

KNOWSLEY METROPOLITAN BOROUGH COUNCIL

STATEMENT OF ACCOUNTS

2015 / 2016

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NARRATIVE REPORT ON THE STATEMENT OF ACCOUNTS

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 narrative report 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 2016; and explains the most significant matters that are reported in the detailed Statements.

The report also comments on the development and the performance of the authority during the year and how that performance has been monitored through financial and non-financial performance indicators.

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 phoning the Council on 0151 489 6000.

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 2015/16

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 2015/16 was approved by the Council on 4 March 2015. Overall, a net expenditure budget of £150.142m was approved, funded by Government Grant of £109.499m and Council Tax receipts of £40.643m. 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 2015/16 Net Revenue Budget was reported to the Council's Cabinet on 29 June 2016.

Throughout 2015/16, 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 balanced position against the Council's overall budget. 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.

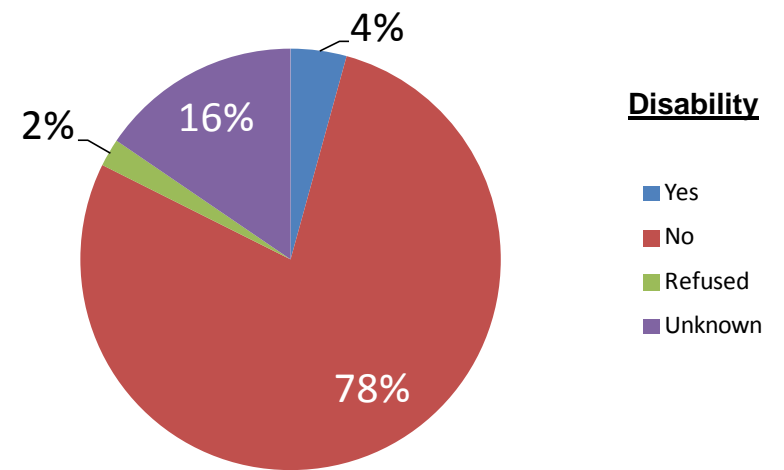
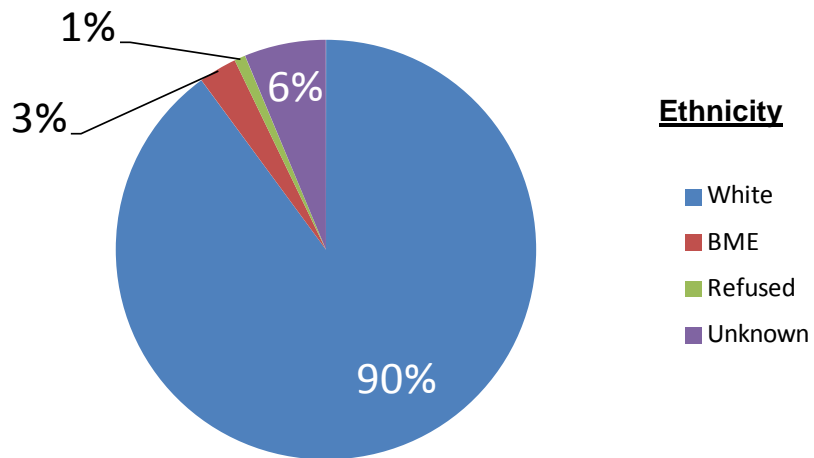
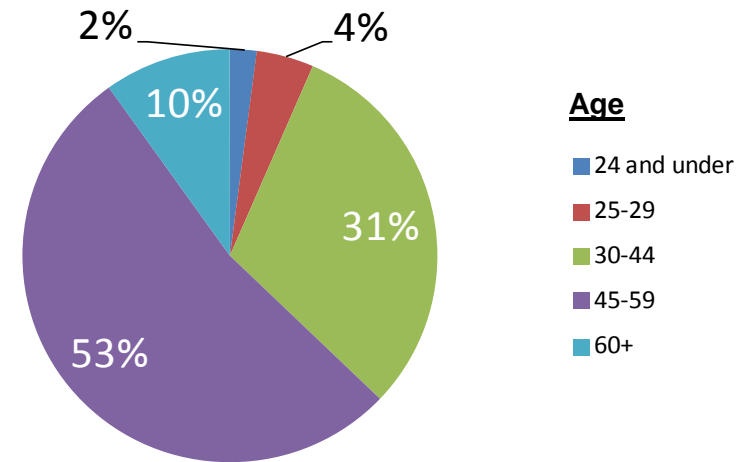
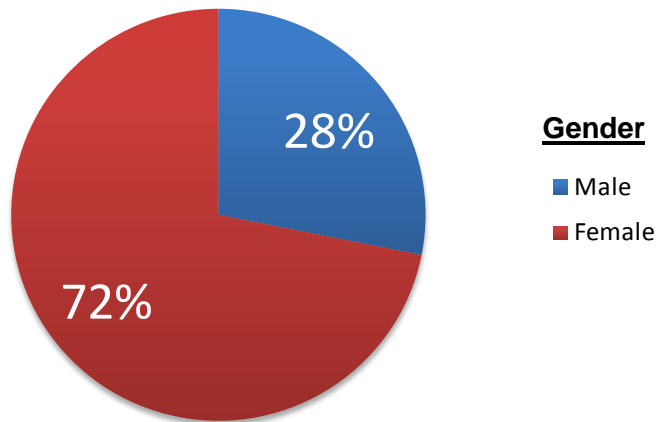
5. REVIEW OF COUNCIL PERFORMANCE DURING THE YEAR

Key Local Data



Key Council Data

Knowsley Council employs 2,846 people in both full and part time contracts. The charts below show the make-up of our non-school workforce. (Source: Knowsley Establishment Report, May 2016).



Key Priorities 2015/16

The remit of key services for Knowsley, as with many local authorities, is very wide ranging, from day-to-day services such as waste collections and libraries through to adult social care, education and housing. Since 2010, Knowsley Council has seen its funding from Central Government cut in real terms by 55%, resulting in difficult decisions being made about which services should be categorised as a priority.

In 2015/16 the Council's Key priorities included:

- **Sustainable Budget**
 - Finalise and implement an alternative delivery model for Leisure Services that secures significant and permanent savings for the Council.
 - Increase the availability of Council services online to improve accessibility and reduce the cost of the transactions.
 - Achieve a balanced budget for Adult and Children's Social Care in 2015/16 and achieve sustainable savings for 2016/17.

- **Children's Services**
 - Achieve an Ofsted judgement of at least 'requires improvement' for Children's Social Care.
 - Deliver the Children Looked After (CLA) Sufficiency Strategy, increasing the numbers and skills of foster carers in Knowsley.
 - Deliver specialist and targeted support to underperforming schools.
 - Improve GSCE attainment.
 - Work in partnership with schools to drive improvement in attendance, through the implementation of a new attendance strategy.
 - Develop and implement an A-level Strategy for the Borough.

- **Adult Social Care**
 - Invest in preventative services which promote independence within a sustainable budget.
 - Provide more choice to people with Adult Social Care needs.
 - Develop a business case for alternative delivery models for Adult Social Care Assessment and Care Management Services.
 - Increase services available 7 days a week.

- **Business Growth, Jobs and Housing**
 - Develop a business led Economic Growth Plan.
 - Finalise a new Housing Strategy to support the delivery of 8,100 homes by 2028.
 - Complete master plans for Huyton and Prescott town centres and for three large Sustainable Urban Extensions to guide development and investments in these areas.
 - Develop traded services that are competitive and diverse.
 - Identify a range and choice of employment sites to bring forward employment land supply.

Progress against Strategic Objectives

Progress against the Council's Corporate Plan was reported to the Cabinet on 6 April 2016 in the Corporate Plan Monitoring Report. The report confirms that good progress was made during 2015/16 against each of the four strategic priorities.

From a financial point of view the main corporate priority is the delivery of a sustainable budget strategy. During 2015/16, the Council successfully addressed an underlying shortfall of £19.9m in order to set a balanced budget for 2016/17. This was achieved through a combination of savings, the success of the Council's business growth plans in generating additional funding and the phased release of reserves. However there remains a significant financial challenge with an estimated further £26 million of savings required by 2020. To help meet this challenge, work will continue on reducing demand for services and promoting growth in locally generated funding, as well as considering options for increasing income generation.

It is also important that the Council's Social Care services continue to develop sustainability strategies so as to ensure that future financial challenges (e.g. from the increased demand and increased cost of providing Social Care) are managed effectively, and that these services continue to contribute to the Council's future financial sustainability.

Service Recipient Feedback

Knowsley Council uses the feedback it receives from its customers to identify where we need to do better. Customer feedback is used to help understand how we are doing 'on the ground' and helps us to deliver the best services that we can within the challenging context of reducing budgets.

Knowsley Local Account

The Knowsley Local Account is developed in partnership with local communities and those who engage and use care and support in Knowsley. The most recent report published in March 2016 contains a wealth of information and feedback over many differing aspects of social care, and these include:

- Overall satisfaction with local adult care services in 2014/15 was 70%. This is a 5% increase on the previous financial year - higher than the England average.
- All residents accessing social care are now receiving direct payments and self-directed support, up from 75% in 2013/14.
- 87% of people say that the services they have used made them feel safer. This has increased from 79% in 2013/14.

Although the majority of the performance has been positive, the report does ask users for ways the Council can improve services and delivery, and feedback included:

- More specialist housing developments for older people.
- Social Housing needs to be improved to increase accessibility.
- More consistency with care workers – less turnover.
- Young people that access social care have found that access to mainstream education is difficult.

Review of Strategic Risks

The Council has an embedded risk management strategy and process to identify and manage risks, supporting effective strategic decision-making, service planning and delivery in order to safeguard the wellbeing of stakeholders and to increase the likelihood of achieving corporate and business priorities. In an increasingly complex environment, a certain amount of risk is inevitable if an organisation is to move forward and achieve challenging objectives. Knowsley's Strategic Risk Register reflects the challenges facing the Council and is characteristic of risks being managed by local authorities nationally.

Risk management is exercised alongside the Council's financial and performance management systems to enable the Council to demonstrate the adequacy of its governance arrangements and internal controls and maintain the effective use of its resources.

The Council has a structured approach to strategic risk management which includes quarterly updates from Executive Directors and risk owners and monitoring by the Executive Management Team. This combined with annual review and approval by the Council's Governance Committee and the Cabinet provides a robust framework to manage strategic risks effectively and to provide for the timely identification and management of any emergent issues or concerns.

Full details of progress in addressing the Council's strategic risks were reported to the Cabinet on 29 June 2016. The report confirms that good progress was made during 2015/16 - enhancing organisational resilience arrangements. At the start of 2015/16 the Council had 38 strategic risks of which 18 were high, 14 were medium and 6 were low. At the end of the financial year the position had changed to 36 strategic risks in total, 6 of which were high, with 20 medium and 10 low. The Council's direction of travel is positive with risks continuing to be managed effectively. This is a significant achievement given the significant resource constraints faced by the Council.

During 2016/17, the focus on the management of risk to the Authority's priorities will be maintained with a view to ensuring the effective use of resources, maximisation of opportunities, and continuation of service delivery, particularly in an environment of change both internally and externally.

6. 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 2016 remained at £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 2016, the total of the Council's earmarked reserves was £45.002m (excluding those held by schools and reserves that the Council holds on behalf of other partners). The reserves include amounts which are held to help the Council phase in the impact of service savings that have been approved for implementation in 2016/17, and to manage unpredictable risks within the Council's Financial Strategy (for example future insurance claims, increases in superannuation costs or the costs of implementing future savings). 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.

In line with the more challenging approach to one-off budgets which is now adopted by the Council, all reserves are kept under continual review with greater emphasis now placed on managing the risks within existing budgets in the relevant year.

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 financial challenges mean that the Council's financial strategy does include the limited use of one-off resources to help manage the impact of Government funding cuts over the medium term.

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 2015/16 was reported to the Governance and Audit Committee on 20 January 2015 and was subsequently approved by the Council on 4 March 2015.

The authorised limit for external debt for the Council for 2015/16 was £340m. The actual level of outstanding long-term and short-term debt at the year-end totalled £267.716m (including £143.984m of liabilities related to the Council's Private finance Initiative schemes).

At 31 March 2016, the Council had £103.497m of long term borrowing (compared to £103.749m in 2014/15). This included £102.769m 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 2016 the Council held cash and investments of £70.506m (the 2014/15 figure totalled £75.819m).

