION OF REVENUE ACTIVITIES

The Income and Expenditure Account includes transactions which do not result in cash flows. The following table identifies these transactions and reconciles the Income and Expenditure Account deficit with the actual net revenue cash flows shown on the Cash Flow Statement.

<u>Revenue Activities</u>	2008/09		2009/10	
	£000	£000	£000	£000
Income and Expenditure Deficit for the year		(23,465)		(107,445)
Add back non-cash transactions:				
Impairment	11,368		86,245	
Depreciation	15,198		17,662	
Government Grants Deferred Amortisation	(3,289)		(3,824)	
Revenue Expenditure Funded from Capital Under Statute	978		427	
FRS17 Adjustment	9,053		9,049	
Equal Pay Act (amendment) Regulations 2003	9,212		4,778	
Other	(2,499)		(88)	
		40,021		114,249
		16,556		6,804
Items on an accruals basis:				
Add decrease in stocks	90		69	
(Increase)/decrease in debtors	7,661		(5,285)	
Increase/(decrease) in creditors	3,217		5,357	
		10,968		141
Net Cashflow from Revenue Activities		27,524		6,945

NOTES TO THE CASH FLOW STATEMENT

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.

Reconciliation of Net Cash Flow to the Movement in Net Debt

<u>Analysis of Net Debt</u>	£000	£000
Net Debt as at 1st April 2009		(14,089)
<u>Changes in Net Debt:</u>		
Increase in cash in the period	6,643	
Cash outflow from decrease in debt	14,794	
Cash inflow from a decrease in liquid resources	<u>(17,650)</u>	
		3,787
Net Debt as at 31st March 2010		<u><u>(10,302)</u></u>

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.

	2008/09	2009/10	Cashflow (Increase) / Decrease £000
	£000	£000	
Debt principal due within one year	(14,796)	(300)	(14,496)
Debt principal due after one year	<u>(125,733)</u>	<u>(125,435)</u>	<u>(298)</u>
	<u>(140,529)</u>	<u>(125,735)</u>	<u>(14,794)</u>
<u>Management of Liquid Resources</u>			
Cash in Hand	3,661	6,136	(2,475)
Overdraft / Trust Funds Cash	<u>(10,101)</u>	<u>(5,933)</u>	<u>(4,168)</u>
Increase / (Decrease) in Cash	<u>(6,440)</u>	<u>203</u>	<u>(6,643)</u>
Short Term Investments	132,845	109,690	23,155
Other Liquid Resources	35	5,540	(5,505)
			-
Total movement in net debt	<u><u>(14,089)</u></u>	<u><u>(10,302)</u></u>	<u><u>(3,787)</u></u>

COLLECTION FUND
INCOME AND EXPENDITURE ACCOUNT

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

2008/09		2009/10	
£000		£000	£000
	Income		
(39,982)	Council Tax Receivable		(41,209)
	Transfers (from)/to General Fund		
<u>(17,101)</u>	- Council Tax Benefit		<u>(18,700)</u>
(57,083)			(59,909)
<u>(36,150)</u>	Income Collectable from Business Ratepayers		<u>(35,409)</u>
<u>(93,233)</u>	Total Income		<u>(95,318)</u>
	Expenditure		
57,017	Precepts and Demands (Note 1)		59,524
	Business Rates		
36,017	- Payment to National Non Domestic Rate Pool	35,270	
133	- Costs of Collection	<u>139</u>	
			35,409
	Bad and Doubtful Debts		
501	- Write-offs	197	
(288)	- Provisions	<u>199</u>	
			396
<u>93,380</u>	Total Expenditure		<u>95,329</u>
<u>147</u>	Movement on fund balance		<u>11</u>
	Collection Fund Balances		
498	Balance at beginning of year		645
<u>147</u>	Movement on fund balance		<u>11</u>
<u>645</u>	Deficit at end of year		<u>656</u>

NOTES TO THE COLLECTION FUND

1. PRECEPTS AND DEMANDS

The following table shows the authorities who have made a significant precept or demand on the Collection Fund in 2009/10:

2008/09 Total £000		Precept/ Demand £000	Share of 31 March 2010 Deficit £000	Total £000
48,271	Knowsley Metropolitan Borough Council	50,992	(563)	50,429
5,592	Merseyside Police Authority	5,910	(65)	5,845
2,509	Merseyside Fire and Rescue Authority	2,622	(28)	2,594

2. COUNCIL TAX BASE 2009/10

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

Band	Value	Number of Dwellings	Band D Equivalent
A	Up to £40,000	37,021	24,681
B	£40,001 to £52,000	12,996	10,108
C	£52,001 to £68,000	8,719	7,750
D	£68,001 to £88,000	3,864	3,864
E	£88,001 to £120,000	1,469	1,795
F	£120,001 to £160,000	279	403
G	£160,001 to £320,000	128	213
H	Over £320,000	17	34
		64,493	48,848
Less Exemptions and Discounts			(6,392)
Collection Rate (Estimated)			99%
Council Tax Base 2009/10			42,031

