KNOWSLEY METROPOLITAN BOROUGH COUNCIL

STATEMENT OF ACCOUNTS

2014 – 2015

Knowsley Council

CONTENTS

EXPLANATORY FOREWORD

1. INTRODUCTION

In preparing its annual Statement of Accounts, Knowsley Council adopts the relevant national and international accounting requirements. To comply with these accounting requirements, the Statement of Accounts is a long and complex document. This foreword aims to help readers understand the Statement of Accounts. It explains the various accounting statements; provides a summary of the Council's overall financial position at 31 March 2015; and explains the most significant matters that are reported in the detailed Statements.

You can use the Council's website (www.knowsley.gov.uk) to access further related information including:

- Electronic versions of the Statement of Accounts (after the external audit inspection is complete)
- Knowsley's Council Tax information leaflet
- Council budget reports
- The Council's Corporate Plan

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

Your Comments

If you have any comments on the Statement of Accounts please contact the Council's Financial Management Service by email at finance@knowsley.gov.uk or by phone on 0151 443 3622.

2. PURPOSE OF THE ACCOUNTING STATEMENTS

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

- What money was spent and received by the Council during the year.
  - The Comprehensive Income and Expenditure Statement shows the day-to-day revenue costs of providing services, and the income that Knowsley received from grants, fees and charges and Council Tax.

- What assets the Council holds, what the Council is owed and what the Council owes to others.
  - The Balance Sheet shows:
    - How much money is set aside in general balances, provisions and reserves;
    - How much money was spent on acquiring or improving assets (capital expenditure);
    - How much money is owed to the Council (debtors) and by the Council (creditors); and,
    - The Council's share of the Pensions Fund Liability.

3. THE ACCOUNTING STATEMENTS

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

Statement of Responsibilities: This sets out the financial responsibilities of Council Members and the Council's Chief Financial Officer – the Executive Director (Resources).

Main Financial Statements

Movement in Reserves Statement: This statement shows the movement in the year on the different reserves held by the Council – analysed into 'usable' reserves (that can be applied to fund expenditure) and other reserves.

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

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

Cash Flow Statement: This summarises how the Council generates and uses its cash flows by classifying them as those arising from operating, investing and financing decisions.

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

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

Accounting Policies: These explain how the Council accounts for its expenditure, income and balance sheet items using the recommended accounting practices.

4. FINANCIAL PERFORMANCE AGAINST SERVICE BUDGETS IN 2014/15

The Comprehensive Income and Expenditure Statement shows the overall income and expenditure relating to all of the Council's services in the year; the principal sources of funding (such as Government grants and Council Tax); and the net position at the end of the year.

In line with best accounting practice, the Comprehensive Income and Expenditure Statement uses the Government's "Service Expenditure Reporting" analysis to show the cost of services, with adjustments for other expenditure that relates to the Council's overall operations rather than specific service provision. The Comprehensive Income and Expenditure Statement excludes amounts set aside by the Council in reserves for future years and a number of other statutory adjustments that the Government requires to avoid any undue impact on the Council Tax payer. These adjustments are recorded in the Movement in Reserves Statement, which shows how much money has actually been added to the Council's General Fund at the end of the year.

These accounting requirements mean that the service expenditure figures in the Statement of Accounts do not match the way in which the Council sets and manages its service budgets on a day to day basis during the year. Full details of the Council's budget monitoring performance are therefore reported separately to Members throughout the year.

The Council's Net Revenue Budget for 2014/15 was approved by the Council on 5 March 2014. Overall, a net expenditure budget of £164.379m was approved, funded by Government Grant of £125.855m and Council Tax receipts of £38.524m. Financial performance against approved service budgets has been monitored and reported to Members throughout the year, and the Council's final outturn position against its 2014/15 Net Revenue Budget was reported to the Council's Cabinet on 17 June 2015.

Throughout 2014/15, the Cabinet had been advised of significant pressures on the Council's Adult Social Care and Children's Social Care budgets. Action was taken to ensure that those pressures were managed and that their impact on the Council's overall budget position was minimised.

At the final outturn stage, there was a small deficit of £0.286m against the Council's overall budget which has been funded from General Balances. Moving forward, further work must be undertaken to ensure that the Council's Social Care services are sustainable in future years, and are able to contribute towards the Council's future financial strategy. This will be a significant challenge at a time when both demand for and external scrutiny on such services are increasing and overall resources are reducing.

5. THE COUNCIL'S ASSETS AND LIABILITIES

The Balance Sheet and the accompanying notes show the Council's financial position at the year end and reflect everything that the Council owes and is owed at that date. As a result of the Comprehensive Income and Expenditure Statement final position, the total General Fund balance at 31 March 2015 has fallen to £4.984m which is still in line with the Council's approved policy to provide a prudent financial safety-net for unforeseen events.

Council Reserves

At 31 March 2015, the total of the Council's earmarked reserves was £50.185m (excluding those held by schools, but including reserves that the Council holds on behalf of other partners). The reserves include amounts which are held to help manage a number of unpredictable risks within the Council's Financial Strategy (for example future insurance claims, increases in superannuation costs or the costs of implementing future savings). In line with the more challenging approach to one-off budgets which is now adopted by the Council, these reserves are under continual review with greater emphasis being placed on managing the risks within existing budgets in the relevant year.

The Council also sets money aside in earmarked reserves to pay for specific initiatives or spending commitments arising from decisions which (in many cases) were taken some time ago. The Council continues to challenge these reserves and consider alternative approaches to the investments that have been identified.

Where reserves are released for reallocation, the Council's Medium-Term Financial Strategy focuses on using one-off resources for proactive invest to save strategies, which reduce, rather than delay, the need for permanent savings, or which will contribute to the longer-term sustainability of the Borough. This is still the preferred approach for using one-off resources as there are significant risks associated with using one-off reserves to fund permanent budget gaps (because the Government's cuts to local authority funding are permanent, but reserves can only be used once which would only delay rather than reduce the need to make future savings).

However, the seriousness of the Authority's current financial challenges mean that the Council's financial strategy does include the option of using one-off resources in a limited way to help to manage the impact of Government funding cuts over the medium-term, whilst ensuring that this is phased over a number of years to avoid any sudden "cliff-edge" in the budget shortfall after the resources have been fully used.

Borrowing and Investments

The Council's Treasury Management Strategy is based upon the Chartered Institute of Public Finance and Accountancy's Code of Practice on Treasury Management in Local Authorities (the Treasury Management Code). Each year the Council approves its Treasury Management Strategy for the following year, and the Governance and Audit Committee is responsible for ensuring the effective review of the Treasury Management Strategy and performance during the year. The Treasury Management Strategy for 2014/15 was reported to the Governance and Audit Committee on 21 January 2014 and was subsequently approved by the Council on 5 March 2014.

The authorised limit for external debt for the Council for 2014/15 was £350m. The actual level of outstanding long-term and short-term debt at the year-end totalled £267.965m (including £144.991m of liabilities related to the Council's Private finance Initiative schemes).

At 31 March 2015, the Council had £103.749m of long term borrowing (compared to £109.004m in 2013/14). This included £101.281m of loans from the Public Works Loans Board. The remaining balance of £2.468m relates to debt transferred on the local government reorganisation in 1974 and 1986. At 31 March 2015 the Council held cash and investments of £75.819m (the 2013/14 figure totalled £88.971m).

The Council paid £11.241m of interest and similar charges in year for its Private finance Initiative schemes (2013/14 £10.164m) and a further £5.199m (2013/14 £5.120m) on its treasury management activities. The Council received £0.817m of interest and investment income during the year (2013/14 £0.713m). The movement in interest payable is due to the latest phase of the Street Lighting Private Finance Initiative coming on line.

The Council's bank overdraft facility amounts to £0.500m, but cash balances are monitored on a daily basis and investments adjusted to ensure any overdraft charges are minimised.

As reported to the Cabinet on 6 November 2013, the Council made a loan of £3m in total to provide short-term financial support to Knowsley Community College. It was agreed that there would be an initial 12-month period (from 1 December 2013) during which there will be no repayment or interest charged, and that repayments would commence on 1 December 2014. The Council is currently in discussion with the College regarding the rephasing of its ongoing repayments. While this technically represents a soft loan under accounting guidance, the impact on the Council's accounts is not significant and is therefore not adjusted in the accounts.

Capital Expenditure

All capital expenditure, and how the Council paid for it, is included within the Balance Sheet items and the accompanying notes. In 2014/15, the Council incurred significant capital expenditure on acquiring or improving Council buildings and other capital assets. This included expenditure on the Kirkby Regeneration programme (£1.370m); Highways Maintenance (£2.692m); and the Street Lighting Private Finance Initiative scheme (£8.782m) which will see the replacement of over 70% of the street lighting and traffic signs throughout the borough and will primarily be funded by Government Grant. The total grant and other contributions spent during 2014/15 was £11.897m. There were also schemes totalling £0.566m funded by Council borrowing. A full analysis of borrowing is given in the notes to the accounts.

Pension Fund Liability

The Balance Sheet also reflects the Council's participation in the Local Government Pension Scheme (administered by Merseyside Pension Fund). At the end of 2014/15, the Council's share of the overall Fund liability (excluding Teachers) was £295m – compared with £225m the previous year. This increase in liability was mainly due to actuarial remeasurements during the year on assets and liabilities.

While the Accounts show the pension liability position at 31 March 2015, in reality the actual pension payments will not be made until many years into the future. Therefore in the short term the Council's share of the overall Fund liability has had a significant negative impact on the net worth of the Council. This will however be recovered, as the Council pays contributions into the Pension Fund at a rate which is calculated by the Fund's actuary to ensure that the position is balanced in the longer term based upon forecast movements in investment values and changes in actuarial assumptions.

6. MAJOR INFLUENCES ON THE 2014/15 ACCOUNTS

During 2014/15 there have been a number of developments that have had an unusual influence on the Council's accounts. The major items are set out below:

The Local Government Funding System

Collection Fund

The Statement of Accounts includes the 2014/15 Collection Fund – which shows the income collected from the Council Tax and Business Rates.

Under the Business Rates Retention Scheme from 2013/14 the Council has been liable for the potential cost of all backdated appeals that would arise in 2014/15 and future years. This is a change that the Council has raised with the Government on numerous occasions, as the appeals arose under the previous national pool arrangement for Business Rates and should have been funded under that system. The impact of the new approach is that the future cost of historic appeals is effectively unfunded.

The forecast Business Rates Collection Fund in-year surplus of £2.189m as reported to the Council in January 2015 has been revised at outturn to a surplus of £1.068m. This surplus will partially offset the cumulative deficit brought forward within the Business Rates Collection Fund. Knowsley's share of the Business Rates deficit (49%) is £6.206m which will be reflected in the January 2016 National Non-Domestic Rates Return to the Government.

The overall Collection Fund deficit of £11.149m will be carried forward as part of the overall 2014/15 Collection Fund position.

Cuts in Local Government Funding

Like other local authorities across the country, the Council continues to face significant cuts in Government funding. In fact, these cuts impact on Knowsley more than on other councils because we get more of our total funding from the Government, and because the Government is reducing how much of that funding is actually based on the needs of residents. Since 2010, Knowsley's general Government grant funding has been cut by 35% (£72m) – equivalent to 52% in real terms. These unprecedented budget reductions set the context for how the Council managed its finances during the year.

With a large proportion of the Council's funding coming through the Government's grant formula, and with Council Tax increases restricted by the Government, the ability of the Council to sustain current funding levels is very limited. Without fundamental changes in the population and business base of the borough, the only effective option for addressing budget shortfalls is to reduce the Council's costs and service levels.

The Council is developing a number of policies and initiatives to make Knowsley a sustainable borough; reducing dependency and demand for services, attracting thriving families, increasing the numbers and mix of houses to increase the Tax Base, achieving business growth (and subsequent Business Rate income), and delivering effective services at a lower cost are all key components of ensuring that the Borough of Knowsley is sustainable in the long-term.

Equal Pay Act (Amendment) Regulations 2003

As in previous years, the 2014/15 Statement of Accounts reflects the recommended accounting practice for compensation claims under the Equal Pay Act (Amendment) Regulations 2003 in relation to equal pay for work of equal value.

Following the completion of negotiations between the Council, the Single Status Trade Unions (UNISON, UNITE and GMB) and their solicitors, agreement has been reached regarding the principles for settling legitimate equal pay claims. As a result, the Council now faces a total maximum liability of up to £6.384m from current and former Council employees. The Council has therefore created a provision for this amount in the accounts, of which £4.100m can be funded through Government borrowing approval previously secured for this purpose. The balance has been funded in previous years using available one-off revenue resources.

The negotiated settlement figures also provides for a liability of up to £4.132m for community school claims – the funding for which has to be met by schools through their reserves and the Dedicated Schools Grant. A provision has therefore also been created for this amount, however as the ability of the Schools to fund this liability in full in 2014/15 was limited, an element of the provision (£3.570m) has been offset in line with accounting guidance so that there is no impact of this amount on the Council's balances.

Academy Transfers

During 2014/15 two of the Council's Schools transferred to Academy status. The Council has granted 125 year leases of the property to the Academies and as a result the buildings will be removed from the Council's Balance Sheet. At 31 March 2015, the value of the assets removed from the Council's Balance Sheet was £2.791m.

James Duncan, CPFA
Executive Director (Resources)
30 June 2015

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 Executive Director (Resources);
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets; and,
- arrange the approval of the Statement of Accounts by the Governance and Audit Committee.

THE EXECUTIVE DIRECTOR (RESOURCES)'S RESPONSIBILITIES

The Executive Director (Resources) is responsible for the preparation of the Council's Statement of Accounts in accordance with proper practices as set out in the Chartered Institute of Public Finance and Accountancy (CIPFA)/Local Authority (Scotland) Accounts Advisory Committee (LASAAC) Code of Practice on Local Authority Accounting in the United Kingdom ('the Code of Practice').

In preparing this Statement of Accounts, the Executive Director (Resources) has:

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

The Executive Director (Resources) has also:

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

EXECUTIVE DIRECTOR (RESOURCES)'S STATEMENT

I certify that the Council's 2014/15 Statement of Accounts presents a true and fair view of the financial position of the Council at 31 March 2015 and its income and expenditure for the year ended 31 March 2015.

JAMES DUNCAN CPFA
Executive Director (Resources)
22 September 2015

STATEMENT OF THE CHAIRMAN OF THE GOVERNANCE AND AUDIT COMMITTEE

I confirm on behalf of the Council that these accounts and the outcome of the audit of them were approved by the Governance and Audit Committee at its meeting on 22 September 2015.

COUNCILLOR M O'MARA MBE
Vice-Chairperson of the Governance and Audit Committee
22 September 2015

MOVEMENT IN RESERVES STATEMENT

This statement shows the movement in the year on the different reserves held by the Council, analysed into 'usable reserves' and 'unusable reserves'. Usable reserves are those reserves that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use such as the Capital Receipts Reserve that may only be used to fund capital expenditure or repay debt. The Unusable reserves are those that the Council is not able to use to provide services. This category of reserves include those that hold unrealised gains or losses, for example the Revaluation Reserve, where amounts would only become available to provide services if the assets are sold. The surplus or deficit on the provision of services line shows the true economic cost of providing the Council's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance for council tax setting purposes. The net increase or decrease before transfers to earmarked reserves line shows the statutory General Fund Balance before any discretionary transfers to or from earmarked reserves undertaken by the Council.

	Usable Reserves						
	General Fund Balance £000	**Earmarked General Fund Reserves £000**	**Capital Receipts Reserve £000**	**Capital Grants Unapplied £000**	**Total Usable Reserves £000**	**Unusable Reserves £000**	**Total Council Reserves £000**
Balance at 31 March 2013	**5,270**	**65,303**	**-**	**3,928**	**74,501**	**(50,735)**	**23,766**
Movement in Reserves during 2013/14							
Deficit on Provision of Services	(63,167)	-	-	-	(63,167)	-	(63,167)
Other Comprehensive Income and Expenditure	-	-	-	-	-	101,731	101,731
Total Comprehensive Income and Expenditure	**(63,167)**	**-**	**-**	**-**	**(63,167)**	**101,731**	**38,564**
Adjustments between Accounting Basis and Funding Basis under Regulations (Note 6)	74,542	-	-	(1,546)	72,996	(72,996)	-
Net Increase / (Decrease) before Transfers to Earmarked Reserves	**11,375**	**-**	**-**	**(1,546)**	**9,829**	**28,735**	**38,564**
Transfers to/from Earmarked Reserves (Note 7)	(11,375)	11,375	-	-	-	-	-
Increase / (Decrease) in 2013/14	**-**	**11,375**	**-**	**(1,546)**	**9,829**	**28,735**	**38,564**
Balance at 31 March 2014	**5,270**	**76,678**	**-**	**2,382**	**84,330**	**(22,000)**	**62,330**

MOVEMENT IN RESERVES STATEMENT

	Usable Reserves						
	General Fund Balance £000	Earmarked General Fund Reserves £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	Total Usable Reserves £000	Unusable Reserves £000	Total Council Reserves £000
Balance at 31 March 2014	**5,270**	**76,678**	**-**	**2,382**	**84,330**	**(22,000)**	**62,330**
Movement in Reserves during 2014/15							
Surplus on Provision of Services	3,473	-	-	-	3,473	-	3,473
Other Comprehensive Income and Expenditure	-	-	-	-	-	(82,414)	(82,414)
Total Comprehensive Income and Expenditure	**3,473**	**-**	**-**	**-**	**3,473**	**(82,414)**	**(78,941)**
Adjustments between Accounting Basis and Funding Basis under Regulations (Note 6)	(19,032)	-	-	(238)	(19,270)	19,270	-
Net Increase / (Decrease) before Transfers to Earmarked Reserves	**(15,559)**	**-**	**-**	**(238)**	**(15,797)**	**(63,144)**	**(78,941)**
Transfers to/from Earmarked Reserves (Note 7)	15,273	(15,273)	-	-	-	-	-
Decrease in 2014/15	**(286)**	**(15,273)**	**-**	**(238)**	**(15,797)**	**(63,144)**	**(78,941)**
Balance at 31 March 2015 carried forward	**4,984**	**61,405**	**-**	**2,144**	**68,533**	**(85,144)**	**(16,611)**

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

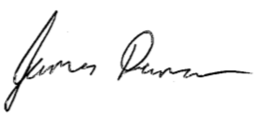
2013/14					2014/15		
Gross Expenditure £000	Gross Income £000	Net Expenditure £000		Note	Gross Expenditure £000	Gross Income £000	Net Expenditure £000
			Council Services				
96,440	(33,248)	63,192	Adult Social Care		98,756	(42,837)	55,919
3,359	(1,528)	1,831	Central Services to the Public		3,374	(2,188)	1,186
33,600	(8,214)	25,386	Cultural and Related Services		22,439	(10,166)	12,273
214,634	(184,890)	29,744	Education and Children's Services		219,798	(200,917)	18,881
35,007	(26,874)	8,133	Environmental and Regulatory Services		33,431	(32,931)	500
18,913	(7,503)	11,410	Highways, Roads & Transport Services		27,509	(9,464)	18,045
97,722	(96,144)	1,578	Housing Services		98,952	(98,215)	737
25,517	(17,666)	7,851	Planning Services		21,794	(13,582)	8,212
14,577	(16,904)	(2,327)	Public Health		21,995	(19,947)	2,048
3,990	(152)	3,838	Corporate & Democratic Core		4,761	(1,190)	3,571
1,852	(6,134)	(4,282)	Non Distributed Items		1,874	(307)	1,567
545,611	**(399,257)**	**146,354**	**Cost of Services**		**554,683**	**(431,744)**	**122,939**
67,068	-	67,068	Other Operating Expenditure	8	26,252	-	26,252
29,178	(2,677)	26,501	Financing and Investment Income and Expenditure	9	26,600	(3,579)	23,021
-	(176,756)	(176,756)	Taxation and Non-specific Grant Income	10	-	(175,685)	(175,685)
		63,167	**Deficit/(Surplus) on Provision of Services**				**(3,473)**
		(7,515)	Surplus on Revaluation of Property, Plant and Equipment	25			(498)
			Surplus on Revaluation Available for Sale Financial Assets				(1,112)
		(94,216)	Remeasurements on Pension Assets/Liabilities	25			84,024
		(101,731)	**Other Comprehensive Income and Expenditure**				**82,414**
		(38,564)	**Total Comprehensive Income and Expenditure**				**78,941**

None of the items included within Other Comprehensive Income and Expenditure are expected to be reclassified to the Surplus or Deficit on the Provision of Services.

BALANCE SHEET

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Council. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those reserves that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve that may only be used to fund capital expenditure or repay debt). The second category of reserves is those that the Council is not able to use to provide services. This category of reserves include reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

Balance at 31 March 2014 £000		Note	Balance at 31 March 2015 £000
456,164	Property, Plant and Equipment	11	457,302
50,935	Investment Property	12	51,306
861	Intangible Assets	13	535
369	Heritage Assets	14	442
3	Long Term Investments	15	14,696
1,498	Long Term Debtors	15	1,432
509,830	***Long Term Assets***		**525,713**
23,144	Short Term Investments	15	18,627
463	Inventories	16	530
28,453	Short Term Debtors	17	21,972
65,824	Cash and Cash Equivalents	18	42,496
16,954	Assets Held for Sale	19	17,072
134,838	***Current Assets***		**100,697**
(14,233)	Short Term Borrowing	15	(19,225)
(32,808)	Short Term Creditors	20	(33,113)
(6,770)	Provisions	21	(1,008)
(53,811)	***Current Liabilities***		**(53,346)**
(109,004)	Long Term Borrowing	15	(103,749)
(36,084)	Provisions	21	(28,693)
(243,803)	Pension Liability	43	(314,819)
(136,209)	Other Long Term Liabilities	22	(140,975)
(3,427)	Capital Grants Receipts in Advance	23	(1,439)
(528,527)	***Long Term Liabilities***		**(589,675)**
62,330	***Net Assets / (Liabilities)***		**(16,611)**
(84,330)	Usable Reserves	24	(68,533)
22,000	Unusable Reserves	25	85,144
(62,330)	***Total Reserves***		**16,611**



JAMES DUNCAN CPFA
Executive Director (Resources)

CASH FLOW STATEMENT

The Cash Flow Statement shows the changes in cash and cash equivalents of the Council during the reporting period. The statement shows how the Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Council are funded by way of taxation and grant income or from the recipients of services provided by the Council. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Council's future service delivery (e.g. the purchase or sale of property, plant and equipment). Cash flows arising from financing activities are useful in predicting commitments on future cash flows by providers of capital (i.e. borrowing) to the Council.

