

Sefton Council



STATEMENT OF ACCOUNTS 2013/2014

**As approved by the Audit and
Governance Committee
on 10 September 2014**

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1 **EXPLANATORY FOREWORD**

Introduction

The Council has just completed its fourth year of reducing resources and increased demand for services to vulnerable adults and children. This year's financial plan has been delivered with only minor variation to the original plan approved in February 2013. This has given the Council adequate resources in general balances to face another year of significant service reduction and restructuring. This could only be achieved with the hard work and dedication of the staff and partners of Sefton Council, and I thank them for their ongoing support in achieving a tough financial plan.

The Statement of Accounts

1 The Statement of Accounts is intended to give clear information about the Authority's finances. It is intended to answer:

- What did the Authority's services cost in the year of account?
- Where did the money come from to pay for these services?
- What were the Authority's assets and liabilities at the year-end?

2 Wherever possible the contents have been written in plain English and technical terms have been used sparingly. Where the use of technical terms has been unavoidable, a simple explanation has been included in the Glossary (see pages 131 to 138).

3 The Authority is required by law to follow proper accounting practices and this Statement of Accounts attempts to present fairly the financial position and transactions of the Authority.

4 The Statement was certified by the Head of Corporate Finance and ICT on 10 September 2014.

5 In accordance with recommended practice, the Authority's Accounts present:

(a) Movement in Reserves Statement (page 13)

This statement shows the movement in the year on the different reserves held by the Authority, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and unusable reserves. The Surplus or (Deficit) on the Provision of Services line shows the true economic cost of providing the Authority'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 / 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.

(b) Comprehensive Income and Expenditure Statement (page 15)

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.

(c) Balance Sheet (pages 17 - 18)

The Balance Sheet shows the value as at 31 March 2014 of the assets and liabilities recognised by the Authority. The net assets of the Authority (assets less liabilities) are matched by the reserves held by the Authority. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those reserves that the authority may use to provide services, subject to the need to maintain a prudent level of reserves, and any statutory limitations on their use. The second category of reserves are those that the Authority is not able to use to provide services.

(d) Cash Flow Statement (page 19)

The Cash Flow Statement shows the changes in cash and cash equivalents of the Authority during the reporting period. The statement shows how the Authority generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities.

(e) Notes to the Financial Statements (pages 21 - 98)

The notes to the Movement in Reserves Statement, Comprehensive Income and Expenditure Statement, Balance Sheet and Cash Flow Statement. It also includes the accounting policies employed by Sefton to comply with the CIPFA Code of Practice of Local Authority Accounting subject to any exceptions detailed in the note.

(f) Collection Fund (pages 99 - 102)

This statement that reflects the statutory obligation for billing authorities to maintain a separate Collection Fund in accordance with section 89 of the Local Government Finance Act 1988 (as amended by the Local Government Finance Act 1992).

The Collection Fund shows the transactions of the Billing Authority in relation to the collection of Council Tax and Non-Domestic rates and provides details of how this income has been distributed to Sefton MBC (including Parish Precepts), the Merseyside Police and Crime Commissioner, the Merseyside Fire and Rescue Authority, and Central Government.

(g) Group Accounts (pages 103 – 115)

This section incorporates the accounts of both Sefton and its wholly owned subsidiary, Sefton New Directions Limited, to provide details of the Council's financial activities as a Group.

(h) Annual Governance Statement (pages 117 - 125)

The Annual Governance Statement is the formal statement that recognises, records and publishes an authority's governance arrangements as defined in the CIPFA / SOLACE Governance Framework. It is required to be published with the accounting statements but does not form part of the accounting statement and is therefore not covered by the Auditor's opinion.

(i) Independent Auditor's Report to the Members of Sefton Metropolitan Borough Council (pages 127 - 130)(j) Glossary (pages 131 - 138)(k) Abbreviations (pages 139 – 140)(l) Useful Addresses (page 141)**6 CHANGES TO ACCOUNTING POLICY DURING THE YEAR**

This Statement of Accounts is prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2013/2014 (the Code).

The most significant changes to the 2013/2014 Code are:

Post Employment Benefits

There have been several significant changes in relation to the International Accounting Standard (IAS) 19 on Employee Benefits. This has resulted in changes to accounting treatment for financial years starting on or after 1 January 2013. The main changes are as follows:

Expected Return on Assets

This is in relation to the return on Pension Scheme assets such as those held by the Merseyside Pension Scheme. Advance credit for anticipated outperformance of return seeking assets (for example, equities) is no longer permitted under IAS 19. This has been replaced by an equivalent figure calculated using a discount rate (as opposed to using a figure calculated using expected return on asset assumptions). There has also been a slight change in the amounts charged to the Cost of Services. The impact of these adjustments does not change the total amount charged to the Comprehensive Income and Expenditure Statement, just its components.

Asset Disclosures

IAS 19 requires a much more detailed breakdown of Pension Fund assets. The values of the assets, analysed into different classes that distinguish between their nature and risk, now need to be disclosed, further analysed between those that have a quoted market price and those that don't. The disclosures included in the Council's 2012/2013 financial statements only showed the main categories of assets.

Disclosure Presentation

In order to comply with the requirements of IAS 19 the disclosures in relation to the Council's pension schemes have changed from those published in 2012/2013. It is intended that the new presentation of information will make it easier for the user to understand (see Note 56).

This change in accounting policy has resulted in changes to the 2012/2013 comparative figures in the 2013/2014 Statement of Accounts. These changes are shown in Note 1.

7 GENERAL FUND SUMMARY

The General Fund encompasses expenditure relating to the day-to-day running of the Council. Transactions relating to Schools' delegated budgets are included within the General Fund but because Schools are entitled to retain any year-end balances for future use, the General Fund balances are analysed according to whether or not they belong to Schools.

On 28 February 2013, the Council approved a revenue budget for 2013/2014 of £237.663m, which included £0.854m relating to the expenditure of Parish Councils. It was anticipated that balances for non-school budgets would total £3.711m at 31 March 2014. As a result of an underspend of £2.865m in 2012/2013, and no planned contribution to reserves in 2013/2014, the anticipated year-end balances position was revised to £6.576m when the 2014/2015 Budget was approved on 6 March 2014.

Overall, actual expenditure for 2013/2014 on General Fund services (excluding Schools' delegated expenditure) was £3.490m lower than revised estimates. This has been added to General Fund Balances.

In line with previous practice, savings agreed by Council in October / November 2012 for future years were approved for implementation as early as possible. This has led to significant underspends in 2013/2014 due to the early implementation of savings that were assumed to only be achieved in 2014/2015.

The Authority's reported Non-School General Fund balances at 31 March 2014 are therefore £10.066m as shown in the following table:

| Non-School General Fund Balances | £m |
|---|----------------|
| Estimated Non-School General Fund Balances at 31 March 2014 | -6.576 |
| Add underspend in comparison to the 2013/2014 revised estimate | -3.490 |
| Actual Non-School General Fund Balances at 31 March 2014 | -10.066 |

Some of the major variations from the revised estimates in 2013/2014 include: -

| Additional Spending / Reduced Income | £m |
|---|-----------|
| Social Care Transport Costs – continued demand pressure | 2.098 |
| Underspending / Additional Income | |
| Adult Social Care – Community Care Packages | -2.703 |
| Public Health – Contracts and Staffing | -0.980 |
| Reduced Revenue Contribution to Capital Expenditure | -0.750 |
| Debt Repayment / Net Investment | -0.930 |

8 SCHOOLS' DELEGATED BUDGETS AND THE USE OF DEDICATED SCHOOLS GRANT

In accordance with the Fair Funding Scheme for Financing Schools, individual schools are able to carry forward any underspend on their budgets. Conversely, an overspend against budgets become the first call on future available resources. Net expenditure on schools, whether incurred directly from delegated budgets or spent against centrally retained budgets by the LEA in support of schools, is funded from the ring-fenced Dedicated Schools Grant (DSG).

The DSG was underspent by £0.605m in 2013/2014. This comprised an overspend of £0.357m on schools' delegated funding and an underspend of £0.962m on the non-delegated element. Movements in Schools' balances during 2013/2014 can be summarised as follows:

| <u>Schools' Balances</u> | <u>£m</u> |
|---|-----------|
| Schools' balances as at 1 April 2013 | -18.149 |
| Overspend on Schools' Delegated Budgets | 0.357 |
| Schools' balances at 31 March 2014 | -17.792 |

The underspend on the non-delegated part of the DSG (£0.962m) contributes to certain Earmarked Reserves relating to schools. These reserves amounted to £3.455m at 31 March 2013 and have therefore increased to £4.417m at the end of 2013/2014.

9 ANALYSIS OF GENERAL FUND EXPENDITURE AND INCOME

Figure 1 and Figure 2 below summarise the Authority's **gross** revenue expenditure within the General Fund for 2013/2014. Figure 3 highlights the main sources of General Fund Financing for 2013/2014.

Figure 1 - Gross Expenditure on Services (including Levies) for 2013/2014 (by Expenditure Type)

| <u>Expenditure Type</u> | <u>£m</u> | <u>%</u> |
|-------------------------|----------------|------------|
| Employees | 221.427 | 33 |
| Running Expenses | 413.243 | 61 |
| Capital Charges | 42.496 | 6 |
| | <u>677.166</u> | <u>100</u> |

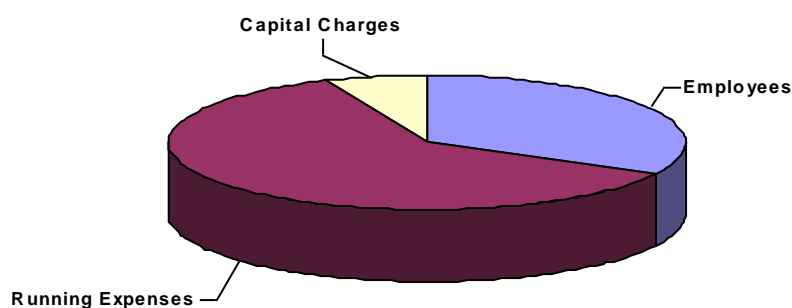


Figure 2 - Gross General Fund Expenditure on Services (including Levies) for 2013/2014

| <u>Service</u> | <u>£m</u> | <u>%</u> |
|---|----------------|------------|
| Adult Social Care | 112.888 | 17 |
| Corporate and Democratic Core (CDC) / Non-Distributed Costs | 12.483 | 2 |
| Central Services to the Public | 9.649 | 1 |
| Children's and Education Services - Non-School | 94.441 | 14 |
| - School | 173.921 | 26 |
| Cultural, Environmental, Regulatory and Planning Services | 72.073 | 11 |
| Highways and Transport Services | 21.291 | 3 |
| Housing Services | 124.691 | 18 |
| Public Health | 18.344 | 3 |
| Levies | 37.385 | 5 |
| | 677.166 | 100 |

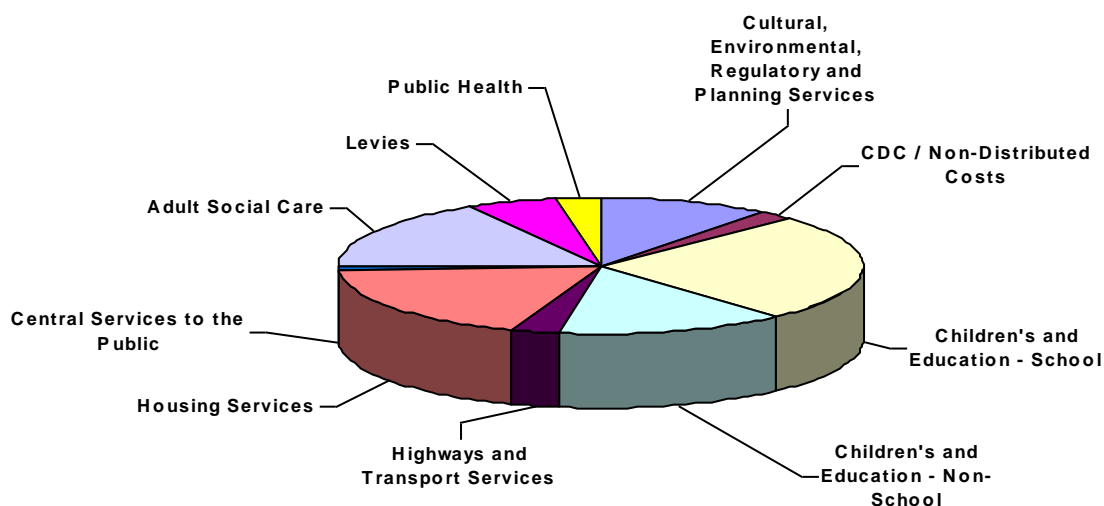
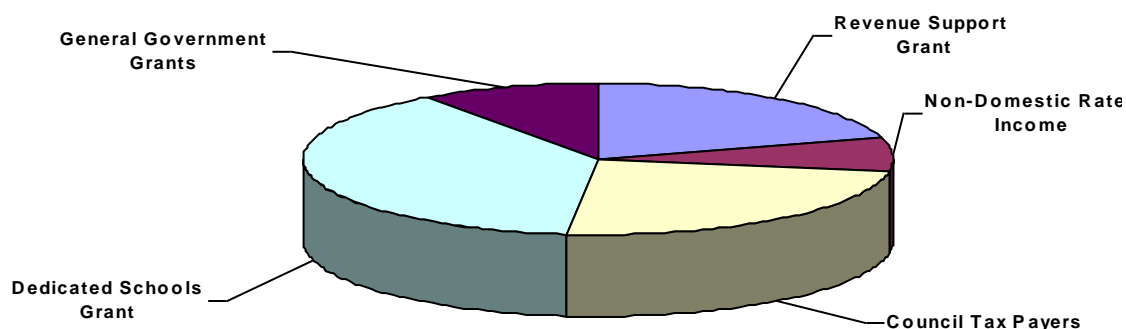


Figure 3 – Main Sources of General Fund Financing for 2013/2014

| <u>Source of Income</u> | <u>£m</u> | <u>%</u> |
|---------------------------|----------------|------------|
| Revenue Support Grant | 85.274 | 20 |
| General Government Grants | 40.502 | 10 |
| Non-Domestic Rates Income | 30,383 | 7 |
| Council Tax Payers | 99.991 | 24 |
| Dedicated Schools Grant | 160.686 | 39 |
| | 416.836 | 100 |



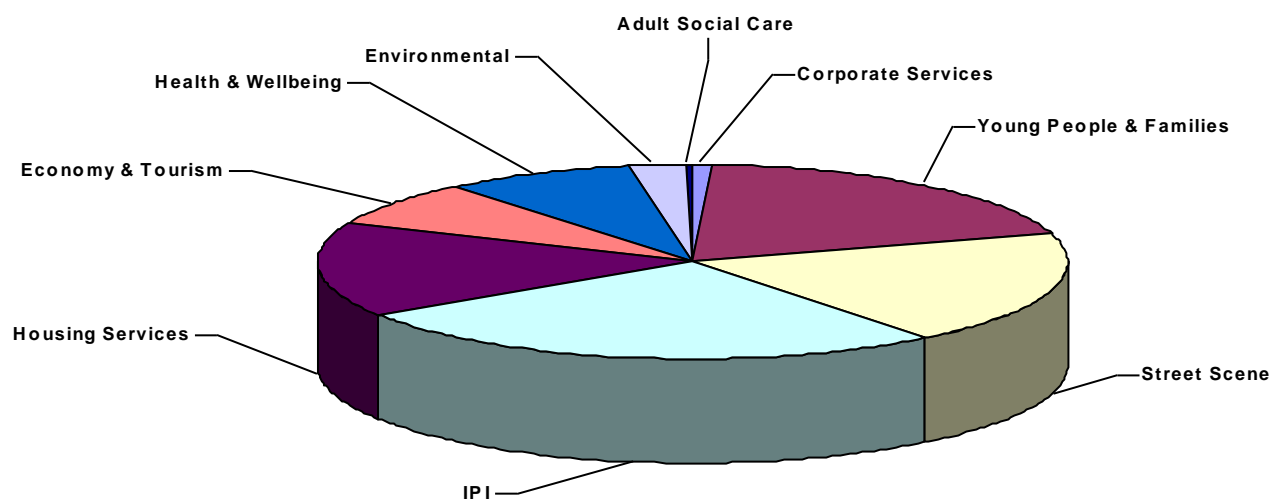
10 CAPITAL EXPENDITURE

In 2013/2014 the Authority spent £29.5m on capital projects. Examples of some of the major areas of spend include expenditure on Kings Gardens Improvements, Southport (£3.5m), Housing Market Renewal (£2.9m), the Thornton to Switch Island Link Road (£1.9m), Housing Renovation Grants (£1.7m) and Birkdale Primary School additional accommodation (£1.3m).

The analysis of capital spending (by departmental categories) and its financing is summarised in Figure 4 and Figure 5: -

Figure 4 - Sefton's Capital Expenditure for 2013/2014

| <u>Service</u> | <u>£m</u> | <u>%</u> |
|--|---------------|------------|
| Corporate Services | 0.266 | 1 |
| Economy & Tourism | 2.273 | 7 |
| Environmental | 0.753 | 3 |
| Health & Wellbeing | 2.361 | 8 |
| Housing Services | 4.650 | 16 |
| Investment Programmes & Infrastructure (IPI) | 7.789 | 26 |
| Older People | 0.065 | 0 |
| Street Scene | 5.647 | 19 |
| Young People & Families | 5.759 | 20 |
| | <u>29.563</u> | <u>100</u> |



Resources to fund capital expenditure come from a number of sources:

Capital grants and contributions – grants from Central Government and other grant funding bodies such as Sport England and the Environment Agency, European grants, Lottery funding and contributions from private developers.

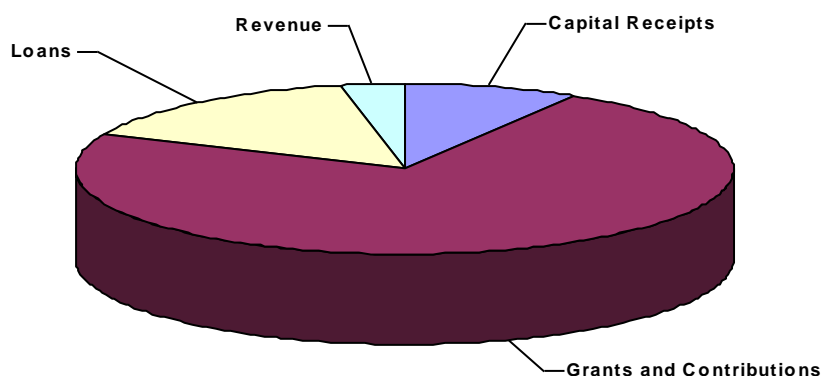
Capital receipts – proceeds from the sale of capital assets (e.g. land, buildings and equipment).

Revenue – financing capital expenditure from the Council's revenue resources.

Prudential borrowing – this is external borrowing undertaken by the Council that has to be repaid. The Council will only borrow where plans are sustainable, affordable, prudent and offer value for money.

Figure 5 - Financing of Sefton's 2013/2014 Capital Expenditure

| <u>Source of Finance</u> | <u>£m</u> | <u>%</u> |
|--------------------------|---------------|------------|
| Capital Receipts | 2,528 | 9 |
| Grants and Contributions | 21,626 | 73 |
| Revenue | 934 | 3 |
| Prudential Borrowing | 4,475 | 15 |
| | <u>29,563</u> | <u>100</u> |



The Council's latest Capital Investment Plan includes schemes totalling £25.0m agreed in 2014/2015 and £44.4m agreed in previous years. These schemes are expected to be completed over the next three years. The total expenditure of £69.4m will be funded by £46.5m of grants and contributions, £14.7m of Prudential Borrowing, £6.7m of Capital Receipts and £1.5m of Revenue Contributions.

11 **BORROWING / INVESTMENTS**

The Council's arrangements for long-term borrowing and investments correspond to the Council's Treasury Management Policy and Strategy documents. These were drawn up to comply with the Chartered Institute of Public Finance and Accountancy's Code of Practice for Treasury Management in Local Authorities.

Under Section 3(1) of the Local Government Act 2003, the Council must approve an overall borrowing limit before the beginning of each financial year. For 2013/2014 this limit was set at £200.5m; the Council stayed within this figure during the year.