The Council paid £11.620m of interest and similar charges in year for its Private finance Initiative schemes (2014/15 £11.241m) and a further £5.228m (2014/15 £5.199m) on its treasury management activities. The Council received £1.126m of interest and investment income during the year (2014/15 £0.817m). 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.

Capital Expenditure

All capital expenditure, and how the Council paid for it, is included within the Balance Sheet items and the accompanying notes. In 2015/16, the Council incurred significant capital expenditure on acquiring or improving Council buildings and other capital assets. This included expenditure on the Knowsley Business Park Access and Connectivity scheme (£4.323m); Highways Maintenance (£3.808m); and the Street Lighting Private Finance Initiative scheme (£3.010m) 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 2015/16 was £12.881m. There were also schemes totalling £1.550m 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 2015/16, the Council's share of the overall Fund liability (excluding Teachers) was £278m – compared with £295m the previous year. This decrease in liability was mainly due to an increase in the discount rate assumption which has therefore caused a reduction in liabilities.

While the Accounts show the pension liability position at 31 March 2016, 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.

7. MAJOR INFLUENCES ON THE 2015/16 ACCOUNTS

During 2015/16 there have been a number of developments that have had an unusual influence on the Council's accounts. The major items are set out below:

Equal Pay Act (Amendment) Regulations 2003

As in previous years, the 2015/16 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 £4.091m from current and former Council employees. The Council has therefore created a provision for this amount in the accounts, of which £2.949m 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 £3.033m 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 2015/16 was limited, an element of the provision (£2.299m) 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 2015/16 one 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 2016, the value of the assets removed from the Council's Balance Sheet was £2.066m.

The Local Government Funding System

Collection Fund

The Statement of Accounts includes the 2015/16 Collection Fund, which shows the income collected from the Council Tax and Business Rates.

Council Tax

The forecast total Council Tax Collection Fund surplus of £0.487m, as reported to the Council on 27 January 2016, was achieved as expected at outturn, and was mainly the result of lower than budgeted levels of Council Tax discount being awarded. The Council's 84.66% share of this surplus (£0.412m) is available for use during 2016/17.

Business Rates

The forecast Business Rates Collection Fund in-year surplus of £1.979m as reported to the Council on 27 January 2016 was achieved as expected at outturn, and arose primarily due to an increase in registered businesses over the last year. This shows that the Council's plans for business growth in the Borough are achieving a level of success and are generating additional funding which can be used to underpin key services. The 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 £5.236m which will be reflected in the January 2017 National Non-Domestic Rates Return to the Government.

Under the Business Rates Retention Scheme, from 2013/14 the Council became jointly liable for the future potential cost of backdated appeals, and the potential cost of likely refunds is therefore provided for within the Collection Fund. During 2015/16 a total of £3.012m prior year appeals were refunded to businesses, with a further £1.359m being added to the provision to leave a total amount set aside of £8.793m, which reflects the total estimated prior year liability losses likely to be settled from 2016/17 onwards. Knowsley's 49% share of the provision (£4.309m) is included in its consolidated balance sheet.

Knowsley's 49% share of the cumulative deficit on the Business Rates Collection Fund represents a shortfall in the forecast level of Business Rates income to the General Fund. This future shortfall is therefore provided for on the Council's balance sheet. Any declared surplus (or deficit) can be used (or must be found from elsewhere) in the following financial year and hence the estimated 2014/15 shortfall has been charged to this provision in 2015/16.

The total Collection Fund deficit of £10.199m will be carried forward as part of the overall 2015/16 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 £111m (54% in real terms), and the cuts are set to continue until at least 2020. 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. This concern will become even more pressing as the Government moves towards a new local government finance system in 2020 where revenue support grant will be ended completely and replaced by 100% retention of locally collected business rates.

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 Rates 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.

The Council's Medium-Term Financial Strategy also include 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.

EU Referendum

On the 23rd June 2016 the UK voted to leave the European Union. The full impact of this is unknown and inevitably the country is now in a period of uncertainty.

James Duncan, CPFA
Executive Director (Resources)
30 June 2016

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:

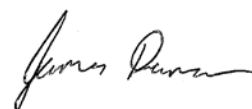
- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that were reasonable and prudent; and,
- complied with the Code of Practice.

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 2015/16 Statement of Accounts presents a true and fair view of the financial position of the Council at 31 March 2016 and its income and expenditure for the year ended 31 March 2016.



JAMES DUNCAN CPFA
Executive Director (Resources)
26 September 2016

STATEMENT OF THE CHAIRMAN OF THE GOVERNANCE COMMITTEE

I confirm on behalf of the Council that these accounts and the outcome of the audit of them were approved by the Governance Committee at its meeting on 26 September 2016.



COUNCILLOR A FLUTE
Chairperson of the Governance Committee
26 September 2016

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					Total Usable Reserves £000	Unusable Reserves £000	Total Council Reserves £000
	General Fund Balance £000	Earmarked General Fund Reserves £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000				
Balance at 31 March 2014	5,270	76,678	-	2,382	84,330	(22,000)	62,330	
<u>Movement in Reserves during 2014/15</u>								
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)	
carried forward	4,984	61,405	-	2,144	68,533	(85,144)	(16,611)	

MOVEMENT IN RESERVES STATEMENT

	Usable Reserves						Unusable Reserves £000	Total Council Reserves £000
	General Fund Balance £000	Earmarked General Fund Reserves £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	Total Usable Reserves £000			
Balance at 31 March 2015	4,984	61,405	-	2,144	68,533	(85,144)	(16,611)	
<u>Movement in Reserves during 2015/16</u>								
Surplus on Provision of Services	(12,017)	-	-	-	(12,017)	-	(12,017)	
Other Comprehensive Income and Expenditure	-	-	-	-	-	59,704	59,704	
Total Comprehensive Income and Expenditure	(12,017)	-	-	-	(12,017)	59,704	47,687	
Adjustments between Accounting Basis and Funding Basis under Regulations (Note 6)	4,051	-	-	287	4,338	(4,338)	-	
Net Increase / (Decrease) before Transfers to Earmarked Reserves	(7,966)	-	-	287	(7,679)	55,366	47,687	
Transfers to/from Earmarked Reserves (Note 7)	7,966	(7,966)	-	-	-	-	-	
Decrease in 2015/16	0	(7,966)	-	287	(7,679)	55,366	47,687	
Balance at 31 March 2016 carried forward	4,984	53,439	-	2,431	60,854	(29,778)	31,076	

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.

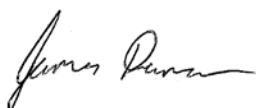
2014/15				2015/16		
Gross Expenditure £000	Gross Income £000	Net Expenditure £000	Note	Gross Expenditure £000	Gross Income £000	Net Expenditure £000
Council Services						
98,756	(42,837)	55,919		99,472	(41,483)	57,989
3,374	(2,188)	1,186		3,483	(1,659)	1,824
22,439	(10,166)	12,273		18,682	(8,086)	10,596
219,798	(200,917)	18,881		251,087	(214,682)	36,405
33,431	(32,931)	500		31,379	(23,035)	8,344
27,509	(9,464)	18,045		16,314	(11,313)	5,001
98,952	(98,215)	737		89,067	(87,866)	1,201
21,794	(13,582)	8,212		21,540	(14,686)	6,854
21,995	(19,947)	2,048		20,109	(19,054)	1,055
4,761	(1,190)	3,571		4,606	(737)	3,869
1,874	(307)	1,567		3,349	-	3,349
554,683	(431,744)	122,939		559,088	(422,601)	136,487
Cost of Services						
26,252	-	26,252	8	21,729	-	21,729
26,600	(3,579)	23,021	9	27,612	(13,095)	14,517
-	(175,685)	(175,685)	10	-	(160,716)	(160,716)
		(3,473)				12,017
Deficit/(Surplus) on Provision of Services						
		(498)	25			(25,882)
		(1,112)				(130)
		84,024	25			(33,692)
		82,414				(59,704)
Other Comprehensive Income and Expenditure						
		78,941				(47,687)
Total Comprehensive Income and Expenditure						

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 2015 £000		Note	Balance at 31 March 2016 £000
457,302	Property, Plant and Equipment	11	470,838
51,306	Investment Property	12	61,248
535	Intangible Assets	13	451
442	Heritage Assets	14	496
14,696	Long Term Investments	15	17,879
1,432	Long Term Debtors	15	4,267
525,713	Long Term Assets		555,179
18,627	Short Term Investments	15	35,149
530	Inventories	16	530
21,972	Short Term Debtors	17	32,100
42,496	Cash and Cash Equivalents	18	18,921
17,072	Assets Held for Sale	19	19,126
100,697	Current Assets		105,826
(19,225)	Short Term Borrowing	15	(20,235)
(33,113)	Short Term Creditors	20	(48,699)
(1,008)	Provisions	21	(591)
(53,346)	Current Liabilities		(69,525)
(103,749)	Long Term Borrowing	15	(103,497)
(28,693)	Provisions	21	(20,671)
(314,819)	Pension Liability	43	(295,882)
(140,975)	Other Long Term Liabilities	22	(139,402)
(1,439)	Capital Grants Receipts in Advance	23	(952)
(589,675)	Long Term Liabilities		(560,404)
(16,611)	Net Assets / (Liabilities)		31,076
68,533	Usable Reserves	24	60,854
(85,144)	Unusable Reserves	25	(29,778)
(16,611)	Total Reserves		31,076



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.

2014/15		2015/16
£000		£000
(3,473)	Net (surplus) or deficit on the provision of services	12,017
(3,283)	Adjustments to net surplus or deficit on the provision of services for non-cash movements	(27,761)
10,579	Adjustments for items included in the net surplus or deficit on the provision of services that are investing or financing activities	13,027
<u>3,823</u>	Net cash flows from Operating Activities (Note 26)	<u>(2,717)</u>
18,617	Net cash flows from Investing Activities (Note 27)	29,889
<u>888</u>	Net cash flows from Financing Activities (Note 28)	<u>(3,597)</u>
23,328	Net increase or decrease in cash and cash equivalents	23,575
<u>(65,824)</u>	Cash and cash equivalents at the beginning of the reporting period	<u>(42,496)</u>
(42,496)	Cash and cash equivalents at the end of the reporting period (Note 18)	(18,921)

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 (the Code) has introduced several changes in accounting policies which will be required from 1 April 2016. The following changes are not considered to have a significant impact on the Council's Statement of Accounts.

The CIPFA Code of Practice on Transport Infrastructure Assets takes effect from 1 April 2016. The Code confirms that the changes arising from this Infrastructure Code do not require retrospective adjustment to the accounts. Under the Infrastructure Code transport infrastructure assets will be recognised as a separate class of Property, Plant and Equipment measured at depreciated replacement cost. This will consist of seven categories: carriageways, footways and cycle tracks, structures, street lighting, street furniture, traffic management systems and land. The result of this is likely to be a revaluation gain due to the change from depreciated historical cost to depreciated replacement cost basis.

There are also a number of minor amendments to International Financial Reporting Standards which are not expected to have any significant impact on the accounts. These include:

International Accounting Standard 1 – Presentation of Financial Statements

This standard provides guidance on the form of the financial statements which will result in changes to the format of the accounts from 2016/17. This standard will see the introduction of a new Expenditure and Funding Analysis as well as changes to the Comprehensive Income and Expenditure Statement and the Movement in Reserves Statement.

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 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 announced in the Government's 2015 Spending Review. 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 uncertainty 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.

NOTES TO THE ACCOUNTS

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.

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 2015/16 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 2016 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 2016, the value of Property, Plant and Equipment held on the Balance Sheet is £470.838m.
- Provisions – a provision is included in the Balance Sheet at 31 March 2016 of £7.431m 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 2016, the total pension liability, including Teachers Pensions is £295.882m, however a 0.1% increase in the assumed discount rate would reduce the pension liability by £15.765m, and a 1 year increase in assumed life expectancy would increase the liability by £16.768m
- 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 £4.308m has been recognised for an estimate of the amount of appeals that may be upheld as at 31 March 2016.

4. MATERIAL ITEMS OF INCOME AND EXPENSE

Equal Pay

As in previous years, the 2015/16 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.

Based on the approach agreed between the Council, the Single Status Trade Unions (UNISON, UNITE and GMB) and their solicitors for settling legitimate equal pay claims, the Council now faces a total maximum liability of up to £4.398m from current and former Council employees. The Council has therefore created a provision for this amount in the accounts, of which £2.949m 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 £3.033m 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 2015/16 was limited, an element of the provision (£2.299m) 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 2016. 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 2016, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

The Council is continuing to review its services to ensure that they are delivered in the more effective and efficient manner. On 1 April 2016, the Council created a new organisation (Volair) to deliver leisure services across the borough. Volair is a wholly owned subsidiary of the Council and a not for profit company. As such, from April 2016, the income and expenditure relating to leisure services will not be included in the Council's single entity accounts. The Council may have to produce group accounts going forward to incorporate the new company.