2013/14 £000		2014/15 £000
63,167	Net (surplus) or deficit on the provision of services	(3,473)
(101,108)	Adjustments to net surplus or deficit on the provision of services for non-cash movements	(3,283)
7,634	Adjustments for items included in the net surplus or deficit on the provision of services that are investing or financing activities	10,579
(30,307)	Net cash flows from Operating Activities (Note 26)	3,823
(14,820)	Net cash flows from Investing Activities (Note 27)	18,617
15,706	Net cash flows from Financing Activities (Note 28)	888
(29,421)	Net increase or decrease in cash and cash equivalents	23,328
(36,403)	Cash and cash equivalents at the beginning of the reporting period	(65,824)
(65,824)	**Cash and cash equivalents at the end of the reporting period (Note 18)**	**(42,496)**

NOTES TO THE ACCOUNTS

1. ACCOUNTING STANDARDS THAT HAVE BEEN ISSUED BUT HAVE NOT YET BEEN ADOPTED

The Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 (the Code) has introduced several changes in accounting policies which will be required from 1 April 2015. The following changes are not considered to have a significant impact on the Council's Statement of Accounts.

International Financial Reporting Standard 13 – Fair Value Measurement
This standard introduced the concept of a fair value measurement to be applied to all assets and liabilities which use fair value as a measurement basis. The adoption of this standard will require surplus assets to be revalued to market rather than value in existing use as at present. Overall, this standard is not expected to have a significant impact on the Council's accounts, due to the low value of surplus assets held.

IFRIC 21 - Levies
This standard provides guidance on the recognition point for the payment of levies as the activity which triggers the payment. This standard is not expected to have an impact on the Council's Statement of Accounts as this is already accounting practice.

Annual Improvements to IFRS's
These improvements are minor and are not expected to have a significant impact on the Council's Statement of Accounts.

2. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

In applying the accounting policies, the Council has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are:

Local Government Funding
There remains a high degree of uncertainty about the future levels of funding for local government but the Council anticipates that the pressures on public spending will continue in line with the level of reductions seen in previous years. The Council's approved Budget Strategy identifies a range of measures to address these pressures including further savings in service budgets and phased release of reserves. However, the Council has assumed that this uncertainly will not affect its ability to operate as a going concern.

Accounting for Schools
The Council recognises the land and buildings used by schools in line with the requirements of the Code of Practice. Property used by schools should be recognised in accordance with the asset recognition tests relevant to the arrangements that prevail for the property. The Council recognises the schools assets for Community Schools on its Balance Sheet as it directly owns those assets. For the Voluntary Aided schools, the legal ownership of the land and buildings rests with the Diocese and Archdiocese who grant a license for the schools to use them. Under this license agreement, the rights of use of the land and buildings have not transferred to the school and have therefore not been included in the Council's Balance Sheet.

Academies are not included on the Council's Balance Sheet as the Council does not control their use.

When a school on the Council's Balance Sheet transfers to Academy status the Council has treated this transfer as a disposal for nil consideration on the Balance Sheet rather than an impairment.

NOTES TO THE ACCOUNTS

Private Finance Initiative Assets
The Council has entered into a Private Finance Initiative (PFI) arrangement with Transform Schools for the provision of seven Centres for Learning and one Special Educational Needs School. The contract includes Hard Facilities Management for a period of 25 years from service commencement, with a contract expiry date of 31 August 2034.

The Council has also entered into a further PFI arrangement with Tay Valley Lighting to deliver street lighting and traffic sign services for a 25 year period.

Following the guidance given in the Code and the International Financial Reporting Interpretations Committee interpretation for service concession arrangements (IFRIC 12), the Council had previously concluded that the four Centres for Learning which are Community schools, the special educational needs school, and the street lighting and traffic signs should remain on the Balance Sheet. However, during 2013/14 three of the Centres for Learning transferred to Academy status and the Council has treated this transfer as a disposal for nil consideration on the Balance Sheet.

Group Accounts
The Council, where it has an interest in entities that would otherwise be regarded as subsidiaries, associates or joint ventures, 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 2014/15 it has no such interests.

Single Status
The Council has undertaken a comprehensive job evaluation exercise as part of the local implementation of the national single status agreement. While there has been a one-off cost to the Council in respect of implementing the revised pay arrangements, the settlement that has been reached ensures that the outcome is cost neutral on an ongoing basis.

Valuation and Componentisation of Property, Plant and Equipment
Under the Code guidelines, each component of an item of Property, Plant and Equipment should be separately identified and depreciated where the cost is significant in relation to the total cost of the asset. Authorities are only required to follow these requirements where significant components of material items of Property, Plant and Equipment have been identified. The Council has determined that only assets with a value of above £5m will be considered for componentisation.

3. ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY

The Statement of Accounts contains estimated figures that are based on assumptions made by the Council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

NOTES TO THE ACCOUNTS

The items in the Council Balance Sheet as at 31 March 2015 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

- Property, Plant and Equipment – assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance on them. If the useful life of assets is reduced then depreciation will increase and the carrying amount of the asset on the Balance Sheet will fall. As at 31 March 2015, the value of Property, Plant and Equipment held on the Balance Sheet is £457.302m.

- Provisions – a provision is included in the Balance Sheet at 31 March 2015 of £10.516m in total (including Schools) for the Council's estimate of the maximum expected costs in relation to compensation claims made under the Equal Pay (Amendment) Regulations 2003. Following the completion of negotiations between the Council, the Single Status Trade Unions (UNISON, UNITE and GMB) and their solicitors, agreement has been reached regarding the principles for settling legitimate equal pay claims.

- Pensions Liability – estimation of the net liability in relation to the Merseyside Pension Fund depends on a number of complex judgements determined by the Funds appointed actuaries. Changes in these assumptions can have a significant impact on the net liability. As at 31 March 2015, the total pension liability, including Teachers Pensions is £314.819m, however a 0.1% increase in the assumed discount rate would reduce the pension liability by £16.244m, and a 1 year increase in assumed life expectancy would increase the liability by £17.278m

- Business Rates – on the 1 April 2013 the Business Rates Retention Scheme was introduced, whereby Councils are liable for a proportion of appeals against Business Rates charges in 2012/13 and earlier years. Therefore, a provision of £6.745m has been recognised for an estimate of the amount of appeals that may be upheld as at 31 March 2015.

4. MATERIAL ITEMS OF INCOME AND EXPENSE

Equal Pay

As in previous years, the 2014/15 Statement of Accounts reflects the recommended accounting practice for compensation claims under the Equal Pay Act (Amendment) Regulations 2003 in relation to equal pay for work of equal value.

Following the completion of negotiations between the Council, the Single Status Trade Unions (UNISON, UNITE and GMB) and their solicitors, agreement has been reached regarding the principles for settling legitimate equal pay claims. As a result, the Council now faces a total maximum liability of up to £6.384m from current and former Council employees. The Council has therefore created a provision for this amount in the accounts, of which £4.100m can be funded through Government borrowing approval previously secured for this purpose. The balance has been funded in previous years using available one-off revenue resources.

The negotiated settlement figures also provides for a liability of up to £4.132m for community school claims – the funding for which has to be met by schools through their reserves and the Dedicated Schools Grant. A provision has therefore also been created for this amount, however as the ability of the Schools to fund this liability in full in 2014/15 was limited, an element of the provision (£3.570m) has been offset in line with accounting guidance so that there is no impact of this amount on the Council's balances.

NOTES TO THE ACCOUNTS

5. EVENTS AFTER THE BALANCE SHEET DATE

The Statement of Accounts was authorised for issue by the Executive Director (Resources) on 30 June 2015. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2015, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

6. ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATION

This note details the adjustments that are made to the total comprehensive income and expenditure recognised by the Council in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the Council to meet future capital and revenue expenditure.

The following sets out a description of the reserves that the adjustments are made against:

General Fund Balance
The General Fund is the statutory fund into which all the receipts of an authority are required to be paid and out of which all liabilities of the authority are to be met, except to the extent that statutory rules might provide otherwise. These rules can also specify the financial year in which liabilities and payments should impact on the General Fund Balance, which is not necessarily in accordance with proper practice. The General Fund Balance therefore summarises the resources that the Council is statutorily empowered to spend on its services or on capital investment (or the deficit of resources that the Council is required to recover) at the end of the financial year.

Capital Receipts Reserve
The Capital Receipts Reserve holds the proceeds from the disposal of land or other assets, which are restricted by statute from being used other than to fund new capital expenditure or to be set aside to finance historical capital expenditure. The balance on the reserve shows the resources that have yet to be applied for these purposes at year-end.

Capital Grants Unapplied
The Capital Grants Unapplied Reserve holds the grants and contributions received towards capital projects for which the Council has met the conditions that would otherwise require repayment of the monies but which have yet to be applied to meet expenditure. The balance is restricted by grant terms as to the capital expenditure against which it can be applied and/or the financial year in which this can take place.

NOTES TO THE ACCOUNTS

2014/15

	Usable Reserves			
	General Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied	Unusable Reserves
	£000	£000	£000	£000
Adjustments involving the Capital Adjustment Account:				
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement				
Charges for depreciation and impairment of non-current assets	(16,295)	-	-	16,295
Revaluation losses on Property, Plant and Equipment	(1,208)	-	-	1,208
Movement in the market value of Investment Properties	365	-	-	(365)
Amortisation of intangible assets	(448)	-	-	448
Capital grants and contributions	4,722	-	-	(4,722)
Revenue expenditure funded from capital under statute	-	-	-	-
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(4,565)	-	-	4,565
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement				
Statutory provision for the financing of capital investment	6,577	-	-	(6,577)
Principal repayment on external loans	240	-	-	(240)
Capital expenditure charged against General Fund	3,106	-	-	(3,106)
Adjustments involving the Capital Grants Unapplied Account:				
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	5,298	-	(5,298)	-
Application of grants to capital financing transferred to the Capital Adjustment Account	-	-	5,536	(5,536)
Adjustments involving the Capital Receipts Reserve:				
Transfer of sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	276	(312)	-	36
Use of the Capital Receipts Reserve to finance new expenditure	-	315	-	(315)
Contribution from the Capital Receipts Reserve towards administrative costs of non-current asset disposals	(11)	11	-	-
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool	(17)	17	-	-
Transfer of capital receipts to the Capital Adjustment Account to finance future expenditure	-	5	-	(5)

NOTES TO THE ACCOUNTS

2014/15 (continued)

	Usable Reserves			
	General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	Unusable Reserves £000
Adjustments involving the Deferred Capital Receipts Reserve:				
Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	36	(36)	-	-
Adjustments involving the Financial Instruments Adjustment Account:				
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in year in accordance with statutory requirements	6	-	-	(6)
Adjustments involving the Pension Reserve:				
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	(24,229)	-	-	24,229
Employer's pension contributions and direct payments to pensioners payable in the year	37,237	-	-	(37,237)
Adjustments involving the Collection Fund Adjustment Account:				
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	1,721	-	-	(1,721)
Adjustments involving the Equal Pay Adjustment Account:				
Amount by which amounts charged for equal pay claims to the Comprehensive Income and Expenditure Statement are different from the cost of settlements chargeable in year in accordance with statutory requirements	6,104	-	-	(6,104)
Adjustments involving the Accumulating Compensated Absences Adjustment Account:				
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from the remuneration chargeable in year in accordance with statutory requirements	117	-	-	(117)
Total Adjustments	**19,032**	**-**	**238**	**(19,270)**

NOTES TO THE ACCOUNTS

2013/14 Comparative Figures

	Usable Reserves			
	General Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied	Unusable Reserves
	£000	£000	£000	£000
Adjustments involving the Capital Adjustment Account:				
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement				
Charges for depreciation and impairment of non-current assets	(10,948)	-	-	10,948
Revaluation losses on Property, Plant and Equipment	(30,546)	-	-	30,546
Movement in the market value of Investment Properties	(123)	-	-	123
Amortisation of intangible assets	(622)	-	-	622
Capital grants and contributions	1,784	-	-	(1,784)
Revenue expenditure funded from capital under statute	(2)	-	-	2
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(46,652)	-	-	46,652
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement				
Statutory provision for the financing of capital investment	10,424	-	-	(10,424)
Principal repayment on external loans	240	-	-	(240)
Capital expenditure charged against General Fund	7,343	-	-	(7,343)
Adjustments involving the Capital Grants Unapplied Account:				
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	3,868	-	(3,868)	-
Application of grants to capital financing transferred to the Capital Adjustment Account	-	-	5,414	(5,414)
Adjustments involving the Capital Receipts Reserve:				
Transfer of sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	1,550	(1,586)	-	36
Use of the Capital Receipts Reserve to finance new expenditure	-	493	-	(493)
Contribution from the Capital Receipts Reserve towards administrative costs of non-current asset disposals	(48)	48	-	-
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool	(17)	17	-	-
Transfer of capital receipts to the Capital Adjustment Account to finance future expenditure	-	1,064	-	(1,064)

NOTES TO THE ACCOUNTS

2013/14 Comparative Figures (continued)

	Usable Reserves			
	General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	Unusable Reserves £000
Adjustments involving the Deferred Capital Receipts Reserve:				
Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	36	(36)	-	-
Adjustments involving the Financial Instruments Adjustment Account:				
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in year in accordance with statutory requirements	6	-	-	(6)
Adjustments involving the Pension Reserve:				
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	(23,272)	-	-	23,272
Employer's pension contributions and direct payments to pensioners payable in the year	18,815	-	-	(18,815)
Adjustments involving the Collection Fund Adjustment Account:				
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	(6,536)	-	-	6,536
Adjustments involving the Equal Pay Adjustment Account:				
Amount by which amounts charged for equal pay claims to the Comprehensive Income and Expenditure Statement are different from the cost of settlements chargeable in year in accordance with statutory requirements	(342)	-	-	342
Adjustments involving the Accumulating Compensated Absences Adjustment Account:				
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from the remuneration chargeable in year in accordance with statutory requirements	500	-	-	(500)
Total Adjustments	**(74,542)**	**-**	**1,546**	**72,996**

NOTES TO THE ACCOUNTS

7. MOVEMENT ON EARMARKED RESERVES

In addition to the Council's un-earmarked General Balances the Council sets aside resources in its earmarked reserves to fund approved policy developments and future financial commitments.

Note	Reserve	Balance at 31 March 2013	Net Movement 2013/14	Balance at 31 March 2014	Net Movement 2014/15	Balance at 31 March 2015
		£000	£000	£000	£000	£000
	Reserves held for Revenue Purposes					
(a)	Service Development Reserve					
	Approved Budget Investments	**(15,701)**	3,339	**(12,362)**	(10,458)	**(22,820)**
	Service Commitments	**(12,432)**	(2,251)	**(14,683)**	4,797	**(9,886)**
	Budget Strategy Reserve	**(7,409)**	(229)	**(7,638)**	(512)	**(8,150)**
	Major Project Financing	**(4,218)**	1,661	**(2,557)**	2,557	**-**
	Workforce Remodelling	**(2,452)**	(6,230)	**(8,682)**	5,049	**(3,633)**
	Social Care Funding	**(1,171)**	1,171	**-**	-	**-**
	Sub-total	**(43,383)**	(2,539)	**(45,922)**	1,433	**(44,489)**
(b)	Centres for Learning	**(5,066)**	(1,796)	**(6,862)**	6,862	**-**
(c)	Insurance Fund	**(2,748)**	775	**(1,973)**	592	**(1,381)**
	Sub-total	**(7,814)**	(1,021)	**(8,835)**	7,454	**(1,381)**
	Total	**(51,197)**	(3,560)	**(54,757)**	8,887	**(45,870)**
	Reserves held for Capital Purposes					
(d)	Street Lighting PFI	**(4,526)**	(550)	**(5,076)**	5,076	**-**
(e)	Stockbridge Village Regeneration	**(310)**	272	**(38)**	7	**(31)**
(f)	Future Schooling in Knowsley development	**(227)**	14	**(213)**	1	**(212)**
		(5,063)	(264)	**(5,327)**	5,084	**(243)**
	TOTAL COUNCIL RESERVES	**(56,260)**	(3,824)	**(60,084)**	13,971	**(46,113)**
(g)	Schools Balances	**(9,043)**	(1,561)	**(10,604)**	**(617)**	**(11,221)**
(h)	Youth Employment Gateway	**-**	(5,990)	**(5,990)**	**1,919**	**(4,071)**
	TOTAL COUNCIL AND OTHER RESERVES	**(65,303)**	**(11,375)**	**(76,678)**	**15,273**	**(61,405)**

Notes

(a) Funding for the future financial commitments of the Council's services.

(b) Sinking fund to finance the costs of the new Centres for Learning across the Borough. These resources were reallocated on a temporary basis during 2014/15 to finance other expenditure and will be replenished from budgeted contributions during 2015/16 and future years.

(c) Contributions to offset the cost of future insurance claims.

(d) Contributions to development work on the street lighting private finance initiative scheme. These resources were reallocated on a temporary basis during 2014/15 to finance other expenditure and will be replenished from budgeted contributions during 2015/16 and future years

(e) To fund development work associated with the redevelopment of Stockbridge Village.

(f) To fund ongoing development costs of the Future Schooling In Knowsley Programme.

(g) Balances held on delegated budgets to fund future schools expenditure.

(h) Grant funding allocated to the Liverpool City Region and held by the Council as Accountable Body.

NOTES TO THE ACCOUNTS

8. OTHER OPERATING EXPENDITURE

2013/14 £000		2014/15 £000
884	Parish council precepts	901
20,905	Levies	21,095
17	Payments to the Government Housing Capital Receipts Pool	17
45,262	Gains/Losses on disposal of non current assets	4,239
67,068	**Total**	**26,252**

9. FINANCING AND INVESTMENT INCOME AND EXPENDITURE

2013/14 £000		2014/15 £000
15,284	Interest payable and similar charges	16,457
13,341	Net interest on the net defined benefit liability	9,560
(713)	Interest receivable and similar income	(817)
(1,411)	Income and expenditure in relation to investment properties and changes in their fair value	(2,179)
26,501	**Total**	**23,021**

10. TAXATION AND NON SPECIFIC GRANT INCOME

2013/14 £000		2014/15 £000
(39,173)	Council tax income	(40,690)
(50,009)	Non domestic rates	(55,840)
(81,922)	Non-ringfenced Government grants	(69,135)
(5,652)	Capital grants and contributions	(10,020)
(176,756)	**Total**	**(175,685)**

NOTES TO THE ACCOUNTS

11. PROPERTY, PLANT AND EQUIPMENT

Movements in 2014/15

	Land and Buildings £000	Vehicles, Plant and Equipment £000	Infrastructure £000	Community Assets £000
Cost or Valuation				
Balance at 1 April 2014	307,556	56,401	194,857	6,669
Additions	4,640	551	16,306	789
Revaluations in Revaluation Reserve	665	-	-	-
Revaluation in Surplus/Deficit on Provision of Services	(1,439)	-	-	-
Disposals	(3,229)	-	(1,357)	-
Transfers between categories	(505)	-	-	-
Balance at 31 March 2015	**307,688**	**56,952**	**209,806**	**7,458**
Accumulated Depreciation and Impairment				
Balance at 1 April 2014	29,246	48,269	31,116	688
Depreciation charge	5,694	2,649	4,321	192
Depreciation written out to Revaluation Reserve	(633)	-	-	-
Depreciation written out to Surplus/Deficit on Provision of Services	(231)	-	-	-
Impairment losses in Revaluation Reserve	720	-	-	-
Impairment losses in Surplus/Deficit on Provision of Services	3,382	-	-	-
Disposals	(21)	-	-	-
Balance at 31 March 2015	**38,157**	**50,918**	**35,437**	**880**
Net Book Value				
At 31 March 2015	**269,531**	**6,034**	**174,369**	**6,578**
At 31 March 2014	**278,310**	**8,132**	**163,741**	**5,981**

NOTES TO THE ACCOUNTS

11. PROPERTY, PLANT AND EQUIPMENT (continued)

	Assets Under Construction £000	Surplus Assets £000	Total Property, Plant and Equipment £000	PFI Assets included in PPE £000
Cost or Valuation				
Balance at 1 April 2014	-	-	**565,483**	91,201
Additions	-	43	**22,329**	8,857
Revaluations in Revaluation Reserve	-	790	**1,455**	-
Revaluation in Surplus/Deficit on Provision of Services	-	-	**(1,439)**	-
Disposals	-	-	**(4,586)**	-
Transfers between categories	-	-	**(505)**	-
Balance at 31 March 2015	**-**	**833**	**582,737**	**100,058**
Accumulated Depreciation and Impairment				
Balance at 1 April 2014	-	-	**109,319**	16,531
Depreciation charge	-	-	**12,856**	1,379
Depreciation written out to Revaluation Reserve	-	-	**(633)**	-
Depreciation written out to Surplus/Deficit on Provision of Services	-	-	**(231)**	-
Impairment losses in Revaluation Reserve	-	-	**720**	-
Impairment losses in Surplus/Deficit on Provision of Services	-	43	**3,425**	-
Disposals	-	-	**(21)**	-
Balance at 31 March 2015	**-**	**43**	**125,435**	**17,910**
Net Book Value				
At 31 March 2015	**-**	**790**	**457,302**	**82,148**
At 31 March 2014	**-**	**-**	**456,164**	**74,670**

NOTES TO THE ACCOUNTS

11a. PROPERTY, PLANT AND EQUIPMENT (continued)

Comparative Movements in 2013/14

	Land and Buildings	Vehicles, Plant and Equipment	Infrastructure	Community Assets
	£000	£000	£000	£000
Cost or Valuation				
Balance at 1 April 2013	350,948	55,622	182,382	7,139
Opening Balance Adjustment	555	-	-	(600)
Additions	28,729	779	13,704	667
Revaluations in Revaluation Reserve	(869)	-	-	7
Revaluation in Surplus/Deficit on Provision of Services	(18,260)	-	-	(544)
Disposals	(44,381)	-	(1,229)	-
Transfers between categories	(9,166)	-	-	-
Balance at 31 March 2014	**307,556**	**56,401**	**194,857**	**6,669**
Accumulated Depreciation and Impairment				
Balance at 1 April 2013	29,196	44,153	27,134	551
Opening Balance Adjustment	7	-	-	(52)
Depreciation charge	6,717	4,116	3,982	127
Depreciation written out to Revaluation Reserve	(2,882)	-	-	(1)
Depreciation written out to Surplus/Deficit on Provision of Services	(1,658)	-	-	(15)
Impairment losses in Revaluation Reserve	464	-	-	-
Impairment losses in Surplus/Deficit on Provision of Services	1,042	-	-	78
Disposals	(361)	-	-	-
Transfers between categories	(3,279)	-	-	-
Balance at 31 March 2014	**29,246**	**48,269**	**31,116**	**688**
Net Book Value				
At 31 March 2014	**278,310**	**8,132**	**163,741**	**5,981**
At 31 March 2013	**321,752**	**11,469**	**155,248**	**6,588**

NOTES TO THE ACCOUNTS

11a PROPERTY, PLANT AND EQUIPMENT (continued)

	Assets Under Construction £000	Surplus Assets £000	Total Property, Plant and Equipment £000	PFI Assets included in PPE £000
Cost or Valuation				
Balance at 1 April 2013	-	-	**596,091**	111,209
Opening Balance Adjustment	-	-	**(45)**	-
Additions	-	-	**43,879**	26,752
Revaluations in Revaluation Reserve	-	-	**(862)**	-
Revaluation in Surplus/Deficit on Provision of Services	-	-	**(18,804)**	(2,964)
Disposals	-	-	**(45,610)**	(43,796)
Transfers between categories	-	-	**(9,166)**	-
Balance at 31 March 2014	**-**	**-**	**565,483**	**91,201**
Accumulated Depreciation and Impairment				
Balance at 1 April 2013	-	-	**101,034**	14,228
Opening Balance Adjustment			**(45)**	-
Depreciation charge	-	-	**14,942**	2,303
Depreciation written out to Revaluation Reserve	-	-	**(2,883)**	-
Depreciation written out to Surplus/Deficit on Provision of Services	-	-	**(1,673)**	-
Impairment losses in Revaluation Reserve	-	-	**464**	-
Impairment losses in Surplus/Deficit on Provision of Services	-	-	**1,120**	-
Disposals	-	-	**(361)**	-
Transfers between categories	-	-	**(3,279)**	-
Balance at 31 March 2014	**-**	**-**	**109,319**	**16,531**
Net Book Value				
At 31 March 2014	**-**	**-**	**456,164**	**74,670**
At 31 March 2013	**-**	**-**	**495,057**	**96,981**

NOTES TO THE ACCOUNTS

Depreciation and Measurement

The basis for measurement and depreciation for each class of asset is shown in the table below. Depreciation is calculated on the straight line method based on the following useful life of assets:

Asset	Measurement Basis	Depreciation
Buildings	Fair value based on Existing Use Value	50 years unless otherwise stated by valuer
Vehicles, Plant and Equipment	Depreciated Replacement Cost	5 – 20 years
Infrastructure	Depreciated Historical Cost	50 years
Community Assets	Depreciated Historical Cost	50 years unless otherwise stated by valuer
Assets under Construction	Fair Value	Not depreciated
Assets Held for Sale	Fair value based on Existing Use Value	Not depreciated

Revaluations

The Council carries out a rolling programme that ensures that all Property, Plant and Equipment required to be measured at fair value is revalued at least every five years. All valuations are carried out internally. Valuations of land and building are carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institute of Chartered Surveyors.

