



# STATEMENT OF ACCOUNTS

**2004 - 2005**

*Audited Version  
Governance & Audit Committee  
4<sup>th</sup> October 2005*

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# **FOREWORD TO THE 2004/05 STATEMENT OF ACCOUNTS BY THE DIRECTOR OF FINANCE AND INFORMATION SOCIETY TECHNOLOGIES**

## **Introduction**

This foreword aims to help readers understand Knowsley Council's Statement of Accounts for 2004/05. It summarises the various accounting statements and provides a summary of where the Council's money came from, and how it was spent during the year.

## **Summary of the Statement of Accounts**

The Statement of Accounts is an important part of the Council's financial management arrangements. It is composed of a number of individual statements, which show different aspects of the Council's financial position. These statements are:

### **Statement of Responsibilities**

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

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

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

### **Statement of Accounting Policies**

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

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

### Consolidated Revenue Account

This shows how the Council paid for the running costs of its services during the year.

### Collection Fund

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

### Consolidated Balance Sheet

This shows what the Council owns and what the Council is owed at the end of the financial year.

### Statement of Total Movement in Reserves

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

### Cash Flow Statement

This shows where the Council's money came from and how it was spent.

## **Where the Council's money comes from**

In 2004/05, the Council received £421.564m to pay for the day-to-day costs of providing its services (known as the "revenue" cost of services). This money came from a number of sources as shown in the table below.

Source	£m	%
Revenue Support Grant (from the Government)	136.069	32.2
Business Rates	42.143	10
Other Government Grants for specific services	148.796	35.3
Net Council Tax collected	32.436	7.7
Fees and Charges for services	62.120	14.8
<b>TOTAL</b>	<b>421.564</b>	<b>100</b>

Most of the Council's money came from the Government's Revenue Support Grant (32.2%). Only 7.7% came from the Council Tax. Fees and charges for services represented 14.8% of the Council's income. The Council reviews its charging policies each year to ensure that it sets appropriate charges which take into account how much people can afford to pay.

### How the Council spent its money

The table below shows how the Council spent its money in 2004/05 (based on the Government's "Best Value" service analysis):

Service	£m	%
Central Services to the Public	6.407	2
Cultural, Environment & Planning	89.160	21
Education	189.481	45
Highways	25.169	6
Housing	1.330	0
Social Services	81.315	19
Corporate & Democratic Core	28.702	7
<b>TOTAL</b>	<b>421.564</b>	<b>100</b>

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

Category of Expenditure	£m	%
Employees	175.964	41.74
Running Expenses	234.962	55.74
Capital Charges	10.638	2.52
<b>TOTAL</b>	<b>421.564</b>	<b>100</b>

### Summary of the Revenue Account and Balance Sheet

During 2004/05, the Council continued to use its resources to improve performance. Knowsley decides how to spend its money when it sets its annual budget. This is part of a rolling three-year plan, and gives each service "Portfolio" an annual amount of money (a "cash limit") to spend on providing Council services.

As part of the budget process, the Council adjusts cash limits to meet new service demands and to promote efficiency savings that redirect money to priority areas. Not surprisingly, service demands for more money far outweigh what is actually available in the year. The Council has to ensure that it allocates the extra money to areas of high priority, and that it understands how the money will improve performance.

The Consolidated Revenue Account for 2004/05 shows that the total cost of providing the Council's services during the year was £218.359m. The difference between this and the total funding of £218.746m is the Council's overall surplus for the year, which amounts to £0.387m. When this is added to the Council's general balances, the total of £4.427m at the end of 2004/05 represents about 2% of the Council's budget for the year. These balances provide the Council with a financial 'safety net' in case there are any unforeseen expenditure pressures or unplanned budget overspends.

The Council's general balances are important as they provide the capacity to spend money while awaiting income. They also provide the Council with flexibility to meet unforeseen expenditure pressures. As well as the general balances, the Council holds a number of specific reserves that Portfolios have set aside for the future. At 31 March 2005, the total of these reserves was £23.897m. Full details of these are set out within the notes to the Council's balance sheet.

The Council has a number of liabilities reflected in the accounts as at 31 March 2005, and these include a Pensions Fund liability. The Council is a member of the Merseyside Pension Fund, which is responsible for the provision of retirement benefits to Council employees. The performance of the fund is closely related to stock market conditions and can obviously change over time. During 2004/05, the estimated deficit on the fund increased significantly (to a total potential liability of £167.9m) mainly because of changes in the assumptions that were used by the fund's actuaries about how much money has to be paid out in future. Under Superannuation Regulations, the fund has to make sure it can break even over time. As this is a national issue, the Government is currently looking at how the problem should be addressed.

### Summary of Capital Expenditure

In 2004/05, the Council spent nearly £37.031m on acquiring or improving its buildings and other assets (known as "capital" expenditure). The table below shows an analysis of each Portfolio's capital expenditure.

Portfolio	£m	%
Regeneration and Neighbourhoods	20.169	55%
Education and Lifelong Learning	7.855	21%
Finance and Information Technologies	4.952	13%
Corporate and Customer Services	0.210	1%
Leisure, Community and Culture	2.496	7%
Health and Social Care	0.436	1%
Environmental and Operational Services	0.913	2%
<b>TOTAL</b>	<b>37.031</b>	<b>100%</b>

The main items of capital expenditure are set out in the notes to the balance sheet and some examples are set out below:

<b>Scheme</b>	<b>Description</b>	<b>Value (£m)</b>
Prescot Regeneration	Strategic development of the former BICC site.	4.097
Knowsley Development Partnership	Small industrial Units.	1.698
East Lancashire Road	Gate improvements to the A580, the junction of Coopers Land and Moorgate Road.	0.488
Northwood Community Centre	Delivering high quality Community and Youth Services.	0.439
<b>TOTAL</b>		<b>6.722</b>

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

<b>Source of Funding</b>	<b>£m</b>	<b>%</b>
Borrowing	8.389	23%
Government Grants	21.012	56%
Contributions from third parties	0.887	2%
Contributions from the Capital Reserve	5.743	16%
Contributions from revenue	0.196	1%
Other	0.804	2%
<b>TOTAL</b>	<b>37.031</b>	<b>100%</b>

The Council's overall long-term borrowing was around £99.324m at 31 March 2005. Of this, the Council borrowed £92.547m (93%) from the Public Works Loans Board.

### **Accounting Policies**

The Statement of Accounts is put together using specific rules about how financial information has to be shown. These rules are summarised in the Council's "Accounting Policies" and ensure that the Statement of Accounts meets the requirements of nationally recommended best practice. There were no major changes in the rules that the Council used for 2004/05 compared with the previous year.

### **Major Influences on the 2004/05 Accounts**

The Government is bringing forward the date for approving each year's Statement of Accounts. By 2006, the Accounts will have to be approved by 30 June. In 2004/05, the Council successfully achieved this requirement ahead of the Government's schedule. This is a major achievement for everybody involved in the process.

## **Future Developments**

In 2005, the Audit Commission is changing how it measures a Council's performance by increasing the focus on financial management. The Council will need to show that it has robust financial controls and that it reports financial information in a timely and effective manner.

There are new rules for deciding whether the Council has to prepare "Group Accounts". There is no need to produce Group Accounts for 2004/05, but the Council is likely to produce them next year for the new "Knowsley 2020" joint venture company.

The Government wants to produce "Whole of Government Accounts" in 2006/07 to bring together the accounts of all the major public bodies in the country. The Council is currently preparing for the first "dry run" for Whole of Government Accounts in autumn 2005.

Finally, the Council's new external auditors (PriceWaterhouseCoopers) will audit next year's Statement of Accounts.

## **Your comments**

This foreword and the accounts that follow are an important part of the Council's financial management. I hope that you find them useful and informative. If you have any comments on any aspect of the Statement of Accounts then please contact Dan Barlow by email at [dan.barlow@knowsley.gov.uk](mailto:dan.barlow@knowsley.gov.uk) or by phone on 0151 443 3622.

Steve Houston  
Director of Finance and Information Society Technologies

## 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 Director of Finance and Information Society Technologies;
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;
- arrange the approval of the Statement of Accounts by the Governance and Audit Committee.

### THE DIRECTOR OF FINANCE AND INFORMATION SOCIETY TECHNOLOGIES' RESPONSIBILITIES

The Director of Finance and Information Society Technologies 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/Local Authority (Scotland) Accounts Advisory Committee Code of Practice on Local Authority Accounting in the United Kingdom ('SORP').

In preparing this Statement of Accounts, the Director of Finance and Information Society Technologies has:

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

The Director of Finance and Information Society Technologies has also:

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

### DIRECTOR'S STATEMENT

The Council's 2004/05 Statement of Accounts presents fairly the financial position of the Council at 31 March 2005, and its income and expenditure for the year ended 31 March 2005.



STEVE HOUSTON  
Director of Finance and Information Society Technologies

### STATEMENT OF THE CHAIR OF THE GOVERNANCE AND AUDIT COMMITTEE

I confirm that these accounts were approved by the Governance and Audit Committee at its meeting held on 27<sup>th</sup> July 2005.

Signed on behalf of Knowsley Metropolitan Borough Council.



COUNCILLOR RON ROUND



## STATEMENT ON INTERNAL CONTROL 2004/05

### 1. Scope of Responsibility

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

In discharging this overall responsibility, the Council is also responsible for ensuring that there is a sound system of internal control which facilitates the effective exercise of the Council's functions and which includes arrangements for the management of risk.

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

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

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

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

The system of internal control has been in place at the Council for the year ended 31 March 2005 and up to the date of approval of the annual report and accounts.

### 3. The Internal Control Environment

The Council's system of internal control is based fundamentally around the Constitution, and is supported by numerous procedure rules, codes of practice, procedure manuals, management supervision, and a system of delegation and accountability. A policy framework representing the governance arrangements of the Council has been formally adopted into a local Code of Corporate Governance in 2004/05, in addition the Governance & Audit Committee was established and charged with governance matters. This brings together all aspects of corporate governance, grouped by community focus, service delivery arrangements, structure and processes, risk management and internal control, and standards of conduct, which are cross referenced to actual practices and activities.

A significant part of the Code of Corporate Governance is the internal control environment, and the key elements that the Council had in place in 2004/05 include the:

- Constitution, which defines and facilitates policy and decision-making processes, also defines the:
  - Role of Scrutiny Committees;
  - Member & Employee Codes of Conduct;
  - Scheme of Delegation;
  - Contract Procedure Rules;
  - Financial Procedure Rules that 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 & operational aims of the Council;
  - mechanisms for ensuring compliance with established policies, procedures, laws, & regulations;
  - arrangements for whistle-blowing & complaints procedures; and
  - Anti-fraud and Corruption Policy (including procedures for investigating suspected financial irregularities);
- Corporate Risk Management Strategy that:
  - identifies, analyses, evaluates and manages the key strategic and operational risks facing the Council, including those arising from joint working & 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 and service delivery options;
- Performance Management Framework that provides for:
  - a 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 as required by the general duty of Best Value; and
  - securing continuous improvement in the way functions are exercised;
  - engaging the wider community through area forums, the 'Knowsley Voice' citizen's panel, youth parliament, schools council, and access to information;
  - an independent internal audit function with arrangements for reviewing the implementation of their recommended actions; and
  - reports of the Council's independent external auditor and other inspection bodies, for example the Benefit Fraud Inspectorate, the Social Services Inspectorate, and Office for Standards in Education.

#### 4. Review of Effectiveness

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

Under the Comprehensive Performance Assessment in 2004, the Council improved its rating from "Good" to the highest rating of "Excellent", with the report stating, "it is building on its strengths and is making improvements in its ability to deliver change and how it manages performance. There is significant improvement in service performance and these achievements are supported by investment to ensure improvement continues into the future". The Council recognises that work is still required in engaging with the public directly and is addressing this through the establishment of a specific corporate consultation officer post, the development of the equality and diversity strategy, and the development of the community empowerment network.