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

2015/16

Usable Reserves

	General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	Unusable Reserves £000
Adjustments involving the Capital Adjustment Account:				
<u>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement</u>				
Charges for depreciation and impairment of non-current assets	(25,696)	-	-	25,696
Revaluation losses on Property, Plant and Equipment	(3,155)	-	-	3,155
Movement in the market value of Investment Properties	10,134	-	-	(10,134)
Amortisation of intangible assets	(276)	-	-	276
Capital grants and contributions	6,679	-	-	(6,676)
Revenue expenditure funded from capital under statute	(9)	-	-	9
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	(2,530)	-	-	2,530
<u>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement</u>				
Statutory provision for the financing of capital investment	7,576	-	-	(7,576)
Principal repayment on external loans	240	-	-	(240)
Capital expenditure charged against General Fund	4,617	-	-	(4,617)
Adjustments involving the Capital Grants Unapplied Account:				
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	5,002	-	(5,002)	-
Application of grants to capital financing transferred to the Capital Adjustment Account	-	-	4,715	(4,715)
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	1,021	(1,048)	-	27
Use of the Capital Receipts Reserve to finance new expenditure	-	582	-	(582)
Contribution from the Capital Receipts Reserve towards administrative costs of non-current asset disposals	(6)	6	-	-
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	-	470	-	(470)

NOTES TO THE ACCOUNTS

2015/16 (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	27	(27)	-	-
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	(28,055)	-	-	28,055
Employer's pension contributions and direct payments to pensioners payable in the year	13,300	-	-	(13,300)
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	5,753	-	-	(5,753)
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	1,271	-	-	(1,271)
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	67	-	-	(67)
Total Adjustments	(4,051)	-	(287)	4,338

NOTES TO THE ACCOUNTS

2014/15 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:				
<u>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement</u>				
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
<u>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement</u>				
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 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	(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

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 2014 £000	Net Movement 2014/15 £000	Balance at 31 March 2015 £000	Net Movement 2015/16 £000	Balance at 31 March 2016 £000
<u>Reserves held for Revenue Purposes</u>						
(a)	Service Development Reserve					
	Approved Budget Investments	(12,362)	(10,458)	(22,820)	2,907	(19,913)
	Service Commitments	(14,683)	4,797	(9,886)	3,345	(6,541)
	Budget Strategy Reserve	(7,638)	(512)	(8,150)	(934)	(9,084)
	Major Project Financing	(2,557)	2,557	-	-	-
	Workforce Remodelling	(8,682)	5,049	(3,633)	2,847	(786)
	Sub-total	(45,922)	1,433	(44,489)	8,165	(36,324)
(b)	Centres for Learning	(6,862)	6,862	-	(3,427)	(3,427)
(c)	Insurance Fund	(1,973)	592	(1,381)	-	(1,381)
	Sub-total	(8,835)	7,454	(1,381)	(3,427)	(4,808)
	Total	(54,757)	8,887	(45,870)	4,738	(41,132)
<u>Reserves held for Capital Purposes</u>						
(d)	Street Lighting PFI	(5,076)	5,076	-	(3,840)	(3,840)
(e)	Stockbridge Village Regeneration	(38)	7	(31)	1	(30)
(f)	Future Schooling in Knowsley development	(213)	1	(212)	212	-
		(5,327)	5,084	(243)	(3,627)	(3,870)
	TOTAL COUNCIL RESERVES	(60,084)	13,971	(46,113)	1,111	(45,002)
(g)	Schools Balances	(10,604)	(617)	(11,221)	2,986	(8,235)
(h)	Youth Employment Gateway	(5,990)	1,919	(4,071)	3,869	(202)
	TOTAL COUNCIL AND OTHER RESERVES	(76,678)	15,273	(61,405)	7,966	(53,439)

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

2014/15		2015/16
£000		£000
901	Parish council precepts	955
21,095	Levies	19,289
17	Payments to the Government Housing Capital Receipts Pool	17
4,239	Gains/Losses on disposal of non current assets	1,468
26,252	Total	21,729

9. FINANCING AND INVESTMENT INCOME AND EXPENDITURE

2014/15		2015/16
£000		£000
16,457	Interest payable and similar charges	16,848
9,560	Net interest on the net defined benefit liability	10,132
(817)	Interest receivable and similar income	(1,126)
(2,179)	Income and expenditure in relation to investment properties and changes in their fair value	(11,337)
23,021	Total	14,517

10. TAXATION AND NON SPECIFIC GRANT INCOME

2014/15		2015/16
£000		£000
(40,690)	Council tax income	(41,817)
(55,840)	Non domestic rates	(57,593)
(69,135)	Non-ringfenced Government grants	(49,625)
(10,020)	Capital grants and contributions	(11,681)
(175,685)	Total	(160,716)

NOTES TO THE ACCOUNTS

11. PROPERTY, PLANT AND EQUIPMENT

Movements in 2015/16

	Land and Buildings £000	Vehicles, Plant and Equipment £000	Infrastructure £000	Community Assets £000
Cost or Valuation				
Balance at 1 April 2015	307,688	56,952	209,806	7,458
Additions	2,806	2,290	14,706	611
Revaluations in Revaluation Reserve	23,213	-	-	-
Revaluation in Surplus/Deficit on Provision of Services	299	-	-	-
Disposals	(2,066)	-	(464)	-
Transfers between categories	(3,182)	-	-	-
Balance at 31 March 2016	328,758	59,242	224,048	8,069
Accumulated Depreciation and Impairment				
Balance at 1 April 2015	38,157	50,918	35,437	880
Depreciation charge	5,981	2,650	4,624	149
Depreciation written out to Revaluation Reserve	-	-	-	-
Depreciation written out to Surplus/Deficit on Provision of Services	-	-	-	-
Impairment losses in Revaluation Reserve	416	-	-	-
Impairment losses in Surplus/Deficit on Provision of Services	11,942	-	-	-
Disposals	-	-	-	-
Balance at 31 March 2016	56,496	53,568	40,061	1,029
Net Book Value				
At 31 March 2016	272,262	5,674	183,987	7,040
At 31 March 2015	269,531	6,034	174,369	6,578

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 2015	-	833	582,737	100,058
Additions	-	29	20,442	3,065
Revaluations in Revaluation Reserve	-	1,125	24,338	6,654
Revaluation in Surplus/Deficit on Provision of Services	-	-	299	(2,821)
Disposals	-	-	(2,530)	-
Transfers between categories	-	(40)	(3,222)	-
Balance at 31 March 2016	-	1,947	622,064	106,956
Accumulated Depreciation and Impairment				
Balance at 1 April 2015	-	43	125,435	17,910
Depreciation charge	-	-	13,404	1,718
Depreciation written out to Revaluation Reserve	-	-	-	-
Depreciation written out to Surplus/Deficit on Provision of Services	-	-	-	-
Impairment losses in Revaluation Reserve	-	-	416	-
Impairment losses in Surplus/Deficit on Provision of Services	-	29	11,971	-
Disposals	-	-	-	-
Balance at 31 March 2016	-	72	151,226	19,628
Net Book Value				
At 31 March 2016	-	1,875	470,838	87,328
At 31 March 2015	-	790	457,302	82,148

NOTES TO THE ACCOUNTS

11a. PROPERTY, PLANT AND EQUIPMENT (continued)

Comparative 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

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 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

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 2015/16 were:

	£000
Highway Maintenance Programme	3,808
Knowsley Business Park Access & Connectivity	3,269
Street Lighting Private Finance Initiative Scheme	3,010
A5300 Knowsley Expressway	2,147
Private Tenants Grants	1,617
Schools' and Children's Centre Improvement Programme	976

NOTES TO THE ACCOUNTS

Capital Commitments

At 31 March 2016, the Council had entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2016/17 and future years. The major commitments are:

Scheme	Purpose	Expected Period	£000
Knowsley Business Park Access & Connectivity Improvements	A series of enhancements to movement and access, together with the promotion of gateway and key corridor development sites to facilitate a positive image of the park.	2016/17	4,252
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.	2016/17 – 2018/19	2,900
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.	2016/17	2,434
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.	2016/17 & 2017/18	2,261
A5300 Knowsley Expressway / A562	The scheme will ensure that the A5300/A562 meets current and future demand in order to facilitate economic growth. The scheme seeks to reduce queuing, improve journey time reliability and increase capacity.	2016/17	2,240
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.	2016/17	1,939

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.

2014/15		2015/16
£000		£000
(2,397)	Rental income from investment property	(1,835)
583	Direct operating expenses arising from investment property	632
(1,814)	Net gain	(1,203)

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.

2014/15		2015/16
£000		£000
50,935	Balance at 1 April	51,306
	Additions:	
6	- Subsequent expenditure	113
-	- Disposals	-
365	Net gains from fair value adjustments	10,134
-	- Transfers between categories	(305)
51,306	Balance at 31 March	61,248

In estimating the fair value of the Council's Investment Properties, the highest and best use of the properties is deemed to be their current use. The Council's Investment Properties have been assessed as Level 1 (quoted prices in active markets for identical assets) on the fair value hierarchy for valuation purposes.

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.

2014/15			2015/16		
Software Licences £000	Internally Generated Assets £000	Total £000	Software Licences £000	Internally Generated Assets £000	Total £000
Cost or Valuation					
9,073	98	9,171	9,195	98	9,293
122	-	122	192	-	192
9,195	98	9,293	9,387	98	9,485
Accumulated Amortisation and Impairment					
8,264	46	8,310	8,692	66	8,758
428	20	448	256	20	276
8,692	66	8,758	8,948	86	9,034
503	32	535	439	12	451
809	52	861	503	32	535

The carrying amount of intangible assets is amortised on a straight line basis. The amortisation of £0.276m charged to revenue in 2015/16 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

2014/15 £000	Public Art	2015/16 £000
	Cost	
369	Balance at 1 April	442
87	Additions	69
(14)	Depreciation	(15)
442	Balance at 31 March	496

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 2015/16 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 in hand;
- 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 and covered bonds 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 2015 £000	Current 31 March 2015 £000		Long Term 31 March 2016 £000	Current 31 March 2016 £000
		Investments		
		Loans and Receivables held at amortised cost:		
3	17,625	- Fixed deposits and notice accounts	16	30,103
-	38,284	- Cash and cash equivalents	-	12,881
		Available for sale assets held at fair value :		
-	4,212	- Cash and cash equivalents	-	6,040
4,982	-	- externally managed funds	8,257	-
9,711	-	- bonds	9,606	1,042
-	1,003	-certificates of deposits	-	4,004
14,696	61,124	Total Investments	17,879	54,070
		Debtors		
1,432	21,971	- Loans and receivables	4,267	32,100
1,432	21,971	Total Included in Debtors	4,267	32,100
16,128	83,095	Total Financial Assets	22,148	86,168
		Borrowings		
101,281	18,978	- Financial liabilities at amortised cost	101,276	19,988
101,281	18,978	Total included in Borrowing	101,276	19,988
		Other Long Term Liabilities		
140,975	-	- PFI and finance lease liabilities	139,402	-
140,975	0	Total Other Long Term Liabilities	139,402	-
		Creditors		
-	33,113	- Financial liabilities at amortised cost	-	48,699
-	33,113	Total Creditors	-	48,699
242,256	52,091	Total Financial Liabilities	240,678	68,687

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 2016 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 2015 £000	Current 31 March 2015 £000		Long Term 31 March 2016 £000	Current 31 March 2016 £000
Borrowings				
101,281	1,485	Public Works Loans Board	101,276	1,492
-	17,493	Lender Offer Borrowing Option	-	17,496
-	-	Other Market Debt	-	1,000
2,468	247	Other Local Authorities ^(Note i)	2,221	247
103,749	19,225	Total Borrowing	103,497	20,235

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:

	Financial Liabilities - measured at amortised cost £000	Financial Assets - loans and receivables £000	Financial Assets - available for sale assets £000	Total £000
2014/15				
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)
2015/16	£000	£000	£000	£000
Interest payable and similar charges	(16,695)	-	-	(16,695)
Interest income	-	386	421	807
Dividend Income	-	-	309	309
Gains on Revaluation	-	-	1,298	1,298
Losses on Revaluation	-	-	(56)	(56)
Net gain/(loss) for the year	(16,695)	386	1,972	(14,337)

The interest expense excludes statutory transferred debt interest of (and therefore differs from the figure reported in Comprehensive Income and Expenditure Statement by) £0.153m in 2015/16 (£0.172m in 2014/15).