As at 31 March 2014, the Council had outstanding borrowing of £123.966m (£124.112m as at 31 March 2013). This includes local authority bonds, stocks, mortgages and loans from the Public Works Loans Board (PWLB). As at 31 March 2014, borrowing of £2.644m, plus accrued interest of £0.795m, was due to be repaid within 12 months, of which £2.644m represents the principal element of annuity loans that will mature in the year.

During 2013/2014, no new long term borrowing from the PWLB was required to fund capital expenditure. Principal of £0.140m was repaid during the year.

Interest on long term borrowing from the PWLB totalled £5.307m during the year.

In line with its Treasury Management Policy and Strategy the Council makes daily investment decisions. As at 31 March 2014, the Council had short-term investments of £20.084m (£20.056m as at 31 March 2013). In addition, the Council had short-term deposits with banks and building societies of £36.775m (£20.348m as at 31 March 2013).

12 **PENSION LIABILITY**

As at 31 March 2014 there was a net deficit on the Local Government Pension Scheme Fund attributable to Sefton of £272.993m (£333.920m as at 31 March 2013). This will be reviewed periodically (normally every three years) by the Fund's actuary and steps will be taken to address the deficit via increased contributions over the remaining working life of employees.

The latest valuation was completed during 2013/2014. This set the contribution rates for 2014/2015 to 2016/2017 and the deficit payments required over the three years as part of a 22 year deficit recovery period.

In April 2014 the Council made a one-off payment to the Merseyside Pension Fund of £28.645m relating to its pension deficit liability for 2014/2015, 2015/2016 and 2016/2017. The Council received a significant discount for making the one-off payment rather than paying contributions over the three years. To fund the payment, the Council will be required to temporarily utilise £19.477m of Earmarked Reserves in 2014/2015. Earmarked Reserves will be increased by £9.543m in 2015/2016 and a further £9.934m in 2016/2017 when no pension deficit contributions will need to be made by the Council. The Earmarked Reserves temporarily utilised will therefore be refunded by 2016/2017.

As at 31 March 2014 there was a net deficit relating to unfunded Teachers' Pensions attributable to Sefton of £12.118m (£13.729m as at 31 March 2013). The Council has budgeted to make these payments until there is no longer a liability.

13 PROVISIONS, CONTINGENCIES, WRITE-OFFS AND MATERIAL CHARGES OR CREDITS

The 2013/2014 accounts include a new provision for the cost of NNDR appeals. This provision is required as a result of the introduction of business rates retention from 1 April 2013 (see section 15 below). The accounts also recognise a new contingent liability as a result of appeals that have not yet been lodged with the Valuation Office Agency.

The only material write-offs in 2013/2014 relate to revaluation losses on the Authority's assets. These total £30.3m (£25.5m in 2012/2013).

During 2013/2014, three of Sefton's schools transferred to trust status. Other Land and Buildings have transferred from the Council to the trusts with a total value of £49.5m.

14 GENERAL BALANCES AND RESERVES

Sections 7 and 8 show the General Balances of the Council split between Delegated Schools' and Non-Delegated Services. The Council's 2014/2015 Revenue Budget assumes the use of £2.840m of Non-Delegated Services' General Balances which would therefore reduce to £7.226m. This level of Balances is considered necessary given the level of savings being implemented by the Council and the risks inherent in this.

The Council has £19.032m of capital resources available as at 31 March 2014 (£15.713m as at 31 March 2013). These are amounts already received that will be used to fund the Council's Capital Investment Plan in 2014/2015 (see section 1).

The Council also has £60.653m of Earmarked Reserves (£51.174m as at 31 March 2013). These are described in Note 39. This includes previously received revenue grants and contributions that have yet to be applied and reserves that relate to schools. Earmarked Reserves are held by the Council to fund anticipated future expenditure of a non-recurring nature. If these resources were not available then the expenditure would need to be funded from the Council's in-year Revenue Budget which would require additional savings to be made in order to make funding available.

The Council also has £113.099m of Unusable Reserves as at 31 March 2014 (£110.215m as at 31 March 2013). These are accounts required under accounting regulations and are not available to support Council expenditure.

15 MATERIAL EVENTS AFTER THE REPORTING DATE

There have been no material events after the reporting date up to the date the accounts have been authorised for issue.

16 LOCAL GOVERNMENT REFORM IN 2013/2014

Business Rates Retention

A significant change in the way in which local authorities are funded was introduced in 2013/2014. Up until 31 March 2013 all business rates collected locally by local authorities were paid over to the Government. These receipts were then used to help fund grant allocations to local authorities. There was no financial consequence to the Council of any change in business rates income.

With effect from 1 April 2013, the Council retains 49% of any business rates it collects locally. The Government reduced the Council's grant allocations in 2013/2014 to reflect this change. This shifts a significant level of risk onto local authorities who now share a proportion of any reduction in business rates income as well as a share of the cost of any successful appeals against the values on the rating list. The forecast financial impact of this change was taken into account when setting the 2013/2014 budget. The Council has also needed to make a provision for the potential cost of appeals at 31 March 2014 when preparing its 2013/2014 financial statements. The value of the provision required to meet the level of appeals outstanding at 31 March 2014 has been disclosed in the notes to the financial statements (see Note 35).

Public Health Transfer

From 1 April 2013, new public health responsibilities were transferred from primary care trusts to local authorities. The Council was provided with a ring-fenced public health grant of £19.408m in 2013/2014 to discharge its new responsibilities. The impact of this change has been taken into account in the financial statements (see Note 7).

17 ECONOMIC POSITION / FINANCIAL OUTLOOK

The Authority is continuing to experience the impact of the Government's austerity drive. The requirement to identify budget reductions in 2013/2014 resulted in approximately **£25.8m** of budget savings being introduced. The Council set its budget seeking to achieve the savings required while protecting the key services that were the most important to Sefton residents. In addition, Sefton Council froze its Council Tax for the second year running to help residents. The vast majority of these savings have been achieved, with alternative resources being identified to enable the Council to spend within its resources during 2013/2014; the year end Accounts showing an underspend of £3.490m. A significant element of this underspend is due to the early implementation of savings agreed to achieve a balanced budget in 2014/2015.

Further savings of **£25.0m** have been identified for 2014/2015. Officers are currently engaged in implementing the agreed proposals; the monitoring regime used in 2013/2014 to ensure that this target is achieved will continue for 2014/2015.

The Provisional Local Government Finance Settlement was published by the Government on 18 December 2013. This provided illustrative figures for 2015/2016. Officers have also been assessing other information published by the Government to try to establish the potential impact on Sefton after 2015/2016. Based on this assessment, Sefton will be required to make savings of approximately **£55.0m** in 2015/2016 and 2016/2017. Reports will be presented to Cabinet over the coming months in order to identify and implement savings the Council will be required to agree a two-year budget plan for 2015/2016 and 2016/2017.

The Council's Transformation Programme is continuing. All services are currently being assessed to identify further savings options to address the future budget gaps referred to above, whilst trying to protect the most vulnerable members of the community. Given the size of the savings that are expected to be required, it is inevitable that this process will result in further reductions in the size of the Council's workforce.

18 THE COUNCIL'S VISION

The Council has recently agreed a vision statement for Sefton:

**Together we are Sefton – a great place to be!
We will work as one Sefton for the benefit of local people, businesses and visitors**

The Council has also agreed the following high level priorities:

Economy – the Council wants as many people as possible to have the right employment skills and to have a job. The Council will use some of its resources and assets to facilitate growth by creating the environment for businesses to flourish and working with business to support growth.

The Most Vulnerable – people who have complex care needs and are unable to support themselves will need the Council's care services. However, the Council can also help people to help themselves and work in partnership with others such as the NHS to ensure more joined up care.

Health & Wellbeing – enjoying good physical and mental wellbeing should be everyone's personal priority. There are huge health inequalities in Sefton. The Council's service delivery will have to focus on the most vulnerable but working with the NHS and the voluntary sector the Council can better co-ordinate services and most importantly facilitate people doing things for themselves and their families.

Resilient Communities – helping to build confident and resilient communities will mean less reliance on public sector support and much more effective social networks. This is a very challenging outcome to achieve. Supporting individuals and communities to manage and overcome adverse conditions such as debt, loneliness and unemployment is not a short-term fix but it will deliver more sustainable outcomes.

Environment – the natural environment is one of Sefton's greatest assets. The Council will need to maintain the safety of the natural and built environment and work with others to protect the essential elements.

Reshaping the Council – ensuring the Council is in a position to achieve these priorities.

These are the key areas the Council will need to concentrate on to improve outcomes for our communities. It does not automatically mean that the Council will fund lots of activity in all these areas. It is more likely, as its resources reduce, that the Council's influence and community leadership will have the greatest impact in most of these areas.

19 **CONCLUSION**

During the 2013/2014 financial year, the Council has continued to experience significant additional spending pressures, but has been able to contain such costs within budget. The overall outturn position is an underspend which has been used to increase General Balances.

Decisions taken for the 2014/2015 budget are expected to reduce General Fund balances to £7.314m. However, the further financial challenges from the Government's austerity drive and the current economic climate will mean that budgets will need to be closely monitored during 2014/2015 to ensure the Council maintains its financial standing position. In addition, realistic and achievable savings will need to be identified and agreed for 2015/2016 and 2016/2017 to ensure a robust balanced budget is approved by Council.

Once again, the Accounts have been closed within the statutory deadline of 30 June. My thanks go to all staff that have invested considerable efforts to achieve this deadline.

The Statement of Accounts is a complex document and is prepared within the guidelines set by the Chartered Institute of Public Finance and Accountancy. However, I would be interested to receive any suggestions as to how the Accounts, or the Executive Summary, could be improved. Please contact me at the address on page 141.

Margaret Rawding
Head of Corporate Finance and ICT

2 STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

The Authority's Responsibilities

The Authority 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 Authority that officer is the Head of Corporate Finance and ICT.
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- Approve the Statement of Accounts.

The Head of Corporate Finance and ICT Responsibilities

The Head of Corporate Finance and ICT is responsible for the preparation of the Authority's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

In preparing this Statement of Accounts, the Head of Corporate Finance and ICT has:

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

The Head of Corporate Finance and ICT has also:

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

Head of Corporate Finance and ICT Statement

I certify that this Statement of Accounts gives a true and fair view of the financial position of Sefton Metropolitan Borough Council at 31 March 2014, and its income and expenditure for the financial year ended 31 March 2014.

Margaret Rawding

Margaret Rawding
Head of Corporate Finance and ICT
Date: 10 September 2014

Statement by the Chair of the Audit and Governance Committee

I confirm on behalf of the Council that these accounts were approved by the Audit and Governance Committee at its meeting held on 10 September 2014.

Diane Roberts

Councillor Diane Roberts

Chair, Audit and Governance Committee

Date: 10 September 2014

3 MOVEMENT IN RESERVES STATEMENT

This statement shows the movement in the year on the different reserves held by the Authority, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and unusable reserves. The Surplus or (Deficit) on the Provision of Services line shows the true economic cost of providing the Authority'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 / 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.

| <u>Movements in Reserves in 2013/2014</u> | General Fund Balance | Earmarked Reserves Account | Capital Receipts Reserve | Capital Grants Unapplied | Total Usable Reserves | Unusable Reserves (Notes 42 to 48) | Total Authority Reserves |
|---|----------------------|----------------------------|--------------------------|--------------------------|-----------------------|------------------------------------|--------------------------|
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| Balance at 1 April 2013 | -24,725 | -51,174 | -5,371 | -10,342 | -91,612 | -110,215 | -201,827 |
| <u>Movements in Year</u> | | | | | | | |
| Deficit on the provision of services | 57,569 | 0 | 0 | 0 | 57,569 | 0 | 57,569 |
| Other Comprehensive Income and Expenditure | 0 | 0 | 0 | 0 | 0 | -75,133 | -75,133 |
| Total Comprehensive Income and Expenditure | 57,569 | 0 | 0 | 0 | 57,569 | -75,133 | -17,564 |
| Adjustments between accounting basis and funding basis under regulations (Note 5) | -70,181 | 0 | -1,860 | -1,459 | -73,500 | 73,500 | 0 |
| Net Increase before Transfers to Earmarked Reserves | -12,612 | 0 | -1,860 | -1,459 | -15,931 | -1,633 | -17,564 |
| Transfers to / from Earmarked Reserves (Note 39) | 9,479 | -9,479 | 0 | 0 | 0 | 0 | 0 |
| Increase in Year | -3,133 | -9,479 | -1,860 | -1,459 | -15,931 | -1,633 | -17,564 |
| Balance at 31 March 2014 | -27,858 | -60,653 | -7,231 | -11,801 | -107,543 | -111,848 | -219,391 |

| <u>Movements in Reserves in 2012/2013</u> | General Fund Balance | Earmarked Reserves Account | Capital Receipts Reserve | Capital Grants Unapplied | Total Usable Reserves | Unusable Reserves (Notes 42 to 48) | Total Authority Reserves |
|---|----------------------|----------------------------|--------------------------|--------------------------|-----------------------|------------------------------------|--------------------------|
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| Balance at 1 April 2012 | -22,260 | -52,649 | -6,332 | -10,296 | -91,537 | -197,367 | -288,904 |
| <u>Movements in Year</u> | | | | | | | |
| Deficit on the provision of services | 28,082 | 0 | 0 | 0 | 28,082 | 0 | 28,082 |
| Other Comprehensive Income and Expenditure | 0 | 0 | 0 | 0 | 0 | 58,995 | 58,995 |
| Total Comprehensive Income and Expenditure | 28,082 | 0 | 0 | 0 | 28,082 | 58,995 | 87,077 |
| Adjustments between accounting basis and funding basis under regulations (Note 5) | -29,072 | 0 | 961 | -46 | -28,157 | 28,157 | 0 |
| Net Increase before Transfers to Earmarked Reserves | -990 | 0 | 961 | -46 | -75 | 87,152 | 87,077 |
| Transfers to / from Earmarked Reserves (Note 39) | -1,475 | 1,475 | 0 | 0 | 0 | 0 | 0 |
| Increase (-) / Decrease in Year | -2,465 | 1,475 | 961 | -46 | -75 | 87,152 | 87,077 |
| Balance at 31 March 2013 | -24,725 | -51,174 | -5,371 | -10,342 | -91,612 | -110,215 | -201,827 |

4 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.

| 2012/2013 | | | Note | 2013/2014 | | |
|-------------------|-----------------|-----------------|--|-------------------|-----------------|-----------------|
| Gross Expenditure | Gross Income | Net Expenditure | | Gross Expenditure | Gross Income | Net Expenditure |
| £000s | £000s | £000s | | £000s | £000s | £000s |
| | | | <u>Continuing Operations</u> | | | |
| 112,171 | -25,188 | 86,983 | Adult Social Care | 112,888 | -26,424 | 86,464 |
| 35,196 | -34,043 | 1,153 | Central Services to the Public | 9,649 | -6,134 | 3,515 |
| 264,819 | -196,267 | 68,552 | Children's and Education Services | 268,362 | -202,529 | 65,833 |
| 9,322 | -291 | 9,031 | Corporate and Democratic Core | 8,665 | -397 | 8,268 |
| 27,080 | -9,784 | 17,296 | Cultural and Related Services | 35,023 | -10,152 | 24,871 |
| 22,224 | -7,293 | 14,931 | Environmental and Regulatory Services | 22,740 | -8,690 | 14,050 |
| 20,311 | -5,279 | 15,032 | Highways and Transport Services | 21,291 | -8,679 | 12,612 |
| 117,988 | -109,017 | 8,971 | Housing Services | 124,691 | -117,629 | 7,062 |
| 5,517 | 0 | 5,517 | 6 Non-Distributed Costs | 3,818 | 0 | 3,818 |
| 17,072 | -7,957 | 9,115 | Planning Services | 14,310 | -7,611 | 6,699 |
| 631,700 | -395,119 | 236,581 | Total Continuing Operations | 621,437 | -388,245 | 233,192 |
| | | | <u>Acquired Services</u> | | | |
| 0 | 0 | 0 | Public Health | 18,344 | -20,523 | -2,179 |
| 631,700 | -395,119 | 236,581 | Net Cost of Services | 639,781 | -408,768 | 231,013 |
| | | | <u>Other Operating Income and Expenditure</u> | | | |
| | | 948 | Precepts paid to Parish Councils | | | 854 |
| | | 38,582 | Levies | | | 37,385 |
| | | 14 | Contribution to Housing Pooled Capital Receipts | | | 10 |
| | | 10,171 | Loss on the disposal of non-current assets | | | 49,326 |
| | | 0 | Loss on Disposal of Assets Held for Sale | | | 63 |
| | | -1,034 | 9 Other Operating Income | | | -3,568 |
| | | 48,681 | | | | 84,070 |
| | | | <u>Financing and Investment Income & Expenditure</u> | | | |
| | | 7,374 | 10 Interest payable and similar charges | | | 7,112 |
| | | 13,400 | 56 Net Interest on the Net Pension Defined Benefit Liability | | | 14,058 |
| | | -652 | Interest Receivable | | | -576 |
| | | -1,149 | 11 Trading Operations | | | -1,214 |
| | | -1,835 | 24 Income and Expenditure on Investment Properties | | | -1,559 |
| | | -1,380 | 24 Changes in the Fair Value of Investment Properties | | | 488 |
| | | -25 | Gain on the disposal of Investment Properties | | | -50 |
| | | 15,733 | | | | 18,259 |
| | | | <u>Taxation and Non-specific Grant Income</u> | | | |
| | | -117,921 | Income from Council Tax | | | -99,991 |
| | | -115,794 | Contribution from National Non-Domestic Rate Pool | | | 0 |
| | | 0 | Non-Domestic Rates Income | | | -30,383 |
| | | -27,822 | 21 Non-Ringfenced Government Grants | | | -125,776 |
| | | -11,376 | 21 Capital Grants and Contributions | | | -19,623 |
| | | -272,913 | | | | -275,773 |
| | | 28,082 | Deficit on Provision of Services | | | 57,569 |
| | | 3,162 | 42 Deficit on Revaluation of non-current assets | | | 313 |
| | | 55,833 | 46 Re-measurement of the Net Defined Benefit Liability | | | -75,446 |
| | | 58,995 | Other Comprehensive Income and Expenditure | | | -75,133 |
| | | 87,077 | Total Comprehensive Income and Expenditure | | | -17,564 |

5 BALANCE SHEET

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Authority. The net assets of the Authority (assets less liabilities) are matched by the reserves held by the Authority. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those reserves that the authority 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 Authority is not able to use to provide services. This category of reserves includes 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'.

| 31 March 2013 £000s | | Note | 31 March 2014 £000s |
|---------------------------|--|------|---------------------------|
| 618,860 | Property, Plant and Equipment | 22 | 551,274 |
| 11,057 | Heritage Assets | 23 | 11,057 |
| 39,506 | Investment Property | 24 | 38,362 |
| 1,460 | Intangible Assets | 25 | 1,230 |
| 1 | Long Term Investments | 27 | 1 |
| 7,898 | Long Term Receivables | 28 | 7,301 |
| 678,782 | Long-Term Assets | | 609,225 |
| 20,056 | Short Term Investments | 29 | 20,084 |
| 7,704 | Assets Held for Sale | 30 | 7,759 |
| 292 | Inventories | 31 | 623 |
| 33,943 | Short Term Receivables | 32 | 35,371 |
| 2,248 | Prepayments | | 2,021 |
| 19,930 | Cash and Cash Equivalents | 33 | 30,444 |
| 84,173 | Current Assets | | 96,302 |
| -941 | Short Term Borrowing | 59 | -3,439 |
| -35,261 | Short Term Payables | 34 | -32,540 |
| -19,475 | Receipts in Advance | | -13,520 |
| -284 | Provisions | 35 | -234 |
| -2,831 | Deferred Liabilities | 36 | -2,285 |
| -58,792 | Current Liabilities | | -52,018 |
| -8,259 | Provisions | 35 | -8,242 |
| -123,171 | Long Term Borrowing | 59 | -120,527 |
| -22,796 | Deferred Liabilities | 36 | -20,229 |
| -347,649 | Pensions Liability | 56 | -285,111 |
| -461 | Grants and Contributions Receipts in Advance (Capital) | 21 | -9 |
| -502,336 | Long Term Liabilities | | -434,118 |
| 201,827 | Net Assets | | 219,391 |

| 31 March 2013 £000s | Balance Sheet (Continued) | Note | 31 March 2014 £000s |
|---------------------------|--|------|---------------------------|
| | <u>Reserves</u> | | |
| | <u>Usable Reserves</u> | | |
| 18,149 | General Fund - Delegated Schools | 38 | 17,792 |
| 6,576 | General Fund - Non Delegated Services | 38 | 10,066 |
| 51,174 | Earmarked Reserves | 39 | 60,653 |
| 5,371 | Capital Receipts Reserve | 40 | 7,231 |
| 10,342 | Capital Grants and Contributions Unapplied | 41 | 11,801 |
| 91,612 | | | 107,543 |
| | <u>Unusable Reserves</u> | | |
| 76,741 | Revaluation Reserve | 42 | 72,228 |
| 386,495 | Capital Adjustment Account | 43 | 329,140 |
| -783 | Financial Instruments Adjustment Account | 44 | -724 |
| 557 | Deferred Capital Receipts Reserve | 45 | 422 |
| -347,649 | Pensions Reserve | 46 | -285,111 |
| -866 | Collection Fund Adjustment Account | 47 | 470 |
| -4,280 | Accumulated Absences Account | 48 | -4,577 |
| 110,215 | | | 111,848 |
| 201,827 | Total Reserves | | 219,391 |

The Notes on pages 21 to 98 form part of the financial statements.