Capital Expenditure

The main items of capital expenditure during 2014/15 were:

	£000
Children and Family Services Portfolio	
Schools' and Children's Centre Improvement Programme	677
Two Year Old Building Capacity	649
Schools' New Pupil Places	612
Leisure, Community and Culture Portfolio	
Court Hey Park Cricket Pavilion	237
Regeneration, Economy and Skills Portfolio	
Street Lighting Private Finance Initiative Scheme	8,782
Highway Maintenance Programme	2,692
Kirkby Regeneration	1,370
Private Tenants Grants	1,360

NOTES TO THE ACCOUNTS

Capital Commitments

At 31 March 2015, the Council had entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2015/16 and future years. The major commitments are:

Scheme	Purpose	Expected Period	£000
Strategic Highway Network	Structural maintenance of the carriageways and bridges and schemes aimed at improving the management and control of traffic (both within and through the borough) with signals and signs.	2015/16	3,752
Street Lighting Private Finance Initiative Scheme	The remaining phase for the delivery of street lighting and traffic sign services over a 25 year period. The scheme includes the replacement of over 70% of the lighting stock.	2015/16	3,010
Prescot Townscape Heritage Initiative	This programme enables the repair, restoration, and, where required, conversion of vacant floor space at certain historic buildings within Prescot Town Centre Conservation Area in order to enhance the character, appearance and vitality of the conservation area. The programme has been deemed necessary by the Council and Heritage Lottery Fund in order to bring a number of historic buildings to a good state of repair and to full use.	2015/16 to 2017/15	2,499
Decent Homes for All	Financial Assistance to Owner Occupiers to bring their homes to the Decent Homes Standard by Housing Renewal, Energy Efficiency and Disabled Facilities works. In addition, to allow people to minimise their fuel bills or to have their home adapted to cater for a disability and allow them to remain in their home, if that is their wish.	2015/16	1,883
School and Children's Centre Maintenance	This Programme assures the condition of schools and children's centres building stock. Adequate maintenance supports the raising of standards of achievement of pupils by ensuring that teaching and learning takes place in suitable environments.	2015/16	1,288

NOTES TO THE ACCOUNTS

12. INVESTMENT PROPERTY

The following items of income and expenditure have been accounted for in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

2013/14 £000		2014/15 £000
(1,964)	Rental income from investment property	(2,397)
430	Direct operating expenses arising from investment property	583
(1,534)	**Net gain**	**(1,814)**

There are no restrictions on the Council's ability to realise the value inherent in its investment property or on the Council's right to the remittance of income and the proceeds of disposal. The Council has no contractual obligations to purchase, construct or develop investment property or repairs, maintenance or enhancement.

The following table summarises the movement in the fair value of investment properties over the year.

2013/14 £000		2014/15 £000
40,533	**Balance at 1 April**	50,935
	Additions:	
-	- Subsequent expenditure	6
(741)	Disposals	-
(123)	Net gains / (losses) from fair value adjustments	365
11,266	Transfers between categories	-
50,935	**Balance at 31 March**	**51,306**

NOTES TO THE ACCOUNTS

13. INTANGIBLE ASSETS

The Council accounts for its software as intangible assets, to the extent that the software is not an integral part of a particular IT system and accounted for as part of the hardware item of Property, Plant and Equipment.

All software is given a finite useful life, based on assessments of the period that the software is expected to be of use to the Council. The useful lives assigned to software and internally generated intangible assets used by the Council are 5 years.

2013/14				2014/15		
Software Licences	Internally Generated Assets	Total		Software Licences	Internally Generated Assets	Total
£000	£000	£000		£000	£000	£000
			Cost or Valuation			
8,896	98	**8,994**	Balance at start of year	9,073	98	**9,171**
177	-	**177**	Additions	122	-	**122**
9,073	**98**	**9,171**	**Balance at end of year**	**9,195**	**98**	**9,293**
			Accumulated Amortisation and Impairment			
7,668	20	**7,688**	Balance at start of year	8,264	46	**8,310**
596	26	**622**	Amortisation	428	20	**448**
8,264	**46**	**8,310**	**Balance at end of year**	**8,692**	**66**	**8,758**
809	**52**	**861**	**Net carrying amount at end of year**	**503**	**32**	**535**
1,228	**78**	**1,306**	**Net carrying amount at start of year**	**809**	**52**	**861**

The carrying amount of intangible assets is amortised on a straight line basis. The amortisation of £0.448m charged to revenue in 2014/15 was charged to the Information Technology cost centre and then absorbed as an overhead across all the service headings in the Cost of Services. It is not possible to quantify exactly how much of the amortisation is attributable to each service heading.

NOTES TO THE ACCOUNTS

14. HERITAGE ASSETS

Reconciliation of the Carrying Value of Heritage Assets

2013/14 £000	Public Art	2014/15 £000
	Cost	
253	Balance at 1 April	369
128	Additions	87
(12)	Depreciation	(14)
369	**Balance at 31 March**	**442**

The Knowsley Alphabet Public Art trail consists of 26 pieces of artwork which are totally unique to Knowsley. The pieces take inspiration from the borough's history, particularly from the famous artist Edward Lear who was based in Knowsley Hall in the 1830s.

The new artworks have been created especially for the Knowsley Leisure and Culture Park by artists, designers and craftspeople led by renowned artist Gordon Young. As part of the design process many local people, including school children, residents and even construction workers on site wrote their own rhymes which were incorporated with Lear's poems.

During 2014/15 further Public artwork pieces were commissioned as part of the Kirkby town centre regeneration programme.

These pieces of Public Art are reported in the Balance Sheet at cost and will be depreciated following the year of acquisition over 20 years.

NOTES TO THE ACCOUNTS

15. SIGNIFICANCE OF FINANCIAL INSTRUMENTS FOR FINANCIAL POSITION AND PERFORMANCE

A financial instrument is any contract which gives rise to a financial asset of one entity and a financial liability of another. Non-exchange transactions, such as those relating to taxes and government grants, do not give rise to financial instruments.

Financial Liabilities

A financial liability is an obligation to transfer economic benefits controlled by the Council and can be represented by a contractual obligation to deliver cash or financial assets or an obligation to exchange financial assets and liabilities with another entity that are potentially unfavourable to the Council.

The Council's non-derivative financial liabilities held during the year are measured at amortised cost and comprise of:

- long-term loans from the Public works Loan Board (PWLB) and commercial lenders
- short-term loans from other local authorities
- bank overdraft
- finance leases detail in Note 40.
- Private Finance Initiative (PFI) contracts detailed in Note 22
- Trade payables for goods and services received

The Council does not hold any derivative financial liabilities.

Financial Assets

A financial asset is a right to future economic benefits controlled by the Council that is represented by cash or other instruments or a contractual right to receive cash or another financial asset. The financial assets held by the Council during the year are held under the following classifications:

Loans and receivables:

- Cash;
- bank accounts and deposit accounts;
- fixed term deposits with banks and building societies; and
- trade receivables for goods and service delivered, including an indemnity deposit placed in the Local Authority Mortgage Scheme (LAMS).

Available for sale financial assets (those that are quoted in an active market) comprising:

- money market funds and other collective investment schemes managed by a fund manager;
- certificates of deposits issued by banks and building societies;
- bonds issued by multilateral development banks and UK companies

NOTES TO THE ACCOUNTS

a) Financial Instrument Balances

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

Long Term 31 March 2014 £000	Current 31 March 2014 £000		Long Term 31 March 2015 £000	Current 31 March 2015 £000
		Investments		
		Loans and Receivables held at amortised cost:		
3	23,144	- Fixed deposits	3	17,625
-	58,893	- Cash and cash equivalents	-	38,284
		Available for sale assets held at fair value :		
-	6,931	- Cash and cash equivalents	-	4,212
-	-	- externally managed funds	4,982	-
-	-	- bonds	9,711	-
-	-	-certificates of deposits	-	1,003
3	**88,968**	**Total Investments**	**14,696**	**61,124**
		Debtors		
1,498	28,453	- Loans and receivables	1,432	21,972
1,498	**28,453**	**Total Included in Debtors**	**1,432**	**21,972**
1,501	**117,421**	**Total Financial Assets**	**16,128**	**83,096**
		Borrowings		
106,290	13,986	- Financial liabilities at amortised cost	101,281	18,978
106,290	**13,986**	**Total included in Borrowing**	**101,281**	**18,978**
		Other Long Term Liabilities		
136,209	-	- PFI and finance lease liabilities	140,975	-
136,209	**-**	**Total Other Long Term Liabilities**	**140,975**	**-**
		Creditors		
-	32,808	- Financial liabilities at amortised cost	-	33,113
-	**32,808**	**Total Creditors**	**-**	**33,113**
242,499	**46,794**	**Total Financial Liabilities**	**242,256**	**52,091**

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

NOTES TO THE ACCOUNTS

Long Term Debtors at 31 March 2015 includes a £1m deposit held as a Financial Guarantee for the Councils Local Authority Mortgage Scheme (LAMS). Further details of this can be found in below in section (c) Fair Value of Assets and Liabilities.

An analysis of total borrowings, including transferred debt is shown in the following table:

Long Term 31 March 2014 £000	Current 31 March 2014 £000		Long Term 31 March 2015 £000	Current 31 March 2015 £000
		Borrowings		
101,290	1,492	Public Works Loans Board	101,281	1,485
5,000	12,494	Lender Offer Borrowing Option	-	17,493
2,714	247	Other Local Authorities (Note i)	2,468	247
109,004	**14,233**	**Total Borrowing**	**103,749**	**19,225**

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

b) Financial Instruments Gains and Losses

The gains and losses recognised in the Comprehensive Income and Expenditure Statement in relation to financial instruments are made up as follows:

2013/14	**Financial Liabilities - measured at amortised cost £000**	**Financial Assets - loans and receivables £000**	**Financial Assets - available for sale assets £000**	**Total £000**
Interest payable and similar charges	(15,075)	-	-	(15,075)
Net gain/(loss) for the year	**(15,075)**	**-**	**-**	**(15,075)**
2014/15	**£000**	**£000**	**£000**	**£000**
Interest payable and similar charges	(16,285)	-	-	(16,285)
Interest income	-	461	244	705
Dividend Income	-	-	101	101
Gains on Revaluation	-	-	1,192	1,192
Losses on Revaluation	-	-	(80)	(80)
Net gain/(loss) for the year	**(16,285)**	**461**	**1,457**	**(14,367)**

The interest expense excludes statutory transferred debt interest of (and therefore differs from the figure reported in Comprehensive Income and Expenditure Statement by) £0.172m in 2014/15 (£0.209m in 2013/14).

NOTES TO THE ACCOUNTS

The interest income excludes statutory transferred debt interest of (and therefore differs from the figure reported in Comprehensive Income and Expenditure Statement by) £0.008m in both 2013/14 and 2014/15.

The increase in interest payable and similar charges in 2014/15 reflects the increase in interest payments in relation to the Council's Private Finance Initiative Schemes. There was also a net gain on revaluation of the Councils Available for Sale Assets of £1.112m in 2014/15 which is discussed below in c) Fair Value of Assets and Liabilities – Available for Sale.

c) Fair Value of Assets and Liabilities

Financial assets classified as loans and receivables and all non-derivative financial liabilities are carried in the Balance Sheet at amortised cost. Available for sale assets are carried in the Balance Sheet at fair value.

For each class of financial assets and financial liabilities, the Council is required to disclose the fair value of that class of assets and liabilities. The Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, wiling parties in an arm's-length transaction.

The fair values have been estimated by calculating the net present value of the remaining contractual cash flows at 31 March 2015, using the following methods and assumptions:

- The fair values of loans from the PWLB have been discounted at the published interest rates for new PWLB certainty rate loans with an identical remaining term to maturity arranged on 31 March 2015.
- The fair values of "Lender's Option Borrower's Option" (LOBO) loans have been calculated by discounting the contractual cash flows over the whole life of the instrument at the appropriate interest rate swap rate on 31 March 2015 plus a margin for local authority credit risk and adding the value of the embedded options. Lenders' options to propose an increase to the interest rate on the loan have been valued according to Bloomberg's proprietary model for Bermudan cancellable swaps. Borrower's contingent options to accept the increased rate or repay the loan have been valued at zero, on the assumption that lenders will only exercise their options when market rates have risen above the contractual loan rate.
- The fair values of other long-term loans and investments have been discounted at the market rates for similar instruments with similar remaining terms to maturity on 31 March 2015.
- No early repayment or impairment is recognised for any financial instrument.
- The fair value of short-term instruments, including cash, money market funds, call accounts, trade payables and receivables is assumed to be a reasonable approximation to the carrying amount. The Council also deems the carrying amount to be a reasonable approximation of the fair value of the PFI and Finance lease liabilities – or PFI to be calculated

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

NOTES TO THE ACCOUNTS

The fair values calculated are as follows:

	31 March 2014		31 March 2015	
	Balance Sheet Carrying Amount £000	Fair Value £000	Balance Sheet Carrying Amount £000	Fair Value £000
Financial Liabilities				
LOBO fixed loans	17,494	21,127	17,493	26,702
PWLB fixed loans	102,782	105,818	102,766	132,103
PFI & Finance Leases	136,209	136,209	140,975	140,975
Trade payables	32,808	32,808	33,113	33,113
	289,293	295,962	294,347	332,893
Financial Assets				
Fixed Term Deposits	23,144	23,144	17,628	17,628
Call Account Investments	58,893	58,893	36,053	36,053
Available for sale	6,931	6,931	19,908	19,908
Trade Receivables	29,951	29,969	23,403	23,473
	118,919	118,937	96,992	97,062

Cash balances have been excluded from the above table.

Financial liabilities

Lender Offer Borrower Option (LOBO)
The fair value is higher than the carrying amount because the Council's Lender Offer Borrower Option portfolio includes a number of fixed rate loans where the interest payable is higher than the rates available for similar loans at the balance sheet date.

Public Works Loan Board (PWLB)
The fair value is greater than the carrying amount because the Council's Public Works Loan Board portfolio includes a number of fixed rate loans where interest payable is greater than the rates available for similar loans at the balance sheet date. These higher rate interest loans would however incur penalties if the Council repaid them early. The Public Works Loan Board's alternative calculations, based on the rates relevant to the premature repayment of loans, show the fair value of loans outstanding as at 31 March 2015 is £159.338m. This represents a variance of £27.235m when compared to the valuations above, prepared using rates available for new loans.

NOTES TO THE ACCOUNTS

Financial Assets

Fixed term deposits and call accounts
The carrying amounts of all the Council's short term deposits and cash equivalents are deemed to be a reasonable approximation of the fair value. The £0.003m of investments in 3.5% Treasury Stock is also included here.

Available for Sale
Available for sale assets are carried in the balance sheet at their fair value of £19.908m. The equivalent amortised cost of the Council's Available for Sale Assets is £18.796m. The fair value is higher than the amortised cost by £1.112m because the yields achieved on bonds purchased in year are higher than the yields of equivalent bonds at the balance sheet date.

Trade Receivables - Local Authority Mortgage Scheme Indemnity Deposit
On 22 July 2013 the Council placed a £1m indemnity deposit with Lloyds TSB bank plc for five years for the purpose of assisting first-time buyers onto the property ladder through the Local Authority Mortgage Scheme. By indemnifying lenders for up to 20% of the value of a mortgage, the scheme intends to help first-time buyers who can afford mortgage repayments, but not the initial deposits to buy a house within Knowsley.

The £1m indemnity deposit in Lloyds TSB bank plc is therefore shown as a Long Term Debtor in the Balance Sheet at 31 March 2015 and included within Trade Receivables in the above Fair Value table.

The Fair Value of the £1m indemnity deposit is greater than the carrying amount by £0.070m at the balance sheet date. This is because the interest rate receivable on the £1m indemnity deposit is greater than the rates available for similar investment deposits at the balance sheet date.

16. INVENTORIES

	Consumable Stores	
	2013/14	2014/15
	£000	£000
Balance outstanding at start of year	405	463
Purchases	3,462	3,570
Recognised as expense in the year	(3,404)	(3,503)
Balance outstanding at year-end	**463**	**530**

NOTES TO THE ACCOUNTS

17. DEBTORS

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

Long Term 31 March 2014 £000	Current 31 March 2014 £000		Long Term 31 March 2015 £000	Current 31 March 2015 £000
-	10,869	Government Departments	-	4,042
164	597	Other Local Authorities	157	1,676
1,334	11,996	Other Entities and Individuals	1,275	11,370
-	335	NHS Bodies	-	229
-	37	Public Corporations	-	38
-	4,619	Collection Fund	-	4,617
1,498	**28,453**	**Total Debtors**	**1,432**	**21,972**

Each line is presented net of allowance for non-collection. As at 31 March 2015 the total allowance for non-collection was £5.773m (£4.783m at 31 March 2014).

18. CASH AND CASH EQUIVALENTS

The balance of cash and cash equivalents is made up of the following elements:

31 March 2014 £000		31 March 2015 £000
3,872	Cash held by the Council	2,231
61,952	Short-term deposits with money market funds and call accounts	40,265
65,824	**Total Cash and Cash Equivalents**	**42,496**

NOTES TO THE ACCOUNTS

19. ASSETS HELD FOR SALE

2013/14 £000		2014/15 £000
25,156	**Balance outstanding at start of year**	16,954
170	Additions	482
(5,379)	Assets transferred to/(from) Held for Sale	505
5,958	Revaluation gains/(losses) in Revaluation Reserve	(387)
(13,415)	Revaluation losses in Surplus/Deficit on Provision of Services	-
-	Impairment gains/(losses) in Revaluation Reserve	(482)
5,126	Impairment gains/(losses) in Surplus/Deficit on Provision of Services	-
(662)	Assets sold	-
16,954	**Balance outstanding at year-end**	**17,072**

20. SHORT TERM CREDITORS

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

31 March 2014 £000		31 March 2015 £000
5,784	Government Departments	6,986
2,687	Other Local Authorities	922
20,317	Other Entities and Individuals	21,602
2,333	NHS Bodies	2,147
1,687	Collection Fund	1,456
32,808	**Total Creditors**	**33,113**

NOTES TO THE ACCOUNTS

21. PROVISIONS

A number of provisions have been set aside at 31 March 2015 to cover the following liabilities:

	Balance 31 March 2014 £000	Provided in year £000	Applied in year £000	Transfer between Short / Long term £000	Balance 31 March 2015 £000
Collection Fund Provisions - Long Term					
Business Rates Appeals	**6,392**	**-**	**(1,273)**	**-**	**5,119**
Council Provisions - Long Term					
Impact of Deficit on Collection Fund on the General Fund	6,729	-	-	-	6,729
Insurance	6,150	1,848	(1,595)	-	6,403
Equal Pay Back Pay	16,513	-	(12,098)	5,101	9,516
Street Lighting PFI	-	328	-	285	613
Land Charges Fees	300	-	(3)	-	297
Other	-	16	-	-	16
Total	**29,692**	**2,192**	**(13,696)**	**5,386**	**23,574**
Council Provisions - Short Term					
Equal Pay Back Pay	6,101	-	-	(5,101)	1,000
Carbon Reduction Costs	310	-	(310)	-	-
Other Provisions	359	-	(66)	(285)	8
Total	**6,770**	**-**	**(376)**	**(5,386)**	**1,008**
Total Provisions	**42,854**	**2,192**	**(15,345)**	**-**	**29,701**

Detail of Provisions

Business Rates Appeals (Collection Fund):
Guidance for the National Non-Domestic Rates Return requires the Council to provide for the cost of all potential backdated appeals expected to be incurred in 2014/15 and future years. This significant risk arose under the previous national pool arrangement for Business Rates, but under the new Business Rates Retention System, the cost falls in full on the Collection Fund. Knowsley's share of this cost is estimated at £5.119m and is provided for within the Collection Fund, and therefore reflected on the consolidated Balance Sheet.

Impact of Deficit on Collection Fund on the General Fund:
The Business Rates Collection Fund deficit is reported in the Collection Fund Statement. Knowsley's share of this deficit will represent a shortfall in Knowsley's forecast Business Rates income in 2015/16 and this has therefore been provided for on the Council's Balance Sheet.

NOTES TO THE ACCOUNTS

Insurance: estimated settlement cost of claims received at the Balance Sheet date. The Insurance Provision covers claims above the excess/retention levels for risks associated with property and liability. The timing of the liability is dependent on the individual claims process.

Equal Pay Act (Amendment) Regulations 2003: As in previous years, the 2014/15 Statement of Accounts reflects the recommended accounting practice for compensation claims under the Equal Pay Act (Amendment) Regulations 2003 in relation to equal pay for work of equal value. Following the completion of negotiations between the Council, the Single Status Trade Unions (UNISON, UNITE and GMB) and their solicitors, agreement has been reached regarding the principles for settling legitimate equal pay claims enabling a more accurate estimate of the total maximum liability for these claims (including Schools) to be made. In previous years this provision has been classified as long term.

Land Charges Fees: for repayment of fees relating to Land Charges.

Carbon Reduction Costs: for payment of costs relating to Carbon Reduction which will be required in 2015/16.