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 2014/15 and £0.007m in 2015/16.

The increase in interest payable and similar charges in 2015/16 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 Council's Available for Sale Assets of £1.242m in 2015/16 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 available for sale assets and all derivative assets and liabilities are carried in the Balance Sheet at fair value. For most of these assets, including bonds, money market funds and pooled funds, the fair value being taken from the market price. The fair value of other instruments have been estimated calculating the net present value of the remaining contractual cash flows at 31 March 2016, using the following methods and assumptions:

- Certificates of deposits have been discounted at market interest rates for instruments of similar credit quality and remaining term to maturity

Financial assets classified as loans and receivables and all non-derivative financial liabilities are carried in the Balance Sheet at amortised cost. Their fair values have been estimated by calculating the net present value of the remaining contractual cash flows at 31 March 2016, using the following methods and assumptions:

- Loans borrowed by the Council have been valued by discounting the contractual cash flows over the whole life of the instrument at the appropriate market rate for local authority loans.
- The value of "Lender's Option Borrower's Option" (LOBO) loans have been increased by the value of the embedded options. Lenders' options to propose an increase to the interest rate on the loan have been valued according to a 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 2016.
- The fair values of finance lease assets and liabilities and of PFI scheme liabilities have been calculated by discounting the contractual cash flows (excluding service charge elements) at the appropriate AA-rated corporate bond yield
- 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 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.

Fair values are shown in the table below, split by their level in the fair value hierarchy:

- Level 1 – fair value is only derived from quoted prices in active markets for identical assets or liabilities, e.g. bond prices
- Level 2 – fair value is calculated from inputs other than quoted prices that are observable for the asset or liability, e.g. interest rates or yields for similar instruments
- Level 3 – fair value is determined using unobservable inputs, e.g. non-market data such as cash flow forecasts or estimated creditworthiness

NOTES TO THE ACCOUNTS

The fair values calculated are as follows:

	31 March 2015		31 March 2016		
	Fair Value Level	Carrying Amount	Fair Value	Carrying Amount	
	£000	£000	£000	£000	
Financial Liabilities held at amortised cost					
LOBO fixed loans	2	17,493	26,702	17,496	26,889
PWLB fixed loans	2	102,766	132,103	102,769	137,029
Market temporary loans	2	-	-	1,000	1,000
PFI & Finance Leases	2	140,975	140,975	139,402	212,956
Liabilities for which fair value is not disclosed					
Trade payables		33,113	33,113	48,699	48,699
		294,347	332,893	309,366	426,573
Financial Assets held at fair value (available for sale assets)					
Money Market Funds (cash equivalents)	1	4,212	4,212	-	-
Certificates of deposits (non cash equivalent)	2	1,003	1,003	4,004	4,004
Certificates of deposits (cash equivalents)	2	-	-	6,040	6,040
Fund Managers	1	4,982	4,982	8,257	8,257
Bonds	1	9,711	9,711	10,648	10,648
Financial Assets held at amortised cost					
Fixed Term Deposits and notice accounts (non cash equivalents)	2(Note i)	17,628	17,628	30,119	30,119
Fixed Term Deposits (cash equivalents)	2(Note i)	0	0	6,016	6,016
Instant Access Accounts (cash equivalents)	2(Note i)	36,053	36,053	0	0
Trade Receivables	2(Note i)	23,403	23,473	36,366	36,402
		96,992	97,062	101,450	101,486

Note i) Fair Value Level 2 calculations do not apply to short term instruments as the Council deems their carrying amount to be a reasonable approximation of their fair value. Trade receivables includes a debtor in relation to the Councils Local Authority Mortgage scheme which has been calculated using level 2 fair values. The Council deems all other trade receivables carrying amounts to be a reasonable approximation of their fair value.

Cash balances of £2.231m on 31 March 2015 and £6.865m on 31 March 2016 have been excluded from the above table. The market temporary loan of £1m outstanding on 31 March 2016 was taken out on the balance sheet and therefore the carrying amount is deemed to be the fair value.

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.

NOTES TO THE ACCOUNTS

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. 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 £162.089m. This represents a variance of £25.060m when compared to the valuations above, prepared using rates available for new loans.

Private Finance Initiatives (PFI)

The fair value is higher because the implicit interest rate on the Councils PFI contracts is higher than current long term interest rates. PFI rates also include an element to cover the risks around construction, which is no longer present.

Financial Assets

Fixed term deposits and notice 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 £0.002m 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 £28.949m. The equivalent amortised cost of the Council's Available for Sale Assets is £27.707m. The fair value is higher than the amortised cost by £1.242m because the yields achieved on the Councils bonds, certificates of deposits and most fund manager investments 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 2016 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 £0.036m 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.

NOTES TO THE ACCOUNTS

16. INVENTORIES

	Consumable Stores	
	2014/15 £000	2015/16 £000
Balance outstanding at start of year	463	530
Purchases	3,570	3,234
Recognised as expense in the year	(3,503)	(3,234)
Balance outstanding at year-end	530	530

17. DEBTORS

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

Long Term 31 March 2015 £000	Current 31 March 2015 £000		Long Term 31 March 2016 £000	Current 31 March 2016 £000
-	4,042	Government Departments	-	4,515
157	1,676	Other Local Authorities	151	5,606
1,275	11,370	Other Entities and Individuals	4,116	16,624
-	229	NHS Bodies	-	771
-	38	Public Corporations	-	-
-	4,617	Collection Fund	-	4,584
1,432	21,972	Total Debtors	4,267	32,100

Each line is presented net of allowance for non-collection. As at 31 March 2016 the total allowance for non-collection was £7.862m (£5.773m at 31 March 2015).

18. CASH AND CASH EQUIVALENTS

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

31 March 2015 £000		31 March 2016 £000
2,231	Cash held by the Council	6,865
	Short-term deposits with money market funds and call accounts	
40,265		12,056
42,496	Total Cash and Cash Equivalents	18,921

NOTES TO THE ACCOUNTS

19. ASSETS HELD FOR SALE

2014/15		2014/15
£000		£000
16,954	Balance outstanding at start of year	17,072
482	Additions	326
505	Assets transferred to/(from) Held for Sale	3,527
(387)	Revaluation gains/(losses) in Revaluation Reserve	2,275
-	Revaluation losses in Surplus/Deficit on Provision of Services	(3,453)
(482)	Impairment gains/(losses) in Revaluation Reserve	(315)
-	Impairment gains/(losses) in Surplus/Deficit on Provision of Services	(306)
-	Assets sold	-
17,072	Balance outstanding at year-end	19,126

20. SHORT TERM CREDITORS

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

31 March		31 March
2015		2016
£000		£000
6,986	Government Departments	13,323
922	Other Local Authorities	728
21,602	Other Entities and Individuals	32,103
2,147	NHS Bodies	694
-	Public Corporations	7
1,456	Collection Fund	1,844
33,113	Total Creditors	48,699

NOTES TO THE ACCOUNTS

21. PROVISIONS

A number of provisions have been set aside at 31 March 2016 to cover the following liabilities:

	Balance 31 March 2015 £000	Provided in year £000	Applied in year £000	Balance 31 March 2016 £000
Collection Fund Provisions				
- Long Term				
Business Rates Appeals	5,119	666	(1,476)	4,309
Council Provisions				
- Long Term				
Insurance	6,403	1,852	(1,317)	6,938
Equal Pay Back Pay	9,516	-	(2,585)	6,931
Public Health Property Costs	-	962	-	962
Street Lighting PFI	613	338	(33)	918
Impact of Deficit on Collection Fund on the General Fund	6,729	-	(6,180)	549
Land Charges Fees	297	121	(370)	48
Other	16	-	-	16
Total	23,574	3,273	(10,485)	16,362
Council Provisions				
- Short Term				
Equal Pay Back Pay	1,000	715	(1,215)	500
Respite Provision	-	91	-	91
Other Provisions	8	-	(8)	-
Total	1,008	806	(1,223)	591
Total Provisions	29,701	4,745	(13,184)	21,262

Detail of Provisions

Business Rates Appeals (Collection Fund):

Since 2013/14, 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 the current and future years. This significant risk previously arose under the former national pool arrangement for Business Rates, but under the Business Rates Retention System the cost now falls in full on the Collection Fund. Knowsley's share of this cost is estimated at £4.309m 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 the estimated deficit represents a shortfall in Knowsley's forecast Business Rates income in 2015/16 and this has therefore been charged to the provision.

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.

Public Health Property Costs: Since 2013/14, the Council has been responsible for Public Health services, including the costs of accommodation associated with the delivery of these services. The Council has received a schedule of accommodation that it is liable for with indicative costs that NHS Property Services will charge. The Council (Public Health services) is currently occupying the accommodation. However, no lease agreement has been signed and the actual amounts due are not yet known, so a provision of £0.962m has been set aside for this liability.

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

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 were Council owned and these Centres were included in the Council's Balance Sheet. However, during 2013/14 three of these Centres for Learning transferred to Academy status and the Council treated this transfer as a disposal for nil consideration on the 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 Learning Centre is Council owned and therefore the fixed asset figures in the Balance Sheet include the following values.

2014/15		2015/16
£000		£000
53,643	Balance at beginning of year	52,720
75	Additions	55
-	Disposals	-
-	Revaluations	3,832
(998)	Depreciation	(1,093)
52,720	Balance at 31 March	55,514

NOTES TO THE ACCOUNTS

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.

2014/15	£000		2015/16	£000
120,642		Balance at beginning of year	117,118	
-		Additions	-	
(3,524)		Principal repayments during year	(3,626)	
117,118		Balance at 31 March	113,492	

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	Interest	Service Charges	Total
	£000	£000	£000	£000
Within 1 year	4,067	8,557	4,265	16,889
Within 2 to 5 years	16,657	31,211	19,369	67,237
Within 6 to 10 years	27,661	31,044	24,685	83,390
Within 11 to 15 years	35,223	19,230	28,284	82,737
Within 16 to 20 years	29,884	4,778	21,601	56,263
	113,492	94,820	98,204	306,516

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.

2014/15	£000		2015/16	£000
21,020		Balance at beginning of year	29,421	
8,782		Additions	3,010	
(381)		Depreciation	(617)	
29,421		Balance at 31 March	31,814	

NOTES TO THE ACCOUNTS

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.

2014/15	£000		2015/16	£000
	19,444	Balance at beginning of year		27,872
	8,782	Additions		3,010
	(354)	Principal repayments during year		(390)
	27,872	Balance at 31 March		30,492

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	517	2,807	1,490	4,814
Within 2 to 5 years	2,817	10,651	6,394	19,862
Within 6 to 10 years	5,797	11,391	9,072	26,260
Within 11 to 15 years	6,704	8,370	12,868	27,942
Within 16 to 20 years	13,556	3,985	12,194	29,735
Within 21 to 25 years	1,101	31	924	2,056
	30,492	37,235	42,942	110,669

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 2015	31 March 2015
	£000	£000
Capital Grants Receipts in Advance		
Standards Fund	1,415	943
Other	24	9
Total	1,439	952

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.

2014/15		2015/16
£000		£000
-	Balance at 1 April	-
(337)	Capital receipts in year for sales of assets	(1,069)
(337)		(1,069)
17	Payments re Pooling Housing Capital Receipt	17
320	Capital Receipts applied for agreed expenditure ^{see i) below}	1,052
-	Balance at 31 March	-

i) This represents receipts that are earmarked by the Council as funding for agreed capital schemes. During 2015/16 £0.582m of previously set aside receipts were used to finance expenditure.

25. UNUSABLE RESERVES

31 March 2015		31 March 2016
£000		£000
(193,513)	Capital Adjustment Account	(197,824)
(45,657)	Revaluation Reserve	(70,575)
11	Financial Instruments Adjustment Account	5
(1,112)	Available for Sale Financial Instruments Reserve	(1,242)
314,819	Pensions Reserve	295,882
4,815	Collection Fund Adjustment Account	(938)
2,258	Accumulating Compensated Absences Adjustment Account	2,191
3,570	Unequal Pay Back Pay Account	2,299
(47)	Capital Receipts Deferred	(20)
85,144	Total Unusable Reserves	29,778

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.