6 CASH FLOW STATEMENT

The Cash Flow Statement shows the changes in cash and cash equivalents of the Authority during the reporting year. The statement shows how the Authority 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 Authority are funded by way of taxation and grant income or from the recipients of services provided by the Authority. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Authority's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Authority.

| <u>2012/2013</u> £000s | | Note | <u>2013/2014</u> £000s |
|---------------------------|---|------|---------------------------|
| | <u>Operating Activities</u> | | |
| 28,082 | Net deficit on the provision of services | | 57,569 |
| -48,672 | Adjustments to net surplus or deficit on the provision of services for non-cash movements | | -40,750 |
| 2,570 | Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities | | -26,565 |
| -18,020 | Net cash flows from Operating Activities | 51 | -9,746 |
| | <u>Investing Activities</u> | | |
| 27,274 | Purchase of property, plant and equipment, investment property and intangible assets | | 27,205 |
| 5,030 | Purchase of short-term and long-term investments | | 0 |
| 700 | Other payments for investing activities | | 0 |
| -1,507 | Proceeds from the sale of property, plant and equipment, investment property and intangible assets | | -4,384 |
| 0 | Proceeds from short-term and long-term investments | | -30 |
| -11,500 | Other receipts from investing activities | | -18,040 |
| 19,997 | Net cash flows from Investing Activities | | 4,751 |
| | <u>Financing Activities</u> | | |
| 0 | Cash receipts of short- and long-term borrowing | | 0 |
| -103 | Other receipts from financing activities | | -8,772 |
| 1,996 | Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts | | 2,229 |
| 7,749 | Repayments of short- and long-term borrowing | | 1,024 |
| 4,845 | Other payments for financing activities | | 0 |
| 14,487 | Net cash flows from Financing Activities | | -5,519 |
| 16,464 | Net decrease / increase (-) in cash and cash equivalents | | -10,514 |
| -36,394 | Cash and cash equivalents at the beginning of the reporting period | | -19,930 |
| -19,930 | Cash and cash equivalents at the end of the reporting period | 33 | -30,444 |

7 NOTES TO THE FINANCIAL STATEMENTS

1 PRIOR YEAR ADJUSTMENTS

Prior period adjustments have been made to the Council's 2012/2013 published financial statements in relation to the following:

Participation in Pension Schemes - Changes to Accounting Standard IAS19

There have been several significant changes in relation to the International Accounting Standard (IAS) 19 on Employee Benefits. This has resulted in changes to accounting treatment for financial years starting on or after 1 January 2013. The main changes are as follows:

Expected Return on Assets

This is in relation to the return on Pension Scheme assets such as those held by the Merseyside Pension Scheme. Advance credit for anticipated outperformance of return seeking assets (for example, equities) is no longer permitted under IAS 19. This has been replaced by an equivalent figure calculated using a discount rate (as opposed to using a figure calculated using expected return on asset assumptions). There has also been a slight change in the amounts charged to the Cost of Services. The impact of these adjustments does not change the total amount charged to the Comprehensive Income and Expenditure Statement, just its components.

Asset Disclosures

IAS 19 requires a much more detailed breakdown of Pension Fund assets. The values of the assets, analysed into different classes that distinguish between their nature and risk, now need to be disclosed, further analysed between those that have a quoted market price and those that don't. The disclosures included in the Council's 2012/2013 financial statements only showed the main categories of assets.

Disclosure Presentation

In order to comply with the requirements of IAS 19 the disclosures in relation to the Council's pension schemes have changed from those published in 2012/2013. It is intended that the new presentation of information will make it easier for the user to understand (see Note 56).

This change in accounting policy has resulted in the following changes to the 2012/2013 comparative figures in the 2013/2014 Statement of Accounts:

Movement on Reserves Statement

| <u>Movements in Reserves in 2012/2013</u> | General Fund Balance | Other Usable Reserves | Total Usable Reserves | Unusable Reserves (Notes 42 to 48) | Total Authority Reserves |
|---|----------------------|-----------------------|-----------------------|------------------------------------|--------------------------|
| | £000 | £000 | £000 | £000 | £000 |
| Balance at 1 April 2012 | -22,260 | -69,277 | -91,537 | -197,367 | -288,904 |
| <u>Movements in Year</u> | | | | | |
| Deficit on the provision of services | 23,430 | 0 | 23,430 | 0 | 23,430 |
| Other Comprehensive Income and Expenditure | 0 | 0 | 0 | 63,647 | 63,647 |
| Total Comprehensive Income and Expenditure | 23,430 | 0 | 23,430 | 63,647 | 87,077 |
| Adjustments between accounting basis and funding basis under regulations | -24,420 | 915 | -23,505 | 23,505 | 0 |
| Net Increase (-) / decrease before Transfers to Earmarked Reserves | -990 | 915 | -75 | 87,152 | 87,077 |
| Transfers to / from Earmarked Reserves | -1,475 | 1,475 | 0 | 0 | 0 |
| Increase (-) / Decrease in Year | -2,465 | 2,390 | -75 | 87,152 | 87,077 |
| Balance at 31 March 2013 | -24,725 | -66,887 | -91,612 | -110,215 | -201,827 |

| Adjustments to Movements in Reserves in 2012/2013 | General Fund Balance £000 | Other Usable Reserves £000 | Total Usable Reserves £000 | Unusable Reserves £000 | Total Authority Reserves £000 |
|--|------------------------------|-------------------------------|-------------------------------|---------------------------|----------------------------------|
| Movements in Year | | | | | |
| Deficit on the provision of services | 4,652 | 0 | 4,652 | 0 | 4,652 |
| Other Comprehensive Income and Expenditure | 0 | 0 | 0 | -4,652 | -4,652 |
| Total Comprehensive Income and Expenditure | 4,652 | 0 | 4,652 | -4,652 | 0 |
| Adjustments between accounting basis and funding basis under regulations | -4,652 | 0 | -4,652 | 4,652 | 0 |

| Restated Movements in Reserves in 2012/2013 | General Fund Balance £000 | Other Usable Reserves £000 | Total Usable Reserves £000 | Unusable Reserves £000 | Total Authority Reserves £000 |
|---|------------------------------|-------------------------------|-------------------------------|---------------------------|----------------------------------|
| Balance at 1 April 2012 | -22,260 | -69,277 | -91,537 | -197,367 | -288,904 |
| Movements in Year | | | | | |
| Deficit on the provision of services | 28,082 | 0 | 28,082 | 0 | 28,082 |
| Other Comprehensive Income and Expenditure | 0 | 0 | 0 | 58,995 | 58,995 |
| Total Comprehensive Income and Expenditure | 28,082 | 0 | 28,082 | 58,995 | 87,077 |
| Adjustments between accounting basis and funding basis under regulations | -29,072 | 915 | -28,157 | 28,157 | 0 |
| Net Increase (-) / decrease before Transfers to Earmarked Reserves | -990 | 915 | -75 | 87,152 | 87,077 |
| Transfers to / from Earmarked Reserves | -1,475 | 1,475 | 0 | 0 | 0 |
| Increase (-) / Decrease in Year | -2,465 | 2,390 | -75 | 87,152 | 87,077 |
| Balance at 31 March 2013 | -24,725 | -66,887 | -91,612 | -110,215 | -201,827 |

Comprehensive Income and Expenditure Statement

| 2012/2013 | Net Expenditure £000s | Adjustments Made £000s | Restated Net Expenditure £000s |
|---|--------------------------|---------------------------|-----------------------------------|
| Cost of Services | | | |
| Adult Social Care | 86,920 | 63 | 86,983 |
| Central Services to the Public | 1,070 | 83 | 1,153 |
| Children's and Education Services | 68,166 | 386 | 68,552 |
| Corporate and Democratic Core | 9,009 | 22 | 9,031 |
| Cultural and Related Services | 17,252 | 44 | 17,296 |
| Environmental and Regulatory Services | 14,872 | 59 | 14,931 |
| Highways and Transport Services | 15,014 | 18 | 15,032 |
| Housing Services | 8,961 | 10 | 8,971 |
| Non Distributed Costs | 5,517 | 0 | 5,517 |
| Planning Services | 9,083 | 32 | 9,115 |
| Total Cost of Services | 235,864 | 717 | 236,581 |
| Other Operating Income and Expenditure | 48,681 | 0 | 48,681 |
| Financing and Investment Income & Expenditure | | | |
| Pensions interest cost and expected return on pensions assets | 9,478 | -9,478 | 0 |
| Net Interest on the Net Pension Defined Benefit Liability | 0 | 13,400 | 13,400 |
| Trading Operations | -1,162 | 13 | -1,149 |
| Other | 3,482 | 0 | 3,482 |
| | 11,798 | 3,935 | 15,733 |

| Comprehensive Income and Expenditure Statement (Continued) 2012/2013 | Net Expenditure | Adjustments Made | Restated Net Expenditure |
|---|-----------------|------------------|--------------------------|
| Taxation and Non-specific Grant Income | -272,913 | 0 | -272,913 |
| Deficit on Provision of Services | 23,430 | 4,652 | 28,082 |
| Deficit on Revaluation of non-current assets | 3,162 | 0 | 3,162 |
| Actuarial Losses on Pension Assets and Liabilities | 60,485 | -4,652 | 55,833 |
| Other Comprehensive Income and Expenditure | 63,647 | -4,652 | 58,995 |
| Total Comprehensive Income and Expenditure | 87,077 | 0 | 87,077 |

Cash Flow Statement

| 2012/2013 | Reported in 2012/2013 | Adjustments Made | Restated 2012/2013 |
|---|-----------------------|------------------|--------------------|
| | £000s | £000s | £000s |
| <u>Operating Activities</u> | | | |
| Net deficit on the provision of services | 23,430 | 4,652 | 28,082 |
| Adjustments to net surplus or deficit on the provision of services for non-cash movements | -44,020 | -4,652 | -48,672 |
| Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities | 2,570 | 0 | 2,570 |
| Net cash flow from Operating Activities | -18,020 | 0 | -18,020 |

Notes to the Financial Statements

Comparators for 2012/13 have also changed in the following notes:

Amounts Reported for Resource Allocations (Note 8)

The amount 'not reported to management' shown in the reconciliation of departmental income and expenditure to the cost of services table has changed by £0.717m from -£9.824m to -£9.107m.

The employee expenses reported in the Reconciliation to Subjective analysis table have been amended as follows:

- The amounts shown in the 'amounts not reported to management for decision making' column has changed by £0.717m from -£3.050m to -£2.333m.
- The amount shown in the 'corporate amounts' column has changed by £3.935m from £12.254m to £16.189m.

Trading Operations (Note 11)

| Trading services included under Financing and Investment Income and Expenditure 2012/2013 | Expenditure | | |
|--|-----------------------|------------------|--------------------|
| | Reported in 2012/2013 | Adjustments Made | Restated 2012/2013 |
| <u>Activity</u> | £000s | £000s | £000s |
| Building Cleaning | 1,978 | 8 | 1,986 |
| Civic Trading Account | 14 | 0 | 14 |
| Vehicle Maintenance | 3,945 | 3 | 3,948 |
| Other Catering | 714 | 2 | 716 |
| Total | 6,651 | 13 | 6,664 |

2 ACCOUNTING STANDARDS THAT HAVE BEEN ISSUED BUT HAVE NOT YET BEEN ADOPTED

The Code of Practice on Local Council Accounting in the United Kingdom 2014/2015 (the Code) has introduced several changes in accounting policies which will be required from 1 April 2014. If these had been adopted for the financial year 2013/14 there would be no material changes as detailed below.

A number of new and revised standards have been issued addressing the accounting for consolidation, involvements in joint arrangements and disclosure of involvements in other entities. These include:

- **IFRS 10 Consolidated Financial Statements** – This standard introduces a new definition of control, which is used to determine which entities are consolidated for the purposes of group accounts. The Council has one subsidiary (Sefton New Directions) for which consolidated accounts are produced. The Council considers there are no other entities that it has sufficient control over to include in its Group Accounts. There would therefore be no impact on the 2013/2014 Statement of Accounts.
- **IFRS 11 Joint Arrangements** – This standard addresses the accounting for a 'joint arrangement', which is defined as a contractual arrangement over which two or more parties have joint control. These are classified as either a joint venture or a joint operation. In addition proportionate consolidation can no longer be used for jointly controlled entities. The Council has no material joint venture arrangements.
- **IFRS 12 Disclosures of Involvement with Other Entities** – This is a consolidated disclosure standard requiring a range of disclosures about an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated 'structured entities'. The Council considers it has one arrangement with another entity under IFRS 12 (Sefton New Directions) for which further disclosure may be required.
- **IAS 27 Separate Financial Statements and IAS 28 Investments in Associates and Joint Ventures** – These statements have been amended to conform with the changes in IFRS 10, IFRS 11 and IFRS 12. Given that there would be no changes in the financial statements, except for disclosure, due to the changes to IFRS 10, IFRS 11 and IFRS 12, there is therefore also no impact as a result of changes in IAS 27 and IAS 28.
- **IAS 32 Financial Instruments Presentation** – The Code references to amended application guidance when offsetting a financial asset and a financial liability. The gains and losses are separately identified on the Comprehensive Income and Expenditure Statement and therefore no further disclosure is required.

The Council is also aware there may be possible changes required as a result of amendments introduced by *Annual Improvements to IFRS 2009-2011 Cycle*. However, CIPFA / LASAAC considers it possible but unlikely that these amendments are such that a change in accounting policy will be required.

3 **CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES**

In applying the accounting policies set out in Note 61, the Authority 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:

- There is a high degree of uncertainty about future levels of funding for local government. However, the Authority has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Authority might be impaired as a result of a need to close facilities and reduce levels of service provision.
- The Council has a material interest in Sefton New Directions Limited, an entity which conducts some of the Council's adult and social care activities. It has been deemed that Sefton New Directions Limited is a subsidiary of the Council and group accounts are required to be prepared.
- The Authority is deemed to control the services provided under the outsourcing agreement for financial transaction services with Arvato. Assets to the value of £2m were transferred to Arvato for a value of £1 at the start of the contract. At the end of the contract the assets revert back to the Council for nil cost. These assets will be in full working order as a refresher clause is within the contract. This contract has been treated as a service concession.
- The Council have agreed to share any proceeds of former council house sales if they are subsequently sold by One Vision Housing Limited. The agreement lasts until 31 March 2037 and the amount received will depend on the number of sales each year. These are treated as capital receipts in the year.
- Sefton has joint working arrangements with NHS Sefton for the provision of intensive care packages for service users with a learning disability and the provision of an Integrated Community Equipment Service. Whilst no formal agreement is in place, £3.378m in total has been expended on both services, split 50/50. The Council does not consolidate both elements in to its financial statements but only accounts for its own expenditure (see Note 13).
- The Council has given a number of warranties for up to 17 years (One Vision Housing Limited) and 35 years (Prudential Trustee Company Limited) in respect of statements, title, encumbrances, planning matters, statutory obligations, adverse orders, tenancies, information and statistics supplied, sales off, disputes and litigation, rights of entry to maintain and repair, absence of adverse replies, electricity sub-stations and shop leases, leasehold property, way leaves, telecommunications and works undertaken. In addition warranties for 20 years have been given to both parties in respect of claims for asbestos and a warranty not exceeding £100,500,000 for up to 20 years in respect of environmental pollution has been given to One Vision Housing Limited. The Council has set aside a prudent level of resources in case it is required to pay out under these warranties.
- As part of the voluntary stock transfer an agreement was reached with One Vision Housing Limited to share their VAT that they can claim from HM Revenue and Customs. This arrangement is unique to councils and registered social landlords upon transfer. Sefton's share of reclaimable VAT is likely to be in the region of £0.4m until the end of the agreement on 30 October 2016. The Council accounts for the income only as it becomes due in the year.
- Investment properties have been estimated using the identifiable criteria under IFRS of being held for rental income or for capital appreciation. These properties have been assessed using these criteria, which is subject to interpretation.
- The Council has examined its leases, and classified them as either operational or finance leases. In some cases the lease transaction is not always conclusive and the Council uses judgement in determining whether the lease is a finance lease arrangement that transfers substantially all the risks and rewards incidental to ownership. In reassessing the lease the Council has estimated the implied interest rate within the lease to calculate interest and principal payments.
- The Council does not recognise Voluntary Aided, Academies or Free schools on its Balance Sheet. All other types of school are recognised on the Council's Balance Sheet.

4 **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 Authority 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.