NOTES TO THE ACCOUNTS

22. PRIVATE FINANCE INITIATIVE TRANSACTIONS

The Council currently has two Private Finance Initiative schemes in operation, the first relating to the provision of Centres for Learning, and the second, most recent one, for the provision of street lighting services.

a) Centres for Learning / Primary Learning Centre

On 13 December 2007, the Council entered into a Private Finance Initiative (PFI) arrangement with Transform Schools for the provision of seven Centres for Learning. The contract includes Hard Facilities Management for a period of 25 years from service commencement, with a contract expiry date of 31 August 2034.

On 19 May 2011, the PFI arrangement with Transform Schools was amended to incorporate the new Special Educational Needs School at Bluebell Park in respect of the building works and ongoing services. The Hard Facilities Management Services will be provided by the PFI Contractor from the opening of the school on 1 September 2012 until the expiry of the contract on 31 August 2034.

Assets held under PFI arrangements

Four of the total seven Centres for Learning are Council owned and these Centres are included in the Council's Balance Sheet. The Centres for Learning that are voluntary aided have not been included on the Council's Balance Sheet on the basis that Liverpool Archdiocese has legal ownership of the land and of the residual interest at the end of the agreement. Bluebell Park Primary Leaning Centre is Council owned and therefore the fixed asset figures in the Balance Sheet include the following values.

2013/14 £000		2014/15 £000
83,667	Balance at beginning of year	53,643
18,774	Additions	75
(43,796)	Disposals	-
(2,964)	Revaluations	-
(2,038)	Depreciation	(998)
53,643	**Balance at 31 March**	**52,720**

Value of liabilities under PFI arrangements

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

2013/14 £000		2014/15 £000
105,267	Balance at beginning of year	120,642
18,774	Additions	-
(3,399)	Principal repayments during year	(3,524)
120,642	**Balance at 31 March**	**117,118**

NOTES TO THE ACCOUNTS

Payments due to be made under PFI arrangements

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

	Repayment of Liability £000	Interest £000	Service Charges £000	Total £000
Within 1 year	3,626	8,828	4,469	16,923
Within 2 to 5 years	16,262	32,423	18,679	67,364
Within 6 to 10 years	26,249	33,054	24,226	83,529
Within 11 to 15 years	33,626	21,820	27,416	82,862
Within 16 to 20 years	37,355	7,523	27,883	72,761
	117,118	**103,648**	**102,673**	**323,439**

b) Street Lighting

During 2011/12, the Council entered into a Private Finance Initiative scheme with Tay Valley Lighting to deliver street lighting and traffic sign services for a 25 year period. The scheme includes the replacement of over 70% of the stock with a new white light solution enabling the Council where appropriate, to dim and trim the lighting across the borough in order to reduce the CO2 emissions and the levels of electricity consumed.

Assets held under PFI arrangements

During 2014/15, the following infrastructure assets have been included in the Balance Sheet.

2013/14 £000		2014/15 £000
13,314	Balance at beginning of year	21,020
7,978	Additions	8,782
(272)	Depreciation	(381)
21,020	**Balance at 31 March**	**29,421**

Value of liabilities under PFI arrangements

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

2013/14 £000		2014/15 £000
12,052	Balance at beginning of year	19,444
7,978	Additions	8,782
(586)	Principal repayments during year	(354)
19,444	**Balance at 31 March**	**27,872**

NOTES TO THE ACCOUNTS

Payments due to be made under PFI arrangements

The outstanding payments due to Tay Valley Lighting for the whole of the PFI contract are detailed in the table below.

	Repayment of Liability £000	Interest £000	Service Charges £000	Total £000
Within 1 year	390	2,793	1,533	4,716
Within 2 to 5 years	2,504	10,896	6,218	19,618
Within 6 to 10 years	5,214	11,899	8,820	25,933
Within 11 to 15 years	6,653	8,990	11,955	27,598
Within 16 to 20 years	11,738	5,150	12,479	29,367
Within 21 to 25 years	4,383	299	3,470	8,152
	30,882	**40,027**	**44,475**	**115,384**

The Street Lighting Scheme will be implemented over 4 years and the Repayment of Liability of £30.882m shown above is the total liability of the scheme. The 2014/15 liability of £27.872m shown in the Value of Liabilities table above reflects the latest phases of the scheme only.

23. CAPITAL GRANTS RECEIPTS IN ADVANCE

The Council has received a number of grants and contributions that have yet to be recognised as income as they have conditions attached to them that will require the monies or property to be returned to the giver. The balances at year-end are as follows:

	31 March 2014 £000	31 March 2015 £000
Capital Grants Receipts in Advance		
Standards Fund	3,345	1,415
Other	82	24
Total	**3,427**	**1,439**

NOTES TO THE ACCOUNTS

24. USABLE RESERVES

Movements in the Council's Earmarked Reserves are detailed in Note 7.

CAPITAL RECEIPTS RESERVE

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

2013/14 £000		2014/15 £000
-	**Balance at 1 April**	**-**
(1,574)	Capital receipts in year for sales of assets	(337)
(1,574)		(337)
17	Payments re Pooling Housing Capital Receipt	17
1,557	Capital Receipts applied for agreed expenditure see i) below	320
-	**Balance at 31 March**	**-**

i) This represents receipts that are earmarked by the Council as funding for agreed capital schemes. During 2014/15 £0.315m of previously set aside receipts were used to finance expenditure.

25. UNUSABLE RESERVES

31 March 2014 £000		31 March 2015 £000
(182,040)	Capital Adjustment Account	(193,513)
(53,048)	Revaluation Reserve	(45,657)
17	Financial Instruments Adjustment Account	11
-	Available for Sale Financial Instruments Reserve	(1,112)
243,803	Pensions Reserve	314,819
6,536	Collection Fund Adjustment Account	4,815
2,375	Accumulating Compensated Absences Adjustment Account	2,258
4,440	Unequal Pay Back Pay Account	3,570
(83)	Capital Receipts Deferred	(47)
22,000	**Total Unusable Reserves**	**85,144**

NOTES TO THE ACCOUNTS

CAPITAL ADJUSTMENT ACCOUNT

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement. The account is credited with the amounts set aside by the Council as finance for the costs of acquisition, construction and enhancement.

The account contains accumulated gains and losses on Investment Properties. The account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.

2013/14		2014/15	
£000		£000	£000
(229,099)	**Balance at 1 April**		(182,040)
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement		
10,948	- Charges for depreciation and impairment of non-current assets	16,295	
30,546	- Revaluation losses on Property, Plant and Equipment	1,208	
622	- Amortisation of intangible assets	448	
2	- Revenue expenditure funded from capital under statute	-	
46,652	- Amounts of non-current assets written off on disposal or sale as part of the gains/losses on disposal to the Comprehensive Income and Expenditure Statement	4,565	
88,770			22,516
(15,072)	Adjusting amounts written out of the Revaluation Reserve		(7,889)
(155,401)	Net amount written out of the cost of non-current assets consumed in the year		(167,413)
	Capital financing applied in the year:		
(493)	- Use of the Capital Receipts Reserve to finance new capital expenditure	(315)	
(1,064)	- Use of Capital Receipts Reserve to finance future capital expenditure	(5)	
(1,784)	- Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	(4,722)	
(5,414)	- Application of grants to capital financing from the Capital Grants Unapplied Account	(5,536)	
(10,424)	- Statutory provision for the financing of capital investment charged against General Fund	(6,577)	
(240)	- Principal repayment on external loans	(240)	
(7,343)	- Capital expenditure charged against General Fund	(3,106)	
(26,762)			(20,501)
123	Movement in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement		(365)
-	Release of Equal Pay Capitalisation Direction		(5,234)
(182,040)	**Balance at 31 March**		**(193,513)**

NOTES TO THE ACCOUNTS

REVALUATION RESERVE

The Revaluation Reserve contains the gains made by the Council arising from increases in the value of Property, Plant and Equipment. The balance is reduced when assets with accumulated gains are:

- revalued downwards or impaired and the gains are lost;
- used in the provision of services and the gains are consumed through depreciation; or
- disposal of and the gains are realised.

The reserve contains only revaluation gains accumulated since 1 April 2007, the date that the reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

2013/14 £000		2014/15 £000	£000
(60,605)	**Balance as at 1 April**		(53,048)
(18,023)	Upward revaluation of assets	(2,867)	
10,508	Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	2,369	
(68,120)	Surplus or deficit on revaluation of non-current assets not posted to the Surplus/Deficit on the Provision of Services		**(498)**
369	Difference between the fair value depreciation and historical cost depreciation	349	
70	Accumulated gains on assets sold	479	
464	Impairment losses	-	
14,169	Write off of balances of assets	7,061	
15,072	Amount written off to the Capital Adjustment Account		**7,889**
(53,048)	**Balance as at 31 March**		**(45,657)**

NOTES TO THE ACCOUNTS

FINANCIAL INSTRUMENTS ADJUSTMENT ACCOUNT

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions. The Council uses the account to manage premiums paid on the early redemption of loans and the loss of interest when granting soft loans to third parties. Premiums and interest are debited to the Comprehensive Income and Expenditure Statement when they are incurred, but reversed out of the General Fund Balance to the Account in the Movement in Reserves Statement. Over time, the expense is posted back to the General Fund Balance in accordance with statutory arrangements for spreading the burden on council tax. In the Council's case, this period is the unexpired term that was outstanding on the loans when they were redeemed, or the remaining term of the soft loan.

2013/14 £000		2014/15 £000	2014/15 £000
23	**Balance as at 1 April**		17
(6)	Proportion of premiums incurred in previous financial years to be charged against the General Fund Balance in accordance with statutory requirements	(6)	
(6)	Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in year in accordance with statutory requirements		(6)
17	**Balance as at 31 March**		**11**

NOTES TO THE ACCOUNTS

AVAILABLE FOR SALE FINANCIAL INSTRUMENTS RESERVE

The Available for Sale Financial Instruments Reserve contains the gains made the Council arising from increases in the value of its investments that have quoted market process or otherwise do not have fixed or determinable payments. The balance is reduced when investments with accumulated gains are revalued downwards or impaired and the gains are lost, or disposed of and the gains are realised.

2013/14		2014/15	
£000		£000	£000
-	**Balance as at 1 April**		-
-	Upward revaluation of investments	(1,112)	
-			(1,112)
-	**Balance as at 31 March**		**(1,112)**

NOTES TO THE ACCOUNTS

PENSIONS RESERVE

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post employment benefits and for funding benefits in accordance with statutory provisions. The Council accounts for post employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Council makes the employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Council has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

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 43 to the accounts details the Council's participation in these schemes. The underlying assets and liabilities for retirement benefits attributable to the Council at 31 March 2014 are as follows:

2013/14 £000		2014/15 £000
333,562	**Balance as at 1 April**	243,803
(94,216)	Remeasurements of the net defined benefit liability/(assets)	84,024
23,272	Reversal of items relating to retirement benefits debited or credited to the Surplus/Deficit on the Provision of Services	24,229
(18,815)	Employer's pension contributions and direct payments to pensioners payable in the year	(37,237)
243,803	**Balance as at 31 March**	**314,819**

COLLECTION FUND ADJUSTMENT ACCOUNT

The Collection Fund Adjustment Account manages the differences arising from the recognition of council tax income in the Comprehensive Income and Expenditure Statement as it falls due from council tax payers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.

2013/14 £000		2013/14 £000
-	**Balance at 1 April**	6,536
6,536	Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax and non-domestic rates income calculated for the year in accordance with statutory requirements	(1,721)
6,536	**Balance at 31 March**	**4,815**

NOTES TO THE ACCOUNTS

ACCUMULATED ABSENCES ACCOUNT

The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year e.g. annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

2013/14 £000		2014/15 £000	2014/15 £000
2,875	**Balance as at 1 April**		2,375
(2,875)	Settlement or cancellation of accrual made at the end of the preceding year	(2,375)	
2,375	Amounts accrued at the end of the current year	2,258	
(500)	Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements		(117)
2,375	**Balance as at 31 March**		**2,258**

EQUAL PAY ADJUSTMENT ACCOUNT

The Equal Pay Adjustment Account compensates for the differences between the rate at which the Council provides for the potential costs of back pay settlements in relation to Equal Pay cases and the ability under statutory provisions to defer the impact on the General Fund Balance until such time as cash might be paid out to claimants.

2013/14 £000		2014/15 £000	2014/15 £000
4,098	**Balance as at 1 April**		4,440
342	Increase/(Decrease) in provision for back pay in relation to Equal Pay cases	(870)	
342	Amount by which amounts charged for Equal Pay claims to the Comprehensive Income and Expenditure Statement are different from the cost of settlements chargeable in the year in accordance with statutory requirements		(870)
4,440	**Balance as at 31 March**		**3,570**

NOTES TO THE ACCOUNTS

DEFERRED CAPITAL RECEIPTS RESERVE

The Deferred Capital Receipts Reserve holds the gains recognised on the disposal of non-current assets but for which cash settlement has yet to take place. Under statutory arrangements, the Council does not treat these gains as usable for financing new capital expenditure until they are backed by cash receipts. When the deferred cash settlement eventually takes place, amounts are transferred to the Capital Receipts Reserve.

2013/14 £000		2014/15 £000
(119)	**Balance at 1 April**	(83)
36	Transfer to the Capital Receipts Reserve upon receipt of cash	36
(83)	**Balance at 31 March**	**(47)**

26. CASH FLOW STATEMENT – OPERATING ACTIVITIES

The cash flows for operating activities included the following items:

2013/14 £000		2014/15 £000
(753)	Interest received	(772)
13,614	Interest paid	16,457
(278)	Dividends received	(269)

The deficit on the provision of services has been adjusted for the following non-cash movements:

2013/14 £000		2014/15 £000
(14,954)	Depreciation	(12,870)
(26,540)	Impairment and downward valuations	(4,633)
(622)	Amortisation	(448)
1,567	Increase/(decrease) in creditors	(761)
(2,922)	Increase/(decrease) in debtors	(6,599)
58	Increase/(decrease) in inventories	67
(4,457)	Movement in pension liability	13,008
(46,652)	Carrying amount of non-current assets and non-current assets held for sale, sold or derecognised	(4,565)
(6,586)	Other non-cash items charged to the net surplus or deficit on the provision of services	13,518
(101,108)		**(3,283)**

NOTES TO THE ACCOUNTS

The deficit on the provision of services has been adjusted for the following items that are investing and financing activities: non-cash movements:

2013/14 £000		2014/15 £000
444	Proceeds from short term and long term investments	258
1,538	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	301
5,652	Any other items for which the cash effects are investing or financing cash flows	10,020
7,634		**10,579**

27. CASH FLOW STATEMENT – INVESTING ACTIVITIES

The cash flows for investment activities included the following items:

2013/14 £000		2014/15 £000
17,602	Purchase of property, plant and equipment, investment property and intangible assets	14,245
78,622	Purchase of short-term and long-term investments	46,261
1,000	Other payments for investing activities	-
(1,574)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(337)
(105,544)	Proceeds from short-term and long-term investments	(36,388)
(4,926)	Other receipts from investing activities	(5,164)
(14,820)	**Net cash flows from investing activities**	**18,617**

28. CASH FLOW STATEMENT – FINANCING ACTIVITIES

The cash flows for financing activities included the following items:

2013/14 £000		2014/15 £000
-	Cash receipts of short-term and long-term borrowing	-
9,194	Other receipts from financing activities	(3,847)
4,561	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	4,472
1,951	Repayments of short-term and long-term borrowing	263
15,706	**Net cash flows from financing activities**	**888**

NOTES TO THE ACCOUNTS

29. AMOUNTS REPORTED FOR RESOURCE ALLOCATION DECISIONS

The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement is that specified by the Service Expenditure Reporting Code of Practice. However, decisions about resource allocation are taken by the Council's Cabinet on the basis of budget reports analysed across Portfolios. These reports are prepared on a different basis from the accounting policies used in the financial statements.

Portfolios must be reported separately where either gross expenditure or gross income is 10% or more of the totals included within the Cost of Service in the Comprehensive Income and Expenditure Statement. Where Portfolios have less than 10% of the gross expenditure or income, they have been combined together. Portfolios for Leader's, Community Safety and Social Inclusion, Corporate and Customer Services, Human Resources, and Leisure, Community and Culture are therefore combined.

Portfolio Income and Expenditure 2014/15

	Health and Social Care £000	Children and Family Services £000	Regeneration, Economy and Skills £000	Neighbourhood Delivery £000	Finance and Information Technology £000	Total £000	Other Council Portfolios £000
Employee expenses	13,336	92,564	7,334	11,861	10,791	**135,886**	46,250
Support services recharges	1,864	2,251	2,968	962	1,692	**9,737**	4,587
Other service expenses	66,517	107,947	46,812	16,543	88,784	**326,603**	79,699
Total Expenditure	**81,717**	**202,762**	**57,114**	**29,366**	**101,267**	**472,226**	**130,536**
Government grants	(5,207)	(135,764)	(5,801)	(515)	(82,991)	**(230,278)**	(19,739)
Fees and charges and other service income	(26,122)	(30,112)	(18,038)	(19,507)	(14,940)	**(108,719)**	(90,318)
Total Income	**(31,329)**	**(165,876)**	**(23,839)**	**(20,022)**	**(97,931)**	**(338,997)**	**(110,057)**
Net Expenditure	**50,388**	**36,886**	**33,275**	**9,344**	**3,336**	**133,229**	**20,479**

NOTES TO THE ACCOUNTS

Portfolio Income and Expenditure 2013/14 Comparatives

	Health and Social Care £000	Children and Family Services £000	Regeneration, Economy and Skills £000	Neighbourhood Delivery £000	Finance and Information Technology £000	Total £000	Other Council Portfolios £000
Employee expenses	12,810	95,633	7,261	12,155	10,599	**138,458**	26,223
Support services recharges	1,903	2,534	2,979	1,081	1,711	**10,208**	4,728
Other service expenses	66,302	100,168	36,014	17,779	94,616	**314,879**	37,099
Total Expenditure	**81,015**	**198,335**	**46,254**	**31,015**	**106,926**	**463,545**	**68,050**
Government grants	(4,418)	(140,933)	(4,342)	-	(89,314)	**(239,007)**	(25,941)
Fees and charges and other service income	(24,394)	(24,784)	(20,592)	(19,668)	(13,774)	**(103,212)**	(15,680)
Total Income	**(28,812)**	**(165,717)**	**(24,934)**	**(19,668)**	**(103,088)**	**(342,219)**	**(41,621)**
Net Expenditure	**52,203**	**32,618**	**21,320**	**11,347**	**3,838**	**121,326**	**26,429**

NOTES TO THE ACCOUNTS

Reconciliation of Portfolio Income and Expenditure to Cost of Services in the Comprehensive Income and Expenditure Statement

This reconciliation shows how the figures in the analysis of Portfolio income and expenditure relate to the amounts included in the Comprehensive Income and Expenditure Statement.

2013/14 £000		2014/15 £000
121,326	Net expenditure in the Portfolio analysis	133,229
26,429	Net expenditure of services not included in analysis	34,579
23,020	Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the analysis	(37,758)
(24,421)	Amounts included in the analysis not included in the Comprehensive Income and Expenditure Statement	(7,111)
146,354	**Cost of Services in Comprehensive Income and Expenditure Statement**	**122,939**

NOTES TO THE ACCOUNTS

Reconciliation to Subjective Analysis

This reconciliation shows how the figures in the analysis of Portfolio income and expenditure relate to a subjective analysis of the Surplus or Deficit on the Provision of Services included in the Comprehensive Income and Expenditure Statement.

2014/15 Subjective Analysis

	Portfolio Analysis £000	Services not in Analysis £000	Amounts not reported to management for decision making £000	Amounts not included in CI&ES £000	Cost of Service £000	Corporate Amounts £000	Total £000
Employee expenses	135,886	46,250	-	-	182,136	-	**182,136**
Other service expenses	315,604	69,647	(19,350)	(7,111)	358,790	-	**358,790**
Support service recharges	9,737	4,587		-	14,324	-	**14,324**
Depreciation, amortisation and impairment	10,999	2,319	3,425	-	16,743	-	**16,743**
Interest payments	-	-	-	-	-	16,457	**16,457**
Precepts and Levies	-	-	-	-	-	21,996	**21,996**
Payments to Housing Capital Receipts Pool	-	-	-	-	-	17	**17**
Pension interest cost and return	-	-	-	-	-	9,560	**9,560**
Loss on disposal of non-current assets	-	-	-	-	-	4,239	**4,239**
Total Expenditure	**472,226**	**122,803**	**(15,925)**	**(7,111)**	**571,993**	**52,269**	**624,262**
Fees, charges and other service income	(108,719)	(68,485)	(21,833)	-	(198,774)	-	**(198,774)**
Expenditure and revaluation on investment properties	-	-	-	-	-	(2,179)	**(2,179)**
Interest and investment income	-	-	-	-	-	(817)	**(817)**
Income from council tax	-	-	-	-	-	(39,425)	**(39,425)**
Government grants and contributions	(230,278)	(19,739)	-	-	(250,280)	(136,260)	**(386,540)**
Total Income	**(338,997)**	**(88,224)**	**(21,833)**	**-**	**(449,054)**	**(178,681)**	**(627,735)**
Surplus or deficit on the provision of services	**133,229**	**34,579**	**(37,758)**	**(7,111)**	**122,939**	**(126,412)**	**(3,473)**

NOTES TO THE ACCOUNTS

2013/14 Comparative Subjective Analysis

	Portfolio Analysis £000	Services not in Analysis £000	Amounts not reported to management for decision making £000	Amounts not included in CI&ES £000	Cost of Service £000	Corporate Amounts £000	Total £000
Employee expenses	138,458	26,223	5,195	-	169,876	-	**169,876**
Other service expenses	305,027	34,952	46,114	(36,864)	349,229	-	**349,229**
Support services recharges	10,208	4,728	-	-	14,936	-	**14,936**
Depreciation, amortisation and impairment	9,852	2,147	(429)	-	11,570	-	**11,570**
Interest payments	-	-	-	-	-	15,284	**15,284**
Precepts and Levies	-	-	-	-	-	21,789	**21,789**
Payments to Housing Capital Receipts Pool	-	-	-	-	-	17	**17**
Pension interest cost and return	-	-	-	-	-	13,341	**13,341**
Loss on disposal of non-current assets	-	-	-	-	-	45,262	**45,262**
Total Expenditure	**463,545**	**68,050**	**50,880**	**(36,864)**	**545,611**	**95,693**	**641,304**
Fees, charges and other service income	(103,212)	(15,680)	(24,216)	12,443	(130,665)	-	**(130,665)**
Expenditure and Revaluation on Investment Properties	-	-	-	-	-	(1,411)	**(1,411)**
Interest and investment income	-	-	-	-	-	(713)	**(713)**
Income from council tax	-	-	-	-	-	(39,173)	**(39,173)**
Government grants and contributions	(239,007)	(25,941)	(3,644)	-	(268,592)	(137,583)	**(406,175)**
Total Income	**(342,219)**	**(41,621)**	**(27,860)**	**12,443**	**(399,257)**	**(178,880)**	**(578,137)**
Surplus or deficit on the provision of services	**121,326**	**26,429**	**23,020**	**(24,421)**	**146,354**	**(83,187)**	**63,167**

NOTES TO THE ACCOUNTS

30. SIGNIFICANT TRADING OPERATIONS

The Council operates several trading operations, whereby services are provided to users on the basis of an agreed charge, for example, a quoted price, a service level agreement or a schedule of rates. Trading accounts are maintained for such activities in order to 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.