2014/15 £000		2015/16 £000	£000
(182,040)	Balance at 1 April		(193,513)
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement		
16,295	- Charges for depreciation and impairment of non-current assets	25,696	
1,208	- Revaluation losses on Property, Plant and Equipment	3,155	
448	- Amortisation of intangible assets	276	
-	- Revenue expenditure funded from capital under statute	9	
4,565	- 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	2,530	
22,516			31,666
(7,889)	Adjusting amounts written out of the Revaluation Reserve		(748)
(167,413)	Net amount written out of the cost of non-current assets consumed in the year		(162,595)
	Capital financing applied in the year:		
(315)	- Use of the Capital Receipts Reserve to finance new capital expenditure	(582)	
(5)	- Use of Capital Receipts Reserve to finance future capital expenditure	(470)	
(4,722)	- Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	(6,679)	
(5,536)	- Application of grants to capital financing from the Capital Grants Unapplied Account	(4,715)	
(6,577)	- Statutory provision for the financing of capital investment charged against General Fund	(7,576)	
(240)	- Principal repayment on external loans	(240)	
(3,106)	- Capital expenditure charged against General Fund	(4,617)	
(20,501)			(24,879)
(365)	Movement in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement		(10,350)
(5,234)	Release of Equal Pay Capitalisation Direction		-
(193,513)	Balance at 31 March		(197,824)

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.

2014/15 £000		2015/16 £000	£000
(53,048)	Balance as at 1 April		(45,657)
(2,867)	Upward revaluation of assets	(27,447)	
2,369	Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	1,781	
(498)	Surplus or deficit on revaluation of non-current assets not posted to the Surplus/Deficit on the Provision of Services		(25,666)
349	Difference between the fair value depreciation and historical cost depreciation	748	
479	Accumulated gains on assets sold	-	
7,061	Write off of balances of assets	-	
7,889	Amount written off to the Capital Adjustment Account		748
(45,657)	Balance as at 31 March		(70,575)

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.

2014/15 £000		2015/16 £000	£000
17	Balance as at 1 April		11
(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)
11	Balance as at 31 March		5

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.

2014/15		2015/16	
£000		£000	£000
-	Balance as at 1 April		(1,112)
(1,112)	Upward revaluation of investments	(130)	
<u>(1,112)</u>		<u>(130)</u>	<u>(130)</u>
<u>(1,112)</u>	Balance as at 31 March		<u>(1,242)</u>

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 2016 are as follows:

2014/15		2015/16
£000		£000
243,803	Balance as at 1 April	314,819
84,024	Remeasurements of the net defined benefit liability/(assets)	(33,692)
24,229	Reversal of items relating to retirement benefits debited or credited to the Surplus/Deficit on the Provision of Services	28,055
(37,237)	Employer's pension contributions and direct payments to pensioners payable in the year	(13,300)
314,819	Balance as at 31 March	295,882

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.

2014/15		2015/16
£000		£000
6,536	Balance at 1 April	4,815
(1,721)	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	(5,753)
4,815	Balance at 31 March	(938)

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.

2014/15		2015/16	
£000		£000	£000
2,375	Balance as at 1 April		2,258
(2,375)	Settlement or cancellation of accrual made at the end of the preceding year	(2,258)	
2,258	Amounts accrued at the end of the current year	2,191	
(117)	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		(67)
2,258	Balance as at 31 March	2,191	

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.

2014/15		2015/16	
£000		£000	£000
4,440	Balance as at 1 April		3,570
(870)	Decrease in provision for back pay in relation to Equal Pay cases	(1,271)	
(870)	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		(1,271)
3,570	Balance as at 31 March	2,299	

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.

2014/15		2015/16
£000		£000
(83)	Balance at 1 April	(47)
36	Transfer to the Capital Receipts Reserve upon receipt of cash	27
(47)	Balance at 31 March	(20)

26. CASH FLOW STATEMENT – OPERATING ACTIVITIES

The cash flows for operating activities included the following items:

2014/15		2015/16
£000		£000
(772)	Interest received	(1,044)
16,457	Interest paid	16,835
(269)	Dividends received	(304)

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

2014/15		2015/16
£000		£000
(12,870)	Depreciation	(25,504)
(4,633)	Impairment and downward valuations	(3,155)
(448)	Amortisation	(276)
(761)	Increase/(decrease) in creditors	(10,479)
(6,599)	Increase/(decrease) in debtors	9,810
67	Increase/(decrease) in inventories	530
13,008	Movement in pension liability	(14,755)
(4,565)	Carrying amount of non-current assets and non-current assets held for sale, sold or derecognised	(2,530)
13,518	Other non-cash items charged to the net surplus or deficit on the provision of services	18,598
(3,283)		(27,761)

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:

2014/15		2015/16
£000		£000
258	Proceeds from short term and long term investments	304
301	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	1,042
10,020	Any other items for which the cash effects are investing or financing cash flows	11,681
10,579		13,027

27. CASH FLOW STATEMENT – INVESTING ACTIVITIES

The cash flows for investment activities included the following items:

2014/15		2015/16
£000		£000
14,245	Purchase of property, plant and equipment, investment property and intangible assets	18,132
46,261	Purchase of short-term and long-term investments	54,876
-	Other payments for investing activities	2,853
(337)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(1,069)
(36,388)	Proceeds from short-term and long-term investments	(35,604)
(5,164)	Other receipts from investing activities	(9,299)
18,617	Net cash flows from investing activities	29,889

28. CASH FLOW STATEMENT – FINANCING ACTIVITIES

The cash flows for financing activities included the following items:

2014/15		2015/16
£000		£000
-	Cash receipts of short-term and long-term borrowing	(1,000)
(3,847)	Other receipts from financing activities	(6,868)
4,472	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	4,016
263	Repayments of short-term and long-term borrowing	255
888	Net cash flows from financing activities	(3,597)

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 Services. These reports are prepared on a different basis from the accounting policies used in the financial statements. During 2015/16, the Council changed the way in which it reported budget information to management from reporting on a Portfolio basis to reporting by each service area.

Services 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 services have less than 10% of the gross expenditure or income, they have been combined together.

Service Income and Expenditure 2015/16

	Adult Social Care £000	Regeneration and Housing £000	Children's Social Care £000	Neighbourhoods £000	Schools £000	Exchequer Services £000	Total £000	Other Council Services £000
Employee expenses	14,213	3,895	9,005	14,233	73,184	2,931	117,461	42,419
Support services recharges	2,309	2,515	1,083	2,672	-	618	9,197	5,316
Other service expenses	71,021	33,696	16,203	19,265	91,418	80,391	311,994	75,921
Total Expenditure	87,543	40,106	26,291	36,170	164,602	83,940	438,652	123,686
Government grants	(15,168)	(3,835)	(281)	(1,995)	(115,492)	(79,891)	(216,662)	(39,727)
Fees and charges and other service income	(23,413)	(8,258)	(3,075)	(21,639)	(47,365)	(4,172)	(107,922)	(50,680)
Total Income	(38,581)	(12,093)	(3,356)	(23,634)	(162,857)	(84,063)	(324,584)	(90,407)
Net Expenditure	48,962	28,013	22,935	12,536	1,745	(123)	114,068	33,279

NOTES TO THE ACCOUNTS

Portfolio Income and Expenditure 2014/15 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	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

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

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

2014/15		2015/16
£000		£000
133,229	Net expenditure in the Service analysis	114,068
34,579	Net expenditure of services not included in analysis	33,279
(37,758)	Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the analysis	3,874
(7,111)	Amounts included in the analysis not included in the Comprehensive Income and Expenditure Statement	(14,734)
122,939	Cost of Services in Comprehensive Income and Expenditure Statement	136,487

NOTES TO THE ACCOUNTS

Reconciliation to Subjective Analysis

This reconciliation shows how the figures in the analysis of service 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.

2015/16 Subjective Analysis

	Service 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	117,461	42,419	-	-	159,880	-	159,880
Other service expenses	305,147	70,137	4,914	(14,734)	365,464	-	365,464
Support service recharges	9,197	5,316	-	-	14,513	-	14,513
Depreciation, amortisation and impairment	6,847	5,814	23,552	-	36,213	-	36,213
Interest payments	-	-	-	-	-	16,848	16,848
Precepts and Levies	-	-	-	-	-	20,244	20,244
Payments to Housing Capital Receipts Pool	-	-	-	-	-	17	17
Pension interest cost and return	-	-	-	-	-	10,132	10,132
Loss on disposal of non-current assets	-	-	-	-	-	1,468	1,468
Total Expenditure	438,652	123,686	28,466	(14,734)	576,070	48,709	624,779
Fees, charges and other service income	(107,922)	(50,680)	(24,592)	-	(183,194)	-	(183,194)
Expenditure and revaluation on investment properties	-	-	-	-	0	(11,337)	(11,337)
Interest and investment income	-	-	-	-	0	(1,126)	(1,126)
Income from council tax	-	-	-	-	0	(41,817)	(41,817)
Government grants and contributions	(216,662)	(39,727)	-	-	(256,389)	(118,899)	(375,288)
Total Income	(324,584)	(90,407)	(24,592)	-	(439,583)	(173,179)	(612,762)
Surplus or deficit on the provision of services	114,068	33,279	3,874	(14,734)	136,487	(124,470)	12,017

NOTES TO THE ACCOUNTS

2014/15 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	135,886	46,250	-	-	182,136	-	182,136
Other service expenses	315,604	69,647	(19,350)	(7,111)	358,790	-	358,790
Support services 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)	-	(199,037)	-	(199,037)
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)	-	-	(250,017)	(136,260)	(386,277)
Total Income	(338,997)	(88,224)	(21,833)	0	(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

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.

	Turnover	2014/15		Turnover	2015/16	
	£000	Total Spend £000	(Surplus) / Deficit £000	£000	Total Spend £000	(Surplus) / Deficit £000
Highways	(56)	275	219	(35)	197	162
Transport	(2,697)	1,668	(1,029)	(2,526)	1,577	(949)
School Meals	(6,213)	4,656	(1,557)	(6,465)	4,991	(1,474)
Building Cleaning	(3,786)	3,028	(758)	(3,583)	3,419	(164)
Licensing	(497)	527	30	(443)	497	54
	(13,249)	10,154	(3,095)	(13,052)	10,681	2,371

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, private hire vehicles, operator licences, street trading, marriage venues, gambling, scrap metal.

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 £0.141m in 2015/16 (£0.139m in 2014/15).

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 Adult’s Social Care Service. 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

	2014/15	2015/16
	£000	£000
Gross Funding		
Reserve B/fwd	932	455
Knowsley Clinical Commissioning Group	(10,875)	(11,725)
Knowsley MBC	(20,197)	(20,845)
Total Funding	(31,072)	(32,570)
Pooled Expenditure	30,595	32,268
Net Deficit	455	153

In addition, the Council operates a Better Care Fund (BCF) in partnership with the Clinical Commissioning Group, which creates a local single pooled budget to incentivise the NHS and local Government to work more closely together around people, placing their well-being as the focus of health and care services. During 2015/16, £8.443m of BCF was used to fund the above pools.

The income and expenditure for the whole of the BCF is shown in the table below.