One of the Council's key review mechanisms is the various Scrutiny Committees, whose effectiveness in operation was independently examined. Recent successes, for example, Scrutiny Committees involvement in the budget setting process were noted, and recommendations on officer support to the Scrutiny Committees, selecting review topics, format and membership of the Committees have been implemented in 2005/06.

In accordance with Section 5 of the Local Government and Housing Act 1989, the Director of Corporate and Customer Services is appointed as the Council's Monitoring Officer. This Officer is responsible for ensuring that, at all times, the Council acts within its legal powers. Similarly, in accordance with Section 151 of the Local Government Act 1972, the Director of Finance and Information Society Technologies is the officer responsible for ensuring the proper administration of the Council's financial affairs. Therefore, any proposals, decisions, or omissions that give rise to unlawfulness or maladministration would be reported to the Council. Such a report would have the effect of halting the proposal or implementation of the decision until the Council considered the report. In discharging these functions during the year, neither officer was required to report any adverse matters under these Acts. There were no investigations by the Standards Board for England about any Member's conduct. Furthermore, there were no complaints to the Ombudsman in 2004/05 that found against the Council.

The Council's internal audit function operates to the proper standard set out in CIPFA's Code of Practice for Internal Audit in Local Government. Compliance with this standard was reviewed during the year by the Council's external auditors, who commented that "we are satisfied that Internal Audit continues to provide an effective independent appraisal of internal financial control within the Authority and, in doing so, complies with statutory requirements and professional auditing standards". A financial irregularity was detected in the collection of market debts during 2004/05 that resulted in controls, duties, and procedures being reviewed and significantly strengthened. Due to the action taken as a result of this incident and from the other audits undertaken across the Council during 2004/05, the Head of Audit Operations' was able to conclude that there are sound internal financial control systems in place. The Head of Audit Operations reports the findings of audits to Chief Officers and action is agreed to address these findings as necessary. The Annual Internal Audit Report on audit activity together with a review on the implementation of previous recommendations is submitted to the Governance & Audit Committee.

Principally, it is the managers within the Council who are responsible for the development and maintenance of the internal control environment. Therefore, in order to provide assurance that those controls and arrangements are in place, senior officers within each Portfolio were required to complete an evidenced self-assessment review document. The self-assessment checklist was based on the recommended practices contained in CIPFA's Rough Guide to the Statement on Internal Control, and the completed documents were scrutinised and judged reliable by the Internal Audit Service. The outcome of this review was reported to the Council's Governance & Audit Committee together with an action plan for strengthening internal controls further. Notable matters within the resultant action plan are:

- recommendations arising from external inspections feed into the Corporate Improvement Plan but apart from an annual review, departmental progress monitoring is limited;
- strengthening systems in place to ascertain value for money & performance, especially benchmarking of costs, the link between finance & performance, how outputs feed into outcomes, and systematically highlighting poor performance; and
- developing risk management by greater Member involvement, measuring the impact of risk management, increasing awareness & skills, benchmarking, and implementing business continuity arrangements.

Risk management forms an integral part of the Council's policy, planning, operational and control processes. Risk management is now a part of the Business Planning Process, Portfolios now produce risk assessments to identify, evaluate, and control the risks associated with their operational objectives. This requirement is not only described in the Corporate Risk Management Strategy, but also is included in the Corporate Plan. All reports and briefing papers must include a risk management section as standard. All major corporate risks along with various service specific risks are now held in a database that is readily accessible for management use, along with financial and performance management information, to enable the tracking of action taken to control them. The inter-departmental Corporate Risk Management Group meets regularly to coordinate, monitor and develop risk management across the Council.

Each year, the Financial Procedure Rules are reviewed to ensure there are effective financial controls that reflect any changes and developments in the Council's financial administration. The arrangements for budget monitoring, controlling expenditure, and estimating available external funding have been strengthened by the use of Local Service Agreements. This is a mechanism for linking & reporting the financial resources deployed to produce a given level of service performance. In this way value for money can be assessed, funding can be allocated to achieve a set of specific service outcomes, and budget pressures are identified earlier.

In July 2004, the Benefit Fraud Inspectorate reported the need to improve internal controls within the Benefit service. Appropriate action was taken during the inspection to address many of the concerns and the outstanding matters are being actioned as part of a service improvement plan. The Benefits service under the priority 'Excellent, accessible services' has been a key priority over the last two years. Rapid improvements in the service have shifted its assessment from a Benefit Fraud Inspectorate score of 1 in 2002 to 3 in 2004

The Office for Standards in Education (Ofsted), in conjunction with the Audit Commission last reviewed the education service in June 2003, where they concluded that there were particular strengths in the strategy for school improvement, targeting resources to priorities, and monitoring schools. Since then the Comprehensive Performance Assessment in 2004 noted that the plan to construct eight new learning centres through the Building Schools for the Future initiative was developed after consulting local communities and key partners. It was noted that part of the rationale for Building Schools for the Future is to tackle poor performance due to surplus school places, although this approach will not improve surplus school places performance in the short-term.

The Audit Commission in January 2005 reported no significant weaknesses in the framework established by the Council for ensuring the legality of significant financial transactions, improving governance arrangements, active work on preventing and detecting fraud and corruption, and that improved risk management supported strong financial management. No significant weaknesses in the overall control framework were identified. However, the key actions that were brought to the Council's attention then and more recently in the Financial Aspects of Corporate Governance –Matters Arising 2004/05 can be summarised as:

- ensure improvement actions identified in the Corporate Performance Assessment are built into the Council's improvement plans;
- strengthen Member scrutiny of asset management arrangements;
- improve quality assurance mechanisms in the production of performance indicators; and
- strengthen debtor collection and reconciliation procedures.

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

It was stated that in overall terms the control environment is adequate and reliance could be placed on the accounting system in 2003/04. There was also a significant improvement in the quality of final accounts working papers and improved internal quality assurance processes.

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

## 5. Significant Internal Control Issues

Taking into account the actions of the Monitoring Officer and the Chief Financial Officer, the review performed by senior managers, internal audit, the various external reviews that were reported to the Council, Cabinet, or the Governance & Audit Committee during 2004/05, and particularly the effective remedial action in relation to control weaknesses in the year, we can conclude reasonably that there are no unresolved and significant internal control issues.

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


*Signed:*



**Cllr Ron Round**  
**Leader of the Council**



**Sheena Ramsey**  
**Chief Executive**



**Steve Houston**  
**Director of Finance & IST**

*Dated: 27 July 2005*

## STATEMENT OF ACCOUNTING POLICIES

### ACCOUNTING STANDARDS

The accounts in this report are prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom issued by the Chartered Institute of Public Finance and Accountancy, and Local Authority (Scotland) Accounts Advisory Committee, which has effect from April 2004.

In addition, the accounts have been prepared in accordance with Chartered Institute of Public Finance and Accountancy's Best Value Accounting Code of Practice, and the Accounts and Audit Regulations 2003.

### ACCOUNTING CONCEPTS

#### Accruals

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

#### Going Concern

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

#### Primacy of Legislative Requirements

Councils derive their powers from statute and the financial and accounting framework is closely controlled by primary and secondary legislation. To the extent that law prescribes accounting treatments, the accounting concepts may not apply in all cases. The fundamental principle of local authority accounting is that where specific legislative requirements and accounting principles conflict, legislative requirements are applied.

### TANGIBLE FIXED ASSETS

All expenditure on the acquisition, creation or enhancement of Tangible Fixed Assets is capitalised and classified as a fixed asset.

Tangible Fixed Assets are valued on the basis recommended by Chartered Institute of Public Finance and Accountancy and in accordance with the Statements of Asset Valuation Principles and Guidance Notes issued by The Royal Institution of Chartered Surveyors by Mr M Fagan, Fellow of the Royal Institute of Chartered Surveyors, a Knowsley Borough Council employee. Tangible Fixed Assets are classified into the groupings required by the 2004 Code of Practice on Local Authority Accounting. The valuations have been determined as follows:

- land, operational properties and other operational assets are at the lower of net current replacement and net realisable value, and were valued as at 31<sup>st</sup> March 2005;
- non-operational assets, including investment properties and assets that are surplus to requirements, are at the lower of net current replacement cost and net realisable value. The last valuation of these assets was as at 31<sup>st</sup> March 2004, apart from the industrial properties that were revalued during 2004/05. In the case of investment properties, this is normally open market value. Tangible Fixed Assets under construction are included, at historic cost;
- infrastructure assets are at historic cost, net of depreciation; and
- community assets are at historic cost, net of depreciation.

The surpluses arising on the initial valuation of Tangible Fixed Assets have been credited to the Fixed Asset Restatement Account. Subsequent revaluations of Tangible Fixed Assets are planned at five yearly intervals, although material changes to asset valuations are adjusted in the interim period, as they occur in line with the requirements of Financial Reporting Standard 11 – Impairment of Fixed Assets and Goodwill. Impairment occurs when there has been a significant decline in a fixed asset's market value during the period, obsolescence or physical damage to the fixed asset, a significant adverse change in the Authority's statutory environment, or a significant reorganisation. Where a material impairment loss occurs, the service revenue accounts are charged in the year in which the impairment has arisen. The Council's Asset Management Group is responsible for monitoring and identifying any impairment events.

## **INTANGIBLE FIXED ASSETS AND DEFERRED CHARGES**

An intangible item can be defined as non-financial fixed assets that do not have a physical substance but are identifiable and are controlled by the Authorities through custody of or legal rights, for example software licences. The deferred charges heading has been removed from the consolidated balance sheet following the designation of this new intangible fixed asset category in the 2004 Statement of Recommended Practice. In previous years, expenditure on deferred charges has been written off to service revenue accounts on the basis of the benefit obtained by the service from the expenditure. As no benefit accrues beyond the date it is incurred, expenditure is written off totally in the current year. As the previous years accounting treatment for deferred charges was to write back the expenditure in the year there is a nil balance at 31st March 2004 and no comparative balance for intangible assets in 2003/04.

## **CAPITAL CHARGES**

All revenue accounts are charged with a capital charge for all fixed assets used in the provision of services. The charge covers the annual provision for depreciation plus a capital financing charge determined by applying the specified notional rate of 3.5% for assets carried at current cost and 4.6% for assets carried at historic cost. The aggregate charge to individual services is determined on the basis of the capital employed in each service.

## **DEPRECIATION**

Depreciation is provided for on all fixed assets with a finite useful life (which can be determined at the time of acquisition or revaluation). Newly acquired assets are not depreciated in the year of acquisition, whilst assets in the course of construction are not depreciated until they are brought into use. Depreciation is calculated using the straight line method.

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

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

## **DEBTORS AND CREDITORS**

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

## **PROVISIONS**

These are amounts set aside, which may need to be paid in respect of obligations that have been incurred, although there may be uncertainty as to the precise amounts concerned or the dates on which the liabilities arise. Details of Provisions held at 31st March 2005 are shown in Note 10 to the Consolidated Balance Sheet.

## **RESERVES**

These are amounts set aside for purposes falling outside the definition of a Provision. They are amounts earmarked for specific policy purposes, and balances, which represent set aside resources such as general contingencies. Details of Reserves held at 31st March 2005 are shown in the Statement of Total Movement in Reserves and Notes 11 - 15 to the Consolidated Balance Sheet.

## **REPURCHASE OF BORROWING**

Gains (discounts received) or losses (premiums paid) from the repurchase or early settlement of borrowing are recognised in the Consolidated Revenue Account in the period when the repurchase or early settlement is made. Where the repurchase of borrowing was coupled with a refinancing or restructuring of borrowing with substantially the same overall economic effect when viewed as a whole, any net gains or losses are recognised over the life of the replacement borrowing. There were no such transactions during 2004/05.