	2013/14			2014/15		
	Turnover £000	Total Spend £000	(Surplus) / Deficit £000	Turnover £000	Total Spend £000	(Surplus) / Deficit £000
Highways	(32)	227	195	(56)	275	219
Transport	(2,871)	2,310	(561)	(2,697)	1,668	(1,029)
School Meals	(5,894)	4,601	(1,293)	(6,213)	4,656	(1,557)
Building Cleaning	(3,897)	3,074	(823)	(3,786)	3,028	(758)
Licensing	(411)	648	237	(497)	527	30
	(13,105)	**10,860**	**(2,245)**	**(13,249)**	**10,154**	**(3,095)**

Highways: The provision of a winter maintenance service. The maintenance of the Council's Street Lighting and Traffic Signs is no longer carried out in house.

Transport: The provision, management and maintenance of Council owned vehicles and small plant.

School Meals: The provision of a catering service to all primary and special schools and Centres for Learning in the borough.

Building Cleaning: The provision of building cleaning services to schools and other Council owned buildings.

Licensing: The inspections, control, supervision and granting of licenses for hackney carriages and private hire vehicles.

31. AGENCY WORK

The Council, as the billing authority, acts as agent for the Government in collecting National Non-Domestic Rates (NNDR). The Government paid an allowance for the cost of collection of £0.139m in 2014/15 (£0.136m in 2013/14).

NOTES TO THE ACCOUNTS

32. POOLED BUDGETS

Section 75 of the NHS Act 2006 (formerly Section 31 of the Health Act 1999) allows the establishment of joint working arrangements between NHS bodies and local authorities. This enables the bodies to “pool” funds to work together to address specific local health issues. Where pooled budgets are established, the main financial statements in these accounts reflect only the Council’s share of the overall budget, and exclude the share(s) attributable to partner organisations. The details of the entire pooled budget including all partners’ shares are disclosed in the notes below.

The Council is involved with one pooled budget hosted by the Council’s Health and Social Care Portfolio. This pooled budget covers the three areas below:

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

Income and Expenditure

	2013/14 £000	2014/15 £000
Gross Funding		
Reserve B/fwd	-	932
Knowsley Clinical Commissioning Group	(9,859)	(10,875)
Knowsley MBC	(18,309)	(20,197)
Total Funding	**(28,168)**	**(31,072)**
Pooled Expenditure	**29,100**	**30,595**
Net Deficit	**932**	**455**

33. MEMBERS’ ALLOWANCES

During 2014/15, the Council paid a total of £0.859m in respect of Members’ Allowances (£0.843m in 2013/14). Further details can be obtained from the Assistant Executive Director Governance, Municipal Buildings, Huyton.

NOTES TO THE ACCOUNTS

34 OFFICER REMUNERATION

The Council discloses officer remuneration in line with the requirements of the Code of Practice on Local Authority Accounting (the Code) as follows:

a) Officers with remuneration of £50,000 or more

This note shows the number of officers whose remuneration was £50,000 or more, grouped in £5,000 bands. Remuneration is defined for this disclosure as all amounts paid to or receivable by a person, including sums by way of expenses allowance (so far as those sums are chargeable to UK income tax). It also includes the estimated money value of any other benefits received by an employee otherwise than in cash, and payments made in respect of retirement and / or redundancy, but excludes employer's pension contributions.

b) Senior officer remuneration

In accordance with the requirements of the Code the Council also discloses individual remuneration of all senior employees whose annualised salary is £50,000 or more, and who have responsibility for the management of the authority to the extent that they have the power to direct and control the major activities for which they are responsible. This figure includes the full remuneration of each senior employee and also employer's pension contributions. Where the annualised salary is £150,000 or more the Code also requires the employee to be named.

The Council's annual Pay Policy Statement (approved by the Council on 5 March 2014) sets out the roles of the Council's senior managers, the Council's Head of Paid Service and Deputy Chief Executive. These categories include all of the Council's statutory chief officers in accordance with the Local Government and Housing Act 1989 and the Localism Act 2011.

c) Exit Packages

The Code requires the disclosure in bands of the number of exit packages and the cost of those packages to the Council during the year.

NOTES TO THE ACCOUNTS

34. a) Officers with remuneration of £50,000 or more

This note shows the number of officers whose remuneration was £50,000 or more, grouped in £5,000 bands. Remuneration is defined for this disclosure as all amounts paid to or receivable by a person, including sums by way of expenses allowance (so far as those sums are chargeable to UK income tax). It also includes the estimated money value of any other benefits received by an employee otherwise than in cash, and payments made in respect of retirement and / or redundancy, but excludes employer's pension contributions

Total Remuneration	Number of Employees	
	2013/14	2014/15
£50,000 - £54,999	70	74
£55,000 - £59,999	36	32
£60,000 - £64,999	36	34
£65,000 - £69,999	23	19
£70,000 - £74,999	23	15
£75,000 - £79,999	7	8
£80,000 - £84,999	3	6
£85,000 - £89,999	1	2
£90,000 - £94,999	8	7
£95,000 - £99,999	2	5
£100,000 - £104,999	2	1
£105,000 - £109,999	1	2
£110,000 - £114,999	-	1
£145,000 - £149,999	1	-
£150,000 - £154,999	1	1
£190,000 - £194,999	1	-
£300,000 - £304,999	-	1
	215	**208**

NOTES TO THE ACCOUNTS

34. b) Senior Officer Remuneration – 2014/15: 1 April 14 – 31 October 2014

This note shows individual remuneration of all senior employees (as defined above) whose annualised salary is £50,000 or more. Where the annualised salary is £150,000 or more the employee is named.

Post Title and Name	Notes	2014/15 Salary (includes redundancy payments) £	2014/15 Benefits in Kind Note 1 £	2014/15 Pension Contributions made by the Council £	2014/15 Total £
a) Senior Employees whose annual salary is £150,000 or more					
Chief Executive - S M Ramsey	2 and 3	304,017	-	28,564	332,581
b) Senior Employees whose annual salary is between £50,000 and £150,000					
Deputy Chief Executive	7	83,938	1,445	21,404	106,787
Director of Change and Transformation		65,902	-	11,766	77,668
Director of People Services	5	64,167	-	16,363	80,530
Director of Neighbourhood Delivery		61,116	-	15,585	76,701
Director of Finance and Information Technology	4	58,850	-	15,007	73,857
Director of Social Inclusion		56,430	-	14,390	70,820
Director of Regulation and Enforcement	8	53,833	-	13,727	67,560
Director of Regeneration and Housing		53,833	-	13,727	67,560
Director of Policy and Partnerships		53,833	-	13,727	67,560
Director of Customer and Employee Services		53,833	-	13,727	67,560
Director of Business, Investment and Sustainability		53,833	-	13,727	67,560
Director of Community and Leisure		52,270	1,325	13,329	66,924
Director of Schools and Educational Attainment		52,762	-	13,454	66,216
Director of Public Health	9	53,833	-	7,537	61,370
Director of Integrated Commissioning (Adult Social Care)	6	46,102	-	11,741	57,843
Director of Safeguarding and Social Care		45,681	-	11,649	57,330

34. b) Senior Officer Remuneration – 2014/15: 1 November 14 – 31 March 2015 (continued)

Post Title and Name	Notes	2014/15 Salary (includes redundancy payments) £	2014/15 Benefits in Kind Note 1 £	2014/15 Pension Contributions made by the Council £	2014/15 Total £
a) Senior Employees whose annual salary is £150,000 or more					
Chief Executive – M Harden	3	66,667	-	17,000	83,667
b) Senior Employees whose annual salary is between £50,000 and £150,000					
Assistant Chief Executive	5	42,500	-	10,838	53,338
Executive Director (Resources)	4	42,500	-	10,838	53,338
Executive Director (Place)		43,889	-	11,192	55,081
Executive Director (Children)	5	46,667	-	11,900	58,567
Assistant Executive Director – Public Health and Wellbeing	9	39,004	-	5,461	44,465
Assistant Executive Director – Adult Social Care	6	35,842	-	9,140	44,982
Assistant Executive Director – Customer and Employees		39,004	-	9,946	48,950
Assistant Executive Director – Policy and Partnerships	8	39,004	-	9,946	48,950
Assistant Executive Director – Governance	7	35,842	-	9,140	44,982
Assistant Executive Director – Economic Development		39,004	-	9,946	48,950
Assistant Executive Director – Regeneration and Housing		39,004	-	9,946	48,950
Assistant Executive Director – Neighbourhoods		40,348	-	10,289	50,637
Assistant Executive Director – Children's Social Care		35,842	-	9,140	44,982
Assistant Executive Director – Education and Early Intervention		39,004	-	9,946	48,950

NOTES TO THE ACCOUNTS

34. b) Senior Officer Remuneration 2014/15 (continued)

NOTES

During 2014/15 a fundamental review of the Senior Management was completed with effect from November 2015. This note reflects the impact of that review during the year.

1. Benefits in Kind are the estimated financial value of taxable non-cash benefits received by an employee. The figures set out in the table above do not represent the actual costs to the Council which are lower. In August 2012 the Council ceased paying cash-equivalent payments for Leased Cars as a benefit in kind and additional salary remuneration was made instead. The scheme completely ended in November 2014.

2. The salary figure includes a statutory Voluntary Severance payment.

3. The Chief Executive of the Council also fulfils the statutory role of Head of the Paid Service as set out in the Local Government and Housing Act 1989.

4. This post fulfils the statutory role of Chief Finance Officer as set out in the Local Government Act 1972.

5. This post also fulfils the statutory responsibility of Director of Children's Services as set out in the Children's Act 2004.

6. This post fulfils the statutory responsibility of Director of Adult Social Services as set out in the Local Authority Social Services Act 1970.

7. This post fulfils the statutory responsibility of Monitoring Officer for the Authority as set out in the Local Government and Housing Act 1989.

8. This post fulfils the statutory responsibility of Scrutiny Officer as set out in the Local Government Act 2000.

9. This post fulfils the statutory responsibility of Director of Public Health as set out in the Health and Social Care Act 2012.

NOTES TO THE ACCOUNTS

34. b) Senior Officer Remuneration – 2013/14 Comparator Figures

Post Title and Name	Notes	2013/14 Salary (includes redundancy payments) £	2013/14 Benefits in Kind (part-year – see note 1) £	2013/14 Pension Contributions made by the Council £	2013/14 Total £
a) Senior Employees whose annual salary is £150,000 or more					
Chief Executive - S M Ramsey	2	192,028	-	35,525	227,553
b) Senior Employees whose annual salary is between £50,000 and £150,000					
Deputy Chief Executive	3	136,420	9,767	25,238	171,425
Director of Neighbourhood Delivery		104,770	-	19,382	124,152
Director of Finance and Information Technology	4	100,886	-	18,664	119,550
Director of Social Inclusion		96,737	-	17,896	114,633
Director of Business, Investment and Sustainability		92,377	-	17,073	109,450
Director of Regeneration and Housing		92,304	-	17,073	109,377
Director of Change and Transformation		92,285	-	17,073	109,358
Director of Policy and Partnerships		92,285	-	17,073	109,358
Director of Regulation and Enforcement	7	90,449	-	16,733	107,182
Director of Customer and Employee Services		90,449	-	16,733	107,182
Director of Public Health	5	92,285	-	12,958	105,243
Director of Community and Leisure		86,034	4,035	15,916	105,985
Director of Schools and Educational Attainment		88,520	-	16,376	104,896
Director of People Services - part year costs	6	55,000	-	10,175	65,175
Director pf Safeguarding and Social Care – part year costs		7,691	-	1,423	9,114
Director of Integrated Commissioning (Adult Social Care) – part year costs		6,105	-	1,129	7,234

NOTES TO THE ACCOUNTS

34. b) Senior Officer Remuneration – 2013/14 Comparator Figures (continued)

NOTES

1. Benefits in Kind are the estimated financial value of taxable non-cash benefits received by an employee. The figures set out in the table above do not represent the actual costs to the Council which are lower. In August 2012 the Council ceased paying cash-equivalent payments for Leased Cars as a benefit in kind and additional salary remuneration was made instead.

2. The Chief Executive of the Council also fulfils the statutory role of Head of the Paid Service as set out in the Local Government and Housing Act 1989.

3. The Deputy Chief Executive also fulfils the statutory responsibility of Monitoring Officer for the Authority as set out in the Local Government and Housing Act 1989.

4. The post of Director of Finance and Information Technology fulfils the statutory role of Chief Finance Officer as set out in the Local Government Act 1972.

5. The Director of Public Health is a new post which was established under the transfer of Public Health responsibilities to the Council on 1 April 2013 and fulfils the statutory responsibility of Director of Public Health as set out in the Health and Social Care Act 2012.

6. The Director of People Services also fulfils the statutory responsibility of Director of Children's Services as set out in the Children's Act 2004 and the Director of Adult Social Services as set out in the Local Authority Social Services Act 1970 as amended by the Children's Act 2004.

7. This post fulfils the statutory responsibility of Scrutiny Officer as set out in the Local Government Act 2000.

NOTES TO THE ACCOUNTS

34. c) EXIT PACKAGES

The Council agreed exit packages for a number of employees. These packages include the costs of compulsory and voluntary redundancy costs, pension contributions in respect of added years, ex-gratia payments and other departure costs.

Exit package cost band (including special payments)	Number of Compulsory redundancies		Number of other departures agreed		Total number of exit packages by cost band		Total cost of exit packages in each band	
	2013/14	2014/15	2013/14	2014/15	2013/14	2014/15	2013/14	2014/15
							£000	£000
£0 - £20,000	53	24	109	86	162	110	858	628
£20,001 - £40,000	-	3	9	19	9	22	258	628
£40,001 - £60,000	-	-	8	7	8	7	380	341
£60,001 - £100,000	-	-	2	2	2	2	129	165
£100,001 - £200,000	-	1	4	3	4	4	490	711
Total	**53**	**28**	**132**	**117**	**185**	**145**	**2,115**	**2,473**

35. AUDITORS' REMUNERATION

In 2014/15, Knowsley MBC incurred the following fees relating to external audit and inspection:

2013/14 Total		2014/15 Pricewaterhouse Coopers LLP	2014/15 Audit Commission	2014/15 Total
£000		£000	£000	£000
147	Fees payable with regard to external audit services carried out by the appointed auditor	147	4	151
39	Fees payable for the certification of grant claims and returns	18	-	18
22	Fees payable for other services	-	-	-
208		**165**	**4**	**169**

NOTES TO THE ACCOUNTS

36. DEDICATED SCHOOLS GRANT

The Council's expenditure on schools is funded primarily by grant monies provided by the Department for Education, the Dedicated Schools Grant (DSG). The Dedicated Schools Grant is ring-fenced and can only be applied to meet expenditure properly included in the Schools Budget, as defined in the School Finance (England) Regulations 2013. The Schools Budget includes elements for a range of educational services provided on an authority wide basis and for the Individual Schools Budget (ISB), which is divided into a budget share for each maintained school.

Details of the deployment of the Dedicated Schools Grant receivable for 2014/15 are shown in the following table.

	Central Expenditure £000	Individual Schools Budget £000	Total £000
Final DSG for 2014/15 before Academy recoupment			114,414
Academy figure recouped for 2014/15			(17,474)
Total DSG after Academy recoupment for 2014/15			**96,940**
Brought forward from 2013/14			1,173
Carry forward to 2014/15 agreed in advance			-
Agreed initial budgeted distribution for 2014/15	**15,009**	**83,104**	**98,113**
In-year adjustments		161	161
Final budgeted distribution for 2014/15	**15,009**	**83,265**	**98,274**
Less Actual central expenditure	15,044		15,044
Less Actual ISB deployed to Schools		83,265	83,265
Plus local authority contribution for 2014/15	-	-	-
Carry forward to 2015/16	**(35)**	**-**	**(35)**

37. GRANT INCOME

The Council credited the following grants and contributions to the Comprehensive Income and Expenditure Statement during 2014/15:

	2013/14 £000	2014/15 £000
Credited to Taxation and Non Specific Grant Income		
National Non Domestic Rates	(50,009)	(55,840)
Revenue Support Grant	(81,922)	(67,684)
Council Tax Income	(39,173)	(40,690)
Other Non-Ringfenced Grant	-	(1,451)
Department for Transport	(2,943)	(4,221)
Education Funding Agency (Standards Fund)	(1,361)	(2,769)
Local Sustainable Transport Fund	(713)	(1,322)
Other	(635)	(1,708)
Total	**(176,756)**	**(175,685)**

NOTES TO THE ACCOUNTS

37. GRANT INCOME (continued)

	2013/14 £000	2014/15 £000
Credited to Services		
Dedicated Schools Grant	(105,538)	(96,940)
Housing Benefit Rebates Grant	(85,319)	(79,226)
Private Finance Initiative Subsidy	(23,597)	(23,549)
Public Health Grant	(15,929)	(16,553)
Pupil Premium	(7,156)	(9,365)
Adult Personal Social Services Grant	(4,341)	(5,217)
Education Services Grant	(2,633)	(2,368)
Learning and Skills Council	(2,701)	(2,120)
Education Funding Agency	(102)	(1,400)
New Homes Bonus	(1,370)	(1,305)
Emergency Support Scheme	(1,264)	(1,245)
Benefit Verification Framework / Fraud Incentive / Tax Credits	(1,701)	(1,200)
Stronger Families	(804)	(1,147)
Disabled Facilities Grant	(1,000)	(1,025)
Local Enterprise Partnership	-	(1,001)
Council Tax Freeze Grant	(522)	(524)
Universal Infant Free School Meals	-	(515)
Youth Justice Board	(480)	(498)
PE Grant	(299)	(465)
Lottery	-	(249)
Adoption Reform Grant	(1,351)	(140)
European Social Fund	(1,993)	(110)
Cities Youth Contract	(5,900)	(60)
Standards Fund	(7)	(27)
High Level Need	(450)	-
European Regional Development Fund	(112)	-
Other	(4,024)	(4,031)
Total	**(268,593)**	**(250,280)**

NOTES TO THE ACCOUNTS

38. RELATED PARTY TRANSACTIONS

The Council is required to disclose material transactions with related parties. Related parties are individuals or organisations that have the potential to control or influence the Council or be controlled or influenced by the Council. The following identifies the Council's related party transactions during 2014/15:

Central Government

The Government has effective control over the general operations of the Council. It is responsible for providing the statutory framework within which the Council operates and provides funding in the form of grants. Grants received from government departments are set out in the subjective analysis in Note 29 on reporting for resource allocation decisions and are shown in the Note 37 above. Grant receipts outstanding at 31 March 2015 are shown in Note 20 (Short term Creditors) and Note 23 (Capital Grants Receipts in Advance).

Subsidiary and Associated Companies

Details of the Council's interests in companies are set out in Note 48 to the Accounts.

Other Public Bodies

- **Knowsley Clinical Commissioning Group**
  The Council established a partnership agreement with Knowsley Primary Care Trust during 2004/05 using powers originally under Section 31 of the Health Act 1999 (see Note 32 to the Accounts) and then under section 75 of the NHS Act 2006. These partnership arrangements remained in place until the abolition of the Primary Care Trust on 31st March 2013. A revised Section 75 agreement has since been put in place between the Council and the new Clinical Commissioning Group with effect from 1 April 2013.

- **Pension Fund**
  Full details of the Council's Pension Fund transactions are disclosed in Note 43 to the Accounts and the Accounting Policies. One Member of the Council is a member of the Merseyside Pension Fund Committee.

- **Knowsley Housing Trust**
  The Board of Knowsley Housing Trust includes three (plus one vacancy) Council Members out of a total of 10 Members who have expressed an interest. Transactions to Knowsley Housing Trust consisted of £6.025m in payments (£5.760m in 2013/14) and £1.131m in receipts (£1.281m in 2013/14). At 31 March 2015 outstanding debtors totalled £0.005m (£0.002m at 31 March 2014) and creditors totalled £0.060m (£0.025m at 31 March 2014).

Transactions relating to Other Public Bodies also included

- **Merseytravel £0.353m (£0.180m in 2013/14)**
  The Board included one Council Member. At 31 March 2015 outstanding debtors totalled £0.005m (£0.178m at 31 March 2014) and creditors totalled £0.027m (£0.011m at 31 March 2014).

- **Police and Crime Commissioner for Merseyside £0.135m (£0.340m in 2013/14)**
  The Board included one Council Member. At 31 March 2015 outstanding debtors totalled £0.063m (£0.072m at 31 March 2014) and creditors totalled £0.001m (£0.021m at 31 March 2014).

- **Merseyside Fire Authority £0.438m (£0.027m in 2013/14)**
  The Board included two Council Members out of the four Members who have expressed an interest. At 31 March 2015 outstanding debtors totalled £0.004m (no debtors at 31 March 2014) and creditors totalled £0.009m (no creditors at 31 March 2014).

- **Liverpool City Region Combined Authority**
  The Board includes two Council Members out of the three Members who have expressed an interest. Apart from the Levy, there were no other transactions. At 31 March 2015 outstanding debtors totalled £0.044m (no debtors at 31 March 2014) and no creditors (no creditors at 31 March 2014).

- **Merseyside Recycling and Waste Authority**
  The Board included one Council Member. Apart from the Levy, there were no other transactions. At 31 March 2015 outstanding debtors totalled £0.034m (no debtors at 31 March 2014) and no creditors (no creditors at 31 March 2014).

- **Wirral MBC £4,194m (£2.012m in 2013/14)**
  Two Council Members have expressed an interest. At 31 March 2015 outstanding debtors totalled £0.002m (£0.001m at 31 March 2014) and creditors totalled £0.144m (£1.793m at 31 March 2014).

Members' Interests

Members of the Council have direct control over the Council's financial and operational policies. During 2014/15, works and services totalling £1.471m were commissioned from organisations in which six Members had an interest. Contracts were entered into in full compliance with the Council's Constitution. Payments and grants totalling £49.644m were paid to housing associations, hospital trusts, and voluntary organisations, in which there were 102 expressions of interest from Members. In all cases, the relevant Members have declared their interest and taken no part in any prejudicial discussion or decision relating to the transactions.

Officers' Interests

During 2014/15, no specific interest declarations were made surrounding activities falling outside normal duties.

NOTES TO THE ACCOUNTS

39. CAPITAL EXPENDITURE AND CAPITAL FINANCING

The total amount of capital expenditure incurred in the year is shown in the table below (including the value of assets acquired under finance lease and Private Finance Initiative contracts), together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Council, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Council that has yet to be financed. The CFR is analysed in the second part of this note.