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 (i.e. excluding employees' pension contributions). 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	
	2014/15	2015/16
£50,000 - £54,999	74	60
£55,000 - £59,999	32	54
£60,000 - £64,999	34	21
£65,000 - £69,999	19	25
£70,000 - £74,999	15	13
£75,000 - £79,999	8	12
£80,000 - £84,999	6	7
£85,000 - £89,999	2	3
£90,000 - £94,999	7	7
£95,000 - £99,999	5	1
£100,000 - £104,999	1	2
£105,000 - £109,999	2	2
£110,000 - £114,999	1	1
£120,000 - £124,999	-	1
£150,000 - £154,999	1	-
£154,000 - £159,999	-	1
£300,000 - £304,999	1	-
	208	210

NOTES TO THE ACCOUNTS

34. b) Senior Officer Remuneration – 2015/16

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	2015/16 Salary (includes redundancy payments) £	2015/16 Benefits in Kind Note 10 £	2015/16 Pension Contributions made by the Council £	2015/16 Total £
a) Senior Employees whose annual salary is £150,000 or more					
Chief Executive – M Harden	1	160,000	-	40,800	200,800
b) Senior Employees whose annual salary is between £50,000 and £150,000					
Executive Director (Children)	2	112,000	-	28,560	140,560
Executive Director (Place)		105,333	-	26,860	132,193
Executive Director (Resources)	3	102,000	-	26,010	128,010
Assistant Chief Executive		102,000	-	26,010	128,010
Assistant Executive Director (Neighbourhoods)		96,900	-	24,710	121,610
Assistant Executive Director (Customer and Employees)		94,350	-	24,059	118,409
Assistant Executive Director (Policy and Partnerships)	4	94,350	-	24,059	118,409
Assistant Executive Director (Economic Development)		94,350	-	24,059	118,409
Assistant Executive Director (Regeneration and Housing)		94,350	-	24,059	118,409
Assistant Executive Director (Public Health and Wellbeing)	5	94,350	-	23,428	117,778
Assistant Executive Director (Governance)	6	86,700	-	22,109	108,809
Assistant Executive Director (Adult Social Care)	7	86,284	-	22,109	108,393
Assistant Executive Director (Children's Social Care)		86,234	-	22,109	108,343
Assistant Executive Director (Early Help)	8	83,451	-	21,280	104,731
Assistant Executive Director (Safeguarding and Quality Assurance)	8	51,142	-	10,296	61,438
Assistant Executive Director (Education and Early Intervention)	9	17,863	-	3,788	21,651

NOTES TO THE ACCOUNTS

34. b) Senior Officer Remuneration 2015/16 (continued)

NOTES

1. 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.
2. The Executive Director (Children) also fulfils the statutory responsibility of Director of Children's Services as set out in the Children's Act 2004.
3. The Executive Director (Resources) also fulfils the statutory role of Chief Finance Officer as set out in the Local Government Act 1972.
4. The Assistant Executive Director (Policy and Partnerships) also fulfils the statutory responsibility of Scrutiny Officer as set out in the Local Government Act 2000.
5. The Assistant Executive Director (Public Health and Wellbeing) also fulfils the statutory responsibility of Director of Public Health as set out in the Health and Social Care Act 2012.
6. The Assistant Executive Director (Governance) also fulfils the statutory responsibility of Monitoring Officer for the Authority as set out in the Local Government and Housing Act 1989.
7. The Assistant Executive Director (Adult Social Care) also fulfils the statutory responsibility of Director of Adult Social Services as set out in the Local Authority Social Services Act 1970.
8. This post was created during 2015/16 as part of the Council's review of Senior Officer structure.
9. This post was deleted during 2015/16 as part of the Council's review of Senior Officer structure.
10. Benefits in Kind are the estimated financial value of taxable non-cash benefits received by an employee.

NOTES TO THE ACCOUNTS

34. b) Senior Officer Remuneration – Comparatives 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 9 £	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	1 and 2	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

NOTES TO THE ACCOUNTS

34. b) Senior Officer Remuneration – Comparatives 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 9 £	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	2	66,667	-	17,000	83,667
b) Senior Employees whose annual salary is between £50,000 and £150,000					
Assistant Chief Executive	4	42,500	-	10,838	53,338
Executive Director (Resources)	3	42,500	-	10,838	53,338
Executive Director (Place)		43,889	-	11,192	55,081
Executive Director (Children)	4	46,667	-	11,900	58,567
Assistant Executive Director (Public Health and Wellbeing)	8	39,004	-	5,461	44,465
Assistant Executive Director (Adult Social Care)	5	35,842	-	9,140	44,982
Assistant Executive Director (Customer and Employees)		39,004	-	9,946	48,950
Assistant Executive Director (Policy and Partnerships)	7	39,004	-	9,946	48,950
Assistant Executive Director (Governance)	6	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. The salary figure includes a statutory Voluntary Severance payment.
2. The Chief Executive of the Council also fulfils the statutory role of Head of the Paid Service as set out in the Local Government and Housing Act 1989.
3. The Executive Director (Resources) also fulfils the statutory role of Chief Finance Officer as set out in the Local Government Act 1972.
4. The Executive Director (Children) also fulfils the statutory responsibility of Director of Children's Services as set out in the Children's Act 2004.
5. The Assistant Executive Director (Adult Social Care) also fulfils the statutory responsibility of Director of Adult Social Services as set out in the Local Authority Social Services Act 1970.
6. The Assistant Executive Director (Governance) also fulfils the statutory responsibility of Monitoring Officer for the Authority as set out in the Local Government and Housing Act 1989.
7. The Assistant Executive Director (Policy and Partnerships) also fulfils the statutory responsibility of Scrutiny Officer as set out in the Local Government Act 2000.
8. The Assistant Executive Director (Public Health and Wellbeing) also fulfils the statutory responsibility of Director of Public Health as set out in the Health and Social Care Act 2012.
9. Benefits in Kind are the estimated financial value of taxable non-cash benefits received by an employee.

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	
	2014/15	2015/16	2014/15	2015/16	2014/15	2015/16	2014/15	2015/16
							£000	£000
£0 - £20,000	24	20	86	114	110	134	628	965
£20,001 - £40,000	3	3	19	12	22	15	628	416
£40,001 - £60,000	-	3	7	6	7	9	341	415
£60,001 - £100,000	-	1	2	4	2	5	165	361
£100,001 - £250,000	1	0	3	4	4	4	711	653
Total	28	27	117	140	145	167	2,473	2,810

35. AUDITORS' REMUNERATION

From 1 April 2015, KPMG LLP were appointed the external auditors of the Council, taking over from PricewaterhouseCoopers LLP. In 2015/16, Knowsley MBC incurred the following fees relating to external audit and inspection:

2014/15		2015/16		
Total £000		Pricewaterhouse Coopers LLP £000	KPMG LLP £000	Total £000
151	Fees payable with regard to external audit services carried out by the appointed auditor	-	111	111
18	Fees payable for the certification of grant claims and returns	19	10	29
-	Fees payable for other services			
169		19	121	140

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 2015/16 are shown in the following table.

	Central Expenditure £000	Individual Schools Budget £000	Total £000
Final DSG for 2015/16 before Academy recoupment			113,234
Academy figure recouped for 2015/16			(17,151)
Total DSG after Academy recoupment for 2015/16			96,083
Brought forward from 2014/15			(35)
Carry forward to 2014/15 agreed in advance			0
Agreed initial budgeted distribution for 2015/16	18,430	77,618	96,048
In-year adjustments	(139)	139	0
Final budgeted distribution for 2015/16	18,291	77,757	96,048
Less Actual central expenditure	18,358		18,358
Less Actual ISB deployed to Schools		77,757	77,757
Plus local authority contribution for 2015/16	0	0	0
Carry forward to 2016/17	(67)	0	(67)

37. GRANT INCOME

The Council credited the following grants and contributions to the Comprehensive Income and Expenditure Statement during 2015/16:

	2014/15 £000	2015/16 £000
Credited to Taxation and Non Specific Grant Income		
National Non Domestic Rates	(55,840)	(57,593)
Revenue Support Grant	(67,684)	(49,443)
Council Tax Income	(40,690)	(41,817)
Other Non-Ringfenced Grant	(1,451)	(182)
Department for Transport	(4,221)	(2,336)
Education Funding Agency (Standards Fund)	(2,769)	(1,553)
Local Sustainable Transport Fund / Sustainable Transport Enhancement Package	(1,322)	(5,667)
Other	(1,708)	(2,125)
Total	(175,685)	(160,716)

NOTES TO THE ACCOUNTS

37. GRANT INCOME (continued)

	2014/15 £000	2015/16 £000
Credited to Services		
Dedicated Schools Grant	(96,940)	(96,083)
Housing Benefit Rebates Grant	(79,226)	(77,788)
Private Finance Initiative Subsidy	(23,549)	(23,184)
Public Health Grant	(16,553)	(16,925)
Adult Personal Social Services Grant	(5,217)	(15,612)
Pupil Premium	(9,365)	(9,013)
New Homes Bonus	(1,305)	(1,903)
Education Services Grant	(2,368)	(1,868)
Local Enterprise Partnership	(1,001)	(1,852)
Skills Funding Agency	(2,120)	(1,321)
Education Funding Agency	(1,400)	(1,218)
Benefit Verification Framework / Fraud Incentive / Tax Credits	(1,200)	(1,110)
Disabled Facilities Grant	(1,025)	(1,065)
Universal Infant Free School Meals	(515)	(906)
Stronger Families	(1,147)	(547)
Council Tax Freeze Grant	(524)	(540)
Lottery	(249)	(526)
PE Grant	(465)	(470)
Youth Justice Board	(498)	(406)
Cities Youth Contract	(60)	(179)
Emergency Support Scheme	(1,245)	-
Adoption Reform Grant	(140)	-
European Social Fund	(110)	-
Standards Fund	(27)	-
Other	(4,031)	(4,440)
Total	(250,280)	(256,956)

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 2015/16:

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 2016 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. The Section 75 agreement was revised with effect from 1 April 2015 to incorporate the Better Care Fund.

- **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 four Members who have expressed an interest. Transactions to Knowsley Housing Trust consisted of £5.315m in payments (£6.025m in 2014/15) and £0.803k in receipts (£1.131m in 2014/15). At 31 March 2016 outstanding debtors totalled £0.039m (£0.005m at 31 March 2015) and creditors totalled £0.042m (£0.060m at 31 March 2015).

Transactions relating to Other Public Bodies also included

- **Merseytravel £0.132m (£0.353m in 2014/15)**

The Board included one Council Member. At 31 March 2016 outstanding debtors totalled £0.008m (£0.005m at 31 March 2015) and creditors totalled £0.028m (£0.027m at 31 March 2015).

- **Police and Crime Commissioner for Merseyside £0.064m (£0.135m in 2014/15)**

The Board included one Council Member. At 31 March 2016 outstanding debtors totalled £0.090m (£0.063m at 31 March 2015) and no creditors (£0.001m at 31 March 2015).

NOTES TO THE ACCOUNTS

- **Merseyside Fire Authority £0.113m (£0.438m in 2014/15)**
The Board included two Council Members out of the four Members who have expressed an interest. At 31 March 2016 there were no outstanding debtors (£0.004m at 31 March 2015) and creditors totalled £0.009m (£0.009m at 31 March 2015).
- **Liverpool City Region Combined Authority**
The Board includes two Council Members out of the four Members who have expressed an interest. Apart from the Levy, there were no other transactions. At 31 March 2016 there were no outstanding debtors (£0.044m at 31 March 2015) and no creditors (no creditors at 31 March 2015).
- **Merseyside Recycling and Waste Authority**
The Board included one Council Member. Apart from the Levy, there were no other transactions. At 31 March 2016 outstanding debtors totalled £0.036m (£0.034m at 31 March 2015) and no creditors (no creditors at 31 March 2015).
- **Wirral MBC £4.385m (£4.194m in 2014/15)**
Two Council Members have expressed an interest. At 31 March 2016 there were no outstanding debtors (£0.002m at 31 March 2015) and creditors totalled £0.185m (£0.144m at 31 March 2015).

Members' Interests

Members of the Council have direct control over the Council's financial and operational policies. During 2015/16, works and services totalling £0.651m were commissioned from organisations in which five Members had an interest. Contracts were entered into in full compliance with the Council's Constitution. Payments and grants totalling £32.395m were paid to housing associations, hospital trusts, and voluntary organisations, in which there were 109 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 2015/16, 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.

2014/15		2015/16
£000		£000
290,195	<i>Opening Capital Financing Requirement</i>	287,488
	Capital Investment	
22,329	- Property, Plant and Equipment	20,442
6	- Investment Properties	113
122	- Intangible Assets	192
88	- Heritage Assets	69
482	- Assets Held for Sale	326
2,770	- Revenue Expenditure Funded from Capital Under Statute	2,423
	Sources of Finance	
(11,897)	- Government Grant and Other Contributions	(12,881)
(320)	- Capital Receipts	(1,052)
(4,238)	- Direct Revenue Contributions	(5,545)
(6,817)	- Statutory Provision for Repayment of Debt	(7,816)
(5,232)	- Reversal of Equal Pay Capitalisation	-
<u>287,488</u>	<i>Closing Capital Financing Requirement</i>	<u>283,759</u>
	<i>Movements in Year:</i>	
(6,252)	Decrease in underlying need to borrow	(6,269)
8,782	Assets Acquired under PFI Contracts	3,010
(5)	Capital Receipts applied that had been transferred to Capital Adjustment Account in previous years	(470)
(5,232)	Reversal of Equal Pay Capitalisation	-
<u>(2,707)</u>	Decrease in Capital Financing Requirement	<u>(3,729)</u>

NOTES TO THE ACCOUNTS

40. LEASES

Finance Leases

The Council has acquired its community information network under finance lease which has now come to an end. During 2015/16 the Council entered into a finance lease for the purchase of server infrastructure over five years. The assets acquired under these leases are carried as Property, Plant and Equipment in the Balance Sheet at the following net amounts:

31 March 2015	31 March 2016
£000	£000
462 Community Information Network	306
- Server Infrastructure	481
462	787

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 2015	31 March 2016
£000	£000
Finance lease liabilities (net present value of minimum lease payments):	
- - current	64
- - non current	287
- Finance costs payable in future years	165
- Minimum lease payments	516

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

	Minimum Lease Payments		Finance Lease Liabilities	
	31 March 2015	31 March 2016	31 March 2015	31 March 2016
	£000	£000	£000	£000
Not later than one year	-	129	-	64
Later than one year and not later than five years	-	387	-	288
	-	516	-	352

NOTES TO THE ACCOUNTS

40. LEASES (continued)

Operating Leases

The Council has previously acquired photocopiers on behalf of schools by entering into operating leases, with typical lives of three years. During 2015/16 no such contracts were entered into as any photocopiers were purchased by the use of prudential borrowing.