## **OVERHEADS**

In order to reflect fully the total cost of services, overheads such as the cost of support staff and offices, are allocated in accordance with the Chartered Institute of Public Finance and Accountancy's Best Value Accounting Code of Practice.



## **CAPITAL RECEIPTS**

Income from the disposal of fixed assets is credited to the useable capital receipts reserve. Any proportion reserved for the repayment of external loans has been credited to the capital financing reserve. Under the "Right to Buy" sharing agreement that was negotiated as part of the Large Scale Voluntary Transfer of housing stock in 2002/03, the Council's share of the receipts from each former council house sale is below the minimum value for the income to be treated as a capital receipt under the regulations.

## **PENSION COSTS**

The costs of providing retirement benefits are shown in the accounts when they are earned by employees, rather than when the benefits are eventually paid as pensions, in accordance with Financial Reporting Standard 17 Retirement Benefits. There is no effect on the net surplus/deficit in the Consolidated Revenue Account, although the Total Liability shown in the Balance Sheet is increased by £67.691m to £167.930 (£100.239m in 2003/04). Further details are shown in Note 9 to the Consolidated Revenue Account, Note 14 to the Balance Sheet and Note 1 to the Statement of Total Movements in Reserves.

## **GOVERNMENT GRANTS**

Grants and subsidies are credited to the appropriate revenue and capital accounts to match the expenditure to which they relate. Accruals have been made for balances known to be receivable for the period to 31st March 2005.

## **LEASING**

The authority accounts for all material leases in its revenue accounts and on the balance sheet as either a finance lease or an operating lease. The authority currently has operating and finance leases relating to vehicles, plant, furniture and equipment. Expenditure on operating leases is included in the accounts as revenue transactions. Finance leases are shown as an asset in the balance sheet, with the value of the asset being treated as capital expenditure.

## **INTERNAL INTEREST**

Internal Interest is paid to or received from revenue for items as school balances and on the basis of average monthly balances and the 7-day money market rate. It is included in the Consolidated Revenue Account as contributions to / from reserves.

## **GROUP ACCOUNTS**

Councils with, in aggregate, material and controlling interests in subsidiary and associated companies and joint ventures, which would be regarded as such under the Companies Acts, are required to prepare summarised group accounts. Where such arrangements are with other local authorities, these group accounts are not required. An assessment of these criteria has shown that the Council is not required to produce group accounts for the period to 31<sup>st</sup> March 2005. The Council has not been required to use the transitional arrangements available for 2004/05

## **POOLED BUDGETS**

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

## **COMPARATIVE FIGURES**

Where comparative figures for 2003/04 have been changed these are marked with an asterisk and the background of these restatements are detailed below. In past years, income from previously owned council houses which are bought under the "right to buy" legislation has been accounted for within the Net Cost of Services analysed as housing costs. The accounting treatment of this income has been changed this year to comply with the Statement of Recommended Practice. This income is now not accounted for within the cost of services.

## CONSOLIDATED REVENUE ACCOUNT

The Consolidated Revenue Account shows how the Council paid for the running costs of its services during the year.

2003/04		Expenditure	Income	2004/05
Net		£000	£000	Net
£000		£000	£000	£000
	<b><u>Services</u></b>			
7,469	Central Services to the Public	70,060	(66,325)	3,735
42,071	Cultural, Environmental & Planning Services	110,213	(57,719)	52,494
103,555	Education Services	160,826	(50,835)	109,991
18,479	Highways, Roads & Transport Services	19,164	(5,528)	13,636
1,030 *	Housing Services	4,127	(3,355)	772
41,830	Social Services	77,796	(30,416)	47,380
12,191	Corporate & Democratic Core	37,130	(21,903)	15,227
1,484	Non Distributed Costs	4,076	0	4,076
<b>228,109</b>	<b>Net Cost of Services</b>	<b>483,392</b>	<b>(236,081)</b>	<b>247,311</b>
847	Parish Precepts			902
	Net Surplus:			
(252)	Trading Operations Deficit / (Surplus) (Note 1)			348
(11,412)	Transfer from Asset Management Revenue Account (Note 2)			(13,275)
11,548	Premium on the early settlement of borrowing			0
(600)	Impairment Adjustment (Note 15)			(345)
(751) *	Income from Right to Buy Sales			(1,464)
(1,322)	Interest and Investment Income			(2,170)
6,704	Pensions interest and return on asset (Note 9)			5,663
<b>232,871</b>	<b>Net Operating Expenditure</b>			<b>236,970</b>
(215)	Transfer to/(from) Housing Revenue Account balances			0
	Contributions to Earmarked Reserves			
97	- Schools' Balances			(499)
1,294	- Other Reserves			(3,771)
	Contributions to/(from) Capital Reserves			
140	- Financing of capital expenditure			139
542	- Provision for repayment of external loans (Note 3)			573
(11,548)	Financing of early settlement of borrowing			0
(11,189)	Statutory amount set aside for the repayment of loan principal (Note 4)			(8,965)
(3,639)	Contribution to/(from) Pension Reserve (Note 9)			(6,088)
<b>208,353</b>	<b>Amount to be met from Government Grant and Taxpayers</b>			<b>218,359</b>
(39,696)	Demands on the Collection Fund			(40,534)
(124,616)	Government Grants			(136,069)
(44,054)	Distribution from National Non-Domestic Rate pool			(42,143)
<b>(13)</b>	<b>Net General Fund (Surplus) / Deficit</b>			<b>(387)</b>
	General Fund Balances			
(5,920)	Balance at beginning of year			(4,040)
1,893	Reclassification of earmarked balances			0
(13)	(Surplus) / Deficit for year			(387)
<b>(4,040)</b>	<b>Balance on General Fund to be carried forward</b>			<b>(4,427)</b>

\*The comparative figures for 2003/04 have been restated – see page 16 for details.

## NOTES TO THE CONSOLIDATED REVENUE ACCOUNT

### 1. 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 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.

	2003/04	2004/05	
	(Surplus)/Deficit	Turnover	(Surplus)/Deficit
Organisation	£000	£000	£000
Highways and Sewerage	(31)	3,830	358
Transport	(2)	3,605	163
School Meals	(263)	5,046	(261)
Building Cleaning	44	3,610	88
<b>Net (Surplus)/Deficit</b>	<u>(252)</u>	<u>16,091</u>	<u>348</u>

### 2. ASSET MANAGEMENT REVENUE ACCOUNT

		2003/04	2004/05
		£000	£000
Income			
Capital charges	- General Fund	(27,245)	(28,009)
	- Trading Operations	(62)	(64)
		<u>(27,307)</u>	<u>(28,073)</u>
Expenditure			
Provision for depreciation		9,332	9,481
External interest charges		6,563	5,317
		<u>15,895</u>	<u>14,798</u>
<b>Net (Surplus)/Deficit</b>		<u>(11,412)</u>	<u>(13,275)</u>

### 3. PROVISION FOR REPAYMENT OF EXTERNAL LOANS

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

	2003/04	2004/05
	£000	£000
Transferred Debt Repayments	553	583
Transferred Debt Income	(11)	(10)
<b>Net Charge to the Revenue Account</b>	<u>542</u>	<u>573</u>

## NOTES TO THE CONSOLIDATED REVENUE ACCOUNT

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

	2003/04 £000	2004/05 £000
Minimum revenue provision	3,569	4,553
Less: Amounts Charged to the Revenue Account		
Amount charged as depreciation against the Revenue Account	(10,371)	(10,788)
Depreciation on Government Grant write off	1,039	1,305
Deferred Charges (net of grant)	(5,426)	(4,035)
<b>Net Charge to the Revenue Account</b>	<b>(11,189)</b>	<b>(8,965)</b>

### 5. SECTION 137 PAYMENTS

Section 137 of the Local Government Act 1972 enables a local authority to incur expenditure up to the product of £5.00 per head of relevant population, for the benefit of people in its area on activities or projects not specifically authorised by other powers. Expenditure amounted to £0.029m in 2004/05 (£0.014m in 2003/04) compared to a maximum allowable level of £0.754m. The majority of this expenditure relates to the provision of grants to voluntary bodies.

### 6. AGENCY WORK

The Council has had no agency agreements in place during 2004/05.

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

Under this Act, the Council provided no significant services to public bodies during 2004/05. This Act allows local authorities to form consortia to enable more effective procurement of goods and services. The Council is a member of the Yorkshire Purchasing Organisation, a consortium with other local authorities. Expenditure on purchases made through this consortium totalled £1.050m in 2004/05 (£0.950m in 2003/04) and the Council received £0.190m (£0.188m in 2003/04) as a share of profits for being a member of this consortium.

### 8. PUBLICITY

Section 5 of the Local Government Act 1986 requires local authorities to keep a separate account of expenditure on publicity. During 2004/05, expenditure on publicity totalled £2.628m (£2.665m in 2003/04) and included staff recruitment costs of £0.242m (£0.219m in 2003/04), Media and Customer Relations Unit costs of £0.155m (£0.128m in 2003/04) and Other Publicity Costs, including promotional activities, cultural activities and other advertising costs of £2.231m (£2.318m in 2003/04).

## NOTES TO THE CONSOLIDATED REVENUE ACCOUNT

### 9. PENSION COSTS

**Teachers:** In 2004/05, the Council paid an employer's contribution of £6.355m (£6.248m in 2003/04), representing 13.5% (13.5% in 2003/04) of employees' pensionable pay, to the Department for Education and Skills in respect of teachers' pensionable pay. In addition, the Council is responsible for all pension payments relating to added years benefits it has awarded, together with the related increases. In 2004/05, these amounted to £1.520m (£1.479m in 2003/04), representing 3.2% (3.2% in 2003/04) of pensionable pay.

**Other employees and Members:** In 2004/05, the Council paid an employer's contribution of £10.734m (9.854m in 2003/04), representing 14.4% (13.9% in 2003/04) of employees' pensionable pay, to the Merseyside Pension Fund, which provides defined benefits related to pay and service. The Fund's Actuary, based on triennial valuations, the last available review being at 31 March 2004, determines the contribution rate. Under Superannuation Regulations, contribution rates are set to meet 100% of the overall liabilities of the 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 2004/05, these amounted to £1.676m, representing 2.25% of pensionable pay (including in-year retirements costs which amounted to £0.131m).

The Merseyside Pension Fund is a defined benefit scheme and the last full available actuarial valuation was at 31 March 2004. The average age for the Council's active members of the scheme has changed from 42.3 years as at 31 March 2001 to 41.5 years as at 31 March 2004.

The cost of retirement benefits are shown in the Net Cost of Services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge to be met in the year is based on the amounts set by the Pension Fund, so the real cost of accrued retirement benefits is reversed out of the Consolidated Revenue Account after Net Operating Expenditure. The following transactions are included in the Consolidated Revenue Account:

	Merseyside Pension			
	Fund		Teachers Added Yrs	
	2003/04	2004/05	2003/04	2004/05
	£000	£000	£000	£000
<b>Net Cost of Services</b>				
Current Service Cost	8,782	11,017	0	0
Past Service/Curtailment/Settlement Costs	231	2,761	51	63
	9,013	13,778	51	63
<b>Net Operating Expenditure</b>				
Interest Cost	18,894	20,826	991	969
Expected Return on Assets	(13,181)	(16,132)	0	0
	5,713	4,694	991	969
<b>Amount to be met from Government grant and Local Taxpayers</b>				
Movement on Pensions Reserve	(3,852)	(6,339)	213	251
<b>Actual amount charged in the year</b>				
Employer Contributions	10,874	12,133	1,255	1,283

Note 14 to the Consolidated Balance Sheet contains details of the assumptions made in estimating the above figures.

Note 1 to the Statement of Total Movements in Reserves details the costs that have arisen where the estimates made for previous years have had to be revised.