2013/14 £000		2014/15 £000
272,600	*Opening Capital Financing Requirement*	290,195
	Capital Investment	
43,879	- Property, Plant and Equipment	22,329
-	- Investment Properties	6
177	- Intangible Assets	122
128	- Heritage Assets	88
170	- Assets Held for Sale	482
2,930	- Revenue Expenditure Funded from Capital Under Statute	2,770
	Sources of Finance	
(9,178)	- Government Grant and Other Contributions	(11,897)
(1,557)	- Capital Receipts	(320)
(8,290)	- Direct Revenue Contributions	(4,238)
(10,664)	- Statutory Provision for Repayment of Debt	(6,817)
-	- Reversal of Equal Pay Capitalisation	(5,232)
290,195	***Closing Capital Financing Requirement***	**287,488**
	Movements in Year:	
(8,093)	Decrease in underlying need to borrow	(6,252)
26,752	Assets Acquired under PFI Contracts	8,782
(1,064)	Capital Receipts applied that had been transferred to Capital Adjustment Account in previous years	(5)
-	Reversal of Equal Pay Capitalisation	(5,232)
17,595	**Increase/(Decrease) in Capital Financing Requirement**	**(2,707)**

NOTES TO THE ACCOUNTS

40. LEASES

Finance Leases

The Council has acquired its community information network under finance lease. The assets acquired under this lease are carried as Property, Plant and Equipment in the Balance Sheet at the following net amounts:

31 March 2014 £000		31 March 2015 £000
618	Vehicles, Plant, Furniture and Equipment	462
618		**462**

The Council is committed to making minimum payments under these leases comprising settlement of the long-term liability for the interest in the property acquired by the Council and finance costs that will be payable by the Council in future years while the liability remains outstanding. The minimum lease payments are made up of the following amounts:

31 March 2014 £000		31 March 2015 £000
	Finance lease liabilities (net present value of minimum lease payments):	
594	- current	-
-	- non current	-
17	Finance costs payable in future years	-
611	Minimum lease payments	**-**

The minimum lease payments will be payable over the following periods:

	Minimum Lease Payments		Finance Lease Liabilities	
	31 March 2014 £000	31 March 2015 £000	31 March 2014 £000	31 March 2015 £000
Not later than one year	611	-	594	-
	611	**-**	**594**	**-**

NOTES TO THE ACCOUNTS

40. LEASES (continued)

Operating Leases

The Council has acquired photocopiers on behalf of schools by entering into operating leases, with typical lives of three years. The future minimum lease payments due under non-cancellable leases in future are:

31 March 2014 £000		31 March 2015 £000
10	Not later than one year	-
11	Later than one year and not later than five years	-
-	Later than five years	-
21		**-**

The expenditure charged to the Children's and Education services line in the Comprehensive Income and Expenditure Statement during the year in relation to these leases was:

2013/14 £000		2014/15 £000
10	Minimum lease payments	-
10		**-**

41. IMPAIRMENT OF ASSETS

The Council's approach to impairment of assets is set out in the Council's accounting policies. The amounts that have been recognised as charges to cost of service are £3.425m (£1.884m in 2013/14). These charges primarily related to historic assets following a review of the asset base.

42. TERMINATION BENEFITS

The Council terminated the contracts of 145 employees during 2014/15, incurring liabilities of £2.473m (£2.115m in 2013/14) as per Note 34 – Officer's Remuneration. The payments were made to officers who left the employment of the Council to enable the Council to realise the approved budget savings.

NOTES TO THE ACCOUNTS

43. PENSION SCHEMES

The Council participates in the following pension schemes:

Teachers Pension Scheme – Defined Benefit Scheme: Teachers employed by the Council are members of the Teachers Pensions Scheme, administered by the Department for Education. The scheme provides teachers with specified benefits upon their retirement, and the Council contributes towards the cost by making contributions based on a percentage of the members' pensionable salaries. The scheme is technically a defined benefit scheme. However, the Scheme is unfunded and the Department for Education uses a notional fund as the basis for calculating the employers' contribution rate paid by local authorities. The Council is not able to identify its share of the underlying financial position and performance of the scheme with sufficient reliability for accounting purposes. For the purposes of the Statement of Accounts, it is therefore accounted for on the same basis as a defined contribution scheme.

In 2014/15, the Council paid an employer's contribution of £5.131m (£5.524m in 2013/14), representing 14.1% (14.1% in 2013/14) of employees' pensionable pay, to the Department for Education, 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 2014/15, these amounted to £1.501m (£1.515m in 2013/14), representing 3.8% (3.9% in 2013/14) of pensionable pay.

NHS Staff Pension Scheme: From 1 April 2013, Public Health responsibilities transferred from primary care trusts to local authorities. NHS staff have also transferred to the Council who have maintained their membership in the NHS Pension Scheme. The Scheme provides specified benefits and the Council contributes towards the cost by making contributions based on a percentage of the members' pensionable salaries. The scheme is an unfunded defined benefit scheme but the Council is not able to identify its share of the underlying financial position and performance of the scheme with sufficient reliability for accounting purposes. For the purposes of the Statement of Accounts, it is therefore accounted for on the same basis as a defined contribution scheme.

In 2014/15 the Council paid £0.247m to the NHS Pension Scheme in respect of former NHS staff retirement benefits (£0.130m in 2013/14).

Other Employees and Members – Defined Benefit Pension Schemes: As part of the terms and conditions of employment of its officers, the Council makes contributions towards the cost of post-employment benefits. Although these benefits will not actually be payable until employees retire, the Council has a commitment to make the payments that need to be disclosed at the time that employees earn their future entitlement. The Council participates in the Local Government Pension Scheme, which is administered by the Merseyside Pension Fund – this is a defined benefit scheme where the Council and employees pay contributions to the fund, calculated at a level intended to balance the pension's liabilities with investment assets.

The transactions that are included in the 2014/15 Comprehensive Income and Expenditure Statement in respect of the Council's pensions scheme are set out in the following table, based upon information provided to the Council by the Pension Fund's independent actuary. The cost of retirement benefits is shown in the Net Cost of Services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge to be met in the year is based on the amounts set by the Pension Fund, so the real cost of accrued retirement benefits is reversed out of the accounts as indicated in the Movement in Reserves Statement.

NOTES TO THE ACCOUNTS

43. PENSION SCHEMES (continued)

Comprehensive Income and Expenditure Statement	Merseyside Pension Fund 2013/14 £000	Merseyside Pension Fund 2014/15 £000	Teachers Additional Unfunded 2013/14 £000	Teachers Additional Unfunded 2014/15 £000	Total 2013/14 £000	Total 2014/15 £000
Cost of Services:						
Current Service Cost	15,702	13,758	-	-	**15,702**	**13,758**
Past service cost (including curtailment)	758	800	-	-	**758**	**800**
Loss from settlements	(6,529)	111	-	-	**(6,529)**	**111**
	9,931	14,669	-	-	**9,931**	**14,669**
Financing and Investment Income and Expenditure:						
Net interest expense	12,602	8,777	739	783	**13,341**	**9,560**
Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services	22,533	23,446	739	783	**23,272**	**24,229**
Remeasurement of the net defined benefit liability comprising:						
Return on plan assets (excluding the amount included in the net interest expense)	(36,230)	(40,122)	(236)	-	**(36,466)**	**(40,122)**
Actuarial gains and losses arising on changes in financial assumptions	(61,383)	122,769	(1,054)	1,377	**(62,437)**	**124,146**
Actuarial gains and losses arising on changes in demographic assumptions	4,383	-	304	-	**4,687**	**-**
Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	(93,230)	82,647	(986)	1,377	**(94,216)**	**84,024**
Movement in Reserves Statement						
Reversal of net charges made to the Surplus or Deficit for the Provision of Services for post employment benefits in accordance with the Code	(22,533)	(23,446)	(739)	(783)	**(23,272)**	**(24,229)**
Actual amount charged against the General Fund Balance for pensions in the year:						
Employers' contributions payable to scheme	17,300	35,736				
Retirement benefits payable to pensioners			1,515	1,501		

NOTES TO THE ACCOUNTS

Pensions Assets and Liabilities Recognised in the Balance Sheet

The amount included in the Balance Sheet arising from the authority's obligation in respect of its defined benefit plan is as follows:

	Funded Liabilities: Merseyside Pension Fund		Unfunded Liabilities: Teachers Additional Unfunded Pensions		Total	
	2013/14 £000	2014/15 £000	2013/14 £000	2014/15 £000	2013/14 £000	2014/15 £000
Present value of funded liabilities	(701,276)	(847,847)	-	-	(701,276)	(847,847)
Present value of unfunded liabilities	(26,925)	(28,738)	(18,955)	(19,614)	(45,880)	(48,352)
Fair value of plan assets	503,353	581,380	-	-	503,353	581,380
Net Liability Arising from Defined Benefit Obligation	(224,848)	(295,205)	(18,955)	(19,614)	(243,803)	(314,819)

Reconciliation of the Movements in Fair Value of Scheme Assets

	Merseyside Pension Fund	
	2013/14 £000	2014/15 £000
Opening fair value of scheme assets	478,680	503,353
Interest income	20,016	23,511
Remeasurement gain:		
Return on plan assets (excluding the amount included in the net interest)	8,798	40,122
Contributions from employer	17,300	35,736
Contributions from employees in the scheme	4,459	4,646
Benefits paid (including Settlements)	(25,900)	(25,988)
Closing Fair Value of Scheme Assets	503,353	581,380

NOTES TO THE ACCOUNTS

Reconciliation of Present Value of Scheme Liabilities (Defined Benefit Obligation)

	Funded Liabilities: Merseyside Pension Fund		Unfunded Liabilities: Teachers Additional Unfunded Pensions		Total	
	2013/14 £000	2014/15 £000	2013/14 £000	2014/15 £000	2013/14 £000	2014/15 £000
Opening fair value of scheme liabilities	791,525	728,201	20,717	18,955	812,242	747,156
Current service cost	15,702	13,758	-	-	15,702	13,758
Interest cost	32,618	32,288	739	783	33,357	33,071
Contributions from scheme participants	4,459	4,646	-	-	4,459	4,646
Remeasurement gain:						
Experience (gain)/loss	(27,432)	-	(236)	-	(27,668)	-
Actuarial (gains)/losses arising on changes in financial assumptions	(61,383)	122,769	(1,054)	1,377	(62,437)	124,146
Actuarial (gains)/losses arising on changes in demographic assumptions	4,383	-	304	-	4,687	-
Past service cost (gain)	89	111	-	-	89	111
Curtailments	669	800	-	-	669	800
Benefits paid	(25,590)	(25,988)	(1,515)	(1,501)	(27,105)	(27,489)
Settlements	(6,839)	-	-	-	(6,839)	-
Closing Fair Value of Scheme Liabilities	**728,201**	**876,585**	**18,955**	**19,614**	**747,156**	**896,199**

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

The actual return on scheme assets in the year was £63.982m (£23.633m in 2013/14). Total liabilities (including Teacher's Pensions) exceed assets by £314.819m (£243.803m in 2013/14). The Fund's Actuary is required to set contribution rates to meet 100% of the overall liabilities of the Fund.

The liabilities show the underlying commitments that the authority has in the long run to pay retirement benefits. The total liability of £314.819m has a substantial impact on the net worth of the authority as recorded in the Balance Sheet. However, statutory arrangements for funding the deficit mean that the financial position of the authority remains healthy:

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

The total contributions expected to be made to the Merseyside Pension Fund by the Council in the year to 31 March 2016 is £10.722m.

NOTES TO THE ACCOUNTS

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

Local Government Pension Scheme assets comprised:

	Quoted prices in active markets (Y/N)	31 March 2014	31 March 2015
		£000	£000
Equities:			
UK quoted	Y	133,055	138,717
Global quoted	Y	153,263	175,113
Sub total Equities		**286,318**	**313,830**
Bonds:			
UK Government	Y	21,236	29,069
UK Corporate	Y	13,281	15,058
UK Indexed Linked	Y	47,906	56,743
Sub total Bonds		**82,423**	**100,870**
Property:			
UK Direct Property	N	24,576	32,557
Property Managed (UK Quoted)	Y	3,105	1,919
Property Managed (UK Unquoted)	N	7,966	7,732
Property Managed (Global)	N	4,722	5,814
Sub total Property		**40,369**	**48,022**
Alternatives:			
Private Equity (UK Quoted)	Y	361	233
Private Equity (UK Unquoted)	N	12,941	17,383
Private Equity (Global Unquoted)	N	12,209	15,930
Hedge Funds (UK Quoted)	Y	1,423	1,453
Hedge Funds (UK Unquoted)	N	20,607	3,139
Hedge Funds (Global Unquoted)	N	753	17,732
Infrastructure (Global Quoted)	Y	1,524	1,570
Infrastructure (UK Unquoted)	N	4,559	8,139
Infrastructure (Global Unquoted)	N	3,998	4,825
Opportunities (UK Quoted)	Y	7,343	10,639
Opportunities (UK Unquoted)	N	7,018	11,918
Opportunities (Global Quoted)	Y	4,329	1,744
Opportunities (Global Unquoted)	N	3,814	6,337
Sub total Alternatives		**80,879**	**101,042**
Cash:			
Cash instruments	Y	13,364	17,616
Total		**503,353**	**581,380**

NOTES TO THE ACCOUNTS

Basis for Estimating Assets and Liabilities

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

The principal assumptions used by the actuary have been:

	Merseyside Pension Fund		Teachers Additional Unfunded Pensions	
	2013/14	**2014/15**	**2013/14**	**2014/15**
Long term expected rate of return on assets in the scheme:				
Equity Investments	7.0%	6.5%	-	-
Government Bonds	3.4%	2.2%	-	-
Other Bonds	4.3%	2.9%	-	-
Property	6.2%	5.9%	-	-
Cash	0.5%	0.5%	-	-
Mortality assumptions (years):				
Longevity at 65 for current pensioners				
Men	22.3	22.4	22.3	22.4
Women	25.2	25.3	25.2	25.3
Longevity at 65 for future pensioners				
Men	24.7	24.8	-	-
Women	28	28.1	-	-
Actuarial assumptions:				
Rate of Inflation – CPI	2.4%	2.0%	2.4%	2.0%
Rate of increase in salaries	3.90%	3.50%	-	-
Rate of increase in pensions	2.4%	2.0%	2.4%	2.0%
Rate for discounting scheme liabilities	4.5%	3.3%	4.3%	3.1%

NOTES TO THE ACCOUNTS

The estimation of defined benefit obligations is sensitive to the actuarial assumptions set out in the previous table. The sensitivity analyses below have been determined based on reasonably possible changes of the assumptions occurring at the end of the reporting period and assumes for each change that the assumption analysed changes while all the other assumptions remain constant. The assumptions in longevity, for example, assume that life expectancy increases or decreases for men and women. In practice, this is unlikely to occur, and changes in some of the assumptions may be interrelated. The estimations in the sensitivity analysis have followed the accounting policies for the scheme, i.e. on an actuarial basis using the projected unit credit method. The methods and types of assumptions used in preparing the sensitivity analysis below did not change from those used in the previous period.

Impact on the Defined Benefit Obligation in the Scheme

	Merseyside Pension Fund	Teachers Additional Unfunded Pensions
	Increase/(Decrease) in assumption	Increase/(Decrease) in assumption
	£000	£000
0.1% increase in discount rate	(16,244)	(178)
0.1% increase in inflation	16,551	179
0.1% increase in pay growth	3,898	n/a
1 year increase in life expectancy	17,278	830

44. CONTINGENT LIABILITIES

There are no significant contingent liabilities at 31 March 2015 other than those that have been properly recorded and disclosed in the financial statements. In particular:

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

45. CONTINGENT ASSETS

The Council had no contingent assets as at 31 March 2015.

NOTES TO THE ACCOUNTS

46. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

The Council has adopted CIPFA's Code of Practice on Treasury Management (and subsequent amendments) and complies with The Prudential Code for Capital Finance in Local Authorities (both revised in November 2011).

As part of the adoption of the Treasury Management Code, the Council approves a Treasury Management Strategy before the commencement of each financial year. The Strategy sets out the parameters for the management of risks associated with Financial Instruments. The Council also produces Treasury Management Practices specifying the practical arrangements to be followed to manage these risks.

The Treasury Management Strategy includes an Annual Investment Strategy in compliance with the Department for Communities and Local Government Guidance on Local Government Investments. This Guidance emphasises that priority is to be given to security and liquidity, rather than yield. The Council's Treasury Management Strategy and its Treasury Management Practices are based on seeking the highest rate of return consistent with the proper levels of security and liquidity.

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

- Credit risk – the possibility that the counterparty to a financial asset will fail to meet its contractual obligations, causing loss to the Council;
- Liquidity risk – the possibility that the Council might not have cash available to make contracted payments on time; and
- Market risk – the possibility that an unplanned financial loss will materialise because of changes in market variables such as interest rates or equity prices.

Credit risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Council's customers. The Council manages credit risk by ensuring that investments are only placed with organisations of high credit quality as set out in the Treasury Management Strategy. These include commercial entities with a minimum long-term credit rating of BBB+, the UK government, other Local Authorities, Police and Crime Commissioners and organisations without credit ratings upon which the Council has received independent investment advice.

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

The Council is alerted to changes in credit ratings through the use of its advisor's creditworthiness service. If a downgrade results in the counterparty or investment scheme no longer meeting the Council's minimum criteria for that class of investment, its further use as a new investment is immediately restricted to a lesser category or, if necessary, withdrawn completely until such a time as the counterparty's financial standing improves again.

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

NOTES TO THE ACCOUNTS

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

Fitch's Viability ratings replace individual ratings and are designed to be internationally comparable and represent Fitch's view as to the intrinsic creditworthiness of an issuer. Viability ratings are assigned to bank operating companies, bank holding companies and in limited cases, to similar legal entities where it is considered useful to clarify the source of an entity's financial strength.

Viability ratings represent not only the capacity of a rated entity to meet its obligations in the absence of extraordinary support but also in the absence of extraordinary constraints (e.g., transfer and convertibility risk). As such, viability ratings represent the capacity of the bank to maintain ongoing operations and to avoid failure, the latter being indicated by extraordinary and company specific measures becoming necessary to protect against a bank's default.

Fitch's viability rating aaa denotes the highest fundamental credit quality and f denotes the lowest i.e. an opinion of failure. An added "+" or "−" may be appended to a rating to denote relative status within major rating categories. The lowest Fitch Viability rating the Council used at the balance sheet date was "a-" that denotes a high fundamental credit quality.

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

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

The Council's maximum exposure to credit risk in relation to its investments in banks and building societies of £73.588m cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of irrecoverability applies to all of the Council's deposits, but there was no evidence at the 31 March 2015 that this was likely to happen.

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

NOTES TO THE ACCOUNTS

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

Counterparty Category	Criteria					Maximum Investment & Duration per Institution / Group	Total Exposure 31 March 2015 £000
	Country Rating	**Fitch Long Term Rating**	**Fitch Short Term Rating**	**Fitch Viability Rating**	**Fitch Support Rating**		
UK Banks	UK AA+	A	F1	a	1	£18m / up to 100 days	36,000*
UK Bank Certificate of Deposit	UK AA+	AA-	F1+	aa-	1	£18m / up to 6 months	1,000
UK Building Society	UK AA+	A	F1	a	1	£18m / up to 100 days	11,500
UK Covered Bond	UK AA+	A-	F1	a-	5	£1m / maximum period to be agreed with Advisor prior to investing	1,122**
UK Bank (part nationalised)	UK AA+	A	F1	a-	1	£25m / up to 100 days	6,000
Corporate Bond	UK AA+	AA+				£18m / maximum period to be agreed with Advisor prior to investing	3,892
Supernational Bond	AAA					£18m / maximum period to be agreed with Advisor prior to investing	4,697
Money Market Fund (Ireland)	IR BBB+	AAA				£18m / up to 12 months	4,210
External Fund Investment	UK AA+	Not applicable				£18m / maximum period to be agreed with Advisor prior to investing	4,920
UK Treasury Stock	Not applicable					Not applicable	3
Total Exposure to Credit Risk from Investments at 31 March 2015							**73,344**
Accrued interest at 31 March 2015							**244**
Total Exposure to Credit Risk including accrued interest at 31 March 2015							**73,588**

NOTES TO THE ACCOUNTS

* Includes investments with two different institutions that have a maximum investment duration of £18m each.
** This investment is classed as an Available For Sale Asset so shown on the balance sheet at its Fair Value. The actual cash deposit made during 2014/15 did not breach the £1m maximum cash deposit limit.

The following analysis (excluding amounts held in the Council's own bank account and services covered by statute and not contractually based where the credit risk is deemed minimal) summarises the Council's potential maximum exposure to credit risk, based on past experience of default and uncollectability, adjusted to reflect current market conditions:

	Amount at 31 March 2015 (carrying amount of contractually based debtors) £000	Historical Experience of default %	Historical Experience adjusted for market conditions at 31 March 2015 %	Estimated Maximum exposure to default and uncollectability £000
Total Investments (per previous table)	73,588	-	-	-
Mortgagors	87	-	-	-
LAMS Debtor	1,000	-	-	-
Employee Related Debtors	233	-	-	-
Other Debtors	8,837	7.29	19.19	1,696
Total	**83,745**			**1,696**

There were no instances of counterparties failing to meet contractual obligations in relation to deposits maturing during the financial year; and the Council does not expect any future losses from non-performance by any of its counterparties in relation to investments outstanding at the balance sheet date.

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

On 31 March 2015 the Council held 34 mortgage accounts with outstanding loan amounts of £0.087m. 8 of these accounts have arrears, totalling £0.014m but 7 of the accounts are less than 2 months behind in their payments. It has not been necessary to refer any accounts for legal action in 2014/15. The value of the mortgagee's home is secured as collateral against the default risk. Cases with arrears exceeding three months are routinely monitored, and the Council uses a specialist Loan and Mortgages Administrative Service to manage the accounts and recover arrears.

On 31 March 2015 the Local Authority Mortgage Scheme (LAMS) had provided assistance through the provision of indemnity to enable 42 mortgages. Of the initial £1m indemnity fund £0.844m has been taken up as indemnity with £0.156m yet to be committed. Nationally there have been no repossessions of mortgages granted under LAMS and there are only three mortgages in arrears on the national scheme none of which are Knowsley mortgages.

Employee related debtors e.g. car loans and salary sacrifice schemes are recovered through automatic salary deductions, thereby eliminating any risk of default. If an employee leaves the Council and has debt outstanding, the credit risk is transferred to other entities and individuals.

NOTES TO THE ACCOUNTS

Other debtors at 31 March 2015 include £7.432m of contractually based other entities and individuals, £1.270m of contractually based other local authority debtors, £0.038m of contractually based public corporations and trading funds, £0.097m of contractually based housing association debtors and £1.000m relating to the Local Authority Mortgage Scheme detailed in note 15(c). The Council does not generally allow credit for customers, such that £1.638m of the total other entities and individuals balance is past its due date for payment. The past due amount can be analysed by age as follows:

	£000
Less than three months	542
Three to six months	188
Six months to one year	158
More than one year	750
	1,638

The Council has a clearly documented credit policy setting out the Council-wide responsibilities to minimise the risk to the Council of income that cannot be collected, or is difficult to collect. Debt is managed centrally with system-based recovery routines and overdue letter cycles. All available recovery methods are utilised including telephone collection, external collection agents, bankruptcy and charging orders where appropriate. A comprehensive analysis of all outstanding debt is undertaken, and collection performance monitored and reported to senior management, on a monthly basis throughout the year.