The items in the Authority's Balance Sheet at 31 March 2014 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows (note that the percentages quoted are for illustrative purposes only and are not an indication of the likely change):

| Item | Uncertainties | Effect if Actual Results Differ from Assumptions |
|---------------------------------------|---|---|
| Property, Plant and Equipment | <p>Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Authority will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets.</p> <p>The total value of PP&E as at 31 March 2014 is £551.455m.</p> | <p>If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls.</p> <p>It is estimated that the annual depreciation charge for assets would increase by £0.804m for every year that useful lives had to be reduced.</p> |
| Provision for Equal Pay Claims | <p>The Authority has made a provision of £0.234m for the settlement of claims for back pay arising from the Equal Pay initiative, based on the number of claims received and an average settlement amount. It is not certain that all valid claims have yet been received by the Authority or that precedents set by other authorities in the settlement of claims will be applicable.</p> | <p>An increase over the forthcoming year of 10% in either the total number of claims or the estimated average settlement would each have the effect of adding £0.023m to the provision needed.</p> |
| Provision for NNDR Appeals | <p>Since the introduction of the Business Rates Retention Scheme effective from 1 April 2013, local authorities are liable for their proportionate share of successful appeals against Business Rates charged to businesses in 2012/2013 and earlier years. Therefore a provision has been recognised for the best estimate of the amount that would be repaid to businesses relating to Business Rates charged to 31 March 2014 (total provision is £2.651m, Sefton's share is £1.299m).</p> <p>This estimate has been calculated using the Valuation Office (VAO) ratings list of appeals outstanding and an analysis of previous successful appeals. However, the actual success of outstanding appeals may be materially different from the experience of previous appeals.</p> | <p>The appeals provision calculation assumes a 9.42% reduction in the Rateable Value on appeals outstanding against the 2005 list and 6.04% against the 2010 list.</p> <p>An increase in successful appeals of 1% against both lists would require an increase of £0.728m in the total provision (Sefton's share would be £0.357m).</p> |
| Pensions Liability | <p>Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Authority with expert advice about the assumptions to be applied.</p> <p>As at 31 March 2014 the value of assets was £566.072m and liabilities was £851.183m. The net liability is therefore £285.111m.</p> | <p>The effects on the net pensions liability of changes in individual assumptions can be measured.</p> <p>The impact of changes in individual assumptions are shown in Note 56, as required by the Code of Practice.</p> |

| | | |
|----------------|---|--|
| Arrears | <p>At 31 March 2014, Sefton had a net balance of sundry debtor accounts issued by the Authority but not yet paid of £13.114m. A review of significant balances suggested that an impairment of doubtful debts of approximately 24% (£3.192m) was appropriate for these accounts.</p> <p>At 31 March 2014, Sefton had a balance of Council Tax arrears (including Court Costs) of £12.021m. A review of significant balances suggested that an impairment of doubtful debts of approximately 39% (£4.711m) was appropriate for these accounts.</p> <p>At 31 March 2014, Sefton had a balance of NNDR arrears (including Court Costs) of £2.930m (Sefton's share only). A review of significant balances suggested that an impairment of doubtful debts of approximately 28% (£0.806m) was appropriate for these accounts.</p> <p>At 31 March 2014, Sefton had a balance of Housing Benefit arrears of £4.966m. A review of significant balances suggested that an impairment of doubtful debts of approximately 38% (£1.894m) was appropriate for these accounts.</p> <p>However, in the current economic climate it is possible that such allowances would not be sufficient.</p> | <p>If collection rates were to deteriorate, a doubling of the amount of the impairment of doubtful debts would require an additional £10.603m to be set aside as an allowance.</p> |
|----------------|---|--|

5 **ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS**

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

Descriptions of the reserves that the adjustments are made against can be found in the relevant notes for each reserve.

| <u>Adjustments in 2013/2014</u> | General Fund Balance £000 | Capital Receipts Reserve £000 | Capital Grants Unapplied £000 | Unusable Reserves £000 |
|--|------------------------------|----------------------------------|----------------------------------|---------------------------|
| Adjustments primarily involving the Capital Adjustment Account: | | | | |
| <u>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:</u> | | | | |
| Charges for depreciation of non-current assets | -17,095 | | | 17,095 |
| Revaluation losses on non-current assets | -25,004 | | | 25,004 |
| Movements in the market value of Investment Properties | -488 | | | 488 |
| Amortisation of intangible assets | -294 | | | 294 |
| Capital grants and contributions applied | 10,758 | | | -10,758 |
| Revenue expenditure funded from capital under statute - Gross | -4,656 | | | 4,656 |
| Revenue expenditure funded from capital under statute – Related Capital Grants and Contributions | 3,461 | | | -3,461 |
| 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 | -50,618 | | | 50,618 |
| Amortisation of Deferred Income re. Crosby PFI Scheme | 108 | | | -108 |
| Reduction in Finance Lease Liability re. Leased in Property | 339 | | | -339 |

| Adjustments in 2013/2014 Continued | General Fund Balance £000 | Capital Receipts Reserve £000 | Capital Grants Unapplied £000 | Unusable Reserves £000 |
|---|------------------------------|----------------------------------|----------------------------------|---------------------------|
| <u>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:</u> | | | | |
| Statutory provision for the financing of capital investment | 11,066 | | | -11,066 |
| Capital expenditure charged against the General Fund | 934 | | | -934 |
| Adjustments primarily involving the Capital Grants Unapplied Account: | | | | |
| Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement | 8,865 | | -8,865 | |
| Application of grants to capital financing transferred to the Capital Adjustment Account | | | 7,406 | -7,406 |
| Adjustments primarily involving the Capital Receipts Reserve: | | | | |
| Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement | 940 | -940 | | |
| Transfers to Usable Capital Receipts not relating to the disposal of assets | 3,444 | -3,444 | | |
| Use of the Capital Receipts Reserve to finance new capital expenditure | | 2,528 | | -2,528 |
| Contribution from the Capital Receipts Reserve to finance payments to the Government capital receipts pool | -10 | 10 | | |
| Transfer from Deferred Capital Receipts Reserve upon receipt of cash | | -14 | | 14 |
| Adjustments primarily involving the Deferred Capital Receipts Reserve: | | | | |
| Reduction of Capital Receipts Deferred re. Leased Out Buildings | -121 | | | 121 |
| Adjustment primarily 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 the year in accordance with statutory requirements | 59 | | | -59 |
| Adjustments primarily involving the Pensions Reserve: | | | | |
| Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement | -35,730 | | | 35,730 |
| Employer's pensions contributions and direct payments to pensioners payable in the year | 22,822 | | | -22,822 |
| Adjustments primarily 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 | 1,336 | | | -1,336 |
| Adjustment primarily involving the Accumulated Absences Account: | | | | |
| 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 | -297 | | | 297 |
| Total Adjustments | -70,181 | -1,860 | -1,459 | 73,500 |

The table below provides comparative figures for 2012/2013:

| Adjustments in 2012/2013 | General Fund Balance £000 | Capital Receipts Reserve £000 | Capital Grants Unapplied £000 | Unusable Reserves £000 |
|--|------------------------------|----------------------------------|----------------------------------|---------------------------|
| Adjustments primarily involving the Capital Adjustment Account: | | | | |
| <u>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:</u> | | | | |
| Charges for depreciation of non-current assets | -18,160 | | | 18,160 |
| Revaluation losses on non-current assets | -21,182 | | | 21,182 |
| Movements in the market value of Investment Properties | 1,380 | | | -1,380 |
| Amortisation of intangible assets | -245 | | | 245 |
| Capital grants and contributions applied | 4,509 | | | -4,509 |
| Revenue expenditure funded from capital under statute - Gross | -8,337 | | | 8,337 |
| Revenue expenditure funded from capital under statute – Related Capital Grants and Contributions | 7,486 | | | -7,486 |
| 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 | -11,284 | | | 11,284 |
| Amortisation of Deferred Income re. Crosby PFI Scheme | 107 | | | -107 |
| <u>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:</u> | | | | |
| Statutory provision for the financing of capital investment | 9,812 | | | -9,812 |
| Capital expenditure charged against the General Fund | 2,669 | | | -2,669 |
| Adjustments primarily involving the Capital Grants Unapplied Account: | | | | |
| Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement | 6,874 | | -6,874 | |
| Application of grants to capital financing transferred to the Capital Adjustment Account | | | 6,828 | -6,828 |
| Adjustments primarily involving the Capital Receipts Reserve: | | | | |
| Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement | 1,138 | -1,138 | | |
| Transfers to Usable Capital Receipts not relating to the disposal of assets | 369 | -369 | | |
| Use of the Capital Receipts Reserve to finance new capital expenditure | | 2,472 | | -2,472 |
| Contribution from the Capital Receipts Reserve to finance payments to the Government capital receipts pool | -14 | 14 | | |
| Transfer from Deferred Capital Receipts Reserve upon receipt of cash | | -18 | | 18 |
| Adjustments primarily involving the Deferred Capital Receipts Reserve: | | | | |
| Reduction of Capital Receipts Deferred re. Leased Out Buildings | -114 | | | 114 |

| Adjustments in 2012/2013 Continued | General Fund Balance £000 | Capital Receipts Reserve £000 | Capital Grants Unapplied £000 | Unusable Reserves £000 |
|--|------------------------------|----------------------------------|----------------------------------|---------------------------|
| Adjustment primarily 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 the year in accordance with statutory requirements | 60 | | | -60 |
| Adjustments primarily involving the Pensions Reserve: Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement | -30,794 | | | 30,794 |
| Employer's pensions contributions and direct payments to pensioners payable in the year | 26,353 | | | -26,353 |
| Adjustments primarily 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 | -552 | | | 552 |
| Adjustment primarily involving the Accumulated Absences Account: 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 | 853 | | | -853 |
| Total Adjustments | -29,072 | 961 | -46 | 28,157 |

6 **NON-DISTRIBUTED COSTS**

Non-distributed costs included in the Comprehensive Income and Expenditure Statement can be analysed between costs relating to retirement benefits and other non-distributed costs as shown below:

| <u>2012/2013</u> £000s | <u>Non-Distributed Costs</u> | <u>2013/2014</u> £000s |
|---------------------------|--|---------------------------|
| 1,049 | Retirement Benefits - Curtailment Cost | 852 |
| 3,451 | Impairment Charges on Surplus Assets | 2,299 |
| 1,017 | Other Non-Distributed Costs | 755 |
| 5,517 | Total | 3,906 |

7 **ACQUIRED OPERATIONS (PUBLIC HEALTH SERVICES)**

Responsibility for the provision of a range of public health services was transferred from the primary care trusts (PCT) to local authorities from 1 April 2013. These services included - alcohol and drug misuse services, public health services for children and young people, public mental health services, and sexual health services. The staff providing these services also transferred from the PCT to the local authority.

8 **AMOUNTS REPORTED FOR RESOURCE ALLOCATIONS 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 Reporting Code of Practice.

However, decisions about resource allocation are taken by the Authority's Cabinet (which has been designated the Council's Chief Operating Decision Maker) on the basis of budget reports analysed across services departments. These reports are prepared on a different basis from the accounting policies used in the financial statements. In particular:

- The cost of retirement benefits is based on cash flows (payment of employer's pensions contributions) rather than current service cost of benefits accrued in the year.
- Some prudential borrowing costs relating to vehicle and equipment purchases are recorded as departmental expenditure.
- Support service income and expenditure is reported gross by the recharging department in the Management Reports, they are reported net in the accounts so that the expenditure is only reported once against the department receiving the service.

The income and expenditure of the Authority's principal departments recorded in the budget reports for the year is as follows:

| Departmental Income and Expenditure in 2013/2014 | Older People £000 | Young People And Families £000 | Corporate Finance and ICT £000 | Other Services £000 | Total £000 |
|---|----------------------|--------------------------------------|---|---------------------------|-----------------|
| Fees, Charges and Other Service Income | -21,404 | -18,033 | -22,759 | -58,397 | -120,593 |
| Grants and Contributions | -3,078 | -179,149 | -115,781 | -9,470 | -307,478 |
| Total Income | -24,482 | -197,182 | -138,540 | -67,867 | -428,071 |
| Employee Expenses | 10,804 | 158,658 | 3,713 | 47,348 | 220,523 |
| Other Service Expenditure | 102,127 | 89,879 | 128,763 | 78,353 | 399,122 |
| Support Service Recharges | 2,523 | 2,127 | 9,155 | 15,383 | 29,188 |
| Depreciation and Impairment | 4,221 | 13,899 | 42 | 22,804 | 40,966 |
| Total Expenditure | 119,675 | 264,563 | 141,673 | 163,888 | 689,799 |
| Net Expenditure | 95,193 | 67,381 | 3,133 | 96,021 | 261,728 |

| Departmental Income and Expenditure in 2012/2013 | Older People £000 | Young People And Families £000 | Corporate Finance and ICT £000 | Other Services £000 | Total £000 |
|---|----------------------|--------------------------------------|---|---------------------------|-----------------|
| Fees, Charges and Other Service Income | -21,399 | -17,227 | -8,829 | -50,283 | -97,738 |
| Grants and Contributions | -3,941 | -174,715 | -135,476 | -13,077 | -327,209 |
| Total Income | -25,340 | -191,942 | -144,305 | -63,360 | -424,947 |
| Employee Expenses | 11,156 | 159,451 | 3,874 | 43,469 | 217,950 |
| Other Service Expenditure | 103,904 | 82,975 | 143,069 | 60,849 | 390,797 |
| Support Service Recharges | 3,155 | 2,143 | 1,529 | 12,527 | 19,354 |
| Depreciation and Impairment | 1,305 | 16,312 | 101 | 25,602 | 43,320 |
| Total Expenditure | 119,520 | 260,881 | 148,573 | 142,447 | 671,421 |
| Net Expenditure | 94,180 | 68,939 | 4,268 | 79,087 | 246,474 |

The majority of Income and Expenditure recorded under Corporate Finance and ICT relates to payments of Housing Benefit and the cost of administering this benefit on behalf of Central Government (2012/2013 also includes Council Tax Benefit which was replaced by the Council Tax Reduction Scheme in 2013/2014)

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

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

| 2012/2013 £000 | | 2013/2014 £000 |
|-------------------|--|-------------------|
| 246,474 | Net expenditure in the Departmental Analysis | 261,728 |
| -9,107 | Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the Analysis | -30,157 |
| -786 | Amounts included in the Analysis not included in the Comprehensive Income and Expenditure Statement | -558 |
| 236,581 | Cost of Services in Comprehensive Income and Expenditure Statement | 231,013 |

Reconciliation to Subjective Analysis

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

| <u>2013/2014</u> | Departmental Analysis £000 | Amounts not reported to management for decision making £000 | Amounts not included in I&E £000 | Allocation of Recharges £000 | Cost of Services £000 | Corporate Amounts £000 | Total £000 |
|---|-------------------------------|--|-------------------------------------|---------------------------------|--------------------------|---------------------------|-----------------|
| Fees, charges & other Service Income | -120,593 | -4,883 | 0 | 46,516 | -78,960 | -7,063 | -86,023 |
| Interest and investment income | 0 | 0 | 0 | 0 | 0 | -2,173 | -2,173 |
| Income from council tax | 0 | 0 | 0 | 0 | 0 | -99,991 | -99,991 |
| Income from non-domestic rates | 0 | 0 | 0 | 0 | 0 | -30,383 | -30,383 |
| Other Operating Income | 0 | 0 | 0 | 0 | 0 | -3,618 | -3,618 |
| Government grants and contributions | -307,478 | -22,330 | 0 | 0 | -329,808 | -145,399 | -475,207 |
| Total Income | -428,071 | -27,213 | 0 | 46,516 | -408,768 | -288,627 | -697,395 |
| Employee Expenses | 220,523 | 904 | 0 | 0 | 221,427 | 16,576 | 238,003 |
| Other service expenses | 399,122 | -5,378 | -558 | -17,328 | 375,858 | 3,369 | 379,227 |
| Support Service Recharges | 29,188 | 0 | 0 | -29,188 | 0 | 0 | 0 |
| Depreciation amortisation, impairment and changes in fair value | 40,966 | 1,530 | 0 | 0 | 42,496 | 488 | 42,984 |
| Interest Payments | 0 | 0 | 0 | 0 | 0 | 7,112 | 7,112 |
| Precepts and Levies | 0 | 0 | 0 | 0 | 0 | 38,239 | 38,239 |
| Payment to Housing Capital Receipts Pool | 0 | 0 | 0 | 0 | 0 | 10 | 10 |
| Loss on Disposal of non-current assets / Investment Properties | 0 | 0 | 0 | 0 | 0 | 49,389 | 49,389 |
| Total Expenditure | 689,799 | -2,944 | -558 | -46,516 | 639,781 | 115,183 | 754,964 |
| Surplus or deficit on the provision of services | 261,728 | -30,157 | -558 | 0 | 231,013 | -173,444 | 57,569 |

The table below shows comparative figures for 2012/2013:

| 2012/2013 | Departmental Analysis £000 | Amounts not reported to management for decision making £000 | Amounts not included in I&E £000 | Allocation of Recharges £000 | Cost of Services £000 | Corporate Amounts £000 | Total £000 |
|---|-------------------------------|--|--|---------------------------------|--------------------------|---------------------------|-----------------|
| Fees, charges & other Service Income | -97,738 | 1,418 | 0 | 28,410 | -67,910 | -7,813 | -75,723 |
| Interest and investment income | 0 | 0 | 0 | 0 | 0 | -2,528 | -2,528 |
| Income from council tax | 0 | 0 | 0 | 0 | 0 | -117,921 | -117,921 |
| Other Operating Income | 0 | 0 | 0 | 0 | 0 | -1,034 | -1,034 |
| Government grants and contributions | -327,209 | 0 | 0 | 0 | -327,209 | -154,992 | -482,201 |
| Total Income | -424,947 | 1,418 | 0 | 28,410 | -395,119 | -284,288 | -679,407 |
| Employee Expenses | 217,950 | -2,333 | 0 | 0 | 215,617 | 16,189 | 231,806 |
| Other service expenses | 390,797 | -4,046 | -786 | -9,056 | 376,909 | 3,503 | 380,412 |
| Support Service Recharges | 19,354 | 0 | 0 | -19,354 | 0 | 0 | 0 |
| Depreciation amortisation, impairment and changes in fair value | 43,320 | -4,146 | 0 | 0 | 39,174 | -967 | 38,207 |
| Interest Payments | 0 | 0 | 0 | 0 | 0 | 7,374 | 7,374 |
| Precepts and Levies | 0 | 0 | 0 | 0 | 0 | 39,530 | 39,530 |
| Payment to Housing Capital Receipts Pool | 0 | 0 | 0 | 0 | 0 | 14 | 14 |
| Loss on Disposal of non- current assets / Investment Properties | 0 | 0 | 0 | 0 | 0 | 10,146 | 10,146 |
| Total Expenditure | 671,421 | -10,525 | -786 | -28,410 | 631,700 | 75,789 | 707,489 |
| | | | | | | | |
| Surplus or deficit on the provision of services | 246,474 | -9,107 | -786 | 0 | 236,581 | -208,499 | 28,082 |

9 **OTHER OPERATING INCOME**

An analysis of amounts of Other Income not included in the Net Cost of Services but credited to the Comprehensive Income and Expenditure Statement is shown below:

| <u>2012/2013</u> £000s | <u>Other Income</u> | <u>2013/2014</u> £000s |
|---------------------------|---|---------------------------|
| -278 | Capital Receipts re. Former Council Dwellings | -928 |
| -91 | Other Capital Receipts not relating to the Disposal of Council Assets | -2,516 |
| -665 | Sefton's share of a VAT Shelter Agreement with One Vision Housing | -124 |
| -1,034 | | -3,568 |

10 INTEREST PAYABLE AND SIMILAR CHARGES

Charges to the Comprehensive Income and Expenditure Account during the year were as follows:

| <u>2012/2013</u> £000s | | <u>2013/2014</u> £000s |
|---------------------------|---------------------------------------|---------------------------|
| 6,273 | External Interest Charges | 5,886 |
| 525 | Finance Charge re. Leasing Agreements | 686 |
| 520 | Finance Charge re. PFI Schemes | 486 |
| 56 | Transferred Service debt charges | 54 |
| 7,374 | Total | 7,112 |

11 TRADING OPERATIONS

The Council operates a number of services as trading organisations. A number trade with the private sector / general public and are shown within "Total Cost of Services" in the Comprehensive Income and Expenditure Statement; these are shown in Table 1. The second table identifies services that are separately identified in the Comprehensive Income and Expenditure Statement under Financing and Investment Income and Expenditure.