## NOTES TO THE CONSOLIDATED REVENUE ACCOUNT

### 10. EMPLOYEES REMUNERATION OVER £50,000

Local authorities are required to provide details of the number of employees whose remuneration is in excess of £50,000. Remuneration relates to all payments arising from their employment, including payments made in respect of retirement\*, and net of the employee's pension contributions, paid to or receivable by an employee. It also includes all taxable sums due by way of expenses, allowance and the estimated money value of any other benefits received by an employee otherwise than in cash, excluding Merseyside Police Authority remuneration. In 2004/05 these were:

Total Remuneration	Number of Employees	
	2003/04	2004/05
£50,000 - £59,999	52	41
£60,000 - £69,999	14	20
£70,000 - £79,999	7	5
£80,000 - £89,999	2	6
£90,000 - £99,999	4	1
£100,000 - £109,999	0	4
£110,000 - £119,999	2	0
£120,000 - £129,999	0	2
£130,000 - £139,999	2	1
£230,000 - £239,000	0	1 *

### 11. MEMBERS' ALLOWANCES

During 2004/05, the Council paid a total of £0.755m in respect of Members' Allowances (£0.744m in 2003/04). Further details can be obtained from the Head of Democratic Services, Corporate and Customer Support Services, Municipal Buildings, Huyton.

### 12. RELATED PARTY TRANSACTIONS

Under Financial Reporting Standard 8, Financial Statements are required to disclose the possibility that the reported financial position may have been influenced by the existence of related parties and by any material transactions with them. The following table identifies the Council's related party transactions during 2004/05:

- Central Government - responsible for providing the statutory framework within which the Council operates, and provides the majority of funding in the form of grants.  
Details of the principal grants from central government are set out in Note 1 to the Cash Flow Statement.
- Local Authorities and other bodies precepting or levying demands on the Council Tax.  
These transactions are disclosed within the Council's Collection Fund Statement.
- Subsidiary and Associated Companies.  
Details of the Council's interests in companies are set out in Note 16 to the Council's Balance Sheet on page 44.
- 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 17). The Partnership Board includes 2 Members and 2 Officers of the Council.
- Pension Fund.  
Full details of the Council's Pension Fund are disclosed in the Notes to the Council's Revenue Account.
- Members Interests  
Members of the Council have direct control over financial and operational policies. During 2004/05, works and services totalling £0.016m were commissioned from companies in which 1 Member had an interest. Contracts were entered into in full compliance with the Council's Constitution. Payments and grants totalling £1.502m were paid to housing associations, hospital trusts, and voluntary organisations in which 23 Members had an interest. The relevant Members would have declared an interest and took no part in any discussion or decision relating to the transactions.
- Chief Officers  
During 2004/05 no Chief Officers declared any pecuniary interests, in accordance with Section 117 of the Local Government Act 1972.
- Knowsley Housing Trust  
Transactions to Knowsley Housing Trust consisted of £8.805 in payments and £4.102m in receipts. Six Members of the Council are Board Members and have declared an interest.

## NOTES TO THE CONSOLIDATED REVENUE ACCOUNT

### 13. BUILDING CONTROL TRADING ACCOUNT

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

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

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

	2003/04	2004/05		Total
	Total	Chargeable	Non Chargeable	
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Expenditure				
Employee Expenses	271	153	102	255
Premises	0	6	4	10
Transport	11	0	0	0
Supplies and Services	65	23	15	38
Central and Support Services	62	31	21	52
<b>Total Expenditure</b>	<b>409</b>	<b>213</b>	<b>142</b>	<b>355</b>
Income				
Building Regulation Charges	(316)	(327)	0	(327)
<b>Net (Surplus)/Deficit</b>	<b>93</b>	<b>(114)</b>	<b>142</b>	<b>28</b>

## NOTES TO THE CONSOLIDATED REVENUE ACCOUNT

### 14. LEASES

#### Finance Leases

Vehicles, Plant, Furniture and Equipment - In accordance with the Council's policy on leasing, there were no new finance leases in the year and no contracted finance leases starting after the 31 March 2005. All existing finance leases are now into their secondary term. There were no significant finance lease agreements outstanding at 31 March 2005.

Land and Buildings – The authority has no finance leases relating to land and buildings.

#### Operating Leases

Vehicles, Plant, Furniture and Equipment - Lease payments of a non-capital nature in 2004/05 (relating to operating leases) amounted to £1.881m (£1.877m in 2003/04). The Council has future operational leasing obligations amounting to £2.368m for primary periods up to 2013 (£3.877m in 2003/04).

Land and Buildings – The authority has no operating leases relating to land and buildings.

Authority as a Lessor - As a lessor, the Council received income of £1.371m (£1.512m in 2003/04) in relation to land and properties it leases out to third parties. The majority of this income relates to shops (£0.624m) and industrial and business units (£0.570m) leased out to people and organisations. The lease terms and periods are negotiated on an individual basis when the lease is taken out.

Outstanding Obligations (Years)	Finance Leases £000	Operating Leases £000
1 -2	0	1,903
2 - 5	0	344
5 & above	0	121
<b>Total</b>	0	2,368

### 15. IMPAIRMENT

Page Moss Family Centre suffered serious damage from fire during 2004/05 and an impairment adjustment of £0.345m has been made to reduce the value of the asset and this is reflected in the accounts.

### 16. AUDITOR'S REMUNERATION

In 2004/05 Knowsley MBC incurred the following fees relating to external audit and inspection:

	2003/04 £000	2004/05 £000
Fees payable to the Audit Commission with regard to external audit services carried out by the appointed auditor	195	207
Fees payable to the Audit Commission in respect of Statutory Inspection under (Section 10 Local Government Act 1999)	46	50
Fees payable to the Audit Commission for the certification of grant claims and returns (Section 28 Audit Commission Act 1998)	191	162
<b>Total</b>	<b>432</b>	<b>419</b>

Under the Audit Commission's Rotation Policy PriceWaterhouseCoopers will become the Authority's appointed Auditors from 1<sup>st</sup> April 2005.



## NOTES TO THE CONSOLIDATED REVENUE ACCOUNT

### 17. POOLED BUDGETS

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

The Council established a partnership agreement with Knowsley Primary Care Trust during 2003/04 to pool funds from the two organisations and create a single budget, using powers under Section 31 of the Health Act 1999. The pooled budget, which is hosted by the Council, has been utilised to provide supported accommodation for adults with learning disabilities.

Gross Funding	Supported Accommodation			Learning Disability Development Fund		
	Cash	Staff	Other (Grants)	Cash	Staff	Other (Grants)
	£000	£000	£000	£000	£000	£000
Balance of funds brought forward	15	0	0	31	0	0
Knowsley Metropolitan Borough Council	733	0	0	0	0	0
Knowsley Primary Care Trust	3,293	0	0	71	0	0
<b>Total Funding</b>	<b>4,041</b>	<b>0</b>	<b>0</b>	<b>102</b>	<b>0</b>	<b>0</b>
<b>Total Expenditure</b>	<b>3,572</b>	<b>0</b>	<b>0</b>	<b>77</b>	<b>0</b>	<b>0</b>
<b>Net underspend carried Forward</b>	<b>469</b>	<b>0</b>	<b>0</b>	<b>25</b>	<b>0</b>	<b>0</b>

The Council established a partnership agreement with St Helens Metropolitan Borough Council, St Helens Primary Care Trust and Knowsley Primary Care Trust during 2004/05 to pool funds from the four organisations and create a single budget, using powers under Section 31 of the Health Act 1999. The pooled budget, which is hosted by the Knowsley Primary Care Trust, has been utilised to provide integrated community equipment.

Gross Funding	Integrated Community Equipment Service		
	Cash	Staff	Other (Grants)
	£000	£000	£000
Balance of funds brought forward	0	0	0
Knowsley Metropolitan Borough Council	323	0	0
Knowsley Primary Care Trust	422	0	0
St Helens Metropolitan Borough Council	424	0	0
St Helens Primary Care Trust	356	0	0
<b>Total Funding</b>	<b>1,525</b>	<b>0</b>	<b>0</b>
<b>Total Expenditure</b>	<b>1,610</b>	<b>0</b>	<b>0</b>
<b>Net overspend carried Forward</b>	<b>85</b>	<b>0</b>	<b>0</b>

## COLLECTION FUND

### INCOME AND EXPENDITURE ACCOUNT

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

2003/04 £000		2004/05 £000	£000
	<b>Income</b>		
(30,563)	Council Tax Receivable		(32,435)
	Transfers from/to General Fund		
<u>(15,392)</u>	- Council Tax Benefit		<u>(15,199)</u>
(45,955)			(47,634)
<u>(25,222)</u>	Income Collectable from Business Ratepayers		<u>(24,561)</u>
<u>(71,177)</u>			<u>(72,195)</u>
	<b>Expenditure</b>		
	Precepts and Demands		
39,696	- Knowsley Metropolitan Borough Council	40,534	
2,044	- Fire and Civil Defence Authority	2,133	
4,184	- Police Authority	<u>4,518</u>	
			47,185
25,088	Payment to National Non Domestic Rate Pool	24,427	
134	Costs of Collection	<u>134</u>	
			24,561
<u>(200)</u>	Provision for Council Tax Bad and Doubtful Debts		<u>0</u>
<u>70,946</u>			<u>71,746</u>
<u>(231)</u>	(Surplus)/Deficit for the year		<u>(449)</u>
	<b>Collection Fund Balances</b>		
623	Balance at beginning of year		392
<u>(231)</u>	(Surplus)/Deficit for year		<u>(449)</u>
<u>392</u>	Balance at end of year (Surplus) / Deficit		<u>(57)</u>

## NOTES TO THE COLLECTION FUND

### 1. COUNCIL TAX BASE 2004/05

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	37,810	25,206
B	£40,001 to £52,000	11,900	9,256
C	£52,001 to £68,000	8,362	7,433
D	£68,001 to £88,000	3,394	3,394
E	£88,001 to £120,000	1,401	1,712
F	£120,001 to £160,000	245	354
G	£160,001 to £320,000	125	208
H	Over £320,000	17	34
		<u>63,254</u>	<u>47,597</u>
	Less Exemptions and Discounts		<u>(6,169)</u>
			41,428
	Collection Rate (Estimated)		99%
	<b>Council Tax Base 2004/05</b>		<u><u>41,013</u></u>

### 2. COUNCIL TAX

The 2004/05 basic amount of Council Tax at Band D for properties without a Parish precept was calculated as follows:

	£000
Budget Requirements (excluding Parish Precepts)	217,844
Government Grants/Business Rates	(178,212)
Collection Fund Surplus (Estimated for distribution)	0
Council Tax Demand	<u>39,632</u>
Divided by Council Tax Base (Note 1)	41,013
Council Tax at Band D	<u>£ 966.33</u>

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

National Non Domestic Rate (more commonly known as Business Rates) is organised on a national basis. The Government specifies a rate in the pound, and subject to any transitional arrangements, local businesses pay rates calculated by multiplying the rateable value of their property by the rate in the pound set (44.4p in 2003/04 and 45.6p for 2004/05).

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 2004/05 was £24.561m, and was based on a rateable value as at 31.3.2004 of £68.787m (£68.807m at 31.3.2003).

## CONSOLIDATED BALANCE SHEET

The Consolidated Balance Sheet shows what the Council owns, and what the Council is owed, at the end of the financial year (31 March 2005).