The Council makes a provision for past due debtors based on the actual collection performance of previous years and according to the perceived level of risk associated with those debtors. All activities are supported by written procedures and policies including a Debt Recovery Strategy, Write-Off Policy and Partnership Working Agreement with Legal Services.

Liquidity Risk

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

Maturity Period of Fixed Rate Borrowing	Upper limit of Fixed Rate Borrowing to mature in each period	Public Works Loan Board Maturity at 31 March 2015 £000	Lender Offer Borrower Option Maturity at 31 March 2015 £000	Total Maturity at 31 March 2015 £000	Actual % Maturity of Fixed Rate Borrowing at 31 March 2015
Under 12 months	20%	1,485	17,493	18,978	16%
1-2 years	20%	5	-	5	0%
2-5 years	50%	13	-	13	0%
5-10 years	80%	1,172	-	1,172	1%
10 years and above	100%	100,091	-	100,091	83%
		102,766	17,493	120,259	

NOTES TO THE ACCOUNTS

Transferred debt has been excluded from the above table as it is a contractual obligation through local government reorganisation in 1974 and 1986 and administered by other local authorities on behalf of the Council.

The Council has £17.493m of “Lender’s offer, borrower’s option” (LOBO) loans where the lender has the option to propose an increase in the rate payable once the loan falls out of the fixed rate period and becomes “callable” on a semi-annual basis. Of the £17.493m LOBO’s shown in the fixed rate maturity period of under 12 months, the Council has a LOBO with a principal balance of £6.300m that became callable from 1 May 2012, a LOBO with a principal balance of £6m that became callable from 25 November 2013 and a LOBO with a principal balance of £5m that became callable from 8 September 2015. If a LOBO is called and the rate changed by the Lender, the Council will have the option to accept the new rate or repay the loan without penalty. Due to current low interest rates, in the unlikely event that the lender exercises its option, the Council is likely to repay this loan. The maturity date is therefore uncertain but the Council shows all LOBO’s in the maturity period that their fixed period ends to ensure sufficient funds are available to repay the loans if called.

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

Market Risk

Interest Rate Risk

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

- borrowings at variable rates – the interest expense will rise;
- borrowings at fixed rates – the fair value of the liabilities will fall;
- investments at variable rates – the interest income will rise;
- investments at fixed rates – the fair value of the assets will fall.

Investments classed as “loans and receivables” and loans borrowed are not carried on the Balance Sheet at fair value, so changes in their fair value will have no impact on the Comprehensive Income and Expenditure Statement. Changes in interest payable and receivable on variable rate borrowings and investments would be posted to the Surplus or Deficit on the Provision of Services. However, the Council did not hold any variable rate borrowing as at 31 March 2015. Movements in the fair value of fixed rate investments classed as “available for sale” would be reflected in Other Comprehensive Income and Expenditure if material.

The Council has a number of strategies for managing interest rate risk. The treasury management strategy is to aim to keep a maximum of 50% of borrowings in variable rate loans. At 31 March 2015, the Council had no exposure to variable rate borrowing. The treasury management team receives professional advice and has a strategy for assessing interest rate exposure that feeds into the setting of the annual budget and which is used to update the budget during the year. This allows any adverse changes to be accommodated. The analysis will also advise whether new borrowing taken out is fixed or variable.

If all interest rates had been 1% higher on 31 March 2015 with all other variables held constant, the financial effect would be as follows:

NOTES TO THE ACCOUNTS

	£000
decrease in fair value of fixed rate investment assets (no impact on Comprehensive Income and Expenditure)	32
decrease in fair value of fixed rate borrowings liabilities (no impact on Comprehensive Income and Expenditure)	25,252

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

Currency Exchange Risk

On the balance sheet date The Council held approximately £0.155m financial assets and £0.086m liabilities denominated in Euro's. The Council does not consider it is exposed to any significant risk of adverse movements in the currency exchange rate.

Price risk

The market prices of the Council's fixed rate bond investments and its units in pooled funds are governed by prevailing interest rates and the market risk associated with instruments is managed alongside interest rate risk.

The Council's investment in a pooled property fund is subject to the risk of falling commercial property prices. The risk is limited by the Council's maximum exposure to property investments of £5m.

NOTES TO THE ACCOUNTS

47. TRUST FUNDS

The Council administers the King George V Playing Fields Trust Fund as sole trustee.

	Balance 31 March 2014 £000	Receipts £000	Payments £000	Balance 31 March 2015 £000
King George V Playing Fields *A permanent Endowment from the sale of land left to KMBC from benefactors*	828	3	(3)	828

Other funds administered by the Council

The Council also administers other funds. These Funds are related principally to legacies left by individual benefactors over a period of years.

	Balance 31 March 2014 £000	Receipts £000	Payments £000	Balance 31 March 2015 £000
Health and Social Care Trust Funds (Note i)	35	5	(37)	3
Huyton Distress Fund *Long standing trust fund – for hardship cases within the area of Huyton*	44	1	(1)	44
Children and Family Services Trust Funds (Note ii)	8	-	-	8
Larry Nolan *Created in August 2007 and became a trust fund in October 2008. The plans for the fund include prizes for the Larry Nolan Award, funding of a memorial and the development of a young person's areas in Huyton Library*	1	-	-	1
Charles McGhee *Established in 1982 – to provide holidays for the disabled who reside in the borough*	19	-	-	19
Fred Curran *Established in 1990 – to provide funding assistance for disabled athletes who reside in the borough relevant to training for and participation in Special Olympics*	54	1	-	55
Mayors Charity *Established in 1975 – to raise funds for charitable purposes in the borough as the trustees see fit*	21	30	(9)	42
	182	37	(47)	172

NOTES TO THE ACCOUNTS

47. TRUST FUNDS (continued)

Note i) These funds include:

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

Note ii) These funds include:

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

NOTES TO THE ACCOUNTS

48. INTEREST IN COMPANIES

2020 Knowsley Limited

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

The company had net assets of £0.091m at 31 March 2015 (net assets of £0.010m at 31 March 2014) and reported a pre tax profit of £0.058m as at that date (profit of £0.021m in 2013/14). Copies of the company's accounts can be obtained from Peter Seddon, 2020 Knowsley Limited, 9 West Street, Prescot, Merseyside, L34 1LF.

49. GROUP ACCOUNTS

The Council, where it has an interest in entities that would otherwise be regarded as subsidiaries, associates or joint ventures, 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 2014/15 it has no such interests.

COLLECTION FUND STATEMENT

The Collection Fund (England) is an agent's statement that reflects the statutory obligation for billing authorities to maintain a separate Collection Fund. The statement shows the transactions of the billing authority in relation to the collection from taxpayers and distribution to local authorities and the Government of council tax and business rates. The Collection Fund balance sheet meanwhile is incorporated into the Council's consolidated balance sheet.

2013/14 Council Tax	2013/14 Business Rates	2013/14 Total		2014/15 Council Tax	2014/15 Business Rates	2014/15 Total
£000	£000	£000		£000	£000	£000
			Income			
(47,822)	-	(47,822)	Income from Council Taxpayers	(49,303)	0	(49,303)
-	(40,521)	(40,521)	Income from Business Ratepayers	0	(44,188)	(44,188)
(47,822)	**(40,521)**	**(88,343)**	**Total Income**	**(49,303)**	**(44,188)**	**(93,491)**
			Expenditure			
			Precepts:			
38,980	-	38,980	- Knowsley MBC	39,425	-	39,425
4,697	-	4,697	- Police & Crime Commissioner for Merseyside	4,842	-	4,842
2,100	-	2,100	- Merseyside Fire & Rescue Authority	2,166	-	2,166
			Business Rates payments:			
-	20,238	20,238	- Central Government	-	21,190	21,190
-	19,332	19,332	- Knowsley MBC	-	19,463	19,463
-	394	394	- Merseyside Fire & Rescue Authority	-	397	397
-	136	136	- Cost of Collection	-	139	139
			Bad and Doubtful Debts:			
1,818	958	2,776	- Allowance for non-collection	1,381	226	1,607
-	152	152	- Write-offs	-	-	-
-	13,044	13,044	- Provision for Appeals	-	1,705	1,705
-	-	-	Transfer Collection Fund Surplus	200	-	200
47,595	**54,254**	**101,849**	**Total Expenditure**	**48,014**	**43,120**	**91,134**
(227)	**13,733**	**13,506**	**(Surplus) / Deficit for the year**	**(1,289)**	**(1,068)**	**(2,357)**
			Collection Fund Balance			
-	-	-	Balance brought forward at 1 April	(227)	13,733	13,506
(227)	13,733	13,506	(Surplus) / Deficit for the year (as above)	(1,289)	(1,068)	(2,357)
(227)	**13,733**	**13,506**	**Balance carried forward at 31 March**	**(1,516)**	**12,665**	**11,149**
			Allocated to:			
(193)	6,729	6,536	- Knowsley MBC	(1,287)	6,206	4,919
(24)	-	(24)	- Police & Crime Commissioner for Merseyside	(158)	0	(158)
(10)	137	127	- Merseyside Fire & Rescue Authority	0	127	127
-	6,867	6,867	- Central Government	(71)	6,332	6,261
(227)	**13,733**	**13,506**		**(1,516)**	**12,665**	**11,149**

NOTES TO THE COLLECTION FUND

1. COUNCIL TAX

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, with individual charges being calculated by estimating the amount of income required to be taken from the Collection Fund by the Council for the forthcoming year and dividing this by the tax base.

The tax base for 2014/15 was 30,916 (30,573 in 2013/14). This reduction between financial years is as a result of the Council Tax Localisation changes which revised the way the Government pay council tax benefit compensation to the Council. The tax base was approved at the Council meeting on 29 January 2014 and was calculated as follows:

Band	Value	Number of Dwellings	Band D Equivalent Ratio	Band D Equivalent
A	Up to £40,000	37,071	6/9	24,714
B	£40,001 to £52,000	13,216	7/9	10,279
C	£52,001 to £68,000	8,867	8/9	7,882
D	£68,001 to £88,000	3,916	9/9	3,916
E	£88,001 to £120,000	1,531	11/9	1,871
F	£120,001 to £160,000	261	13/9	377
G	£160,001 to £320,000	127	15/9	212
H	Over £320,000	17	18/9	34
		65,006		49,285
Less Exemptions and Discounts				(17,479)
Collection Rate (Estimated)				97.2%
Council Tax Base 2014/15				**30,916**

Collection Fund surpluses (or deficits) declared by the billing authority in relation to council tax are apportioned (or proportionately charged) to the relevant precepting bodies in the subsequent financial year. For Knowsley, the council tax precepting bodies are the Police and Crime Commissioner for Merseyside (PCCM) and the Merseyside Fire and Rescue Authority (MFRA).

The Council has a statutory requirement to prepare an estimate each January of the surplus or deficit on council tax expected to arise at the end of the financial year. In January 2014 it was estimated that there would be a £0.200m council tax surplus on the Collection Fund (£nil surplus in January 2013) and therefore this would be due back to the preceptors in 2014/15.

NOTES TO THE COLLECTION FUND

2. BUSINESS RATES

The Council collects business rates for its area based on local rateable values provided by the Valuation Office Agency (VOA) multiplied by a uniform business rate set nationally by Central Government. For 2014/15 the total rateable value at the year end is £103.2m (£103.1m in 2013/14). The national multipliers for 2014/15 were 48.2p for qualifying small businesses, with the standard multiplier being 47.1p for all other businesses (46.2p and 47.1p respectively in 2013/14).

In 2013/14 the administration of the former National Non-Domestic Rate (NNDR) changed following the introduction of a Business Rates Retention Scheme which aims to give Councils a greater incentive to grow businesses but also increases the financial risk due to volatility and non-collection of rates. Instead of paying into the pool, local authorities now retain a proportion of the total collectable business rates due. In the case of Knowsley the local share is 49%. The remainder is distributed to preceptors: 50% to Central Government and 1% to the Merseyside Fire & Rescue Authority (MFRA).

The business rates shares payable for 2014/15 were estimated before the start of the financial year as £19.860m to Central Government, £19.463m to Knowsley and £0.397m to MFRA. These sums have been paid in 2014/15 and charged to the Collection Fund in year. The actual income from business ratepayers for 2014/15 was £44.188m (£40.251m in 2013/14), and includes £1.330m of transitional protection payments from ratepayers which, under Government regulation, should have a neutral impact on the Business Rates Retention Scheme. This amount has to be repaid to Central Government and therefore increases the payments to Central Government shown in the Collection Fund to £21.190m.

In addition to the local management of business rates, authorities are expected to finance appeals made in respect of rateable values as defined by the VOA and hence business rates outstanding at 31 March 2015. As such, authorities are required to make a provision for these amounts. Appeals are charged and provided for in proportion to the precepting shares. The total successful prior year appeals awarded and charged to the provision during 2014/15 was £4.303m, with a further increase to the provision of £1.705m, leaving a total of £10.446m at 31 March 2015 to cover future payments for those appeals still pending.

The Council also has a statutory requirement to prepare an estimate each January of the surplus or deficit on business rates expected to arise at the end of the financial year. In January 2014 it was estimated that the Collection Fund would be carrying a £0.212m deficit (balanced in January 2013) and therefore this would be recoverable from the preceptors in 2014/15.

When the scheme was introduced, Central Government set a baseline level for each authority identifying the expected level of retained business rates and a top-up or tariff amount to ensure that all authorities receive their baseline amount. Tariffs due from authorities payable to Central Government are used to finance the top-ups to those authorities who do not achieve their targeted baseline funding. In this respect Knowsley received an estimated top-up grant to the General Fund in 2014/15 to the value of £35.854m.

ACCOUNTING POLICIES

A General Principles

The Statement of Accounts summarises the Council's transactions for the 2014/15 financial year and its overall financial position as at 31 March 2015. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit (England) Regulations 2011 which require them to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 (the Code) and the Service Reporting Code of Practice for Local Authorities 2014/15 (SeRCOP), supported by International Financial Reporting Standards (IFRS).

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments. The following accounting policies have been consistently applied.

B Accounting Concepts

In accordance with the Code, the Council has adopted a number of principles to be followed in selecting accounting policies to be used and the corresponding use of disclosures needed to help users understand those adopted policies and how they have been implemented.

In doing so, the Council intends that the policies adopted are those most appropriate to its particular circumstances for the purposes of presenting a true and fair view of the financial position and transactions of the Council. Policies are reviewed regularly to ensure that they remain appropriate, and are changed when a new policy becomes more appropriate to the Council's circumstances. A full disclosure of any such changes will always be provided.

The concepts that the Council has regard to in selecting and applying the most appropriate policies and estimation techniques are:

- The qualitative characteristics of financial information
  - relevance
  - reliability
  - comparability
  - understandability
  - materiality

- Pervasive accounting concepts
  - accruals
  - going concern
  - primacy of legislative requirements

Accounting policies can be defined as the principles, bases, conventions, rules and practices applied, that specify how the transactions and other events are to be reflected in the financial statements through recognising, selecting measurement bases for, and presenting assets, liabilities, losses and changes in reserves.

Materiality

Accounting policies need not be applied if the effect of applying them would be immaterial. Omissions or misstatements of items are considered material if they could, individually or collectively, influence the decisions or assessments of users made on the basis of the financial statements. Materiality depends on the nature or size of the omission or misstatement judged in the surrounding circumstances.

Although the Code prescribes the requirements for disclosures in the accounts, the Council need not provide a specific disclosure if the information is not material.

Accruals of Income and Expenditure

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Revenue from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- Revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption; they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including services supplied by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest payable on borrowings and receivable on investments is accounted for on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where there is evidence that debts are unlikely to be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

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

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

C Balances

The Council's un-earmarked general balances will be assessed annually by the Executive Director (Resources) to ensure that they are maintained at an adequate level taking into account the strategic, operational and financial risks facing the authority.

D Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value. The Council has classified deposits with Money Market Funds and call accounts as cash equivalents within the Balance Sheet.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Council's cash management.

E Changes in Accounting Policies and Estimates and Errors

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Authority's financial position or financial performance. Where a change is made, it is applied retrospectively by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Where the basis for measurement of an amount is uncertain, the Council will use a suitable estimation technique determined by the Executive Director (Resources). Where a reasonable estimate has been made, but is subsequently identified as being insufficiently accurate, the Executive Director (Resources) will amend the Accounts accordingly. Changes in accounting estimates are accounted for prospectively, i.e., in the current and future years affected by the change.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

F Charges to Revenue for Non-Current Assets

Services, support services and trading accounts are debited with the following amounts to record the cost of holding non-current assets during the year:

- depreciation attributable to the assets used by the relevant service;
- revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off; and
- amortisation of intangible assets attributable to the service.

The Council is not required to raise council tax to fund depreciation, impairment and revaluation losses or amortisation. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement. This amount is known as the Minimum Revenue Provision (MRP) and is calculated by the Council on a prudent basis determined by the authority in accordance with statutory guidance. Depreciation, impairment and revaluation losses and amortisations are therefore reversed and replaced by the MRP, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement.

G Employee Benefits

<u>Benefits Payable During Employment</u>
Short-term employee benefits are those falling due wholly within 12 months after the end of the period in which the employees render the related service. These include items such as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees, and are recognised as an expense in services in the year. An accrual is made for the cost of holiday entitlements earned by employees but not taken before the year-end and which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The Council is not required to raise council tax to cover this accrual and so it is therefore reversed by way of an adjusting transaction with the Accumulated Absences Account in the Movement in Reserves Statement.

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy. These benefits are charged on an accruals basis to the appropriate service in the Comprehensive Income and Expenditure Statement when the Council is demonstrably committed to either terminating the employment of an officer or group of officers, or making an offer to encourage voluntary redundancy.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

Post Employment Benefits

Employees of the Authority are members of the following pension schemes:

- The Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education (DfE).
- The NHS Pension Scheme, administered by NHS Pensions.
- The Local Government Pensions Scheme, administered by Wirral Metropolitan Borough Council as the Merseyside Pension Fund.

These schemes provided defined benefits to members (retirement lump sums and pensions), earned as employees worked for the Council.

However, the arrangements for the teachers' and NHS schemes mean that liabilities for these benefits cannot be identified specifically to the Council. The schemes are therefore accounted for as if they were a defined contributions scheme – no liability for future payments of benefits is recognised in the Balance Sheet. The Education and Children's Services line in the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to Teachers' Pensions in the year. The Public Health Services line in the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to the NHS Pension Scheme in the year.

The Local Government Pension Scheme

The Local Government Scheme is accounted for as a defined benefits scheme. The liabilities of Merseyside Pension Fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projections of projected earnings for current employees.

Liabilities are discounted to their value at current prices, using appropriate discount rates (based on the indicative rate of return on high quality corporate bond).

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

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

The change in the net pension's liability is analysed into five components:

- current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked;
- past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Surplus/Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs;
- net interest on the net defined benefit liability (asset) – the change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. This is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period, taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments;
- remeasurements – these comprise of the return on plan assets, excluding amounts included in the net interest on the net defined benefit liability (asset), and is charged to the Pensions Reserve as Other Comprehensive Income and Expenditure. Remeasurements also include actuarial gains and losses which are the result of changes in the net pension liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions. These are charged to the Pensions Reserve as Other Comprehensive Income and Expenditure; and
- contributions paid to the fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are transfers to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

Discretionary Benefits

The Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff (including teachers) are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

H Events After the Reporting Period

Events after the reporting period are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events; and
- those that are indicative of conditions that arose after the reporting period – the Statement of Accounts are not adjusted to reflect such events, but where a category of events would have a material effect disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

I Exceptional Items

When items of income and expenditure are material, their nature and amount is disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement or in the notes to the accounts, depending on how significant the items are to an understanding of the Council's financial performance.

J Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and initially measured at fair value and carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

The Council's borrowing presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest) and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Financing and Investment Income and Expenditure line in the Income and Expenditure Account in the year of repurchase/settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate.

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The Authority has a policy of spreading the gain/loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

K Financial Assets

Financial assets are classified into two types:

- loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market; and
- available-for-sale assets – assets that have a quoted market price and/or do not have fixed or determinable payments.

<u>Loans and Receivables</u>
Loans and receivables are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. The amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

Where the Council has made a loan to a third party at less than market rates (a soft loan), a loss is recorded in the Comprehensive Income and Expenditure Statement (debited to the appropriate service) for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal. Interest is credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement at a marginally higher effective rate of interest than the rate receivable from the voluntary organisations, with the difference serving to increase the amortised cost of the loan in the Balance Sheet. Statutory provisions require that the impact of soft loans on the General Fund Balance is the interest receivable for the financial year – the reconciliation of amounts debited and credited to the Comprehensive Income and Expenditure Statement to the net gain required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate.

Any gains and losses that arise on the derecognition of an asset are credited/debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

<u>Available-for-sale Assets</u>
Available-for-sale assets are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Where the asset has fixed or determinable payments, annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument. Where there are no fixed or determinable payments (e.g. dividends), income is credited to the Comprehensive Income and Expenditure Statement when it becomes receivable by the Council.

Assets are maintained in the Balance Sheet at fair value. Values are based on the following principles:

- instruments with quotes market prices – market price
- other instruments with fixed and determinable payments – discounts cash flow analysis
- equity shares with no quotes market prices – independent appraisal of company valuations.

Changes in fair value are balanced by an entry in the Available-for-Sale Reserve and the gain/loss is recognised in the Surplus or Deficit on Revaluation of Available-for-Sale Financial Assets. The exception is where impairment losses have been incurred – these are debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any net gain or loss for the asset accumulated in the Available-for-Sale Reserve.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made (fixed or determinable payments) or fair value falls below cost, the asset is written down and a charge made to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. If the asset has fixed or determinable payments, the impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate. Otherwise, the impairment loss is measured as any shortfall of fair value against the acquisition cost of the instrument (net of any principal repayment and amortisation).

Any gains or losses that arise on the derecognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any accumulated gains or losses previously recognised in the Available-for-Sale Reserve.

Where fair value cannot be measured reliably, the instrument is carried at cost (less any impairment losses).

L Foreign Currency Translation

Where the Council has entered into a transaction denominated in a foreign currency, the transaction is converted into sterling at the exchange rate applicable on the date the transaction was effective. Where amounts in foreign currency are outstanding at year end, they are re-converted at the spot exchange rate at 31 March. Resulting gains or losses are recognised in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

M Government Grants and Contributions

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Council when there is reasonable assurance that:

- the Council will comply with the conditions attached to the payments; and
- the grants or contributions will be received.

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset received in the form of grant or contribution are required to be consumed as specified or returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants/contributions) or Taxation and Non-Specific Grant Income (non-ring-fenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied Account. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied Account are transferred to the Capital Adjustment Account once they have been applied.

A grant or contribution that becomes repayable shall be accounted for as a revision to an accounting estimate. Repayment shall first be applied to any receipt in advance set up in respect of the grant or contribution. To the extent that the repayment exceeds any such receipt in advance, or where no receipt in advance exists, the repayment shall be recognised within the Comprehensive Income and Expenditure Statement as an expense.