Table 1: Trading services which are included within the Total Cost of Services

| <u>2012/2013</u> | | | <u>Activity</u> | <u>2013/2014</u> | | |
|------------------|--------------------|------------------------------|---|------------------|--------------------|------------------------------|
| <u>Income</u> | <u>Expenditure</u> | <u>Deficit / Surplus (-)</u> | | <u>Income</u> | <u>Expenditure</u> | <u>Deficit / Surplus (-)</u> |
| £000s | £000s | £000s | | £000s | £000s | £000s |
| -1,202 | 2,477 | 1,275 | Other Commercial Land and Buildings | -1,353 | 4,224 | 2,871 |
| -352 | 2,928 | 2,576 | Southport and Other Markets | -311 | 578 | 267 |
| -606 | 745 | 139 | Commercial Cleansing Services | -575 | 732 | 157 |
| -180 | 1,503 | 1,323 | Arts Operations / Development | -638 | 9,520 | 8,882 |
| -207 | 513 | 306 | Netherton Activity Centre | -378 | 596 | 218 |
| -6,075 | 11,915 | 5,840 | Sports Facilities | -6,085 | 10,401 | 4,316 |
| -4,810 | 4,826 | 16 | School Meals | -5,521 | 5,280 | -241 |
| -2,599 | 2,381 | -218 | Cemeteries and Crematoria Services | -3,162 | 1,711 | -1,451 |
| -519 | 2,109 | 1,590 | Tourism Related Facilities in Southport | -503 | 2,719 | 2,216 |
| -16,550 | 29,397 | 12,847 | Total Trading Deficit for Year | -18,526 | 35,761 | 17,235 |

Table 2: Trading services included under Financing and Investment Income and Expenditure

| <u>2012/2013</u> | | | <u>Activity</u> | <u>2013/2014</u> | | |
|------------------|--------------------|------------------------------|---------------------------------------|------------------|--------------------|------------------------------|
| <u>Income</u> | <u>Expenditure</u> | <u>Deficit / Surplus (-)</u> | | <u>Income</u> | <u>Expenditure</u> | <u>Deficit / Surplus (-)</u> |
| £000s | £000s | £000s | | £000s | £000s | £000s |
| -2,222 | 1,986 | -236 | Building Cleaning | -2,172 | 2,229 | 57 |
| -72 | 14 | -58 | Civic Trading Account | -19 | 9 | -10 |
| -4,678 | 3,948 | -730 | Vehicle Maintenance | -4,872 | 3,611 | -1,261 |
| -841 | 716 | -125 | Other Catering | 0 | 0 | 0 |
| -7,813 | 6,664 | -1,149 | Total Trading Surplus for Year | -7,063 | 5,849 | -1,214 |

Descriptions of the services and significant changes in the surplus or deficit on trading services can be explained as follows:

| <u>Trading Service</u> | <u>Reason for change</u> |
|--|--|
| <u>Other Commercial Land and Buildings:</u> The leasing and rental, at market rates, of commercial land and buildings owned by the Council. | There is a significant increase in impairment charges of £1.5m between 2012/2013 and 2013/2014 as a result of valuations undertaken in the two years. |
| <u>Southport Market:</u> The operation of Southport Indoor Market and any Farmers' Markets that occur in the Borough. | There were impairment charges of £2.5m in 2012/2013. There were no such charges in 2013/2014. |
| <u>Commercial Cleansing Services:</u> The operation of various cleansing services on a commercial basis including Trade Waste, Clinical Waste and Skip Hire. | No significant change. |
| <u>Arts Operations / Development:</u> Provision of all arts activities within the Borough including the operation of The Atkinson cultural centre. | The Atkinson opened in May 2013 after being closed for major development during 2012/2013 resulting in increased income and expenditure in 2013/2014. In addition, expenditure increased due to an additional £6.7m of capital charges, mainly relating to impairment. |
| <u>Netherton Activity Centre:</u> The operation of the Centre which includes leisure and library facilities as well as a youth club, beauticians, crèche and Jake's Sensory World. | Income has continued to increase following the centre's refurbishment during 2011/2012. |
| <u>Sports Facilities:</u> The provision of sports facilities within Sefton including the direct operation of Bootle Leisure Centre, Crosby Lakeside Adventure Centre, Dunes Splashworld, Litherland Sports Park and Meadows Leisure Centre. It also includes the third party operation of Crosby Leisure Centre and Formby Pool. | Gross expenditure has decreased due to a reduction in capital charges of £1.6m in 2013/2014 compared to 2012/2013. |
| <u>School Meals and Welfare Catering:</u> The provision of a catering service to certain schools within the Borough. | Other catering at schools previously shown as a separate traded service is now included with school meals. There has therefore been a corresponding increase in income and expenditure. |
| <u>Cemeteries and Crematoria Services:</u> The operation of two Crematoria in Southport and Thornton and Cemeteries in Birkdale, Bootle, Southport and Thornton. | Gross expenditure has decreased due to a reduction in impairment charges of £0.7m in 2013/2014 compared to 2012/2013. There has been an increase in income due to charges being increased in April 2013. |
| <u>Tourism Related Facilities:</u> The operation of Southport Pier and various other facilities at the seafront in Southport. | Gross expenditure has increased due to additional impairment charges of £0.7m in 2013/2014 compared to 2012/2013. |

| <u>Trading Service</u> | <u>Reason for change</u> |
|--|---|
| <u>Building Cleaning:</u> The provision of building cleaning services to schools and other Council owned buildings. | No significant change. |
| <u>Civic Trading Account:</u> Any income and expenditure relating to the letting of civic buildings in the Borough. | No significant change. |
| <u>Vehicle Maintenance:</u> The provision, management and maintenance of Council owned vehicles and small plant. | Additional vehicles were purchased in 2013/2014 using Prudential Borrowing rather than leasing the vehicles. The borrowing costs are not recorded against the service but shown under Interest Payable. Gross expenditure has reduced by £0.6m as a result of this. |
| <u>Other Catering:</u> The provision of the Community Meals service and of services to schools other than for school meals, e.g. for breakfast / after school clubs. | Other catering at schools was previously shown as a separate traded service but is now included with school meals. It is therefore shown within the Net Cost of Services. |

12 **SIGNIFICANT AGENCY INCOME AND EXPENDITURE**

The Authority carried out work to the value of £0.084m on behalf of the Highways Agency and received fees of £0.145m according to agreed charging in 2013/2014 (£0.058m value of work and £0.141m fees in 2012/2013). The surplus was transferred to revenue in the year.

13 **POOLED BUDGETS**

Under section 75 of the National Health Service Act 2006, local authority and NHS bodies are able to enter into joint working arrangements with the NHS. Pooled funds, with resources provided by local and health authorities, offer the opportunity for the provision of seamless health and social services. Partners remain accountable for their services that are part of the pooled budget. A key feature of the pool is that the use of resources will be dictated by the needs of clients, rather than respective contributions.

Sefton Council has a joint working arrangement with NHS Sefton for the provision of intensive care packages for service users with a learning disability. Contributions of £1.212m from NHS Sefton (£1.342m in 2012/2013) and £1.168m from Sefton Council (£1.332m in 2012/2013), £2.380m in total (£2.674m in 2012/2013), have been fully expended on purchasing of care packages to meet the health and social care needs of this client group. Sefton's contribution has been financed from within the Adult Social Care budget and is included in the Comprehensive Income and Expenditure Statement under this heading.

Sefton also has a joint working arrangement with NHS Sefton for the provision of an Integrated Community Equipment Service, providing an appropriate range of equipment to meet assessed needs and to support intermediate care, hospital discharge, rehabilitation and independent living in the community. Contributions of £0.480m from NHS Sefton (£0.478m in 2012/2013) and £0.518m from Sefton Council (£0.495m in 2012/2013), have been fully expended on the provision of this service. Sefton's contribution has been financed from within the Adult Social Care budget and is included in the Comprehensive Income and Expenditure Statement under this heading.

14 MEMBERS' ALLOWANCES

The Council has a Cabinet style management structure with a scheme for Members' Allowances. The Council is made up of 66 Members. There were 67 Members who were paid allowances (some for only part of the year) as shown below:

| <u>2012/2013</u> £000s | | <u>2013/2014</u> £000s |
|---------------------------|-----------------------------------|---------------------------|
| 562 | Basic Allowances | 567 |
| 202 | Special Responsibility Allowances | 188 |
| 2 | Expenses | 2 |
| 766 | Total | 757 |

No Members were paid a salary in either year.

15 LONG-TERM CONTRACTS

Livenation: The Authority operates a long-term contract agreement with Livenation to manage the Floral Hall and Southport Theatre complex. The current agreement expired on 31 March 2014 but was been extended to 31 March 2015, when a new agreement will be negotiated. Payments to the contractor are increased each year in line with the Retail Price Index. Contract payments of £0.336m were made in 2013/2014 (£0.325m in 2012/2013).

Sefton New Directions Limited: On 1 April 2007 the Council established Sefton New Directions Limited as a wholly owned subsidiary company for the provision of Social Care. The Council entered into a services agreement with Sefton New Directions Limited which will continue until March 2017. In consideration of the care services provided, the Council pays a charge. The charge in 2013/2014 was £8.366m (£8.580m in 2012/2013). The charges for the remainder of the term of the contract will be agreed by the parties on an annual basis with any adjustments or alterations to the charge, for changes to services, being in accordance with the provisions of the agreement.

Arvato: During 2008/2009 the Authority entered into a ten year contract agreement with Arvato Public Sector Services Limited to manage the following services: Information Technology, Transactional Human Resources and Payroll, Benefits, Revenues and Customer Contact. The contract commenced on 1 October 2008. Payments of £15.426m were made under this contract in 2013/2014 (£15.367m in 2012/2013). The contract is uplifted by pay and price inflation on 1 April each year.

Capita Symonds: During 2008/2009 the Authority entered into a ten year contract agreement with Capita Symonds Limited to manage the following services: Highways, Drainage, Property Management, Design, Architects and Building Maintenance. The contract commenced on 1 October 2008. In October 2011 the Council gave notice to end its contract for technical services with Capita Symonds Limited, and in October 2013 those services, along with the staff that provide them, returned to the Council under the Investment Programmes and Infrastructure Department.

Payments of £2.519m were made under this contract in 2013/2014 to 30 September 2013 (£4.995m in 2012/2013). The contract was uplifted by pay and price inflation on 1 April each year.

Waterfront Leisure: On 18 September 2001, the Council entered into an agreement under a Private Finance Initiative with Waterfront Leisure (Crosby) Limited for the provision and operation of a leisure centre in Crosby. Under the terms of the agreement Waterfront Leisure constructed the centre and will operate it for a period of 25 years in accordance with the Council's specification. Payments of £1.202m were made under this contract in 2013/2014 (£1.179m in 2012/2013) with government grants of £0.561m received in the year (£0.561m in 2012/2013). The contract is uplifted by price inflation on 1 April each year.

16 EMPLOYEES' EMOLUMENTS IN EXCESS OF £50,000

The Accounts and Audit (England) Regulations require the Authority to disclose the number of employees (including teaching staff) whose remuneration in the year was £50,000 or more in bands of £5,000. The definition of remuneration excludes employer pension contributions but includes:

- (i) all taxable amounts paid to, or receivable by, employees, including sums due by way of expenses allowances;
- (ii) the estimated money value of all other benefits received by employees, otherwise than in cash; and,
- (iii) redundancy payments paid to employees who have left the employment of the Authority during the year.

Readers should note that the tables below include Senior Officers' remuneration, which is also disclosed separately in Note 17.

| Teaching Staff (including Voluntary Aided Schools) | | | | |
|---|-----------------------------|--------------------------|-----------------------------|-----------------------------|
| 2012/2013 | | Remuneration Band | 2013/2014 | |
| Employed on 31/03/13 | Left during the year | | Employed on 31/03/14 | Left during the year |
| 57 | 0 | £50,000 - £54,999 | 60 | 2 |
| 40 | 1 | £55,000 - £59,999 | 32 | 1 |
| 33 | 0 | £60,000 - £64,999 | 33 | 0 |
| 15 | 0 | £65,000 - £69,999 | 17 | 0 |
| 5 | 0 | £70,000 - £74,999 | 5 | 0 |
| 1 | 0 | £75,000 - £79,999 | 5 | 0 |
| 3 | 0 | £80,000 - £84,999 | 4 | 0 |
| 4 | 0 | £85,000 - £89,999 | 1 | 0 |
| 2 | 0 | £90,000 - £94,999 | 2 | 0 |
| 0 | 0 | £95,000 - £99,999 | 1 | 0 |

| Non-Teaching Staff (including schools) | | | | |
|---|-----------------------------|--------------------------|-----------------------------|-----------------------------|
| 2012/2013 | | Remuneration Band | 2013/2014 | |
| Employed on 31/03/13 | Left during the year | | Employed on 31/03/14 | Left during the year |
| 20 | 3 | £50,000 - £54,999 | 22 | 3 |
| 11 | 0 | £55,000 - £59,999 | 6 | 1 |
| 8 | 3 | £60,000 - £64,999 | 6 | 0 |
| 4 | 1 | £65,000 - £69,999 | 6 | 0 |
| 6 | 0 | £70,000 - £74,999 | 6 | 0 |
| 4 | 0 | £75,000 - £79,999 | 3 | 2 |
| 4 | 1 | £80,000 - £84,999 | 4 | 0 |
| 2 | 0 | £85,000 - £89,999 | 3 | 1 |
| 0 | 0 | £90,000 - £94,999 | 0 | 0 |
| 1 | 0 | £95,000 - £99,999 | 2 | 0 |
| 0 | 0 | £100,000 - £104,999 | 0 | 0 |
| 0 | 0 | £105,000 - £109,999 | 0 | 0 |
| 0 | 0 | £110,000 - £114,999 | 0 | 0 |
| 1 | 0 | £115,000 - £119,999 | 2 | 0 |
| 0 | 0 | £120,000 - £124,999 | 0 | 0 |
| 0 | 0 | £125,000 - £129,999 | 0 | 0 |
| 1 | 0 | £130,000 - £134,999 | 0 | 0 |
| 0 | 1 | £135,000 - £139,999 | 1 | 0 |
| 0 | 0 | £140,000 - £144,999 | 0 | 0 |
| 0 | 0 | £145,000 - £149,999 | 0 | 0 |
| 0 | 1 | £150,000 - £154,999 | 0 | 0 |

17 SENIOR OFFICERS' REMUNERATION

The following tables provide details of the remuneration paid to senior officers as defined in the Accounts and Audit Regulations. The pension contribution shown in the tables is the employer's contribution to the local government pension scheme.

Senior Officers remuneration in 2013/2014:

| Post holder Information | Notes | Salary (Including fees and allowances) £ | Expense Allowances £ | Compensation for loss of office £ | Total Remuneration excluding pension contributions £ | Pension Contributions £ | Total Remuneration including pension contributions £ |
|---------------------------------------|-------|---|-------------------------|--------------------------------------|---|----------------------------|---|
| Chief Executive | | 135,059 | 0 | 0 | 135,059 | 29,627 | 164,686 |
| Deputy Chief Executive | | 119,341 | 0 | 0 | 119,341 | 26,179 | 145,520 |
| Director of Corporate Services | | 89,012 | 0 | 0 | 89,012 | 19,526 | 108,538 |
| Director of Young People and Families | | 97,921 | 0 | 0 | 97,921 | 21,481 | 119,402 |
| Director of Older People | (a) | 89,012 | 0 | 0 | 89,012 | 101,087 | 190,099 |
| Director of Built Environment | | 89,012 | 0 | 0 | 89,012 | 19,526 | 108,538 |
| Director of Street Scene | | 89,012 | 0 | 0 | 89,012 | 19,526 | 108,538 |
| Director of Public Health | (b) | 119,485 | 0 | 0 | 119,485 | 16,728 | 136,213 |
| Head of Corporate Finance and ICT | | 83,367 | 0 | 0 | 83,367 | 18,288 | 101,655 |

- a) The Director of Older People has taken Voluntary Early Retirement in April 2014.
b) The responsibility for Public Health transferred to local authorities in April 2013 (see note 7). The Director of Public Health also transferred to the Council and is a member of the Strategic Leadership Team.

Senior Officers remuneration in 2012/2013:

| Post holder Information | Notes | Salary (Including fees and allowances) £ | Expense Allowances £ | Compensation for loss of office £ | Total Remuneration excluding pension contributions £ | Pension Contributions £ | Total Remuneration including pension contributions £ |
|--|-------|---|-------------------------|--------------------------------------|---|----------------------------|---|
| Chief Executive | | 133,721 | 0 | 0 | 133,721 | 27,297 | 161,018 |
| Strategic Director (Place) | (c) | 98,093 | 0 | 53,495 | 151,588 | 114,061 | 265,649 |
| Strategic Director (People) | | 118,159 | 0 | 0 | 118,159 | 24,120 | 142,279 |
| Director of Corporate Commissioning | | 84,463 | 0 | 0 | 84,463 | 17,242 | 101,705 |
| Director of Young People and Families | | 96,949 | 0 | 0 | 96,949 | 19,791 | 116,740 |
| Director of Older People | | 88,135 | 0 | 0 | 88,135 | 17,991 | 106,126 |
| Director of Built Environment | | 86,718 | 0 | 0 | 86,718 | 16,850 | 103,568 |
| Director of Street Scene | | 76,996 | 0 | 0 | 76,996 | 15,708 | 92,704 |
| Director of Corporate Support Services | (c) | 88,135 | 0 | 48,064 | 136,199 | 98,791 | 234,990 |
| Head of Corporate Finance and ICT | | 82,543 | 0 | 0 | 82,543 | 16,849 | 99,392 |

- c) A revised Senior Management Structure was agreed with effect from April 2013. The Strategic Director (Place) and Director of Corporate Support Services have both taken Voluntary Early Retirement and their posts deleted.

18 EXIT PACKAGES / TERMINATION BENEFITS

The number of exit packages with total cost per band and the total cost of the compulsory and other redundancies are set out in the tables below:

Exit Packages in 2013/2014

| <u>Exit Package Cost Band (including special payments)</u> | <u>Number of Compulsory Redundancies</u> | <u>Number of Other Departures Agreed</u> | <u>Total Number of Exit Packages by Cost Band</u> | <u>Total Cost of Exit Packages in each Band</u> |
|--|--|--|---|---|
| £0 - £20,000 | 42 | 69 | 111 | £0.681m |
| £20,001 - £40,000 | 5 | 18 | 23 | £0.677m |
| £40,001 - £60,000 | 0 | 5 | 5 | £0.266m |
| £60,001 - £80,000 | 3 | 0 | 3 | £0.220m |
| £80,001 - £100,000 | 0 | 1 | 1 | £0.082m |
| £100,001 - £150,000 | 0 | 0 | 0 | £0.000m |
| £150,001 - £200,000 | 0 | 1 | 1 | £0.166m |
| Total | 50 | 94 | 144 | £2.092m |

Exit Packages in 2012/2013

| <u>Exit Package Cost Band (including special payments)</u> | <u>Number of Compulsory Redundancies</u> | <u>Number of Other Departures Agreed</u> | <u>Total Number of Exit Packages by Cost Band</u> | <u>Total Cost of Exit Packages in each Band</u> |
|--|--|--|---|---|
| £0 - £20,000 | 28 | 66 | 94 | £0.547m |
| £20,001 - £40,000 | 3 | 21 | 24 | £0.664m |
| £40,001 - £60,000 | 0 | 3 | 3 | £0.131m |
| £60,001 - £80,000 | 2 | 3 | 5 | £0.371m |
| £80,001 - £100,000 | 0 | 0 | 0 | £0.000m |
| £100,001 - £150,000 | 0 | 2 | 2 | £0.276m |
| Total | 33 | 95 | 128 | £1.989m |

19 EXTERNAL AUDIT COSTS

The following fees relating to external audit and inspection were charged to the Comprehensive Income and Expenditure Account.

| <u>2012/2013 £000</u> | | <u>2013/2014 £000</u> |
|---------------------------|---|---------------------------|
| 168 | Fees for external audit services carried out by the appointed auditor | 168 |
| 38 | Fees payable for the certification of grant returns | 24 |
| 2 | Fees payable in respect of any other services | 2 |
| -15 | Rebate from the Audit Commission | -23 |
| 193 | Total | 171 |

20 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). DSG is ring-fenced and can only be applied to meet expenditure properly included in the Schools' Budget, as defined in the School Finance [England] Regulations 2008. The Schools' Budget includes elements for a range of educational services provided on an authority-wide basis and for the Individual School Budget, which is divided into a budget share for each maintained school.

Details of the deployment of DSG receivable for 2013/2014 are as follows (in accordance with regulations made under the relevant sections of the School Standards Framework Act 1998):

| | <u>Central Expenditure</u> £000s | <u>Individual Schools Budget</u> £000s | <u>Total</u> £000s |
|---|---|---|-----------------------|
| Final DSG for 2013/2014 | | | -192,048 |
| Academy figure recouped for 2013/14 | | | 31,560 |
| Total DSG after Academy Recoupment | | | -160,488 |
| Brought forward from 2012/2013 (Note 1) | | | -3,455 |
| Carry forward to 2014/2015 agreed in advance | | | 3,455 |
| Agreed initial budgeted distribution in 2013/2014 | -1,465 | -159,023 | -160,488 |
| In year adjustments (Note 2) | -14 | -199 | -213 |
| Final budgeted distribution in 2013/2014 | -1,479 | -159,222 | -160,701 |
| Actual central expenditure | 1,352 | | 1,352 |
| Actual ISB deployed to schools | | 158,387 | 158,387 |
| Total Carry forward to 2014/2015 | -127 | -835 | -4,417 |

Notes:

- 1) The figure included in the DSG Note from the 2012/2013 Statement of Accounts was shown as £2.881m. This excluded three items totalling £0.574m classified as Earmarked Reserves that should have been included. These have been included in the above statement giving a total brought forward from 2012/2013 of £3.455m.
- 2) These items relate to recovered VAT on the purchase of Schools' licences (Central Expenditure) and additional funding relating to 3-4 year entitlement Early Years Funding following an update for the January 2014 census data (Individual Schools Budget).