Balance at 31.3.2004 £000	£000	Balance at 31.3.2005 £000	Note
<b>Net Fixed Assets</b>			
<i>Intangible Fixed Assets</i>		4,323	1
 <i>Tangible Fixed Assets</i>			
<i>Operational Assets</i>			
277,711 - Land and Buildings	281,315		
31,002 - Vehicles, Plant, Furniture and Equipment	31,586		
114,082 - Infrastructure	122,948		
1,259 - Community Assets	<u>1,299</u>		
<i>Total Operational Assets</i>		437,148	1
32,785 <i>Non-operational Assets</i>			
- Assets under Construction	177		
- Investment Properties	20,337		
- Surplus Assets held for Disposal	<u>15,849</u>		
<i>Total Non Operational Assets</i>		<u>36,363</u>	1
<u>456,839</u> <b>Total Fixed Assets</b>		<u>477,834</u>	
3 <b>Long Term Investments</b>		2,003	2
<b>Long Term Debtors</b>			
2,150 - Mortgagors	1,702		
332 - Car Loans	246		
		<u>1,948</u>	
<u>459,324</u> Total Long Term Assets		<u>481,785</u>	
<b>Current Assets</b>			
585 - Work in Progress/Stock in Hand	556		3
33,505 - Investments	49,415		4
45,300 - Debtors	39,862		5
2,296 - Imprest/Cash in Hands of Collectors	2,819		
		<u>92,652</u>	
<u>541,010</u> Total Assets		<u>574,437</u>	
<b>Less Current Liabilities</b>			
12,443 - Short Term Borrowing	9,767		6
44,733 - Creditors	36,068		7
5,298 - Cash Overdrawn	12,473		8
		<u>58,308</u>	
<u>478,536</u> Total Assets less Current Liabilities		<u>516,129</u>	
<b>Less Long Term Liabilities</b>			
89,093 - Long Term Borrowing	99,324		9
100,239 - Pension Liability	167,930		
9,722 - Provisions	8,689		10
		<u>275,943</u>	
<u><u>279,482</u></u> Total Assets less Liabilities		<u><u>240,186</u></u>	

## CONSOLIDATED BALANCE SHEET

Balance at 31.3.2004	£000	£000	Balance at 31.3.2005	£000	Note
<b>Financed by</b>					
(30,538) - Fixed Asset Restatement Account			(26,184)		11
310,461 - Capital Financing Account			324,180		12
56,309 - Government Grants Deferred			70,795		
1,573 - Deferred Capital Receipts			1,445		
21,776 - Usable Capital Receipts Reserve			9,499		13
(100,239) - Pensions Reserve			(167,930)		14
16,492 - Reserves			23,897		15
<b>Revenue Balances</b>					
4,040 - General Fund		4,427			
(392) - Collection Fund		57			
<u>279,482</u>	<u>Total Equity</u>	<u>4,484</u>	<u>240,186</u>		

**NOTES TO THE CONSOLIDATED BALANCE SHEET**

**1 a) FIXED ASSETS - MOVEMENTS**

Operational Assets	Land & Building £000	Vehicle Plant & Equipment £000	Infrastructure £000	Community Assets £000	Total £000
Gross book value 1.4.2004	298,133	43,548	118,534	1,311	461,526
Opening Revaluations	7	0	0	0	7
Restatements	0	0	0	0	0
	<u>298,140</u>	<u>43,548</u>	<u>118,534</u>	<u>1,311</u>	<u>461,533</u>
Additions	3,529	3,174	10,521	67	17,291
Other Expenditure	5,814	45	0	0	5,859
Disposals	(1,775)	(106)	0	0	(1,881)
Revaluations	2,042	727	0	0	2,769
Gross book value at 31.3.2005	<u>307,750</u>	<u>47,388</u>	<u>129,055</u>	<u>1,378</u>	<u>485,571</u>
<b>Depreciation and Impairment</b>					
Balance as at 1.4.2004	20,422	12,546	4,452	52	37,472
Depreciation	5,668	3,256	1,655	27	10,606
Impairment	345	0	0	0	345
Balance at 31.3.2005	<u>26,435</u>	<u>15,802</u>	<u>6,107</u>	<u>79</u>	<u>48,423</u>
<b>Net book value as at 31.3.2005</b>	<b><u>281,315</u></b>	<b><u>31,586</u></b>	<b><u>122,948</u></b>	<b><u>1,299</u></b>	<b><u>437,148</u></b>
<b>Non-Operational Assets</b>					
		Assets under Construction £000	Investment Properties £000	Surplus Assets held for £000	Total £000
Gross book value 1.4.2004		176	20,594	12,844	33,614
Additions		1	300	0	301
Disposals		0	0	(7,225)	(7,225)
Revaluations		0	452	10,230	10,682
Gross book value at 31.3.2005		<u>177</u>	<u>21,346</u>	<u>15,849</u>	<u>37,372</u>
<b>Depreciation and Impairment</b>					
Balance as at 1.4.2004		0	829	0	829
Depreciation		0	180	0	180
Balance at 31.3.2005		<u>0</u>	<u>1,009</u>	<u>0</u>	<u>1,009</u>
<b>Net book value as at 31.3.2005</b>		<b><u>177</u></b>	<b><u>20,337</u></b>	<b><u>15,849</u></b>	<b><u>36,363</u></b>
<b>Intangible Assets</b>					
				Intangibles £000	Total £000
Gross book value 1.4.2004				0	0
Additions				4,323	4,323
Disposals				0	0
Gross book value at 31.3.2005				<u>4,323</u>	<u>4,323</u>
<b>Depreciation and Impairment</b>					
Depreciation				0	0
<b>Net book value as at 31.3.2005</b>				<b><u>4,323</u></b>	<b><u>4,323</u></b>

## NOTES TO THE CONSOLIDATED BALANCE SHEET

### 1 b) FIXED ASSETS - NET BOOK VALUES

The Net Book Value can be split over:

	2003/04	2004/05
	£000	£000
General Fund	454,518	477,834
Trading Operations	2,321	0
	456,839	477,834

The assets belonging the Department of Environmental and Operational Services (Trading Services) have now been transferred into the General Fund.

### 1 c) FIXED ASSETS – DEPRECIATION METHODS

Depreciation, other than for Infrastructure (which is written down by the amount of capitalised maintenance in the year) is calculated on the straight line method based on the following useful life of assets:

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

### 1 d) FIXED ASSETS – CAPITAL FINANCING

Capital expenditure was financed as follows:

	2003/04	2004/05
	£000	£000
Capital Expenditure		
Intangible Assets	0	4,323
Operational Assets	22,998	23,151
Non-Operational Assets	8,398	301
Deferred Charges	9,884	9,256
	41,280	37,031
Sources Of Finance		
Loans	17,561	8,389
Capital Receipts	5,712	5,743
Grants	15,060	21,012
Capital Expenditure from Revenue Account	140	196
Reserves	1,188	570
Contributions from Partners and Developers	1,555	887
Accruals	64	234
	41,280	37,031

## NOTES TO THE CONSOLIDATED BALANCE SHEET

### 1 e) FIXED ASSETS – CAPITAL EXPENDITURE

The main items of capital expenditure, during 2004/05 were:

	<b>£000</b>
<b><u>Regeneration &amp; Neighbourhoods</u></b>	
Prescot Regeneration	4,097
Knowsley Development Partnership	1,698
Ravenscourt Development	1,404
North Mersey Business Centre	1,141
Disability Discrimination Act – Compliance Work	989
Renovation Grants	1,315
Private Tenants Grants	878
Greensbridge	450
A580 East Lancashire Road	698
A562 Higher Road Reconstruction	592
A580 East Lancashire Road (Coopers Lane)	488
<b><u>Education &amp; Life Long Learning</u></b>	
Simonswood Lane	693
St Andrews	416
<b><u>Finance and Information Society Technologies</u></b>	
North West E-Government Group	957
National Workflow Project	957
Workflow Dissemination Project	722
Regional Partnerships in Product Roll Out	678
Sharepoint Project	538
<b><u>Corporate and Customer Services</u></b>	
Kirkby Building Works	46
<b><u>Leisure and Community Services</u></b>	
Northwood Community Centre	439
Kirkby Sports Strategy	353
<b><u>Health and Social Care</u></b>	
Huyton Adaptations for Disabled	123
<b><u>Environment and Operational Services</u></b>	
Recycling Initiatives	504



## NOTES TO THE CONSOLIDATED BALANCE SHEET

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

Significant commitments for future capital expenditure as at 31st March 2005 include the following:

Scheme	Purpose	Expected Period	£000
Kirkby Sports Centre	State of the art leisure centre with facilities to better support the needs of the community.	2005/06	9,000
Prescot Regeneration	To improve the image of and accessibility to the town centre. Also, to increase the economic vitality and viability of the town centre in order to maximise Prescots' tourism potential.	2005/06 & 2006/07	3,230
Huyton Municipal Buildings Refurbishment	Refurbishment and Rationalisation of Huyton Administrative Buildings	2005/06 & 2006/07	2,976
Childrens Centres	Childcare facilities for children 0-5 (with crèches, parent facilities etc)	2005/06	2,439
A580 Reconstruction (Coopers Lane)	To reconstruct the road, raising the standard of the surface to cope with the anticipated increase in capacity.	2005/06	2,200
A580 Moorgate Road and Coopers Lane Junction Improvements	To improve the capacity of the junction supporting the increase in economic development to both the industrial and business parks.	2005/06	1,475
Ravencourt	Regeneration of Ravencourt Shopping Area to improve facilities in Halewood and have a positive impact on all population groups in the area, an essential feature if the area is to be regenerated.	2005/06 & 2006/07	1,026
Renovation Grants	Required level to support estimated demand/NRS Floor target level.	2005/06	1,000
No Fines Grants/RRO Innovation	Second Year of commission pilot with Government Office North West.	2005/06	1,000
Building Schools for the Future	Technical, design, financial & legal advice to the BSF Executive Support team. Also BSF Design Festival and purchase of office equipment	2005/06	950
Towerhill Community Centre	A new community centre to deliver high quality community and youth services.	2005/06	853
Registered Social Landlord – Commissioning	Replacement homeless families unit to commission partners to identify and deliver.	2005/06	849
SPACES for Sports & Arts	To provide Sports & PE facilities at St Maries RC Primary	2005/06	738
Towerhill Football Pitches	New synthetic pitch and multi-games area to improve outdoor sports facilities within the borough.	2005/06	708
A580 New Junction to 50 Acre Site (Alchemy)	Creation of a new junction to open up the site for Langtree Developments.	2005/06	705

## NOTES TO THE CONSOLIDATED BALANCE SHEET

### 1 g) 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	31.3.2004	31.3.2005	
Administrative buildings	5	5	
Offices	17	20	
Depots and Workshops	3	3	
Magistrates Courts	1	1	
Museums	1	1	
Leisure and Sports Centres	8	8	
Club House	1	1	
Civic halls and suites	2	2	
Community and Youth Centres	21	21	
Libraries	7	7	
Parks, playing fields, and open spaces	488	488	Hectares
Market	1	1	
Cemeteries	2	2	
Allotments	122	122	Plots
Schools - Primary	27	27	
- Secondary	7	7	
- Other	8	8	
Homes for people with learning disabilities	1	1	
Centres for people with learning/physical disabilities	5	5	
Day centres for the Elderly	2	2	
Hostels for the Homeless	0	0	
Other Social Services establishments	12	11	
Commercial properties - rented/leased	202	202	
- void	20	20	
Industrial properties - rented/leased	399	399	
- void	4	4	
Public conveniences	2	1	
Roads - principal	85	85	Km
- other	450	450	Km
Bridges	117	117	
Lamp units	18,469	19,077	
Vehicles and plant	324	428	
Community Assets	20	20	

## NOTES TO THE CONSOLIDATED BALANCE SHEET

### 2. LONG TERM INVESTMENTS

At 31 March 2005, the Council held £0.003m of investments in 3.5% Treasury Stock, and a £2.000m non-specified fixed term deposit with Chelsea Building Society, maturing on 12 March 2007.

### 3. STOCKS AND WORK IN PROGRESS

	31.3.2004	31.3.2005
	£000	£000
Work in Progress	89	138
<u>Stocks</u>		
- Environmental and Operational Services	462	392
- Leisure Services	9	9
- Other General Fund	25	17
Total Stocks	496	418
Total	585	556

### 4. SHORT TERM INVESTMENTS

This represents cash on deposit with banks and building societies, plus other liquid investments with money market funds.