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 £12.277m (£3.425m in 2014/15). These charges primarily related to historic assets following a review of the asset base.

42. TERMINATION BENEFITS

The Council terminated the contracts of 167 employees during 2015/16, incurring liabilities of £2.810 (£2.473m in 2014/15) 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.

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 2015/16 the Council paid £0.155m to the NHS Pension Scheme in respect of former NHS staff retirement benefits (£0.247m in 2014/15).

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 2015/16 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		Teachers Additional Unfunded		Total	
	2014/15 £000	2015/16 £000	2014/15 £000	2015/16 £000	2014/15 £000	2015/16 £000
Cost of Services:						
Current Service Cost	13,758	17,011	-	-	13,758	17,011
Past service cost (including curtailment)	800	694	-	-	800	694
Loss from settlements	111	218	-	-	111	218
	<u>14,669</u>	<u>17,923</u>	<u>-</u>	<u>-</u>	<u>14,669</u>	<u>17,923</u>
Financing and Investment Income and Expenditure:						
Net interest expense	8,777	9,547	783	585	9,560	10,132
Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services	<u>23,446</u>	<u>27,470</u>	<u>783</u>	<u>585</u>	<u>24,229</u>	<u>28,055</u>
Remeasurement of the net defined benefit liability comprising:						
Return on plan assets (excluding the amount included in the net interest expense)	(40,122)	15,863	-	-	(40,122)	15,863
Actuarial gains and losses arising on changes in financial assumptions	122,769	(49,051)	1,377	(504)	124,146	(49,555)
Actuarial gains and losses arising on changes in demographic assumptions	-	-	-	-	-	-
Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	<u>82,647</u>	<u>(33,188)</u>	<u>1,377</u>	<u>(504)</u>	<u>84,024</u>	<u>(33,692)</u>
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	(23,446)	(27,470)	(783)	(585)	(24,229)	(28,055)
Actual amount charged against the General Fund Balance for pensions in the year:						
Employers' contributions payable to scheme	<u>35,736</u>	<u>11,824</u>				
Retirement benefits payable to pensioners			<u>1,501</u>	<u>1,476</u>		

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	
	2014/15 £000	2015/16 £000	2014/15 £000	2015/16 £000	2014/15 £000	2015/16 £000
Present value of funded liabilities	(847,847)	(823,856)	-	-	(847,847)	(823,856)
Present value of unfunded liabilities	(28,738)	(26,887)	(19,614)	(18,219)	(48,352)	(45,106)
Fair value of plan assets	581,380	573,080	-	-	581,380	573,080
Net Liability Arising from Defined Benefit Obligation	(295,205)	(277,663)	(19,614)	(18,219)	(314,819)	(295,882)

Reconciliation of the Movements in Fair Value of Scheme Assets

	Merseyside Pension Fund	
	2014/15 £000	2015/16 £000
Opening fair value of scheme assets	503,353	581,380
Interest income	23,511	18,997
Remeasurement gain:		
Return on plan assets (excluding the amount included in the net interest)	40,122	(15,863)
Contributions from employer	35,736	11,824
Contributions from employees in the scheme	4,646	4,742
Benefits paid (including Settlements)	(25,988)	(28,000)
Closing Fair Value of Scheme Assets	581,380	573,080

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	
	2014/15 £000	2015/16 £000	2014/15 £000	2015/16 £000	2014/15 £000	2015/16 £000
Opening fair value of scheme liabilities	728,201	876,585	18,955	19,614	747,156	896,199
Current service cost	13,758	17,011	-	-	13,758	17,011
Interest cost	32,288	28,544	783	585	33,071	29,129
Contributions from scheme participants	4,646	4,742	-	-	4,646	4,742
Remeasurement gain:						
Experience (gain)/loss	-	-	-	-	-	-
Actuarial (gains)/losses arising on changes in financial assumptions	122,769	(49,051)	1,377	(504)	124,146	(49,555)
Actuarial (gains)/losses arising on changes in demographic assumptions	-	-	-	-	-	-
Past service cost (gain)	111	218	-	-	111	218
Curtailments	800	694	-	-	800	694
Benefits paid	(25,988)	(28,000)	(1,501)	(1,476)	(27,489)	(29,476)
Settlements	-	-	-	-	-	-
Closing Fair Value of Scheme Liabilities	876,585	850,743	19,614	18,219	896,199	868,962

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 £3.490m (£63.982m in 2014/15). Total liabilities (including Teacher's Pensions) exceed assets by £295.882m (£314.819m in 2014/15). 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 £295.882m 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 2017 is £10.883m.

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 2015	31 March 2016
		£000	£000
Equities:			
UK quoted	Y	138,717	123,950
Global quoted	Y	175,113	172,884
Sub total Equities		313,830	296,834
Bonds:			
UK Government	Y	29,069	26,296
UK Corporate	Y	15,058	13,883
UK Indexed Linked	Y	56,743	50,851
Sub total Bonds		100,870	91,030
Property:			
UK Direct Property	N	32,557	32,846
Property Managed (UK Quoted)	Y	1,919	2,345
Property Managed (UK Unquoted)	N	7,732	9,095
Property Managed (Global)	N	5,814	6,753
Sub total Property		48,022	51,039
Alternatives:			
Private Equity (UK Quoted)	Y	233	110
Private Equity (UK Unquoted)	N	17,383	21,048
Private Equity (Global Unquoted)	N	15,930	18,433
Hedge Funds (UK Quoted)	Y	1,453	1,451
Hedge Funds (UK Unquoted)	N	3,139	3,096
Hedge Funds (Global Unquoted)	N	17,732	15,472
Infrastructure (Global Quoted)	Y	1,570	2,310
Infrastructure (UK Unquoted)	N	8,139	11,513
Infrastructure (Global Unquoted)	N	4,825	7,386
Opportunities (UK Quoted)	Y	10,639	9,922
Opportunities (UK Unquoted)	N	11,918	16,351
Opportunities (Global Quoted)	Y	1,744	770
Opportunities (Global Unquoted)	N	6,337	6,615
Sub total Alternatives		101,042	114,477
Cash:			
Cash instruments	Y	17,616	19,700
Total		581,380	573,080

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	
	2014/15	2015/16	2014/15	2015/16
Mortality assumptions (years):				
Longevity at 65 for current pensioners				
Men	22.4	22.5	22.4	22.5
Women	25.3	25.4	25.3	25.4
Longevity at 65 for future pensioners				
Men	24.8	24.9	-	-
Women	28.1	28.2	-	-
Actuarial assumptions:				
Rate of Inflation – CPI	2.0%	2.0%	2.0%	2.0%
Rate of increase in salaries	3.5%	3.5%	-	-
Rate of increase in pensions	2.0%	2.0%	2.0%	2.0%
Rate for discounting scheme liabilities	3.3%	3.6%	3.1%	3.4%

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	(15,765)	(165)
0.1% increase in inflation	16,062	166
0.1% increase in pay growth	3,784	n/a
1 year increase in life expectancy	16,768	751

44. CONTINGENT LIABILITIES

There are no significant contingent liabilities at 31 March 2016 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 2016.

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 A-, the UK government, other Local Authorities, Police and Crime Commissioners and organisations without credit ratings upon which the Council has received independent investment advice. Recognising that credit ratings are imperfect predictors of default, the Council has regard to other measures including credit default swap and equity prices when selecting commercial entities for investment.

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. The '-' denotes relative status within major categories.

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 measure the intrinsic creditworthiness of a financial institution, and reflect Fitch's opinion on the likelihood that the entity will fail. Fitch views a bank as having failed when it either:

- has defaulted, i.e. stopped servicing its senior obligations to third-party, non-government creditors (unless this is a result of legal restrictions), completed a distressed debt exchange in respect to these obligations, or entered bankruptcy proceedings; or
- requires extraordinary support, or needs to impose losses on subordinated obligations, to restore its viability

However, Fitch does not view a bank as having failed when:

- it has defaulted as a result of legal restrictions on servicing its obligations, while the bank itself remains solvent and liquid; or
- external support made available, or losses imposed on subordinated obligations, were in the agency's view not necessary to restore the bank's viability

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 reflect the agency's view on the likelihood that a financial institution will receive extraordinary support, in case of need, to prevent it defaulting on its senior obligations. Extraordinary support typically comes from one of two sources: the rated entity's shareholders (institutional support) or the national authorities of the country where it is domiciled (sovereign support). However, in some circumstances support ratings may also reflect potential support from other sources, e.g. international financial institutions, regional governments or expected acquirers of the rated entity. 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 5.

The Council's maximum exposure to credit risk in relation to its investments in banks and building societies of £65.084m 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 2016 that this was likely to happen.

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 on 31 March 2016 £000	Total Exposure 31 March 2016 (per balance sheet) £000	
	Country Long Term Rating	Fitch Long Term Rating	Fitch Short Term Rating	Fitch Viability Rating	Fitch Support Rating			
UK Banks	UK AA+	A	F1	a	2	£18m / up to 6 months	13,000	
UK Banks	UK AA+	A+	F1	a	5	£25m/ up to 13 months	20,000	
UK Bank Certificate of Deposit	UK AA+	Not applicable – suspended from lending list on the balance sheet date					10,004*	
UK Unrated Building Societies	UK AA+	Not applicable					£1m / up to 6 months	2,000**
UK Merchant Bank	UK AA+	Not applicable					£1m / up to 6 months	1,000
UK Covered Bond	UK AA+	A+	F1	A	5	£25m / max period to be agreed with Advisor prior to investing	1,042	
UK Covered Bond	UK AA+	A-	F1	a-	5	Max period and amount to be agreed with Advisor prior to investing	1,095	
Corporate Bond	UK AA+	AA+					£18m / max period to be agreed with Advisor prior to investing	3,832
Supernational Bond	AAA						£25m / max period to be agreed with Advisor prior to investing	4,679
Fund Managers	UK AA+	Not applicable					Max period and amount to be agreed with Advisor prior to investing	8,151
UK Treasury Stock	Not applicable						Not applicable	2
Total Exposure to Credit Risk from Investments at 31 March 2016							64,805	
Accrued interest at 31 March 2016							279	
Total Exposure to Credit Risk including accrued interest at 31 March 2016							65,084	

NOTES TO THE ACCOUNTS

* On the balance sheet date this counterparty was suspended so no further investments were placed with this counterparty. The Council is however holding £10m of cash deposits with this counterparty until maturity. The £10m of investments were made during 2015/16 without any breaches in deposit limits or durations on the dates of placing the investments.

** Includes investments with two different institutions that have a maximum investment duration of £1m each.

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 2016 (carrying amount of contractually based debtors) £000	Historical Experience of default %	Historical Experience adjusted for market conditions at 31 March 2016 %	Estimated Maximum exposure to default and uncollectability £000
Total Investments (per previous table)	65,084	-	-	-
Mortgagors	58	-	-	-
LAMS Debtor	1,000	-	-	-
Employee Related Debtors	174	-	-	-
Other Debtors	23,286	19.19	12.29	2,862
Total	89,602			2,862

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 five years was from the Icelandic banks defaulting in October 2008. In accordance with the Council's investment priorities of the security of capital and the liquidity of its investments, the Council has no exposure to Icelandic Banks as they have never featured on the Council's approved lending list.

On 31 March 2016 the Council held 23 mortgage accounts with outstanding loan amounts of £0.058m. Nine of these accounts have arrears, totalling £0.014m but seven of the accounts are less than two months behind in their payments. It has not been necessary to refer any accounts for legal action in 2015/2016. 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 2016 the Local Authority Mortgage Scheme (LAMS) had provided assistance through the provision of indemnity to enable 45 mortgages. Of the initial £1m indemnity fund £0.813m has been taken up as indemnity with £0.187m 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.