21 GRANT INCOMEGrants and contributions credited to the Comprehensive Income and Expenditure Statement

The Authority credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement:

| <u>2012/2013</u> £000s | <u>Credited to Taxation and Non-specific Grant Income</u> | <u>2013/2014</u> £000s |
|---------------------------|---|---------------------------|
| | <u>Non-Ringfenced Government Grants</u> | |
| -2,245 | Revenue Support Grant | -85,274 |
| 0 | Top-Up Grant | -23,352 |
| -11,808 | Early Intervention Grant | 0 |
| -3,970 | NHS funding to Support Social Care and Benefit Health | -5,458 |
| 0 | Education Support Grant | -4,551 |
| -4,345 | Learning Disability and Health Reform Grant | 0 |
| -1,593 | New Homes Bonus | -2,390 |
| 0 | Small Business Rates Relief - s31 Grant | -1,296 |
| -2,949 | Council Tax Freeze Grant | -1,173 |
| -912 | Other Non-Ringfenced Government Grants | -2,282 |
| -27,822 | | -125,776 |

| <u>2012/2013</u> £000s | <u>Credited to Taxation and Non-specific Grant Income</u> | <u>2013/2014</u> £000s |
|---------------------------|---|---------------------------|
| | <u>Capital Grants and Contributions</u> | |
| -3,459 | Standards Fund Grant | -3,895 |
| -3,517 | Local Transport Plan Grant | -3,725 |
| 0 | Department for Transport – Thornton Switch Island Link | -3,013 |
| 0 | Heritage Lottery Fund – Kings Gardens | -2,505 |
| 0 | Regional Growth Fund | -948 |
| -808 | Department of Health – Capital Investment in Community Capacity Grant | -820 |
| 0 | Department of Health – Adult Social Care Transformation | -787 |
| -849 | Environment Agency - CERMS Grant | -692 |
| -2,743 | Other Capital Grants and Contributions | -3,341 |
| -11,376 | | -19,726 |

| <u>2012/2013</u> £000s | <u>Grants Credited to Services</u> | <u>2013/2014</u> £000s |
|---------------------------|---|---------------------------|
| | <u>Revenue Grants</u> | |
| -158,981 | Dedicated Schools Grant | -160,686 |
| -105,306 | Housing Benefit Subsidy | -112,134 |
| -27,219 | Council Tax Benefit Subsidy | 0 |
| 0 | Public Health Grant | -19,408 |
| -5,503 | Pupil Premium | -8,349 |
| -7,772 | Education Funding Agency | -7,189 |
| -2,559 | Housing Benefit and Council Tax Benefit Administration | -2,235 |
| 0 | Local Welfare Provision Grant | -1,167 |
| -292 | Discretionary Housing Payments | -947 |
| -685 | Troubled Families Programme | -861 |
| -962 | Skills Funding Agency | -840 |
| -561 | PFI Grant | -561 |
| -536 | Youth Justice Board | -519 |
| -456 | Arts Council | -463 |
| 0 | Crime and Disorder Reduction | -402 |
| -322 | NNDR Administration Grant | -322 |
| -65 | Waste Collection Support | -230 |
| 0 | Adoption Reform Grant (Ring-Fenced Element) | -210 |
| 0 | Council Tax Reduction Scheme Implementation | -190 |
| -1,317 | Other Revenue Grants | -1,190 |
| -312,536 | | -317,903 |
| | <u>Capital Grants</u> | |
| -7,486 | Capital Grants utilised to fund Revenue Expenditure Funded from Capital Under Statute | -3,461 |
| | <u>Contributions</u> | |
| 0 | Health Contributions | -6,005 |
| -3,931 | NHS Sefton and Mersey Care – Adult Social Care | 0 |
| -840 | NHS Sefton – Health & Wellbeing | 0 |
| -466 | Other Local Authorities | -700 |
| 0 | North-West Water Limited | -302 |
| 0 | Merseytravel | -229 |
| 0 | Police and Crime Commissioner | -189 |
| -92 | Southport Tourist Business Network | -76 |
| 0 | Merseyside Sports Partnership | -37 |
| 0 | Ministry of Justice | -36 |
| -200 | Trading Standards Northwest | 0 |
| -83 | Scottish Power – Carbon Reduction Schemes | 0 |
| -33 | Sports Council | 0 |
| -193 | Other Contributions | -870 |
| -5,838 | | -8,444 |

Capital Grants and Contributions Receipts in Advance

The Authority has received 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 should those conditions not be met. The balances at the year-end are as follows:

| <u>2012/2013</u> £000s | <u>Capital Grants and Contributions Receipts in Advance</u> | <u>2013/2014</u> £000s |
|---------------------------|---|---------------------------|
| -4 | Heritage Lottery Fund | 0 |
| -100 | NHS Sefton | 0 |
| -357 | Sefton PCT | -9 |
| -461 | | -9 |

22 PROPERTY PLANT AND EQUIPMENT**Movement on Balances**

Movements in 2013/2014:

| | <u>Other Land and Buildings</u> | <u>Vehicles Plant and Equipment</u> | <u>Infrastructure Assets</u> | <u>Community Assets</u> | <u>Surplus Assets</u> | <u>Assets Under Construction</u> | <u>Total</u> |
|---|---------------------------------|-------------------------------------|------------------------------|-------------------------|-----------------------|----------------------------------|--------------|
| | £000s | £000s | £000s | £000s | £000s | £000s | £000s |
| <u>Cost or Valuation</u> | | | | | | | |
| At 1 April 2013 | 450,518 | 25,946 | 157,931 | 15,263 | 12,966 | 21,564 | 684,188 |
| Additions | 7,716 | 2,782 | 6,296 | 3,588 | 1,949 | 1,903 | 24,234 |
| Revaluations - recognised in the Revaluation Reserve | -3,855 | 0 | 0 | 0 | -708 | 0 | -4,563 |
| Revaluations – Impairments recognised in the Surplus/Deficit on the Provision of Services | -27,254 | 0 | 0 | 0 | -2,211 | 0 | -29,465 |
| Derecognition - Disposals | -53,979 | 0 | 0 | 0 | 0 | 0 | -53,979 |
| Reclassifications | 18,246 | 0 | 0 | 0 | 0 | -18,246 | 0 |
| At 31 March 2014 | 391,392 | 28,728 | 164,227 | 18,851 | 11,996 | 5,221 | 620,415 |
| <u>Accumulated Depreciation and Impairment</u> | | | | | | | |
| At 1 April 2013 | -17,528 | -12,792 | -35,008 | 0 | 0 | 0 | -65,328 |
| Depreciation Charge | -10,218 | -2,928 | -3,949 | 0 | 0 | 0 | -17,095 |
| Revaluations - recognised in the Revaluation Reserve | 4,876 | 0 | 0 | 0 | 0 | 0 | 4,876 |
| Accumulated Depreciation written out upon impairment | 4,461 | 0 | 0 | 0 | 0 | 0 | 4,461 |
| Derecognition - Disposals | 3,945 | 0 | 0 | 0 | 0 | 0 | 3,945 |
| At 31 March 2014 | -14,464 | -15,720 | -38,957 | 0 | 0 | 0 | -69,141 |
| <u>Net Book Value</u> | | | | | | | |
| At 1 April 2013 | 432,990 | 13,154 | 122,923 | 15,263 | 12,966 | 21,564 | 618,860 |
| At 31 March 2014 | 376,928 | 13,008 | 125,270 | 18,851 | 11,996 | 5,221 | 551,274 |

The disposals shown under Other Land and Buildings mainly relates to three secondary schools that transferred to trust status during 2013/2014.

Movements in 2012/2013:

| | <u>Other Land and Buildings</u> | <u>Vehicles Plant and Equipment</u> | <u>Infrastructure Assets</u> | <u>Community Assets</u> | <u>Surplus Assets</u> | <u>Assets Under Construction</u> | <u>Total</u> |
|---|---------------------------------|-------------------------------------|------------------------------|-------------------------|-----------------------|----------------------------------|--------------|
| | £000s | £000s | £000s | £000s | £000s | £000s | £000s |
| <u>Cost or Valuation</u> | | | | | | | |
| At 1 April 2012 | 499,039 | 21,657 | 151,876 | 14,756 | 12,838 | 12,661 | 712,827 |
| Additions | 6,244 | 4,289 | 6,055 | 507 | 2,840 | 8,903 | 28,838 |
| Revaluations - recognised in the Revaluation Reserve | -4,558 | 0 | 0 | 0 | 739 | 0 | -3,819 |
| Revaluations – Impairments recognised in the Surplus/Deficit on the Provision of Services | -38,142 | 0 | 0 | 0 | -3,451 | 0 | -41,593 |
| Derecognition - Disposals | -11,431 | 0 | 0 | 0 | 0 | 0 | -11,431 |
| Reclassifications to Assets Held for Sale | -634 | 0 | 0 | 0 | 0 | 0 | -634 |
| At 31 March 2013 | 450,518 | 25,946 | 157,931 | 15,263 | 12,966 | 21,564 | 684,188 |
| <u>Accumulated Depreciation and Impairment</u> | | | | | | | |
| At 1 April 2012 | -27,803 | -10,193 | -31,211 | 0 | 0 | 0 | -69,207 |
| Depreciation Charge | -11,764 | -2,599 | -3,797 | 0 | 0 | 0 | -18,160 |
| Revaluations - recognised in the Revaluation Reserve | 657 | 0 | 0 | 0 | 0 | 0 | 657 |
| Accumulated Depreciation written out upon impairment | 20,415 | | 0 | 0 | 0 | 0 | 20,415 |
| Derecognition - Disposals | 847 | 0 | 0 | 0 | 0 | 0 | 847 |
| Reclassifications to Assets Held for Sale | 120 | 0 | 0 | 0 | 0 | 0 | 120 |
| At 31 March 2013 | -17,528 | -12,792 | -35,008 | 0 | 0 | 0 | -65,328 |
| <u>Net Book Value</u> | | | | | | | |
| At 1 April 2012 | 471,236 | 11,464 | 120,665 | 14,756 | 12,838 | 12,661 | 643,620 |
| At 31 March 2013 | 432,990 | 13,154 | 122,923 | 15,263 | 12,966 | 21,564 | 618,860 |

The disposals shown under Other Land and Buildings mainly relates to a secondary school that transferred to free school status during 2012/2013.

Depreciation

Depreciation is provided for on the straight-line basis over an asset's estimated useful life as detailed below:

| Asset Type | Basis | Estimated Life |
|---|-----------------|----------------|
| Other Land and Buildings | Straight-line | 10 to 75 Years |
| Vehicles, Plant and Equipment (excluding Computers) | Straight-line | 5 to 10 Years |
| Vehicles, Plant and Equipment (Computers) | Straight-line | 3 Years |
| Infrastructure Assets | Straight-line | 40 Years |
| Community Assets | Straight-line | 25 Years |
| Surplus Assets | Not Depreciated | - |
| Assets Under Construction | Not Depreciated | - |

The estimated useful life of different categories of Other Land and Buildings assets are detailed below:

| Asset Type | Estimated Life |
|--|----------------|
| Southport Cultural Centre (The Atkinson) | 75 Years |
| Schools and Educational Establishments | 50 Years |
| Civic Buildings | 50 Years |
| Social Care Establishments | 40 to 50 Years |
| Libraries | 40 Years |
| Leisure Facilities | 30 Years |
| Garages / Depots | 10 Years |

Capital Commitments

At 31 March 2014, the Authority has entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2014/2015 and future years which are budgeted to cost £32.962m. Similar commitments at 31 March 2013 were £35.253m. The major commitments are:

| Scheme | Expenditure approved and contracted at 31 March 2014 £000s |
|----------------------------------|---|
| Thornton Switch Island Link Road | 15,627 |
| REECH Project | 4,761 |
| HMRI Schemes | 3,999 |
| Kings Garden Redevelopment | 1,453 |
| Refuse and Recycling Service | 1,198 |

Revaluations

Valuations are carried out as part of a rolling programme over a five-year cycle.

All freehold and leasehold land and properties which comprise the Authority's property portfolio have been valued by Mr. A. Bond (MRICS). Mr Bond is part of the Council's own qualified in-house valuers. On 1 October 2008 the Council's own in-house valuers transferred to Capita Symonds but in October 2013 transferred back to the Council.

Valuations of land and buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors.

The Council's own in-house valuers have considered valuation uncertainty and market instability insofar as those properties valued this year are concerned and reflected any changes in the valuations supplied.

The table below shows the dates and amounts of valuations for each class of Property, Plant and equipment included in the balance sheet at current value:

| | <u>Other Land and Buildings</u> | <u>Vehicles, Plant and Equipment</u> | <u>Surplus Assets</u> | <u>Total</u> |
|------------------------------------|-------------------------------------|--|---------------------------|--------------|
| | £000 | £000 | £000 | £000 |
| Carried at Historical Cost | 0 | 28,728 | 0 | 28,728 |
| <u>Valued at Current Value in:</u> | | | | |
| 2013/2014 | 295,933 | 0 | 5,440 | 301,373 |
| 2012/2013 | 44,889 | 0 | 680 | 45,569 |
| 2011/2012 | 17,721 | 0 | 5,040 | 22,761 |
| 2010/2011 | 2,090 | 0 | 469 | 2,559 |
| 2009/2010 | 30,759 | 0 | 367 | 31,126 |
| | 391,392 | 28,728 | 11,996 | 432,116 |

23 HERITAGE ASSETS

A heritage asset is an asset that is held due to its historical, artistic, scientific, technological, or environmental qualities, and is maintained principally for its contribution to knowledge and culture.

Movements in Heritage Assets during the year were as follows:

| <u>2012/2013</u> | | | | <u>2013/2014</u> | | |
|---------------------------|--------------|---------------|---------------------------------------|---------------------------|--------------|---------------|
| <u>Art Collection</u> | <u>Other</u> | <u>Total</u> | | <u>Art Collection</u> | <u>Other</u> | <u>Total</u> |
| £000s | £000s | £000s | | £000s | £000s | £000s |
| 9,397 | 1,660 | 11,057 | Balance at the start of the year | 9,397 | 1,660 | 11,057 |
| 0 | 0 | 0 | Additions (Expenditure) | 0 | 0 | 0 |
| 0 | 0 | 0 | Disposals | 0 | 0 | 0 |
| 0 | 0 | 0 | Revaluations | 0 | 0 | 0 |
| 0 | 0 | 0 | Depreciation | 0 | 0 | 0 |
| 9,397 | 1,660 | 11,057 | Balance at the end of the year | 9,397 | 1,660 | 11,057 |

The Art Collection consists principally of a ceramic collection, a silver collection, works of art and an Egyptology collection and is described in more detail below. Other Heritage Assets consists of several war memorials and the art installation "Another Place".

The code requires that there should be a disclosure of five years of transactions on Heritage Assets. For 2009/2010, 2010/2011 and 2011/2012 there were no Acquisitions, Donations, Disposals or Impairments so the value of Heritage Assets as at 1 April 2009 was the same as shown in the table above.

CERAMICS

The Authority owns a large collection of ceramics and china. The collection consists of 186 pieces of Crown Derby "Imari", and 757 pieces of Tuscan Ware, and is mainly held at Bootle Town Hall with further collections at the Atkinson. Due to the age of the collection no accurate records are maintained of how the collection was acquired. An inventory of the collection is made at both Bootle and Town Hall and the Atkinson.

It is not the Authority's policy to proactively acquire assets. When assets are bequeathed to the Authority appropriate documentation is completed to transfer the right of ownership to the Authority. It is not the Authority's policy to dispose of these assets although appropriate procedures and documentation are available for completion should an asset be disposed of. Loans of heritage assets are made to other registered museums and galleries.

Certain items are on public display within the Town Hall and the Atkinson. Requests to view those items not on public display would require written request to be submitted.

The Authority has a conservation management policy and plan for heritage assets.

SILVER

The Authority owns 251 pieces of silverware, consisting of an eclectic mix of cups, salvers, and civic regalia. The collection was principally acquired by donation. An inventory of the collection is held at both Bootle and Southport Town Halls.

The policy for acquisition, disposal, management, and public access of the silver collection is the same as for the ceramic collection. However, those assets in use, such as maces, are regularly reviewed for wear and tear that requires repair.

ARTWORKS

The Authority holds approximately 3,500 artworks at the Atkinson with a further 20,000 stored there. The gallery collection consists of paintings, prints, and sculpture. The museum collection consists of paintings, photographs, postcards, furniture, costume, natural history, archaeology, and Egyptology. The majority of assets were donated to the Authority, although some items were purchased, whilst others were transferred from other museums.

Some records of assets are held on various systems, but an on going project is in place to document all items on the Authority's collection management database. This process is documented within the Authority's Documentation Procedural Manual, a copy of which is available from the Authority.

The policy for acquisitions and disposals are contained within the Acquisition and Disposal Policy Document for the Atkinson, copies of which are available from the Authority.

The Authority does loan such items to other galleries and museums.

The Authority has a conservation management policy and plan for heritage assets. An Emergency Plan is in place in case of an incident of fire or flood.

The Art Collection is reported in the Balance Sheet at insurance valuation which is based on market values. These insurance valuations were last updated in 2005. The Authority considers that obtaining updated valuations for the collection would involve disproportionate cost. This is because of the diverse nature of the assets and the lack of comparable market values makes valuation expensive. As the valuations are for insurance purposes only, there is an inherent limitation on the precise valuation of Heritage Assets.

24 INVESTMENT PROPERTY

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

| <u>2012/2013</u> £000s | | <u>2013/2014</u> £000s |
|---------------------------|--|---------------------------|
| -1,876 | Rental Income from Investment Property | -1,597 |
| 41 | Direct operating expenses arising from Investment Property | 38 |
| -1,835 | Net gain | -1,559 |

There are no restrictions on the Authority's ability to realise the value inherent in its investment property or on the Authority's right to the remittance of income and the proceeds of disposal.

At 31 March 2014, the Authority had no contractual obligations for the construction or enhancement of investment property in 2014/2015 and future years. There were also no similar commitments at 31 March 2013.

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

| <u>2012/2013</u> £000s | | <u>2013/2014</u> £000s |
|---------------------------|--|---------------------------|
| 45,055 | Balance at the start of the year | 39,506 |
| 371 | Additions – Subsequent expenditure | 608 |
| -300 | Disposals | -5 |
| 1,380 | Net gains/losses from fair value adjustments | -488 |
| -7,000 | Transfers to/from: - Assets Held for Sale | -1,259 |
| 39,506 | Balance at the end of the year | 38,362 |

25 INTANGIBLE ASSETS

Intangible assets held by the Authority relate entirely to purchased software licences. Expenditure on purchased software licences is amortised to the relevant service revenue accounts on a straight-line basis over an estimated economic life of three years.

The amortisation of £0.294m charged to revenue in 2013/2014 (£0.245m in 2012/2013) was charged to the ICT Administration cost centre and then absorbed as an overhead across all the service headings in the Net Expenditure of Services. It is not possible to quantify exactly how much of the amortisation is attributable to each service heading.

At 31 March 2014, the Authority had no contractual obligations for the construction or enhancement of intangible assets in 2014/2015 and future years. There were also no similar commitments at 31 March 2013.

Movements in purchased software licences during the year were as follows:

| <u>2012/2013</u> £000s | Purchased Software Licences | <u>2013/2014</u> £000s |
|---------------------------|--|---------------------------|
| 2,341 | Gross Carrying Amount | 2,623 |
| -918 | Accumulated Amortisation | -1,163 |
| 1,423 | Net carrying amount at start of the year | 1,460 |
| 282 | Purchases the in year | 64 |
| -245 | Amortisation in the year | -294 |
| 1,460 | Net carrying amount at the year end | 1,230 |
| | <u>Comprising:</u> | |
| 2,623 | Gross Carrying Amount | 2,687 |
| -1,163 | Accumulated Amortisation | -1,457 |
| 1,460 | | 1,230 |

26 **CAPITAL EXPENDITURE AND CAPITAL FINANCING**

The total amount of capital expenditure incurred in the year is shown in the table below 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 Authority, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Authority that has yet to be financed. The movements in CFR is analysed in the second part of this note.

| <u>2012/2013</u> £000s | Capital Financing Requirement | <u>2013/2014</u> £000s |
|---------------------------|---|---------------------------|
| 211,706 | Opening Capital Financing Requirement | 215,280 |
| | <u>Capital Expenditure:</u> | |
| 28,838 | Property, Plant and Equipment | 24,234 |
| 371 | Investment Properties | 608 |
| 282 | Intangible Assets | 64 |
| 8,337 | Revenue expenditure funded from capital under statute | 4,657 |
| | <u>Sources of Finance</u> | |
| -2,472 | Capital Receipts | -2,528 |
| -371 | Deferred Capital Receipts | |
| -17,902 | Government Grants | -19,796 |
| -921 | Other Contributions | -1,830 |
| -2,669 | Direct Revenue Contributions | -934 |
| | <u>Provision for Repayment of Debt</u> | |
| -9,812 | Statutory Provision for financing capital investment | -10,959 |
| -107 | Amortisation of Deferred Income re. Crosby PFI | -107 |
| 0 | Capital Receipts Set Aside to Repay Debt | 0 |
| 215,280 | Closing Capital Financing Requirement | 208,689 |

| <u>2012/2013</u> £000s | Explanation of movements in the year | <u>2013/2014</u> £000s |
|---------------------------|--|---------------------------|
| | <u>Increase in underlying need to borrow:</u> | |
| 283 | Borrowing supported by Government financial assistance | 0 |
| 13,210 | Borrowing unsupported by Government financial assistance | 4,475 |
| -9,919 | Provision for Repayment of Debt | -11,066 |
| 3,574 | Increase in Capital Financing Requirement | -6,591 |

27 LONG TERM INVESTMENTS

The Council's only Long-Term Investment as at 31 March 2014 was £0.001m in Sefton New Directions (£0.001m at 31 March 2014) (see Note 52 for more details).