### 5. DEBTORS

	31.3.2004	31.3.2005
	£000	£000
Amounts falling due in one year:		
Government Departments	18,402	15,970
Other Local Authorities	106	595
Employee Related	19	34
Sundry Debtors	16,019	13,311
Car loans	83	68
Payments in Advance	2,667	3,949
Collection Fund	11,145	11,775
Total Amounts falling due within one year:	48,441	45,702
Provision for bad debts:		
General	(1,288)	(3,433)
Collection Fund	(1,853)	(2,407)
Total Provision for bad debts:	(3,141)	(5,840)
Total Debtors	45,300	39,862

## NOTES TO THE CONSOLIDATED BALANCE SHEET

### 6. SHORT TERM BORROWING

Source of Loan	Range of interest rates payable (%)	31.3.2004 £000	31.3.2005 £000
Public Works Loan Board	Fixed (2.5% to 7.35%)	387	65
Public Works Loan Board	Variable	11,472	9,084
Other Local Authorities	Variable	584	618
		<u>12,443</u>	<u>9,767</u>

### 7. CREDITORS

	31.3.2004 £000	31.3.2005 £000
Amounts falling due in one year:		
Government Departments	17,102	11,424
Other Local Authorities	978	668
Employee Related	1,601	5,042
Interest	908	1,017
Sundry Creditors	17,089	8,973
Income in Advance	3,245	4,981
Collection Fund	3,810	3,963
Total Creditors	<u><u>44,733</u></u>	<u><u>36,068</u></u>

### 8. CASH

At 31st March 2005 the actual bank account balance was £0.847m overdrawn. However, cheques raised but unpresented at the bank and other miscellaneous balances totalled £11.626m, which produces a cash overdrawn figure of £12.473m.

### 9. LONG TERM BORROWING

Source of Loan	Range of interest rates payable (%)	31.3.2004 £000	31.3.2005 £000
Public Works Loan Board	Fixed (2.5% to 7.35%)	72,612	92,547
Public Works Loan Board	Variable	9,084	0
Other Local Authorities *	Variable	7,397	6,777
		<u>89,093</u>	<u>99,324</u>
An analysis of loans by maturity is:			
Maturing in 1-2 years		10,421	11,415
Maturing in 2-5 years		2,463	2,598
Maturing in 5-10 years		5,565	8,930
Maturing in more than 10 years		70,644	76,381
		<u>89,093</u>	<u>99,324</u>

\* This represents debt transferred on Local Government reorganisation in 1974 and 1986 but administered by other Local Authorities on behalf of the Council.

## NOTES TO THE CONSOLIDATED BALANCE SHEET

### 10. PROVISIONS

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

	Balance 31.3.2004 £000	Reclassified from or to Reserves £000	Provided in year £000	Applied in year £000	Balance 31.3.2005 £000
Building Works – Performance Improvement Fund	100	0	0	0	100
Disputed Accounts	35	0		35	0
Early Retirement Costs	0	31	0	0	31
Huyton Family Centre Maintenance	0	0	9	0	9
Insurance	8,771	0	3,777	5,048	7,500
Maldon Close	0	0	3	0	3
Mental Health Act - Section 117	411	0	600	0	1,011
OPUS Area Manager Regrading	0	0	35	0	35
Replacement of Client Records in Social Services System	346	-346	0	0	0
Sustainable School Improvement	59	-59	0	0	0
	<u>9,722</u>	<u>-374</u>	<u>4,424</u>	<u>5,083</u>	<u>8,689</u>

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

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

#### **Disputed Accounts**

Provision for the value of outstanding accounts that were settled in 2004/05.

#### **Early Retirement Costs**

Provision to meet anticipated costs associated with the early retirement of a number of employees within the Department for Environmental and Operational Services.

#### **Insurance**

This provision provides cover for those risks, which are not insured externally. Premiums are paid into the fund from revenue accounts and claims are met directly from the fund. The Insurance Provision covers claims up to £110,000 per incident for risks associated with property and liability. Any greater claims are covered by policies held with external insurance, along with all other types of risks.

#### **Maldon Close**

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

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

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

#### **Older Peoples Unified Service “OPUS” Area Manager Regrading**

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

## NOTES TO THE CONSOLIDATED BALANCE SHEET

### 11. FIXED ASSET RESTATEMENT ACCOUNT

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

	2003/04	2004/05
	£000	£000
Balance at beginning of year	(16,006)	(30,538)
Surplus/(Deficit) on revaluation and restatement of fixed assets	(7,499)	13,460
Disposal of fixed assets		
- Operational Assets	0	(1,881)
- Non Operational Assets	(7,033)	(7,225)
Balance at end of year	<u>(30,538)</u>	<u>(26,184)</u>

### 12. CAPITAL FINANCING ACCOUNT

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

	2003/04	2004/05
	£000	£000
Balance at beginning of year	323,630	310,461
Capital receipts set aside	949	116
Capital Receipts applied for 2005-08 capital expenditure	0	15,000
Transferred Debt receipts set aside	15	16
Capital financing - capital receipts	5,712	5,743
- revenue	140	196
- other	2,744	1,457
- prior year adjustment	0	(82)
Transfer from Government Grants Deferred	1,039	1,305
Write off non-Council Assets	56	0
Less		
Net Adjustment for Statutory Loan Repayment Calculation	(6,250)	(5,651)
Write down of deferred charges (net of grant)	(5,426)	(4,036)
Impairment	(600)	(345)
Early Repayment of External Loans - Premium	(11,548)	0
Balance at end of year	<u>310,461</u>	<u>324,180</u>

### 13. USABLE CAPITAL RECEIPTS RESERVE

Under the Local Government and Housing Act 1989, a statutory proportion of capital receipts must be set aside for loan debt redemption, as detailed under Accounting Policies (page 14). The balance is available to finance capital expenditure.

	2003/04	2004/05
	£000	£000
Balance at beginning of year	7,965	21,776
Prior year financing adjustment	48	0
Capital receipts in year for sales of assets	20,424	8,582
	<u>28,437</u>	<u>30,358</u>
Less: Set aside for loan redemption	(949)	(116)
	27,488	30,242
Capital Receipts applied for 2005-08 capital expenditure	0	(15,000)
Capital Receipts applied during year - tangible assets	(5,712)	(5,737)
Capital Receipts applied during year - intangible assets		(6)
Balance at end of year	<u>21,776</u>	<u>9,499</u>

## NOTES TO THE CONSOLIDATED BALANCE SHEET

### 14. PENSIONS LIABILITY AND RESERVE

#### OVERALL POSITION

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

	Merseyside Pension Fund		Teachers Pensions Added Years		Total	
	31.3.2004 £000	31.3.2005 £000	31.3.2004 £000	31.3.2005 £000	31.3.2004 £000	31.3.2005 £000
Estimated Assets	249,310	279,568	0	0	249,310	279,568
Estimated Liabilities	(333,248)	(429,349)	(16,301)	(18,149)	(349,549)	(447,498)
Net Asset/(Liability)	(83,938)	(149,781)	(16,301)	(18,149)	(100,239)	(167,930)

The total liabilities (including Teacher's Pensions) exceed assets by £167.930m. Under Superannuation Regulations, the Fund's Actuary is required to set contribution rates to meet 100% of the overall liabilities of the Fund. Contribution rates are set based on based on triennial valuations - the last available valuation being at 31<sup>st</sup> March 2004.

#### FUND ASSETS

The assets in the Merseyside Pension Fund attributable to the Authority, and their estimated rate of return, have been analysed in the table below. In light of market conditions in the last two months of the financial year the Actuary changed the expected return on Other Bonds from 5.2% to 5.4%.

	31.3.2004			31.3.2005		
	Rate of Return %	Value £000	%	Rate of Return %	Value £000	%
Equities	7.5	146,096	58.6	7.5	161,031	57.6
Government Bonds	4.7	41,385	16.6	4.7	52,838	18.9
Other Bonds	5.5	10,222	4.1	5.4	13,699	4.9
Property	6.5	24,183	9.7	6.5	27,677	9.9
Cash / Liquidity	4.0	27,424	11.0	4.75	11,183	4.0
Other Assets	0	0		7.5	13,140	4.7
		<u>249,310</u>			<u>279,568</u>	

#### FUND LIABILITIES

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

The increase in the total net liability in 2004/05 was £67.691m This is primarily represented by an actuarial loss in 2004/05 of £59.505m, of which £45.985m relates to the reduction in the discount rate used to estimate the present value of future cash flows from 6.3% to 5.4%. In addition to the actuarial loss, there was also an increase of £11.017m in the current service cost of the Council's pensionable payroll.

#### ACTUARIAL ASSUMPTIONS

	31.3.2004	31.3.2005
	%	%
Rate of inflation	2.8	2.9
Rate of increase in salaries	3.8	4.15
Rate of increase in pension	2.8	2.9
Discount rate	6.3	5.4

## NOTES TO THE CONSOLIDATED BALANCE SHEET

### 15. RESERVES

The reserves held by the Council at 31 March 2005 are set out in the following table, with details of the main reserves identified below.

Reserve	Description	Balance 31.3.2004 £000	Reclassified £000	Movement in year £000	Balance 31.3.2005 £000
Asset Maintenance	To carry out extensive essential maintenance to Leisure Assets.	0	0	170	170
Budget Pressures in 2005/06	To fund budget pressures and priorities to be identified in the 2005/06 mid year review.	0	0	1,439	1,439
Business Efficiencies	Expected retirement payments within the Department of Regeneration and Neighbourhoods.	0	0	289	289
Capital	To fund future costs within the Council's capital programme.	185	(128)	1,485	1,542
Cash Limit Underspends	To fund departments committed expenditure in 2005/06	0	0	1,318	1,318
Contract Services	Cumulative effect of surpluses and deficits generated by Contract Services trading operations.	189	(31)	(7)	151
Disability Discrimination Act	Cost of ensuring buildings comply with the Disability Discrimination Act.	211	0	0	211
E-Council	To promote the Authority's e-council agenda to transform the delivery of services.	131	0	9	140
Education Initiatives	Balance represents cumulative unspent Teenage Pregnancy grant accrued since 2002/03	0	0	26	26
Environmental Initiatives	To fund air improvement initiatives, waste minimisation and exhibition areas.	239	0	66	305
European Social Fund	Amount set aside to fund expected shortfall in programme funding	0	0	200	200
Extra District Contributions	Outstanding extra district claims.	366	0	0	366
Forward Strategies	Future obligation for exit strategies relating to the Ambition Construction scheme	0	0	413	413
Halewood Leisure Centre	Additional retention costs for Halewood Leisure Centre.	172	0	(172)	0
Housing Survey	Costs involved in carrying out housing survey.	9	0	0	9



**NOTES TO THE CONSOLIDATED BALANCE SHEET**

**RESERVES (Cont'd)**

<b>Reserve</b>	<b>Description</b>	<b>Balance 31.3.2004 £000</b>	<b>Reclassified £000</b>	<b>Movement in year £000</b>	<b>Balance 31.3.2005 £000</b>
Information Technology Staffing	Staff time spent on development of new systems and the replacement of old information technology equipment.	55	0	(55)	0
Information Technology Strategy	To fund E-procurement efficiency plan, asset replacement and services development.	920	346	554	1,820
Insurance Excess	To fund future insurance excess costs affecting the Regeneration and Neighbourhoods Department.	148	0	46	194
Joint Venture Company	The setting up and project management of new joint venture company.	103	0	(103)	0
King George V	Retention funds	50	0	(13)	37
Kings Business Park	Monies set aside for future retention costs of this capital scheme.	224	0	77	301
Kirkby Market	This reserve holds the accumulated surpluses made from the Authority's markets.	315	0	(300)	15
Knowsley Industrial Park	This represents the retention element of costs associated with the construction of the Rail freight Terminal, which was completed in 2002/03.	13	0	(12)	1
Learn Direct	This reserve is for the delivery of service for on-line learning.	89	0	(28)	61
Leisure Special Events	Funding for future events to be held by the Council for which a contribution in the form of sponsorship has been received.	108	0	27	135
Leisure Various	Includes reserves for improving parks, community and youth facilities, Prescott Museum and a best value review.	229	0	125	354
Loweswater Shops	Set up to cover the costs of re-development of the shopping arcade	13	0	(13)	0
Manor Farm Wall	Works on Manor Farm wall.	20	0	(9)	11
Neighbourhood Renewal Fund	To cover costs related to Neighbourhood Renewal Fund schemes.	419	0	77	496
Neighbourhood Regeneration	To fund new Council priorities in relation to Neighbourhood Regeneration	88	0	180	268
Old Rough Lane Shops	Refurbishment of Old Rough Lane Shops.	0	0	195	195