NOTES TO THE ACCOUNTS

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.

Other debtors at 31 March 2016 include £17.601m of contractually based other entities and individuals, £5.588m of contractually based other local authority debtors and £0.097m of contractually based housing association debtors. The Council does not generally allow credit for customers, such that £4.853m 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	3,136
Three to six months	453
Six months to one year	297
More than one year	967
	4,853

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 2016 £000	Lender Offer Borrower Option Maturity at 31 March 2016 £000	Temporary Loans Maturity at 31 March 2016 £0	Total Maturity at 31 March 2016 £000	Actual % Maturity of Fixed Rate Borrowing at 31 March 2016
Under 12 months	20%	1,492	17,496	1,000	19,988	16%
1-2 years	20%	4	-	-	4	0%
2-5 years	50%	14	-	-	14	0%
5-10 years	80%	2,318	-	-	2,318	1%
10 years and above	100%	98,940	-	-	98,940	83%
		102,768	17,496		121,264	

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 £17.496m 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 £17.496m 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 2016. Movements in the fair value of fixed rate investments classed as “available for sale” would be reflected in Other Comprehensive Income and Expenditure if realised.

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 2016, 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.

NOTES TO THE ACCOUNTS

If all interest rates had been 1% higher on 31 March 2016 with all other variables held constant, the financial effect would be as follows:

	£000
Decrease in fair value of fixed rate investment assets (no impact on Comprehensive Income and Expenditure)	23
Decrease in fair value of available for sale financial assets (no impact on Comprehensive Income and Expenditure)	788
Decrease in fair value of fixed rate borrowings liabilities (no impact on Comprehensive Income and Expenditure)	25,581

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 £0.154m financial assets and £0.009m 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.

The Council's investment in pooled equity funds is subject to the risk of falling share prices. The risk is limited by the Council's maximum exposure to equity investments of £3m.

NOTES TO THE ACCOUNTS

47. TRUST FUNDS

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

	Balance 31 March 2015 £000	Receipts £000	Payments £000	Balance 31 March 2016 £000
King George V Playing Fields <i>A permanent Endowment from the sale of land left to KMBC from benefactors</i>	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 2015 £000	Receipts £000	Payments £000	Balance 31 March 2016 £000
Health and Social Care Trust Funds (Note i)	3	244	(229)	18
Huyton Distress Fund <i>Long standing trust fund – for hardship cases within the area of Huyton</i>	44	-	(1)	43
Children and Family Services Trust Funds (Note ii)	8	6	-	14
Larry Nolan <i>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</i>	1	-	-	1
Charles McGhee <i>Established in 1982 – to provide holidays for the disabled who reside in the borough</i>	19	-	-	19
Fred Curran <i>Established in 1990 – to provide funding assistance for disabled athletes who reside in the borough relevant to training for and participation in Special Olympics</i>	55	-	-	55
Mayors Charity <i>Established in 1975 – to raise funds for charitable purposes in the borough as the trustees see fit</i>	42	33	(55)	20
	172	283	(285)	170

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.
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.
Client Trust fund	Client money placed into trust to be held by the Local Authority.

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 Council agreed to cease the Services Partnering Agreement with 2020 Knowsley Limited on 31 March 2016 and after this time the Council will therefore need to negotiate its withdrawal from or the transfer of its shareholding in 2020 Knowsley Limited.

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 2015/16 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.

2014/15			2015/16		
Council Tax	Business Rates	Total	Council Tax	Business Rates	Total
£000	£000	£000	£000	£000	£000
(49,303)	-	(49,303)	(50,745)	-	(50,745)
-	(44,188)	(44,188)	-	(45,019)	(45,019)
(49,303)	(44,188)	(93,491)	(50,745)	(45,019)	(95,764)
Income			Income		
Income from Council Taxpayers			Income from Council Taxpayers		
Income from Business Ratepayers			Income from Business Ratepayers		
Total Income			Total Income		
Expenditure			Expenditure		
<u>Precepts:</u>			<u>Precepts:</u>		
39,425	-	39,425	41,598	-	41,598
4,842	-	4,842	5,208	-	5,208
2,166	-	2,166	2,331	-	2,331
<u>Business Rates payments:</u>			<u>Business Rates payments:</u>		
-	21,190	21,190	-	20,403	20,403
-	19,463	19,463	-	20,085	20,085
-	397	397	-	410	410
-	139	139	-	141	141
<u>Bad and Doubtful Debts:</u>			<u>Bad and Doubtful Debts:</u>		
1,381	226	1,607	1,351	642	1,993
-	-	-	0	-	0
-	1,705	1,705	0	1,359	1,359
200	-	200	1,286	-	1,286
48,014	43,120	91,134	51,774	43,040	94,814
(1,289)	(1,068)	(2,357)	1,029	(1,979)	(950)
(Surplus) / Deficit for the year			(Surplus) / Deficit for the year		
Collection Fund Balance			Collection Fund Balance		
(227)	13,733	13,506	(1,516)	12,665	11,149
(1,289)	(1,068)	(2,357)	1,029	(1,979)	(950)
(1,516)	12,665	11,149	(487)	10,686	10,199
Balance brought forward at 1 April			Balance brought forward at 1 April		
(Surplus) / Deficit for the year (as above)			(Surplus) / Deficit for the year (as above)		
Balance carried forward at 31 March			Balance carried forward at 31 March		
Allocated to:			Allocated to:		
(1,287)	6,206	4,919	(412)	5,236	4,824
(158)	-	(158)	(52)	-	(52)
(71)	127	56	(23)	107	84
-	6,332	6,332	-	5,343	5,343
(1,516)	12,665	11,149	(487)	10,686	10,199

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 2015/16 was 32,617 (30,916 in 2014/15). The tax base was approved at the Council meeting on 28 January 2015 and was calculated as follows:

Band	Value	Number of Dwellings	Band D Equivalent Ratio	Band D Equivalent
A	Up to £40,000	37,257	6/9	24,838
B	£40,001 to £52,000	13,441	7/9	10,454
C	£52,001 to £68,000	8,932	8/9	7,940
D	£68,001 to £88,000	3,916	9/9	3,916
E	£88,001 to £120,000	1,556	11/9	1,902
F	£120,001 to £160,000	269	13/9	389
G	£160,001 to £320,000	129	15/9	215
H	Over £320,000	17	18/9	34
		65,517		49,688
Less Exemptions and Discounts				(16,132)
Collection Rate (Estimated)				97.2%
Council Tax Base 2015/16				32,617

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 2015 it was estimated that there would be a £1.286m council tax surplus on the Collection Fund (£0.200m surplus in January 2014) and therefore this would be due back to the preceptors in 2015/16.

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 2015/16 the total rateable value at the year end is £104.95m (£103.2m in 2014/15). The national multipliers for 2015/16 were 48p for qualifying small businesses, with the standard multiplier being 49.3p for all other businesses (48.2p and 47.1p respectively in 2014/15).

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 2015/16 were estimated before the start of the financial year as £20.494m to Central Government, £20.085m to Knowsley and £0.410m to MFRA. These sums have been paid in 2015/16 and charged to the Collection Fund in year. The actual income from business ratepayers for 2015/16 was £45.019m (£44.188m in 2014/15), and includes £0.091m of transitional protection payments to ratepayers which, under Government regulation, should have a neutral impact on the Business Rates Retention Scheme. This amount is recoverable from Central Government and therefore reduces the payments to Central Government shown in the Collection Fund to £20.403m.

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 2016. 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 2015/16 was £3.013m, with a further increase to the provision of £1.359m, leaving a total of £8.793m at 31 March 2016 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 2015 it was estimated that the Collection Fund would be carrying a £11.544m deficit (£0.212m deficit in January 2014) and therefore this would be recoverable from the preceptors in 2015/16.

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 2015/16 to the value of £36.539m (£35.854m in 2014/15).

ACCOUNTING POLICIES

A General Principles

The Statement of Accounts summarises the Council's transactions for the 2015/16 financial year and its overall financial position as at 31 March 2016. 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 2015/16 (the Code) and the Service Reporting Code of Practice for Local Authorities 2015/16 (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

Benefits Payable During Employment

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 Children's and Education 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.

Loans and Receivables

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.

Available-for-sale Assets

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.

The inputs to the measurement techniques are categorised in accordance with the following three levels:

- Level 1 inputs – quoted prices (unadjusted) in active markets for identical assets that the authority can access at the measurement date.
- Level 2 inputs – inputs other than quoted process included within Level 1 that are observable for the asset, either directly or indirectly.
- Level 3 inputs – unobservable inputs for the asset.

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, being the price that would be received to sell such an asset in an orderly transaction between market participants at the measurement date. As a non-financial asset, investment properties are measured at highest and best use. 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 Operations

Jointly operations are arrangements where parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities relating to the arrangement. The activities undertaken by the Council in conjunction with other joint operators involve the use of the assets and resources of those joint operators. In relation to its interest in a joint operation, the Council as a joint operator recognises:

- its assets, including its share of any assets held jointly;
- its liabilities, including its share of any liabilities incurred jointly;
- its revenue from the sale of its share of the output arising from the joint operation; and,
- its expenses, including its share of any expenses incurred jointly.

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.

The Council as Lessee

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).

The Council as Lessor

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;
- council offices – current value, determined as the amount that would be paid for the asset in its existing use;
- school buildings – current value, but because of their specialist nature, are measured at depreciated replacement cost which is used as an estimate of current value;
- surplus assets – fair value, estimated at highest and best use from a market participant's perspective; and,
- all other assets – current value, determined as the amount that would be paid for the asset in its existing use.

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 current value.

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

Assets included in the Balance Sheet at current value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their current 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).

Depreciation 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 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.

Contingent Liabilities

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.

Contingent Assets

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 Schools

The Code of Practice on Local Authority Accounting in the United Kingdom confirms that the balance of control for local authority maintained schools lies with the local authority. The Code also stipulates that those schools' assets, liabilities, reserves and cash flows are recognised in the local authority financial statements. Therefore schools' transactions, cash flows and balances are recognised in each of the financial statements of the Council as if they were the transactions, cash flows and balances of the Council.

AD 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.

AE 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 auditor's report to the members of Knowsley Metropolitan Borough Council

We have audited the financial statements of Knowsley Metropolitan Borough Council for the year ended 31 March 2016 on pages 16 to 105. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014. Our audit work has been undertaken so that we might state to the members of the Authority, as a body, those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the members of the Authority, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Executive Director (Resources) and auditor

As explained more fully in the Statement of the Executive Director (Resources)'s Responsibilities, the Executive Director (Resources) is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that the financial statements give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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.

In addition, we read all the financial and non-financial information in the Narrative Statement 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.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2016 and of the Authority's expenditure and income for the year then ended;
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

Matters on which we are required to report by exception

The Code of Audit Practice requires us to report to you if:

- the Annual Governance Statement which accompanies the financial statements does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007; or
- the information given in the Narrative Statement for the financial year for which the financial statements are prepared is not consistent with the financial statements; or
- any matters have been reported in the public interest under Section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of, the audit; or
- any recommendations have been made under Section 24 of the Local Audit and Accountability Act 2014; or
- any other special powers of the auditor have been exercised under the Local Audit and Accountability Act 2014.

We have nothing to report in respect of these matters.

Conclusion on Knowsley Metropolitan Borough Council's arrangements for securing economy, efficiency and effectiveness in the use of resources

Authority's responsibilities

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

Auditor's responsibilities

We are required under Section 20(1) (c) of the Local Audit and Accountability Act 2014 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 Comptroller and Auditor General (C&AG) requires us to report to you our conclusion relating to proper arrangements.

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.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by C&AG in November 2015, as to whether Knowsley Metropolitan Borough Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The C&AG determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether Knowsley Metropolitan Borough Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2016. 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 Knowsley Metropolitan Borough Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of our work, having regard to the guidance issued by the C&AG in November 2015, 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 ended 31 March 2016.

Certificate

Delay in certification of completion of the audit

Due to work on the WGA Return not being completed by the 30th September 2016

We cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the Authority's Whole of Government Accounts consolidation pack. We are satisfied that this work does not have a material effect on the financial statements or on our value for money conclusion.

Due to outstanding conclusion for matters raised by an elector in a previous period

We cannot formally conclude the audit and issue an audit certificate until matters raised by a local authority elector in respect of the 2013/14 accounting period have been concluded. We are satisfied that this work does not have a material effect on the financial statements or on our value for money conclusion

Timothy Cutler

Partner

For and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

1 St Peter's Square

Manchester

M2 3AE

30 September 2016

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.