N Heritage Assets

Heritage assets are those with historical, artistic, scientific, technological, geophysical or environmental qualities that are held and maintained principally for their contribution to knowledge and culture. Heritage assets are a distinct class of asset which is reported separately from property, plant and equipment. Previously, heritage assets would have been held under Community Assets.

Heritage assets are recognised and measured (including the treatment of revaluation gains and losses) in accordance with accounting policies on Property, Plant and Equipment.

The carrying amount of heritage assets are reviewed where there is evidence of impairment, e.g. where an item has suffered physical deterioration or breakage, or where doubts arise to its authenticity. Any impairment is recognised and measured in accordance with the Council's general policy on impairment.

O Internal Interest

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

P Intangible Assets

Expenditure on non-monetary assets that do not have physical substance but are controlled by the Council as a result of past events (e.g. software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Council.

Internally generated assets are capitalised where it is demonstrable that the project is technically feasible and is intended to be completed (with adequate resources being available) and the Council will be able to generate future economic benefits or deliver service potential by being able to sell or use the asset. Expenditure is capitalised where it can be measured reliably as attributable to the asset and restricted to that incurred during the development phase (research expenditure is not capitalised).

Expenditure on the development of websites is not capitalised if the website is solely or primarily intended to promote or advertise the Council's goods or services.

Intangible assets are measured initially at cost. Amounts are not revalued, as the fair value of the assets held by the Council cannot be determined by reference to an active market. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and the Capital Receipts Reserve.

Q Interests in Companies and Other Entities

Councils with material interests in companies and other entities that have the nature of subsidiaries, associates and jointly controlled entities are required to prepare group accounts. In such cases, the Council's own single-entity accounts will reflect the interests in companies and other entities as financial assets at cost, less any provision for losses.

R Inventories

Inventories are included in the Balance Sheet at the lower of cost and net realisable value. The cost of inventories is assigned using the first in first out basis.

S Investment Properties

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.

Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's length. Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and the Capital Receipts Reserve.

T Jointly Controlled Operations and Jointly Controlled Assets

Jointly controlled operations are activities undertaken by the Council in conjunction with other venturers that involve the use of the assets and resources of the venturers rather than the establishment of a separate entity. The Council recognises on its Balance Sheet the assets that it controls and the liabilities that it incurs and debits and credits the Comprehensive Income and Expenditure Statement with the expenditure its incurs and the share of income it earns from the activity of the operation.

Jointly controlled assets are items of property, plant or equipment that are jointly controlled by the Council and other venturers, with the assets being used to obtain benefits for the venturers. The joint venture does not involve the establishment of a separate entity. The Council accounts for its share of the jointly controlled assets, the liabilities and expenses that it incurs on its own behalf or jointly with others in respect of its interest in the joint venture and income that it earns from the venture.

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

U Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

<u>The Council as Lessee</u>

Finance Leases
Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the Council are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability.

Lease payments are apportioned between:

- a charge for the acquisition of the interest in the property – applied to write down the lease liability; and
- a finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

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

The Council is not required to raise council tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and impairment losses are therefore substituted by a revenue contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

Operating Leases
Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g., there is a rent-free period at the commencement of the lease).

<u>The Council as Lessor</u>

Finance Leases
Where the Council grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. A gain, representing the Council's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal), matched by a Debtor in the Balance Sheet.

Lease rentals receivable are apportioned between:

- a capital receipt for the disposal of the asset – applied to write down the Debtor (together with any premiums received); and
- finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance and will be required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement. Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the General Fund Balance to the Deferred Capital Receipts Reserve in the Movement in Reserves Statement. When the future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the Debtor. At this point, the deferred capital receipts are transferred to the Capital Receipts Reserve.

The written-off value of disposals is not a charge against council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

Operating Leases

Where the Council grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g., there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

V Overheads and Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Service Reporting Code of Practice for Local Authorities 2013/14 (SeRCOP). The total absorption costing principle is used, so that the full cost of overheads and support services is shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core – costs relating to the Council’s status as a multi-functional, democratic organisation.
- Non Distributed Costs – the cost of discretionary benefits awarded to employees retiring early and any depreciation and impairment losses chargeable on assets held for sale.

These two cost categories are defined in SeRCOP and accounted for as separate headings in the Comprehensive Income and Expenditure Statement, as part of Net Expenditure on Continuing Services.

W Principal and Agent Transactions

The Council’s financial statements have regard to the general principle of whether the Council is acting as the principal or agent.

Where the Council acts as a Principal, i.e. it is acting on its own behalf; transactions are included in the Council’s financial statements.

Where the Council acts as an agent i.e. it is acting as an intermediary, transactions are not reflected in the Council financial statements, with the exception in respect of cash collected or expenditure incurred by the agent on behalf of the principal, in which case there is a debtor or creditor position and the net cash position being included in financing activities in the cash flow statement.

The Council currently acts as an agent for the collection of the Government's element of Business Rates and the preceptor's element of Council Tax. The Council acts as a principal for its own share of Council Tax and Business Rates.

X Property, Plant and Equipment

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e., repairs and maintenance) is charged as an expense when it is incurred.

Where a component of an asset is replaced or restored, the current net book value of the old component shall be removed to avoid double counting and the new component reflected in the net book value. In line with the Council's approach to componentisation, only assets where changes would significantly affect the carrying value in the Balance Sheet will be separated into components.

Measurement

Assets are initially measured at cost, comprising:

- the purchase price; and
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

The Council does not capitalise borrowing costs incurred whilst assets are under construction.

Donated assets are measured initially at fair value. The difference between fair value and any consideration paid is credited to the Taxation and Non-Specific Grant Income line of the Comprehensive Income and Expenditure Statement, unless the donation has been made conditionally. Until conditions are satisfied, the gain is held in the Donated Assets Account. Where gains are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance to the Capital Adjustment Account in the Movement in Reserves Statement.

Assets are then carried in the Balance Sheet using the following measurement bases:

- infrastructure, community assets and assets under construction – depreciated historical cost; and
- all other assets – fair value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV) as at 31 March 2015.

Where there is no market-based evidence of fair value because of the specialist nature of an asset, depreciated replacement cost is used as an estimate of fair value as at 31 March 2015.

Where non-property assets have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for fair value.

Assets included in the Balance Sheet at fair value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year-end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a revaluation loss previously charged to a service.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

Impairment

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for by:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains); or
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

Revaluation losses

Where the carrying amount of an item of property, plant and equipment is decreased as a result of a revaluation, i.e. a significant decline in an asset's carrying amount during the period that is not specific to the asset (as opposed to an impairment as detailed above), the decrease shall be recognised in the Revaluation Reserve up to the credit balance existing in respect of the asset and thereafter in the Surplus or Deficit on the Provision of Services.

Depreciation

Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land and certain Community Assets) and assets that are not yet available for use (i.e. assets under construction).

Deprecation is calculated on the following bases:

- Buildings and community assets – straight-line allocation over the useful life of the property as estimated by the valuer;
- vehicles, plant and equipment – a percentage of the value of each class of assets in the Balance Sheet, as advised by a suitably qualified officer;
- infrastructure – straight-line allocation over 50 years; and
- investment properties and assets held for sale are not depreciated.

Where an item of Property, Plant and Equipment has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Disposals and Non-current Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale.

The following criteria have to be met before an asset can be classified as held for sale:

- The asset must be available for immediate sale in its present condition subject to terms that are usual and customary for sales of such assets.
- The sale must be highly probable; the appropriate level of management must be committed to a plan to sell the asset and an active programme to locate a buyer and complete the plan must have been initiated.
- The asset must be actively marketed for a sale at a price that is reasonable in relation to its current fair value.
- The sale should be expected to qualify for recognition as a completed sale within one year of the date of classification.

The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previously losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale. Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as held for sale, and their recoverable amount at the date of the decision not to sell.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal are categorised as capital receipts. A proportion of receipts relating to housing disposals (75% for dwellings, 50% for land and other assets, net of statutory deductions and allowances) is payable to the Government. The balance of receipts is required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the Council's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

The written-off value of disposals is not a charge against council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

Y Private Finance Initiative (PFI) and Similar Contracts

PFI and similar contracts are agreements to receive services, where the responsibility for making available the property, plant and equipment needed to provide the services passes to the PFI contractor. As the Council is deemed to control the services that are provided under its PFI schemes and as ownership of the property, plant and equipment will pass to the Council at the end of the contracts for no additional charge, the Council carries the assets used under the contracts on its Balance Sheet as part of Property, Plant and Equipment.

The original recognition of these assets at fair value (based on the cost to purchase the property, plant and equipment) was balanced by the recognition of a liability for amounts due to the scheme operator to pay for the capital investment.

Non-current assets recognised on the Balance Sheet are revalued and depreciated in the same way as property, plant and equipment owned by the Council.

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

- fair value of the services received during the year – debited to the relevant service in the Comprehensive Income and Expenditure Statement;
- finance cost – an interest charge on the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement;
- contingent rent – increases in the amount to be paid for the property arising during the contract, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement;
- payment towards liability – applied to write down the Balance Sheet liability towards the PFI operator; and
- lifecycle replacement costs – recognised as additions to Property, Plant and Equipment on the Balance Sheet when the relevant works are carried out.

Z Provisions, Contingent Liabilities and Contingent Assets

Provisions

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For instance, the Council may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Council becomes aware of the obligation. They are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties, and are classified as current or non-current liabilities on the Balance Sheet.

When payments are eventually made, they are charged to the provision set up in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year and where it becomes likely that a payment will not be made or the estimated liability is reduced, the provision is reversed and credited back to the relevant service.

Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received.

Provision for Back Pay Arising from Unequal Pay Claims

The Council has made a provision for the costs of settling potential compensation claims incurred under the Equal Pay Act (Amendment) Regulations 2003 in relation to equal pay for work equal value. However, statutory arrangements allow settlements to be financed from the General Fund in the year that payments actually take place, not when the provision is established. The provision is therefore balanced by an Equal Pay Back Pay Account created from amounts credited to the General Fund balance in the year the provision was made or modified. The balance on the Equal Pay Back Pay Account will be debited back to the General Fund balance in the Movement in Reserves Statement in future financial years as payments are made. The figure included in the accounts does not indicate an expected settlement figure and does not prejudice the Council's ongoing negotiations on this matter.

Carbon Reduction Commitment Scheme

The Council is required to participate in the Carbon Reduction Commitment (CRC) Energy Efficiency Scheme. The scheme is currently in the initial year of its second phase, which ends on 31 March 2019. The Council is required to purchase allowances, either prospectively or retrospectively, and surrender them on the basis of emissions i.e. carbon dioxide produced as energy is used. As carbon dioxide is emitted, a liability and an expense are recognised. The liability will be discharged by surrendering allowances. The liability is measured at the best estimate of the expenditure required to meet the obligation, normally at the current market price of the number of allowances required to meet the liability at the reporting date. The cost to the Council is recognised and reported in the costs of the Council's services and is apportioned to services on the basis of energy consumption.

<u>Contingent Liabilities</u>

A contingent liability arises where an event has taken place that gives the Council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an outflow of economic benefits or service potential.

<u>Contingent Assets</u>

A contingent asset arises where an event has taken place that gives the authority a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council.

Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

AA Reserves

In addition to its general balances, the Council also sets aside resources specifically for future policy developments, to cover contingencies or for specific areas of future risk. This allows the Council to manage the impact of its spending in a planned and prudent way. These resources are kept under review by the Executive Director (Resources) as part of ongoing budget monitoring processes, and outcomes are reported to the Cabinet throughout the year, so that decisions can be made on any reallocations.

Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure.

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments and retirement benefits and that do not represent usable resources for the Council – these reserves are explained in the relevant notes to the accounts.

AB Revenue Expenditure Funded from Capital under Statute

Revenue expenditure incurred during the year that may be capitalised under statutory provisions but does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of council tax.

AC Value Added Tax

Vat payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income.

AD Work In Progress (Construction Contracts)

Construction contracts entered into whereby the Council is undertaking construction for its customers shall be appropriately reflected in the Council's accounts. When the outcome of a construction contract can be estimated reliably, the percentage of completion method shall be used to recognise revenue and expenses. When the outcome of a construction contract cannot be estimated reliably revenue shall be recognised only to the extent of contract costs incurred that it is probable will be recovered, and contract costs shall be recognised as an expense in the period in which they are incurred.

Independent auditors' report to the Members of Knowsley Metropolitan Borough Council (the "Authority")

Report on the financial statements

Our opinion

In our opinion, Knowsley Metropolitan Borough Council's Authority financial statements (the "financial statements"):

- give a true and fair view of the state of the Authority's affairs as at 31 March 2015 and of the Authority's income and expenditure and cash flows for the year then ended; and
- have been properly prepared in accordance with the requirements of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 and the CIPFA Service Reporting Code of Practice for Local Authorities 2014/15.

What we have audited

The financial statements comprise:

- the Balance Sheet as at 31 March 2015;
- the Comprehensive Income and Expenditure Statement for the year then ended;
- the Movement in Reserves Statement for the year then ended;
- the Cash Flow Statement for the year then ended;
- the Collection Fund Statement for the year then ended; and
- the accounting policies; and
- the notes to the financial statements, which include other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 supported by the CIPFA Service Reporting Code of Practice for Local Authorities 2014/15.
In applying the financial reporting framework, the Executive Director (Resources) has made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinion on other matter prescribed by the Code of Audit Practice

In our opinion, the information given in the Explanatory Foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

Other matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Code of Audit Practice issued by the Audit Commission requires us to report to you if:

- in our opinion, the Annual Governance Statement does not comply with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007 (updated as at December 2012) or is misleading or inconsistent with information of which we are aware from our audit; or
- we issue a report in the public interest under section 8 of the Audit Commission Act 1998; or
- we make any recommendations under section 11 of the Audit Commission Act 1998 that requires the Authority to consider it at a public meeting and to decide what action to take in response ; or
- we exercise any other special powers of the auditor under the Audit Commission Act 1998.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the Executive Director (Resources)

As explained more fully in the Statement of Responsibilities set out on page 9 the Executive Director (Resources) is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 and the CIPFA Service Reporting Code of Practice for Local Authorities 2014/15.

Our responsibility is to audit and express an opinion on the financial statements in accordance with Part II of the Audit Commission Act 1998, the Code of Audit Practice 2010 – Local Government Bodies issued by the Audit Commission and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Authority's members as a body in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and of Audited Bodies – Local Government, published by the Audit Commission in March 2010. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Executive Director (Resources); and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the Executive Director (Resources)'s judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Statement of Accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission on 13 October 2014, we are satisfied that, in all significant respects, Knowsley Metropolitan Borough Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2015.

What a review of the arrangements for securing economy, efficiency and effectiveness in the use of resources involves

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission on 13 October 2014, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2015.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Our responsibilities and those of the Authority

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

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Certificate

Our audit cannot be formally concluded and a certificate issued in accordance with the requirements of Part II of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission because:

- we have not yet completed our assurance work on Knowsley Metropolitan Borough Council's Whole of Government Accounts return for the financial year; and
- there is an outstanding matter in relation to an objection on the 2013/14 financial statements regarding a contract issued for taxi services.

Rebecca Gissing (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
(Manchester)

30 September 2015

(a) The maintenance and integrity of the Knowsley Metropolitan Borough Council website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the Statement of Accounts since they were initially presented on the website.

(b) Legislation in the United Kingdom governing the preparation and dissemination of the Statement of Accounts may differ from legislation in other jurisdictions.

GLOSSARY OF TERMS

AAA FITCH RATING
Highest credit quality – 'AAA' denote the lowest expectation of credit risk. They are assigned only in case of exceptionally strong capacity for timely payment of financial commitments. This capacity is highly unlikely to be adversely affected by foreseeable events.

AA FITCH RATING
Very high credit quality - 'AA' ratings denote a very low expectation of credit risk. They indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.

A FITCH RATING
High credit quality - 'A' ratings denote a low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be more vulnerable to changes in circumstances or in economic conditions than is the case for higher ratings.

ACCOUNTING PERIOD
The period of time covered by the accounts, normally a period of twelve months commencing on 1 April. The end of the accounting period is the Balance Sheet date.

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

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

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

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

(ii) The actuarial assumptions have changed.

AMORTISATION
The equivalent of depreciation for intangible fixed assets.

ASSET
An item having value to the authority in monetary terms. Assets are categorised as either current or fixed:

- A current asset will be consumed or cease to have material value within the next financial year (e.g. cash and stock);
- A fixed asset provides benefits to the Authority and to the services it provides for a period of more than one year and may be tangible e.g. a community centre, or intangible, e.g. computer software licences.

AUDIT OF ACCOUNTS
An independent examination of the Authority's financial affairs.

BALANCE SHEET
A statement of the recorded assets, liabilities and other balances at the end of the accounting period.

BORROWING
Government support for capital investment is described as either Supported Capital Expenditure (Revenue) known as SCE(R) or Supported Capital Expenditure (Capital Grant) known as SCE(C). SCE can be further classified as either Single Capital Pot (SCP) or ring-fenced.

BUDGET
The forecast of net revenue and capital expenditure over the accounting period.

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

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

CAPITAL FINANCING
Funds raised to pay for capital expenditure. There are various methods of financing capital expenditure including borrowing, leasing, direct revenue financing, usable capital receipts, capital grants, capital contributions, revenue reserves and earmarked reserves.

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

COLLECTION FUND
A separate fund that records the income and expenditure relating to Council Tax and non-domestic rates.

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

CONSISTENCY
The concept that the accounting treatment of like items within an accounting period and from one period to the next are the same.

CONTINGENT ASSET
A contingent asset is a possible asset arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the Authority's accounts.

CONTINGENT LIABILITY
A contingent liability is either:
- A possible obligation arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the Authority's control; or
- A present obligation arising from past events where it is not probable that a transfer of economic benefits will be required, or the amount of the obligation cannot be measured with sufficient reliability.

CORPORATE AND DEMOCRATIC CORE
The corporate and democratic core comprises all activities that local authorities engage in specifically because they are elected, multi-purpose authorities. The cost of these activities are thus over and above those which would be incurred by a series of independent single purpose, nominated bodies managing the same services. There is therefore no logical basis for apportioning these costs to services.

CREDITOR
Amount owed by the Authority for work done, goods received or services rendered within the accounting period, but for which payment has not been made by the end of that accounting period.

CURRENT SERVICE COST (PENSIONS)
The increase in the present value of a defined benefit scheme's liabilities expected to arise from employee service in the current period.

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

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

DEBTOR
Amount owed to the Authority for works done, goods received or services rendered within the accounting period, but for which payment has not been received by the end of that accounting period.

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

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

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

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

EVENTS AFTER THE BALANCE SHEET DATE
Events after the Balance Sheet date are those events, favourable or unfavourable, that occur between the Balance Sheet date and the date when the Statement of Accounts is authorised for issue.

EXPECTED RATE OF RETURN (ON PENSIONS ASSETS)
For a funded defined benefit scheme, the average rate of return, including both income and changes in fair value but net of scheme expenses, expected over the remaining life of the related obligation on the actual assets held by the scheme.

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

FINANCE LEASE
A lease that transfers substantially all of the risks and rewards of ownership of a fixed asset to the lessee.

GOING CONCERN
The concept that the Statement of Accounts is prepared on the assumption that the Authority will continue in operational existence for the foreseeable future.

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

HERITAGE ASSETS
Heritage assets are those with historical, artistic, scientific, technological, geophysical or environmental qualities that are held and maintained principally for their contribution to knowledge and culture.

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

INCOME AND EXPENDITURE ACCOUNT
The revenue account of the Authority that reports the net cost for the year of the functions for which it is responsible and demonstrates how that cost has been financed from precepts, grants and other income.

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

INTANGIBLE ASSETS
An intangible (non-physical) item may be defined as an asset when access to the future economic benefits it represents is controlled by the reporting entity. This Authority's intangible assets comprise computer software licences.

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

LIABILITY
A liability is where the Authority owes payment to an individual or another organisation.

- A current liability is an amount which will become payable or could be called in within the next accounting period, e.g. creditors or cash overdrawn.
- A deferred liability is an amount which by arrangement is payable beyond the next year at some point in the future or to be paid off by an annual sum over a period of time.

MATERIALITY
The concept that the Statement of Accounts should include all amounts which, if omitted, or mis-stated, could be expected to lead to a distortion of the financial statements and ultimately mislead a user of the accounts.

MINIMUM REVENUE PROVISION (MRP)
The minimum amount which must be charged to the revenue account each year in order to provide for the repayment of loans and other amounts borrowed by the Authority.

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

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

NET DEBT
The Authority's borrowings less cash and liquid resources.

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

NON-DISTRIBUTED COSTS
These are overheads for which no user now benefits and as such are not apportioned to services

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

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

OPERATING LEASE
A lease where the ownership of the fixed asset remains with the lessor.

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

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

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

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

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

PRIOR YEAR ADJUSTMENT
Material adjustments applicable to previous years arising from changes in accounting policies or from the correction of fundamental errors. This does not include normal recurring corrections or adjustments of accounting estimates made in prior years.

PROPERTY, PLANT AND EQUIPMENT
Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others or for administrative purposes and that are expected to be used for more than one financial year.

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

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

(ii) the accrued benefits for members in service on the valuation date.

PROVISION
An amount put aside in the accounts for future liabilities or losses which are certain or very likely to occur but the amounts or dates of when they will arise are uncertain.

PUBLIC WORKS LOANS BOARD
A Government body which provides loans to local authorities for financing capital expenditure.

RATEABLE VALUE
The annual assumed rental of a hereditament, which is used for NNDR purposes.

RELATED PARTIES
There is a detailed definition of related parties in FRS 8. For the Council's purposes related parties are deemed to include the Authority's members, the Chief Executive, its Directors and their close family and household members.

RELATED PARTY TRANSACTIONS
The Statement of Recommended Practice requires the disclosure of any material transactions between the Authority and related parties to ensure that stakeholders are aware when these transactions occur and the amount and implications of such.

REMUNERATION
All sums paid to or receivable by an employee and sums due by way of expenses allowances (as far as those sums are chargeable to UK income tax) and the money value of any other benefits. Received other than in cash. Pension contributions payable by the employer are excluded.

RESERVES
The accumulation of surpluses, deficits and appropriations over past years. Reserves of a revenue nature are available and can be spent or earmarked at the discretion of the Authority. Some capital reserves such as the fixed asset restatement account cannot be used to meet current expenditure.

RESIDUAL VALUE
The net realisable value of an asset at the end of its useful life.

RETIREMENT BENEFITS

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

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

REVENUE EXPENDITURE

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

REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE

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

REVENUE SUPPORT GRANT

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

SCHEME LIABILITIES

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

STOCKS

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

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

TEMPORARY BORROWING

Money borrowed for a period of less than one year.

TRADING OPERATIONS

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

TRUST FUNDS

Funds administered by the Authority for such purposes as prizes, charities, specific projects and on behalf of minors.

USEFUL LIFE

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