**NOTES TO THE CONSOLIDATED BALANCE SHEET**

**RESERVES (Cont'd)**

<b>Reserve</b>	<b>Description</b>	<b>Balance 31.3.2004 £000</b>	<b>Reclassified £000</b>	<b>Movement in year £000</b>	<b>Balance 31.3.2005 £000</b>
Operational & Environmental Services	To support service developments for performance improvement and provide for future maintenance costs.	0	0	89	89
Out of School Education	To fund a range of out of school activities	43	0	29	72
Pathways	Reserve set up to fund objective one Pathways scheme costs.	156	(50)	(5)	101
Performance Improvement Fund	To support service developments for performance improvement.	707	0	195	902
Public Service Agreement	This represents funding received from the Government to support agreed improvements in the performance of specific service areas. This funding is planned to be fully utilised during 2005/06.	1,818	0	(898)	920
Pump Priming Initiatives in Schools	To provide initial funding for the creation of new initiatives in school improvement and attainment.	389	0	153	542
Ravencourt	Future development of Ravencourt site	241	0	(225)	16
Risk Management	Funding for future risk management initiatives	127	0	141	268
School Balances	This reserve consists of individual school balances on delegated budgets and is used to fund future expenditure requirements for the schools' operation. At the end of the 2004/05, there are 62 schools with under-spends totalling £3.029m and 16 schools with overspends totalling £0.619m	1,918	0	543	2,461
School Maintenance	Individual school reserves to set aside funds for specific maintenance requirements, such as improved security, Closed Circuit Television equipment and refurbishment of playgrounds.	1,063	0	200	1,263
Schools Standard Fund	This reserve has been created in 2004/05 in order to disclose separately the total of schools' Standards Fund balances - previously held within the main school balances reserve. It consists of individual schools' underspends which will be used to fund expenditure requirements in the following financial year	94	0	1,330	1,424

**NOTES TO THE CONSOLIDATED BALANCE SHEET**

**RESERVES (Cont'd)**

<b>Reserve</b>	<b>Description</b>	<b>Balance 31.3.2004 £000</b>	<b>Reclassified £000</b>	<b>Movement in year £000</b>	<b>Balance 31.3.2005 £000</b>
School Trading Activities	Balances relating to Trading Activities with the Authority's schools covering financial support, school meals consultancy and supporting school forum.	13	0	1	14
Service Trading	This represents the combined surpluses for the Council's trading services. The reserves are earmarked for future service improvement and development	1,019	0	(828)	191
Social Services Community Care	To provide for the future costs of the range of Social Services provided by the Council.	170	0	130	300
Social Services Initiatives	Includes reserves for workstep and disability services – multi agency training.	15	0	153	168
Social Services Pooled Budget	To provide for future costs of pooled budget – supported accommodation.	16	0	166	182
Strategy	Monies set aside to meet identified corporate policy developments.	2,804	178	(233)	2,749
Sundry Debtors	Set aside by Leisure Services pending the results of a review of sundry debtors	0	0	105	105
Sustainable Schools Improvement	Extension to a secondment arrangement to March 2006, whereby the LEA is required to contribute one third of the salary costs of three Head Teachers.	0	59	5	64
Teachers Pensions	Reserve for the payment of lump sum pension costs for teachers retiring prematurely.	1,004	0	145	1,149
Thingwall Hall	Set aside to meet the costs of a Public Enquiry	0	0	59	59
Unitary Development Plan	Cost of carrying out Unitary Development Plan.	33	0	(3)	30
Welfare to Work	This is the employed option of the Government's New Deal Programme for 18-24 year olds. Expected deficit likely at end of the New Deal programme, due to a reduction in funding.	132		(32)	100

**NOTES TO THE CONSOLIDATED BALANCE SHEET**

**RESERVES (Cont'd)**

<b>Reserve</b>	<b>Description</b>	<b>Balance 31.3.2004 £000</b>	<b>Reclassified £000</b>	<b>Movement in year £000</b>	<b>Balance 31.3.2005 £000</b>
Winter Maintenance	Reserve set up for additional costs in severe winter periods	91	0	(50)	41
Yorkshire Purchasing Organisation	This is Knowsley's allocation of profits distributed from the group. These are used for a variety of corporate purposes.	342	0	(122)	220
<b>TOTAL</b>		<b>16,491</b>	<b>374</b>	<b>7,032</b>	<b>23,897</b>

## NOTES TO THE CONSOLIDATED BALANCE SHEET

### 16. TRUST FUNDS

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

	Balance 31.3.2004	Receipts	Payments	Balance 31.3.2005
	£000	£000	£000	£000
King George V Playing Fields	837	0	0	837
Huyton Distress Fund	33	3	1	35
Social Services Trust Funds	65	60	5	120
Education Trust Funds	7	0	0	7
Client Records In Social Services Provision (CRISSP) User Fund	34	2	0	36
	<u>976</u>	<u>65</u>	<u>6</u>	<u>1035</u>

### 17. INTEREST IN COMPANIES

#### Knowsley Development Partnership Ltd.

Knowsley Development Partnership Ltd. was set up on 23 October 1998 as a formally incorporated public/private sector partnership between the Council and Caddick Developments Ltd. for the purpose of developing industrial units at Knowsley Industrial Park. Caddick Developments Ltd. has a majority shareholding of 829 (83%) of the 999 £1 ordinary shares. The Council's holding of 170 shares is therefore a minority share and is less than that required for the company to be regarded as an influenced company. As the company is a private company limited by shares, the Council has no liability to contribute to any debts of the company included accumulated losses. The company had net assets of £0.040m at 31 August 2004 and reported a profit of £0.028m as at that date.

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

### 18. GROUP ACCOUNTS

The Council, where it has an interest in entities that would otherwise be regarded as subsidiaries, associates or joint ventures under the Companies Acts, is required to produce supplementary information in the form of summarised group accounts. The Council has reviewed its relationships with third parties under these requirements and has concluded that for 2004/05 it has no such interests. However, it is expected that the requirement to produce summarised group accounts will be applied in 2005/06 to reflect the Council's interest in the "2020 Knowsley" joint venture company, which commenced operations on 1<sup>st</sup> April 2005.

### 19. EURO COSTS

No expenditure was incurred during 2004/05 in preparing for the possible national introduction of the Euro currency. There are no commitments in respect of costs to be incurred.

### 20. POST BALANCE SHEET EVENTS

Since the financial year end of 31 March 2005, there have been no significant post balance sheet events that have occurred which would require additional adjustment or disclosure in the financial statements.

## NOTES TO THE CONSOLIDATED BALANCE SHEET

### 21. CONTINGENT LIABILITIES

The Council is aware that under the Equal Pay Act 1970 as modified by the Equal Pay Act (Amendment) Regulations 2003, there is a possibility that compensation claims could be made in relation to equal pay for work of equal value. However, the Council is currently conducting a comprehensive job evaluation and harmonisation review which is aimed at resolving this issue and at this stage no claims are expected.

The Council may need to make a provision in 2005/06 for the future write-off of unrecoverable income, subject to the outcome of an ongoing review of the Council's income collection arrangements. The total potential liability is not thought likely to exceed £0.100m.

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

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

## TOTAL MOVEMENT IN RESERVES

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

2003/04 £000		2004/05 £000	Notes
	Movements on:		
(1,880)	General Fund	387	
(232)	Housing Revenue Account	0	
231	Collection Fund	449	
3,961	Specific Revenue Reserves	7,405	
(3,639)	Appropriations (from)/to Pensions Reserve	(6,087)	
28,826	Actuarial gains/(losses) on Pensions	(61,604)	
<b>27,267</b>	<b>Total increase/(decrease) in revenue resources</b>	<b>(59,450)</b>	1
13,811	Usable capital receipts	(12,277)	
0	Unapplied capital grants and contributions	0	
<b>13,811</b>	<b>Total increase/(decrease) in realised capital resources</b>	<b>(12,277)</b>	2
(7,499)	Gains/(losses) on revaluation of fixed assets	13,460	
0	Impairment losses on fixed assets due to general changes in prices	0	
<b>(7,499)</b>	<b>Total increase/(decrease) in unrealised value of fixed assets</b>	<b>13,460</b>	3
<b>(7,033)</b>	<b>Value of assets sold, disposed of or decommissioned</b>	<b>(9,106)</b>	3
6,676	Capital receipts set aside	20,875	
(19,845)	Revenue Resources Set Aside	(7,156)	
9,507	Movement on Government Grants Deferred	14,486	
(1,236)	Movement on Deferred Capital Receipts	(128)	
<b>(4,898)</b>	<b>Total increase/(decrease) in amounts set aside to finance capital investment</b>	<b>28,077</b>	4
<b>21,648</b>	<b>Total Recognised Gains and Losses</b>	<b>(39,296)</b>	

## NOTES TO THE STATEMENT OF TOTAL MOVEMENT IN RESERVES

### 1. MOVEMENTS IN REVENUE RESOURCES

	<b>General Fund £000</b>	<b>Collection Fund £000</b>	<b>Specific Revenue Reserves £000</b>	<b>Pensions Reserve £000</b>
Surplus/(Deficit) for the year	387	449	0	0
Appropriations to/from revenue	0	0	7,405	(6,087)
Actuarial gains and losses	0	0	0	(61,604)
<b>Total (increase)/decrease in revenue resources</b>	<b>387</b>	<b>449</b>	<b>7,405</b>	<b>(67,691)</b>
Balance brought forward at 1 April 2004	4,040	(392)	16,492	(100,239)
Balance carried forward at 31 March 2005	4,427	57	23,897	(167,930)
Further information on Pages	17	25	39	38

The actuarial gains identified as movements on the Pensions Reserve in 2004/05 can be analysed into the following categories, measured as absolute amounts and as a percentage of assets or liabilities at 31<sup>st</sup> March 2005.