28 LONG TERM RECEIVABLES

| <u>31 March</u> <u>2013</u> £000s | | <u>31 March</u> <u>2014</u> £000s |
|---|---------------------------------------|---|
| | <u>Transferred Services</u> | |
| 152 | Merseyside Residuary Body | 134 |
| 1,641 | Merseyside Probation Committee | 1,576 |
| 1,793 | | 1,710 |
| | <u>Other</u> | |
| 4,990 | Long Term Sundry Debtor Accounts | 4,994 |
| 513 | Finance Lease Agreements | 391 |
| 56 | Mortgages | 40 |
| 76 | Car Loans to Officers | 53 |
| 350 | Loan to Sefton New Directions Limited | 0 |
| 120 | Loan to Plaza Community Cinema | 113 |
| 6,105 | | 5,591 |
| 7,898 | Total | 7,301 |

Merseyside Probation Committee

Following the transfer of the Merseyside Probation Committee from local authority control to the National Probation Service, on 1 April 2001, the five Merseyside district councils became responsible for repaying the debt still outstanding at that date. Sefton's share of the debt totalled £1.286m at 31 March 2014 (£1.339m at 31 March 2013). The remaining £0.290m is payable by the other four Merseyside district councils (£0.302m at 31 March 2013).

29 SHORT TERM INVESTMENTS

Short Term Investments were held with the following banks at the balance sheet date:

| <u>31 March</u> <u>2013</u> £000s | | <u>31 March</u> <u>2014</u> £000s |
|---|---------------------------|---|
| 0 | Barclays Bank | 10,000 |
| 5,000 | HBOS Bank | 5,000 |
| 5,000 | Lloyds Bank | 5,000 |
| 10,030 | Natwest Bank | 0 |
| 20,030 | | 20,000 |
| 26 | Accrued Interest Receipts | 84 |
| 20,056 | Total | 20,084 |

30 ASSETS HELD FOR SALE

| 2012/2013 £000s | Movements in the year | 2013/2014 £000s |
|--------------------|--|--------------------|
| 594 | Balance Outstanding at start of the year | 7,704 |
| | <u>Assets newly classified as held for sale:</u> | |
| 514 | - Property Plant and Equipment | 0 |
| 7,000 | - Investment Properties | 1,259 |
| | <u>Revaluations</u> | |
| -4 | Revaluation Losses | -625 |
| -400 | Assets Sold | -579 |
| 7,704 | Balance Outstanding at the year-end | 7,759 |

31 INVENTORIES

| Movements 2013/2014 | Stores £000s | Work in Progress £000s | Total £000s |
|--|-----------------|------------------------------|----------------|
| Balance Outstanding at the start of the year | 248 | 44 | 292 |
| Purchases | 2,407 | 39 | 2,446 |
| Recognised as an expense in the year | -2,059 | -56 | -2,115 |
| Write-offs | 0 | 0 | 0 |
| Balance Outstanding at the year-end | 596 | 27 | 623 |

| Movements 2012/2013 | Stores £000s | Work in Progress £000s | Total £000s |
|--|-----------------|------------------------------|----------------|
| Balance Outstanding at the start of the year | 325 | 50 | 375 |
| Purchases | 3,822 | 19 | 3,841 |
| Recognised as an expense in the year | -3,895 | -25 | -3,920 |
| Write-offs | -4 | 0 | -4 |
| Balance Outstanding at the year-end | 248 | 44 | 292 |

32 SHORT TERM RECEIVABLES

| 31 March 2013 £000s | | 31 March 2014 £000s |
|---------------------------|---|---------------------------|
| | <u>Amounts Falling Due Within One Year</u> | |
| 8,252 | Central Government Bodies | 8,252 |
| 3,653 | HM Revenue and Customs | 4,230 |
| 129 | Academies | 53 |
| 2,225 | Other Local Authorities | 2,863 |
| 109 | NHS Bodies | 2,645 |
| 15 | Public Corporations | 0 |
| 10,104 | Council Tax Payers | 12,021 |
| 0 | NNDR Payers | 1,634 |
| 17,275 | Other Entities and Individuals | 14,230 |
| 47 | Car Loans to Employees | 46 |
| 41,809 | | 45,974 |
| | <u>Less Impairment</u> | |
| -3,261 | Council Tax Payers | -4,711 |
| 0 | NNDR Payers | -806 |
| -4,605 | Other Entities and Individuals | -5,086 |
| -7,866 | | -10,603 |
| 33,943 | Net Receivables | 35,371 |

33 CASH AND CASH EQUIVALENTS

The balance of Cash and Cash Equivalents is made up of the following elements:

| 31 March 2013 £000s | | 31 March 2014 £000s |
|---------------------------|---|---------------------------|
| 87 | Cash in hand of officers | 72 |
| -505 | Bank current accounts | -6,403 |
| 20,348 | Short-term deposits with banks and building societies | 36,775 |
| 19,930 | Total Cash and Cash Equivalents | 30,444 |

34 SHORT TERM PAYABLES

| 31 March 2013 £000s | | 31 March 2014 £000s |
|---------------------------|--------------------------------|---------------------------|
| -3,774 | HM Revenue and Customs | -3,692 |
| -5,422 | Government Departments | -4,916 |
| -2,905 | Other Local Authorities | -3,077 |
| -217 | NHS Bodies | -721 |
| -18,663 | Other entities and individuals | -15,557 |
| -4,280 | Accumulated Absences | -4,577 |
| -35,261 | Total | -32,540 |

35 PROVISIONS

Movements in provisions during 2013/2014 were as follows:

| | | 1 April 2013 £000s | Additions in Year £000s | Applied In Year £000s | Released In Year £000s | 31 March 2014 £000s |
|-----|----------------------------|--------------------------|-------------------------------|-----------------------------|------------------------------|---------------------------|
| (a) | Short-term | | | | | |
| | Equal Pay Claims | -284 | -165 | 215 | 0 | -234 |
| | | -284 | -165 | 215 | 0 | -234 |
| (b) | Long-term | | | | | |
| | Internal Insurance Cover | -8,259 | -2,402 | 4,690 | 0 | -5,971 |
| (c) | Provision for NNDR Appeals | 0 | -2,271 | 0 | 0 | -2,271 |
| | | -8,259 | -4,673 | 4,690 | 0 | -8,242 |

Movements in provisions during 2012/2013 were as follows:

| | | 1 April 2012 £000s | Additions in Year £000s | Applied In Year £000s | Released In Year £000s | 31 March 2013 £000s |
|-----|----------------------------|--------------------------|-------------------------------|-----------------------------|------------------------------|---------------------------|
| (a) | Short-term | | | | | |
| | Equal Pay Claims | -440 | 0 | 156 | 0 | -284 |
| | | -440 | 0 | 156 | 0 | -284 |
| (b) | Long-term | | | | | |
| | Internal Insurance Cover | -9,549 | -2,497 | 3,571 | 216 | -8,259 |
| | Court Liability Costs | -19 | 0 | 0 | 19 | 0 |
| | Claims against the Council | -2,667 | 0 | 1,858 | 809 | 0 |
| | | -12,235 | -2,497 | 5,429 | 1,044 | -8,259 |

(a) **Equal Pay Claims** – The Council is currently in the process of trying to settle a number of Equal Pay claims brought by employees. Sefton has established a provision to cover the potential costs of known claims that are expected to be settled in 2014/2015.

(b) **Internal Insurance Cover** - The purpose of the insurance provision is to enable certain known uninsured losses to be met centrally, i.e., losses arising from the excesses that apply to the Authority's main insurance policies (Public Liability, Property, Employers Liability and Motor Insurance). The amount required to cover these uninsured losses is based on claims actually reported as outstanding. The timing of settlement of these claims is uncertain but is likely to be over a number of years. Based on an assessment by Sefton's insurance advisors (AON), the resources available in the Authority's Insurance Fund are in excess of known liabilities.

Included within this balance is an amount to cover potential liabilities following the announcement on the 13 November 2012 that the Municipal Mutual Insurance Limited (MMI) Scheme of Arrangement has now been triggered.

MMI was formed as a limited company by guarantee in 1903 and by 1974 some 90% of local authorities were insured by the company. Due to dramatic increases in claims, coincidental with a fall in the property market and poor investment environment, along with its inability to raise capital because of its mutual status, MMI's net assets fell below the minimum regulatory solvency requirement and the company went into run-off in September 1992.

The amount paid to the Council plus the amount outstanding under this arrangement is £3.549m, and under the Scheme or Arrangement a levy is chargeable on this amount. After the imposition of the levy, the Council is also liable to contribute to each and every subsequent claim paid by MMI on the Council's behalf, thereby creating an on-going financial obligation. The initial levy requested by the scheme administrator from the Council is a percentage of the total sum paid on behalf of the Council by MMI since 30 September 1992, less the first £50,000 of such payments. As a result and following assessment by a scheme actuary, a levy rate of 15% is being applied creating a liability to the Council of £0.525m which was paid in January 2014. There is a possibility that the ultimate levy rate could eventually be higher than this and as such the Council has made a specific provision of £1.169m million in the accounts to cover this potential liability, based on an assessment by Sefton's insurance advisors.

(c) **Provision for NNDR Appeals** – Following the introduction of the new business rates retention arrangements on 1 April 2013, the Council assumed the liability for refunding ratepayers who have successfully appealed against the rateable value of their properties. The timing of these refunds is uncertain but is expected to be made over several years. The provision covers the Council's locally retained share (49%) of the liability which has been estimated at £2.271m based on the rateable value of properties subject to appeal on 31 March 2014. This includes amounts that were previously paid over to Central Government in respect of 2012/2013 and prior years.

36 **DEFERRED LIABILITIES**

| 31 March 2013 £000s | | 31 March 2014 £000s |
|---------------------------|---|---------------------------|
| | Short Term | |
| -883 | Merseyside Residuary Body | -437 |
| -107 | Finance Lease Liability – Crosby Baths PFI | -112 |
| -1,054 | Finance Lease Liability – Arvato | -1,052 |
| -679 | Finance Lease Liability – Property, Plant and Equipment | -577 |
| -108 | PFI Deferred Income | -107 |
| -2,831 | Total Short Term | -2,285 |
| | Long Term | |
| -5,251 | Merseyside Residuary Body | -4,813 |
| -2,965 | Finance Lease Liability – Crosby Baths PFI | -2,853 |
| -6,354 | Finance Lease Liability – Arvato | -5,302 |
| -6,722 | Finance Lease Liability – Property, Plant and Equipment | -5,864 |
| -1,504 | PFI Deferred Income | -1,397 |
| -22,796 | Total Long Term | -20,229 |

Wirral MBC manages debt on behalf of the former Merseyside Residuary Body. Sefton MBC (along with the other Merseyside Districts, Precepting and Levying Bodies), as a successor body, inherited debt relating to services transferred to its control. As at 31 March 2014 the amount outstanding in respect of Sefton MBC was £5.250m (£6.134m at 31 March 2013).

37 **TRUST FUNDS**

The Council acts as Sole Trustee of a number of legacies and bequests. Details of the transactions and the Committees controlling the funds are shown below. In compliance with the Code, Trust Funds have been excluded from the Council's Balance Sheet.

| Portfolio and Name of Trust | Balance at 1 April 2013 £ | Income £ | Expenditure £ | Balance at 31 March 2013 £ |
|--|------------------------------------|-------------|------------------|-------------------------------------|
| <u>Children's Services</u> | | | | |
| Bootle Holiday Camp - Children | 21,993 | 155 | 0 | 22,148 |
| Wignall Scholarship | 11,825 | 68 | 0 | 11,893 |
| <u>Corporate Services</u> | | | | |
| Netherton Green Trust | 13,864 | 79 | 0 | 13,943 |
| <u>Other</u> | | | | |
| Mayor of Sefton's Charity Fund | 2,730 | 0 | 0 | 2,730 |
| Total | 50,412 | 302 | 0 | 50,714 |
| <u>The balances are invested as follows:</u> | | | | |
| Government Securities | 300 | | | 300 |
| Sefton Cash Balances | 50,112 | | | 50,414 |
| Total | 50,412 | | | 50,714 |

Children's Services Trust Funds

The Educational Trust Funds aim to help in the advancement of education and training of young people within the Sefton area by providing financial assistance to those who have difficulty in paying fees and by the award of prizes as rewards to deserving students.

Netherton Green Trust

The Netherton Green Trust Fund was set up prior to 1974 as a bequest, converted into shares with the former Mersey Docks and Harbour Company. These were subsequently redeemed in 2005/2006. The original sum was applied towards the upkeep of an area within the Borough called Netherton Green.

Mayor of Sefton's Charity Fund

This fund has a year-end of 30 June. The opening balance included in the Trust Fund Statement above is therefore as at 1 July 2013. The movements in the year were not available at the time these accounts were approved in September 2014. The opening balance in the 2014/2015 Statement of Accounts will be adjusted to reflect the Charity Fund's final audited accounts for 2013/2014.

38 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 accounting 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.

Movements in the Authority's General Fund Balances are detailed in Sections 7 and 8 of the Explanatory Foreword on Pages 3 and 4. General Fund Balances arise due to planned contributions or underspends in previous years. Amounts held by schools are to fund expenditure in future years and as a prudent measure against future uncertainty. General Fund Balances attributable to the Council are held as a prudent measure against future uncertainty.

39 EARMARKED RESERVES

The movements in earmarked reserves during the last two years are shown below:

| | Movements in 2013/2014 | <u>1 April</u> <u>2013</u> £000s | <u>Transfers</u> <u>in</u> £000s | <u>Transfers</u> <u>Out</u> £000s | <u>31 March</u> <u>2014</u> £000s |
|-----|--|--|--|---|---|
| (a) | Modernisation Fund | -921 | 0 | 385 | -536 |
| (b) | Environmental Warranty | -13,000 | 0 | 0 | -13,000 |
| (c) | Insurance Fund | -459 | -1,114 | 0 | -1,573 |
| (d) | Transforming Sefton | -355 | -12,280 | 86 | -12,549 |
| (e) | Redundancy Reserve | -6,686 | 0 | 712 | -5,974 |
| (f) | Pensions Reserve | -1,050 | 0 | 252 | -798 |
| (g) | Capital Priorities Fund | -1,000 | 0 | 253 | -747 |
| (h) | Community Transition Fund | -1,000 | 0 | 316 | -684 |
| (i) | Contamination Clearance | -1,500 | 0 | 0 | -1,500 |
| (j) | Rating Appeals / Reduction in NNDR Income Reserve | -1,200 | -382 | 0 | -1,582 |
| (k) | Revenue Grants and Contributions Unapplied | -9,777 | -6,299 | 9,565 | -6,511 |
| (l) | Schools' Earmarked Reserves | -5,920 | -1,590 | 646 | -6,864 |
| (m) | Other Earmarked Reserves | -8,306 | -1,163 | 1,134 | -8,335 |
| | Total | -51,174 | -22,828 | 13,349 | -60,653 |

Note: In April 2014 the Council made a one-off payment to the Merseyside Pension Fund of £28.645m relating to its pension deficit liability for 2014/2015, 2015/2016 and 2016/2017. The Council received a significant discount for making the one-off payment rather than paying contributions over the three years. To fund the payment, the Council will be required to temporarily utilise £19.477m of Earmarked Reserves in 2014/2015. Earmarked Reserves will be increased by £9.543m in 2015/2016 and a further £9.934m in 2016/2017 when no pension deficit contributions will need to be made by the Council. The Earmarked Reserves temporarily utilised will therefore be refunded by 2016/2017.

| | Movements in 2012/2013 | <u>1 April</u> <u>2012</u> £000s | <u>Transfers</u> <u>in</u> £000s | <u>Transfers</u> <u>Out</u> £000s | <u>31 March</u> <u>2013</u> £000s |
|-----|---|--|--|---|---|
| (a) | Modernisation Fund | -1,050 | 0 | 129 | -921 |
| (b) | Environmental Warranty | -13,000 | 0 | 0 | -13,000 |
| (c) | Insurance Fund | -242 | -217 | 0 | -459 |
| (d) | Transforming Sefton | -2,950 | 0 | 2,595 | -355 |
| (e) | Redundancy Reserve | -8,300 | 0 | 1,614 | -6,686 |
| (f) | Pensions Reserve | -5,800 | 0 | 4,750 | -1,050 |
| (g) | Capital Priorities Fund | 0 | -1,000 | 0 | -1,000 |
| (h) | Community Transition Fund | 0 | -1,000 | 0 | -1,000 |
| (i) | Contamination Clearance | -1,500 | 0 | 0 | -1,500 |
| (j) | Rating Appeals / Reduction in NDR Income Reserve | 0 | -1,200 | 0 | -1,200 |
| (k) | Revenue Grants and Contributions Unapplied | -10,324 | -4,018 | 4,565 | -9,777 |
| (l) | Schools' Earmarked Reserves | -2,965 | -3,745 | 790 | -5,920 |
| (m) | Other Earmarked Reserves | -6,518 | -1,925 | 137 | -8,306 |
| | Total | -52,649 | -13,105 | 14,580 | -51,174 |

(a) **Modernisation Fund** - The Council is currently undergoing a review of relative staff responsibilities / remuneration levels as a result of the Single Status agreement in 1997. This potentially could result in a significant level of additional expenditure for the Council over the next few years. A reserve has been created to offset some of this expenditure in future years. In addition, it will be used to help the Council modernise its services and meet "one-off" invest to save costs.

(b) **Environmental Warranty** - The Council has provided a 35 year environmental warranty for the land / property that has been transferred to One Vision Housing Limited. This warranty requires the Council to remediate any environmental contamination found on these sites during the life of the warranty. Resources are being set-aside over the coming years as a prudent measure against a potential cost.

(c) **Insurance Fund** - The resources available in the Authority's Insurance Fund are in excess of known liabilities.

(d) **Transforming Sefton** – The Council is currently undertaking a Transformation Programme to deliver customer focussed services through a high performance culture whilst achieving significant ongoing savings. A reserve has been created to enable Sefton to progress the Programme over the next few years. In addition, it will be used to fund initiatives to support economic development in the Borough.

(e) **Redundancy Reserve** – The Council has to make significant savings over the next three years in order to meet the demands of reducing external resources and increased spending pressures. A reserve has been created to fund redundancy costs associated with making these savings.

(f) **Pensions Reserve** – The Council is required to pay contributions to Merseyside Pension Fund for the additional costs arising from employees taking early retirement. Resources have been set aside to fund these costs over the coming years.

(g) **Capital Priorities Fund** - Council on 28 February 2013 agreed to the establishment of a new one-off fund to invest in Council priorities including town centres, youth employment and the local economy.

(h) **Community Transition Fund** - Council on 28 February 2013 agreed to the establishment of a new one-off Community Transition Fund. The aim of this resource was to facilitate, where possible, the transfer of certain services to become community run and self sustaining.

(i) **Contamination Clearance Reserve** - During 2011/2012 it was identified there was a site in the Borough that was contaminated and there could be significant costs associated with clearing the contamination. It was therefore considered prudent to set resources aside to cover these potential costs.

(j) **Rating Appeals / Reduction in NDR Income Reserve** - From 1 April 2013 the Council retains 49% of Non-Domestic Rates (NDR) paid in the Borough. The Council has budgeted for a level of receipts in 2014/2015 but there is a risk that this income will not be achieved due to the potential impact of appeals and the current economic situation. It is considered prudent to set-aside resources to offset the potential loss of income not otherwise covered by the business rates appeals provision.

(k) **Revenue Grants and Contributions Unapplied** – In line with proper accounting practice, the Council credits the Income and Expenditure Account with grants and contributions as and when conditions for claiming the grant or contribution have been met. However, these amounts are required to fund expenditure on specific schemes in future years. They are therefore reserved to offset this future expenditure.

(l) **Schools' Earmarked Reserves** – There are a number of earmarked reserves held by the Council that relate to schools. These are created when schools close and their balances are passed back to the Council and are reserved to fund future school related activity.