NOTES TO THE COLLECTION FUND

3. 2009/10 Council Tax

The 2009/10 basic amount of Council Tax for properties at Band D was calculated as follows:

	£000	£000
Total Budget Requirement		<u><u>166,626</u></u>
<u>Less Resources:</u>		
Revenue Support Grant	(21,893)	
National Non-Domestic Rate Pool	<u>(94,853)</u>	<u>(116,746)</u>
 Demand on the Collection Fund		 <u><u>49,880</u></u>
 <u>Demand on the Collection Fund (£)</u>	 =	 <u>49,880,373</u>
<u>Council Tax Base (Band D Equivalents)</u>		<u>42,031</u>
 = Basic Amount of Council Tax at Band D (£)		 <u><u>1,186.75</u></u>

4. NATIONAL NON-DOMESTIC RATES (BUSINESS RATES)

The National Non Domestic Rate (more commonly known as the Business Rate) is organised on a national basis. The Government specifies a rate in the pound and, subject to any transitional arrangements, local businesses pay rates calculated by multiplying the rateable value of their property by the rate in the pound set at 48.5p for 2009/10 (46.2p in 2008/09).

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 2009/10 was based on a rateable value as at 31 March 2009 of £86.516m (£88.552m at 31 March 2008).

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

Opinion on the financial statements

We have audited the financial statements of Knowsley Metropolitan Borough Council for the year ended 31 March 2010 under the Audit Commission Act 1998. The financial statements comprise the Income and Expenditure Account, the Statement of Movement on the General Fund Balance, the Balance Sheet, the Statement of Total Recognised Gains and Losses, the Cash Flow Statement, the Collection Fund, and the related notes. These financial statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

Respective responsibilities of the Borough Treasurer and auditor

The Borough Treasurer's responsibilities for preparing the financial statements in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009 are set out in the Statement of Responsibilities for the Statement of Accounts.

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

This report, including the opinion, has been prepared for and only for Knowsley Metropolitan Borough Council's members as a body in accordance with the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 49 of the Statement of Responsibilities of Auditors and of Audited Bodies, published by the Audit Commission in April 2008. 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 give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009 of the financial position of the Authority and its income and expenditure for the year.

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

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

Basis of audit opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009, of the financial position of the Authority as at 31 March 2010 and of the Authority income and expenditure and cash flows for the year then ended.



Peter Chambers
For and on behalf of PricewaterhouseCoopers LLP
Appointed auditors
101 Barbirolli Square
Lower Mosley Street
Manchester
M2 3PW

24 September 2010

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

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

Authority's Responsibilities

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

Auditor's Responsibilities

We are required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Authority for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion in relation to proper arrangements, having regard to relevant criteria for principal local authorities specified by the Audit Commission and published in May 2008 and updated in October 2009. We report if significant matters have come to our attention which prevent us from concluding that the Authority has made such proper arrangements. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Conclusion

We have undertaken our audit in accordance with the Code of Audit Practice and having regard to the criteria for principal local authorities specified by the Audit Commission and published in May 2008 and updated in October 2009, and the supporting guidance, we are satisfied that, in all significant respects, Knowsley Metropolitan Borough Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2010.

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.



Peter Chambers
For and on behalf of PricewaterhouseCoopers LLP
Appointed auditors
101 Barbirolli Square
Lower Mosley Street
Manchester
M2 3PW

24 September 2010

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GLOSSARY OF TERMS

ACCOUNTING POLICIES

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

ACCRUALS

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

ACTUARIAL GAINS AND LOSSES

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

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

AMORTISATION

The equivalent of depreciation for intangible fixed assets.

CAPITAL CHARGES

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

CAPITAL EXPENDITURE

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

CAPITAL RECEIPTS

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

COMMUNITY ASSETS

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

CURRENT SERVICE COST (PENSIONS)

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

CURTAILMENT

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

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

DEFERRED CAPITAL RECEIPTS

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

DEFINED BENEFIT SCHEME

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

DEFINED CONTRIBUTION SCHEME

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

DEPRECIATION

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

EXPECTED RATE OF RETURN (ON PENSIONS ASSETS)

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

FAIR VALUE

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

GOVERNMENT GRANTS

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

IMPAIRMENT

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

INFRASTRUCTURE ASSETS

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

INTEREST COSTS (PENSIONS)

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

NATIONAL NON DOMESTIC RATES

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

NET BOOK VALUE

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

NET CURRENT REPLACEMENT COST

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

NET REALISABLE VALUE

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

NON-OPERATIONAL ASSETS

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

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

OPERATIONAL ASSETS

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

OVERHEADS

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

PAST SERVICE COST/GAIN

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

PRECEPTS

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

PROJECTED UNIT METHOD

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

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

PUBLIC WORKS LOANS BOARD

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

RETIREMENT BENEFITS

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

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

REVENUE EXPENDITURE

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

REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE

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

REVENUE SUPPORT GRANT

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

SCHEME LIABILITIES

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

STOCKS

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

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

TRADING OPERATIONS

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

USEFUL LIFE

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