	<b>Local Government Pension Scheme</b>		<b>Teachers Pension Scheme</b>		<b>Total</b>
	<b>£000</b>	<b>%</b>	<b>£000</b>	<b>%</b>	<b>£000</b>
Difference between the expected and actual return on assets	13,733	4.9%	0	0.0%	13,733
Differences between actuarial assumptions about liabilities and actual experience	(1,580)	0.4%	(241)	1.3%	(1,821)
Changes in the demographic and financial assumptions used to estimate liabilities	(71,658)	16.7%	(1,858)	10.2%	(73,516)
	(59,505)	13.9%	(2,099)	11.6%	(61,604)
Comparative Totals for 2003/04	28,826		914		29,740

### 2. MOVEMENTS IN REALISED CAPITAL RESOURCES

<b>Usable Capital Receipts</b>	<b>£000</b>
Amounts receivable in the year	(6,534)
Amounts applied to finance new capital investment	(5,743)
Prior Year Adjustment	0
<b>Total (increase)/decrease in realised capital resources in 2004/05</b>	<b>(12,277)</b>
Balance brought forward at 1 April 2004	21,776
Balance carried forward at 31 March 2005	9,499

Further information on page 37



## NOTES TO THE STATEMENT OF TOTAL MOVEMENT IN RESERVES

### 3. MOVEMENTS ON FIXED ASSET RESTATEMENT ACCOUNT

	£000
Gains/(losses) on revaluation of fixed assets	13,460
Impairment losses on fixed assets due to general changes in prices	<u>0</u>
<b>Total increase/(decrease) in realised capital resources</b>	<b>13,460</b>
<b>Value of assets sold, disposed of or decommissioned</b>	<b><u>(9,106)</u></b>
Total movement on reserve in the year	4,354
Balance brought forward at 1 April 2004	<u>(30,538)</u>
Balance carried forward at 31 March 2005	<u><u>(26,184)</u></u>

Further information on page 37

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

	Capital Financing Account £000	Government Grants Deferred £000	Deferred Capital Receipts £000	Total £000
Capital receipts set aside				
- reserved receipts	15,116			
- transferred debt receipts	16			
- useable capital receipt applied	<u>5,743</u>			
<b>Total capital receipts set aside</b>	<b><u>20,875</u></b>			20,875
Revenue resources set aside				
- capital expenditure financed from revenue	196			
- capital financing other	1,375			
- write off of depreciation on Government Grants Deferred	1,305			
- write down of deferred charges	(4,036)			
- impairment	(345)			
- reconciling amount for provisions of loan payment	<u>(5,651)</u>			
<b>Total revenue resources set aside</b>	<b><u>(7,156)</u></b>			(7,156)
Grants applied to capital investment		21,012		
Amounts credited to the asset management revenue account		<u>(6,526)</u>		
<b>Movement on Government Grants Deferred</b>		<b><u>14,486</u></b>		14,486
Mortgage principal payments received			<u>(128)</u>	
<b>Movement on Deferred Capital Receipts</b>			<b><u>(128)</u></b>	(128)
<b>Total (Increase)/decrease in amounts set aside to finance capital investment</b>				
Total movement on reserve in the year	13,719	14,486	(128)	28,077
Balance brought forward at 1 April 2004	310,461	56,309	1,573	368,343
Balance carried forward at 31 March 2005	<b><u>324,180</u></b>	<b><u>70,795</u></b>	<b><u>1,445</u></b>	<b><u>396,420</u></b>

## CASH FLOW STATEMENT

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

2003/04		2004/05	
£000		£000	£000
<b>REVENUE ACTIVITIES</b>			
Cash Outflows			
168,110	Cash paid to and on behalf of employees	172,538	
163,062	Other operating cash payments	178,356	
51,334	Housing Benefit paid out	49,631	
25,323	National Non Domestic Rate Payments to National Pool	25,600	
<u>7,075</u>	Precepts Paid	<u>7,553</u>	
414,904	Cash outflows on revenue activities		433,678
Cash Inflows			
(31,704)	Council Tax income	(31,959)	
(44,055)	National Non Domestic Rate	(42,143)	
(18,731)	Non-domestic rate receipts	(16,542)	
(124,616)	Revenue Support Grant	(136,069)	
(48,680)	Department for Work and Pensions Grants for Benefits	(49,052)	
(79,304)	Other Government Grants (Note 1)	(96,588)	
(45,849)	Cash received for goods and services	(37,303)	
<u>(29,728)</u>	Other operating cash receipts	<u>(34,765)</u>	(444,421)
(7,763)	Cash inflows on revenue activities		(10,743)
<b>SERVICING OF FINANCE</b>			
Cash Outflows			
6,563	Interest paid	5,317	
Cash Inflows			
<u>(1,321)</u>	Interest received	<u>(2,212)</u>	3,105
(2,521)	Net Revenue Activities (Note 2)		(7,638)
<b>CAPITAL ACTIVITIES</b>			
Cash Outflows			
29,375	Purchase of Fixed Assets	26,099	
<u>9,872</u>	Other Capital Cash Payments	<u>9,237</u>	35,336
Cash Inflows			
(19,188)	Sale of fixed assets	(8,702)	
(15,059)	Capital Grants received (Note 1)	(21,012)	
<u>(2,309)</u>	Other capital cash receipts	<u>(1,688)</u>	3,934
170	Net cash (inflow)/outflow before financing		<u>(3,704)</u>
<b>FINANCING</b>			
Cash Outflows			
43,236	Repayments of amounts borrowed		15,859
Cash Inflows			
<u>(44,038)</u>	New loans raised		<u>(23,414)</u>
(802)	Financing cashflows		(7,555)
Management of Liquid Resources			
(10,015)	Short term Investments	17,910	
<u>10,647</u>	Net (Increase)/Decrease in cash (Note 3)	<u>(6,651)</u>	11,259
<u>(170)</u>	Total Movement in Net Debt (Note 4)		<u>3,704</u>

## NOTES TO THE CASH FLOW STATEMENT

### 1. ANALYSIS OF PRINCIPAL GRANTS

Type of Grant	Revenue £000	Capital £000
<b>Department for Education and Skills</b>		
Standards Fund	28,607	4,130
School Standards Grant	3,164	
Teachers Pay Reform	2,785	
Sure Start		1,554
Other	1,151	388
<b>Learning and Skills Council</b>		
Sixth Form Funding	2,045	
Other	1,747	
<b>Office of the Deputy Prime Minister</b>		
Supporting People	9,069	
Neighbourhood Renewal Fund	7,866	
European Regional Development Fund	1,154	4,355
European Social Fund	1,000	
Offender Programmes (funds from Youth Justice Board)	826	
Single Regeneration Budget		1,282
Other	620	8,034
<b>Department for Work and Pensions</b>		
Council Tax Rebates Grant	15,308	
Housing Benefit Verification Framework / Fraud Incentive / Tax Credits	2,120	
Council Tax / Rent Allowance	825	
Other	612	
<b>Department of Health</b>		
Preserved Rights Grant	2,255	
Access and Systems Capacity	1,954	
Residential Allowance	1,335	
Mental Health	977	
Childrens' Services	820	
Carers Grant	558	
Social Services Training Support	444	
Other	1,142	50
<b>Other</b>	8,204	1,219
<b>TOTAL</b>	<b>96,588</b>	<b>21,012</b>

## NOTES TO THE CASH FLOW STATEMENT

### 2. RECONCILIATION OF REVENUE ACTIVITIES

The surplus / (deficit) on the Consolidated Revenue Account includes transactions which do not result in cash flows. The following table identifies these transactions and reconciles the Consolidated Revenue Account surplus (page 17) with the actual net revenue cash flows shown on the Cash Flow Statement (page 49).

	2003/04	2004/05	
	£000	£000	£000
Consolidated Revenue Account Surplus/(Deficit) for the year	13		387
<b>Non-cash transactions</b>			
Contributions to/(from) reserves/provisions	(6,437)		12,439
Capital transactions charged to revenue:			
- Depreciation	9,332	9,480	
- Minimum Revenue Provision	(11,189)	(8,965)	
- Revenue Contribution to Capital	140	196	711
	(8,141)		13,537
<b>Items on an accruals basis</b>			
(Increase) / decrease in stocks	98	28	
(Increase) / decrease in debtors	(2,196)	2,739	
Increase/(decrease) in creditors	12,760	(8,666)	(5,899)
Net cashflow from revenue activities	2,521		7,638

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

The following table reconciles the net cash flow movement as identified in the Cash Flow Statement (page 49) to the value of net debt as shown in the Consolidated Balance Sheet (pages 27 – 28).

	£000	£000
Net Debt as at 1st April 2004		(71,033)
<u>Changes in Net Debt:</u>		
Increase / (Decrease) in cash in the period	(6,651)	
Cash inflow from increase in debt	(7,555)	
Cash inflow from a decrease in liquid resources	17,910	
		3,704
Net Debt as at 31st March 2005		(67,329)

## NOTES TO THE CASH FLOW STATEMENT

### 4. ANALYSIS OF CHANGES IN NET DEBT

The following table reconciles items under the Financing and Management of Liquid Resources section to Opening and Closing balances per the Consolidated Balance Sheet (pages 27 – 28).

	2003/04	2004/05	Cashflow
Debt due within one year	(12,443)	(9,767)	2,676
Debt due after one year	(89,093)	(99,324)	(10,231)
	(101,535)	(109,091)	(7,555)
 <u>Management of Liquid Resources</u>			
Cash in Hand	2,296	2,819	523
Overdraft / Trust Funds Cash	(5,299)	(12,473)	(7,174)
Increase / (Decrease) in Cash	(3,002)	(9,654)	(6,651)
Temporary Loans	0	0	0
Short Term Investments	33,505	51,415	17,910
	33,505	51,415	17,910
 Total movement in net debt	 (71,033)	 (67,329)	 3,704

## AUDITOR'S REPORT TO KNOWSLEY METROPOLITAN BOROUGH COUNCIL

I have audited the statement of accounts on pages 2 to 53 which have been prepared in accordance with the accounting policies applicable to local authorities as set out on pages 14 - 16.

This report is made solely to Knowsley Metropolitan Borough Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 54 of the Statement of Responsibilities of Auditors and of Audited Bodies, prepared by the Audit Commission.

### RESPECTIVE RESPONSIBILITIES OF THE DIRECTOR OF FINANCE AND INFORMATION SOCIETY TECHNOLOGIES AND AUDITOR

As described on page 7, the Director of Finance and Information Society Technologies is responsible for the preparation of the statement of accounts in accordance with the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2004. My responsibilities, as independent auditor, are established by statute, the Code of Audit Practice issued by the Audit Commission and my profession's ethical guidance.

I report to you my opinion as to whether the statement of accounts presents fairly the financial position of the Council and its income and expenditure for the year.

I review whether the statement on internal control on pages 8-13 reflects compliance with the Chartered Institute of Public Finance and Accountancy's guidance - "The Statement on Internal Control in Local Government: Meeting the Requirements of the Accounts and Audit Regulations 2003" published on 2 April 2004. I report if it does not comply with proper practices specified by the Chartered Institute of Public Finance and Accountancy or if the statement is misleading or inconsistent with other information I am aware of from my audit of financial statements. I am not required to consider whether the statement on internal control covers all risks and controls or form an opinion on the effectiveness of the Council's corporate governance procedures or its risk and control procedures. My review was not performed for any purpose connected with any specific transaction and should not be relied upon for any such purpose.

I read the other information published with the statement of accounts and consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the statement of accounts.

### BASIS OF AUDIT OPINION

I conducted my audit in accordance with the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission, which requires compliance with relevant auditing standards issued by the Auditing Practices Board.

An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Council in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Council's circumstances, consistently applied and adequately disclosed.

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

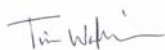
### OPINION

In my opinion the statement of accounts presents fairly the financial position of Knowsley Metropolitan Borough Council as at 31 March 2005 and its income and expenditure for the year then ended.

### CERTIFICATE

I certify that I have completed the audit of the accounts in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Signature:



T Watkinson [District Auditor]

Audit Commission, Aspinall House, Aspinall Close,  
Middlebrook, Bolton, BL6 6QQ

30<sup>th</sup> September 2005

## **GLOSSARY OF TERMS**

### **CAPITAL CHARGES**

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

### **CAPITAL EXPENDITURE**

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

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

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

### **CAPITAL RECEIPTS**

This relates to income from the sale of assets.

### **CONSOLIDATED BALANCE SHEET**

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

### **CONSOLIDATED REVENUE ACCOUNT**

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

### **DEFERRED CAPITAL RECEIPTS**

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

### **NATIONAL NON DOMESTIC RATE**

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

### **OVERHEADS**

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

### **PRECEPTS**

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

## **GLOSSARY OF TERMS**

### **PROVISIONS**

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

### **PUBLIC WORKS LOANS BOARD**

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

### **RESERVES**

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

### **REVENUE ACCOUNTS**

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

### **REVENUE SUPPORT GRANT**

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

### **TRADING OPERATIONS**

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