(m) **Other Earmarked Reserves** – There are a number of other earmarked reserves held by the Council. These include the Taxi Service Surplus (£0.787m), the Carbon Reduction Services Reserve (£0.751m), the Capital Reserve (£0.671m), and the Waste Recycling Surplus (£0.502m).

40 **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 the year-end.

| <u>2012/2013</u> Total £000s | | <u>2013/2014</u> Total £000s |
|------------------------------------|---|------------------------------------|
| -6,332 | Balance at 1 April | -5,371 |
| | <u>Receipts in the Year</u> | |
| -1,138 | Sale proceeds credited to the Comprehensive Income and Expenditure Account as part of the gain/loss on disposal of non-current assets | -940 |
| -278 | Capital Receipts from Former Council House Sales | -928 |
| -91 | Other Capital Receipts not relating to the Disposal of Council Assets | -2,516 |
| -18 | Transfer from Deferred Capital Receipts Reserve upon receipt of cash | -14 |
| | <u>Applied in the Year</u> | |
| 2,472 | Applied to finance new capital expenditure | 2,528 |
| 14 | Payments to Housing Receipts Pool | 10 |
| -5,371 | Balance at 31 March | -7,231 |

41 **CAPITAL GRANTS AND CONTRIBUTIONS UNAPPLIED**

The Capital Grants and Contributions Unapplied Account (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.

| 2012/2013 £000s | | 2013/2014 £000s |
|--------------------|---|--------------------|
| -10,296 | Balance at 1 April | -10,342 |
| -6,874 | Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement | -8,865 |
| 6,828 | Transferred to the Capital Adjustment Account | 7,406 |
| -10,342 | Balance at 31 March | -11,801 |

42 REVALUATION RESERVE

The Revaluation Reserve contains the gains made by the Authority arising from increases in the value of its Property, Plant and Equipment (and Intangible Assets). 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
- disposed 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.

| 2012/2013 £000s | | 2013/2014 £000s |
|--------------------|--|--------------------|
| -85,689 | Balance at 1 April | -76,741 |
| -18,528 | Upward revaluation of assets | -10,643 |
| 21,690 | Downward revaluation of assets and impairment losses not charged to Surplus/Deficit on the Provision of Services | 10,956 |
| 3,162 | Surplus or Deficit on revaluation of non-current assets not posted to the Surplus/Deficit on the Provision of Services | 313 |
| 2,675 | Difference between fair value depreciation and historical cost depreciation | 2,028 |
| 3,111 | Accumulated gains on assets sold or scrapped | 2,172 |
| 5,786 | Amount written off to the Capital Adjustment Account | 4,200 |
| -76,741 | Balance at 31 March | -72,228 |

43 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 (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The Account is credited with the amounts set aside by the Authority as finance for the costs of acquisition, construction and enhancement.

The Account contains accumulated gains and losses on Investment Properties and gains recognised on donated assets that have yet to be consumed by the Authority.

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.

Note 5 provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve and Deferred Capital Receipts Reserve.

| 2012/2013 £000s | | 2013/2014 £000s |
|--------------------|--|--------------------|
| -404,283 | Balance at 1 April | -386,495 |
| | <u>Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement</u> | |
| 18,160 | Depreciation of non-current assets | 17,095 |
| 21,182 | Revaluation of non-current assets | 25,004 |
| 245 | Amortisation of intangible assets | 294 |
| 851 | Revenue expenditure funded from capital under statute | 1,195 |
| 11,284 | 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 | 50,618 |
| -107 | Amortisation of Deferred Income re. Crosby PFI Scheme | -108 |
| 0 | Reduction in Finance Lease Liability re. Leased In Property | -339 |
| 51,615 | | 93,759 |
| | <u>Amounts written out to the Revaluation Reserve</u> | |
| -2,675 | Difference between fair value depreciation and historical cost depreciation | -2,028 |
| -3,111 | Accumulated gains on assets sold or scrapped | -2,172 |
| -5,786 | | -4,200 |
| | <u>Capital financing applied in the year</u> | |
| -2,472 | Capital receipts applied to finance capital expenditure | -2,528 |
| 0 | Capital receipts set aside to reduce indebtedness | 0 |
| -371 | Deferred capital receipts applied to finance leased out property | 0 |
| -4,509 | Capital Grants and Contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to finance capital expenditure | -10,758 |
| -6,828 | Transfer from the Capital Grants and Contributions Unapplied Account to finance capital expenditure | -7,406 |
| -9,812 | Statutory provision for the financing of capital investment | -11,066 |
| -2,669 | Capital expenditure charged to the General Fund | -934 |
| -26,661 | | -32,692 |
| | <u>Other Movements</u> | |
| -1,380 | Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement | 488 |
| -1,380 | | 488 |
| -386,495 | Balance at 31 March | -329,140 |

44 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 Authority uses the Account to manage premiums paid on the early redemption of loans. Premiums 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 Authority's case, this period is the unexpired term that was outstanding on the loans when they were redeemed.

| 2012/2013 £000s | | 2013/2014 £000s |
|--------------------|--|--------------------|
| 843 | Balance at 1 April | 783 |
| -60 | Proportion of premiums incurred in previous financial years charged against the General Fund Balance in accordance with statutory requirements | -59 |
| 783 | Balance at 31 March | 724 |

45 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 Authority 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.

| 2012/2013 £000s | | 2013/2014 £000s |
|--------------------|--|--------------------|
| -1,060 | Balance at 1 April | -557 |
| 114 | Repayment of Long Term Debtor | 121 |
| 371 | Deferred capital receipts applied to finance leased out property | 0 |
| 18 | Transfer to the Capital Receipts Reserve upon receipt of cash | 14 |
| -557 | Balance at 31 March | -422 |

46 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 Authority 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 Authority makes 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 Authority 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.

| 2012/2013 £000s | | 2013/2014 £000s |
|--------------------|--|--------------------|
| 287,375 | Balance at 1 April | 347,649 |
| 55,833 | Remeasurements (Liabilities and Assets) | -75,446 |
| 30,794 | Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement | 35,730 |
| -26,353 | Employer's pensions contributions and direct payments to pensioners payable in the year | -22,822 |
| 347,649 | Balance at 31 March | 285,111 |

47 COLLECTION FUND ADJUSTMENT ACCOUNT

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

| 2012/2013 £000s | | 2013/2014 £000s |
|--------------------|---|--------------------|
| 314 | Balance at 1 April | 866 |
| 552 | Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax and non-domestic rates income calculated for the year in accordance with statutory requirements | -1,336 |
| 866 | Balance at 31 March | -470 |

48 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.

| 2012/2013 £000s | | 2013/2014 £000s |
|--------------------|---|--------------------|
| 5,133 | Balance at 1 April | 4,280 |
| | <u>Transactions in Year</u> | |
| -5,133 | Settlement or cancellation of accrual made at the end of the preceding year | -4,280 |
| 4,280 | Amounts accrued at the end of the current year | 4,577 |
| -853 | 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 | 297 |
| 4,280 | Balance at 31 March | 4,577 |

49 EVENTS AFTER THE BALANCE SHEET DATE

The Statement of Accounts was authorised for issue by the Head of Corporate Finance and ICT on 10 September 2014. 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 2014, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

50 RELATED PARTY TRANSACTIONS

The Council is required to disclose material transactions with related parties - bodies or individuals that have the potential to control or influence the council or to be controlled or influenced by the Council. Disclosure of these transactions allows an assessment of the extent to which the Council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Council.

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, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (e.g. Housing Benefits). Grants received from government departments are set out in the analysis in Note 21. In addition Sefton paid £11.876m to HM Revenue and Customs for Employers' National Insurance Contributions. Amounts owed from and to Central Government at 31 March 2014 are shown in Notes 32 and 34.

Members' Interests

Members of the Council have direct control over the Council's financial and operating policies. During 2013/2014, works and services to the value of £1.324m were commissioned from companies in which one or more Members have declared an interest. These are shown in the table below. Contracts were entered into in full compliance with the Council's standing orders. In addition, grants and payments for goods and services totalling £0.464m were made to voluntary organisations in which one or more Members have declared an interest. The most significant of these are shown in the table below. The grants were awarded by the Corporate Services Cabinet Member and were made with proper consideration of declarations of interest. The relevant Members did not take part in any discussion or decision relating to the grants.

| <u>2013/2014</u> | Income £000s | Expenditure £000s | Receivables £000s | Payables £000s |
|---|-----------------|----------------------|----------------------|-------------------|
| Greater Merseyside Connexions Partnership | -6 | 1,324 | 0 | 0 |
| Imagine Independence Charity | 0 | 446 | 0 | 0 |
| Waterloo Community Association | 0 | 16 | 0 | 0 |

| <u>2012/2013</u> | Income £000s | Expenditure £000s | Receivables £000s | Payables £000s |
|---|-----------------|----------------------|----------------------|-------------------|
| Greater Merseyside Connexions Partnership | 0 | 1,689 | 0 | 0 |
| Imagine Independence Charity | -1 | 544 | 0 | 0 |

Other Public Bodies

A number of Councillors are nominated to serve as representatives on other public bodies. These include, for example, Aintree University Hospital NHS Foundation Trust, British Destinations, Formby Pool Trust, Local Government Association, Merseyside Fire and Rescue Authority, Merseyside Integrated Transport Authority, Merseyside Pension Fund, Merseyside Police Authority, Merseyside Recycling and Waste Authority, One Vision Housing and Sefton Council for Voluntary Service.

Significant transactions during the year and balances at year-end with related public bodies included:

| <u>2013/2014</u> | Income £000s | Expenditure £000s | Receivables £000s | Payables £000s |
|--|-----------------|----------------------|----------------------|-------------------|
| Merseyside Police and Crime Commissioner | -3 | 11,717 | 584 | -3 |
| Merseyside Fire and Rescue Authority | -30 | 5,868 | 268 | -36 |
| Parish Councils | -11 | 1,173 | 13 | -1 |
| Merseyside Integrated Transport Authority | -1,028 | 25,581 | 301 | 0 |
| Merseyside Recycling and Waste Authority | -1,837 | 11,868 | 0 | 0 |
| Merseyside Pensions Authority - Employers' Contributions | 0 | 19,125 | 0 | -1,599 |
| One Vision Housing Limited | -1,203 | 296 | 75 | 0 |
| Sefton New Directions Limited | -383 | 8,927 | 66 | 0 |
| Sefton CVS | -4 | 1,237 | 0 | -9 |

| <u>2012/2013</u> | Income £000s | Expenditure £000s | Receivables £000s | Payables £000s |
|--|-----------------|----------------------|----------------------|-------------------|
| Merseyside Police and Crime Commissioner | -21 | 14,010 | 892 | 0 |
| Merseyside Fire and Rescue Authority | -34 | 6,254 | 406 | 0 |
| Parish Councils | -54 | 1,265 | 9 | -3 |
| Merseyside Integrated Transport Authority | -18 | 25,682 | 0 | 0 |
| Merseyside Recycling and Waste Authority | -2,412 | 12,614 | 88 | 0 |
| Merseyside Pensions Authority - Employers' Contributions | 0 | 17,668 | 0 | -1,469 |
| One Vision Housing Limited | -996 | 425 | 263 | 0 |
| Sefton New Directions Limited | -422 | 9,397 | 805 | -30 |
| Sefton CVS | -48 | 965 | 0 | 0 |

The amounts owed by the Merseyside Police Authority and Merseyside Fire and Rescue Authority are the net amounts of Council Tax outstanding (after allowing for the Provision for Bad and Doubtful Debts) that relates to these bodies. There is no Provision for Bad and Doubtful Debts for amounts due from other bodies as all amounts have been assessed as being fully collectable.

Officers' Interests

The Strategic Director (People) is a trustee of Greater Merseyside Connexions Partnership. The financial transactions have been disclosed in the table above under Members' Interests.

The Husband of the Head of Vulnerable People is an employee of Sefton CVS. The financial transactions have been disclosed in the table above under Other Public Bodies.

No senior officers received a car loan in 2013/2014, however there are two senior officers with a current car loan, the loan outstanding at the end of the year was £0.011m.

Subsidiary and associated companies

Details of the Council's interest in companies is set out in Note 52.

Note: Some organisations ceased to be related parties at the end of 2012/2013 so are not shown in 2013/2014.

51 CASH FLOW STATEMENT – OPERATING ACTIVITIES

The cash flows for operating activities include the following items:

| <u>2012/2013</u> £000s | | <u>2013/2014</u> £000s |
|---------------------------|-------------------|---------------------------|
| -807 | Interest received | -518 |
| 8,547 | Interest paid | 7,064 |

52 INTEREST IN COMPANIESSefton New Directions Limited

Sefton New Directions Limited was incorporated on 15 January 2007 and began trading on 1 April 2007. It is a wholly owned subsidiary of the Council. Its principal activity is providing Social Care Services for Adults and those with Learning and / or Physical Disabilities.

On 31 March 2014, the Company had net liabilities of £0.418m (£6.150m on 31 March 2013). In 2013/2014 the Company reported a pre tax profit of £0.985m (a £0.879m profit in 2012/2013) and a profit of £0.710m after tax (a £1.067m profit in 2012/2013).

The Council has not received any dividends from the Company during 2013/2014 or 2012/2013.

Should the company be wound up, the Council has committed to meeting any accumulated deficit on the Merseyside Pension Fund plus any retirement costs in respect of the Company's employees. The accumulated deficit was estimated to be £2.100m at 31 March 2014 (£8.591m at 31 March 2013).

The Company's accounts for 2013/2014 have been audited and copies can be obtained from The Company Secretary, Sefton New Directions Head Office, Third Floor, The Investment Centre, 375 Stanley Road, Bootle, Merseyside, United Kingdom, L20 3EF.

53 OPERATING LEASESAuthority as a Lessee

The Council employs operating leases to obtain the use of certain vehicles and equipment. During 2013/2014 operating lease payments totalled £0.117m (£0.307m in 2012/2013).

In addition, the Council leases a number of properties from third parties under operating lease agreements. During 2013/2014 lease rentals paid for properties under these lease agreements totalled £0.164m (£0.164 in 2012/2013).

The future lease payments due under non-cancellable leases in future years are:

| <u>31 March</u> <u>2013</u> £000s | | <u>31 March</u> <u>2014</u> £000s |
|---|---|---|
| 352 | Not later than one year | 421 |
| 546 | Later than one year and not later than five years | 581 |
| 1,642 | Later than five years | 1,473 |
| 2,540 | | 2,475 |

Authority as a Lessor

The Council leases a number of properties to third parties under operating lease agreements. The assets leased include shops, offices, land and other commercial properties. These property leases are for economic development purposes to provide suitable affordable accommodation for local businesses. During 2013/2014 lease rentals received from these operating lease agreements totalled £1.739m (£1.876m in 2012/2013).

The future lease payments receivable under non-cancellable leases in future years are:

| 31 March 2013 £000s | | 31 March 2014 £000s |
|---------------------------|---|---------------------------|
| 1,434 | Not later than one year | 1,514 |
| 5,259 | Later than one year and not later than five years | 5,146 |
| 257,194 | Later than five years | 253,837 |
| 263,887 | | 260,497 |

54 FINANCE LEASES**Authority as Lessee**

The Council has acquired a number of administrative buildings and its IT and telecommunications system under finance leases.

The assets acquired under these leases are carried as Property, Plant and Equipment in the Balance Sheet at the following net amounts:

| 31 March 2013 £000s | | 31 March 2014 £000s |
|---------------------------|--|---------------------------|
| 6,207 | Other Land and Buildings | 5,270 |
| 67 | Vehicles, Plant, Furniture and Equipment | 0 |
| 6,274 | | 5,270 |

The Authority 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 Authority and finance costs that will be payable by the Authority in future years while the liability remains outstanding. The minimum lease payments are made up of the following amounts:

| 31 March 2013 £000s | | 31 March 2014 £000s |
|---------------------------|--|---------------------------|
| | Finance lease liabilities (net present value of minimum lease payments): | |
| 679 | • Current | 577 |
| 6,722 | • Non-current | 5,864 |
| 4,938 | Finance costs payable in future years | 4,442 |
| 12,339 | Minimum lease payments | 10,883 |

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

| | Minimum Lease Payments | | Finance Lease Liabilities | |
|---|----------------------------------|----------------------------------|----------------------------------|----------------------------------|
| | <u>31 March</u> 2013 £000s | <u>31 March</u> 2014 £000s | <u>31 March</u> 2013 £000s | <u>31 March</u> 2014 £000s |
| Not later than one year | 1,158 | 1,022 | 679 | 577 |
| Later than one year and not later than five years | 4,301 | 3,723 | 2,663 | 2,203 |
| Later than five years | 6,880 | 6,138 | 4,059 | 3,660 |
| | 12,339 | 10,883 | 7,401 | 6,440 |

The minimum lease payments do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. In 2013/2014 £0.015m contingent rents were payable by the Authority (£0.020m were paid in 2012/2013).

Authority as Lessor

The Authority has leased out three properties on finance leases with remaining terms of between 2 and 6 years.

The Authority has a gross investment in the lease, made up of the minimum lease payments expected to be received over the remaining term and the residual value anticipated for the property when the lease comes to an end. The minimum lease payments comprise settlement of the long-term debtor for the interest in the property acquired by the lessee and finance income that will be earned by the Authority in future years whilst the debtor remains outstanding. The gross investment is made up of the following amounts:

| <u>31 March</u> 2013 £000s | | <u>31 March</u> 2014 £000s |
|----------------------------------|---|----------------------------------|
| | Finance lease debtor (net present value of minimum lease payments): | |
| 149 | • Current | 130 |
| 710 | • Non-current | 261 |
| 153 | Unearned finance income | 31 |
| 223 | Unguaranteed residual value of property | 123 |
| 1,235 | Gross investment in the lease | 545 |

The gross investment in the lease and the minimum lease payments will be received over the following periods:

| | Gross Investment in the Lease | | Minimum Lease Payments | |
|---|----------------------------------|----------------------------------|----------------------------------|----------------------------------|
| | <u>31 March</u> 2013 £000s | <u>31 March</u> 2014 £000s | <u>31 March</u> 2013 £000s | <u>31 March</u> 2014 £000s |
| Not later than one year | 238 | 185 | 188 | 142 |
| Later than one year and not later than five years | 641 | 319 | 512 | 239 |
| Later than five years | 356 | 41 | 312 | 41 |
| | 1,235 | 545 | 1,012 | 422 |

There is a possibility that worsening financial circumstances might result in lease payments not being made. The Authority collects the lease payments due by issuing sundry debtor accounts. The Council has set aside an allowance for uncollectible sundry debtor accounts of £3.192m at 31 March 2014 (£2.966m at 31 March 2013) to which any unrecoverable lease payments would therefore be charged.

55 PFI AGREEMENT / SERVICE CONCESSION

Crosby Leisure Centre

On 18 September 2001, the Council entered into an agreement under a Private Finance Initiative with Waterfront Leisure (Crosby) Limited for the provision and operation of a leisure centre in Crosby. Under the terms of the agreement Waterfront Leisure constructed the centre and will operate it for a period of 25 years in accordance with the Council's specification. The contractor has the obligation to maintain the building to a minimum acceptable condition and to procure and maintain the plant and equipment needed to operate the leisure centre. The building and any plant and equipment installed will be transferred to the Council at the end of the 25 year contract for nil consideration. The Council only has the right to terminate the contract if it pays within three months:

1. the senior cost;
2. any redundancy payments of the contractor that have been reasonably incurred;
3. all amounts shown in the base financial model as payable by the contractor from the termination date.

Payments

The Council will pay an annual unitary charge for the serviced facility. At the start of the contract it was estimated this would total £23.860m over the life of the concession period (25 years). The figure is subject to inflationary increases with potential reductions should the service provided fall below specified standards. The charge is also eligible for government grant. The centre was opened on 17 February 2003. Payments to the contractor in 2013/2014 were £1.202m (£1.179m in 2012/2013) with government grants of £0.561m received in the year (£0.561m in 2012/2013).

The outstanding commitments (Unitary Payments) due to be made to Waterfront Leisure (Crosby) Limited each year until the end of the contract in 2028 are required to be brought in to the Comprehensive Income and Expenditure Statement. In addition to this unitary payment, Waterfront Leisure generates income through the provision of goods and services, which has enabled a lower unitary payment charge.

The table below shows the outstanding commitment for the PFI contract and has been split between the key elements. It should be noted that the outstanding commitment has been inflated using the inflationary factors included within the original contract.

| Commitments under PFI Contract | Reimbursement of Capital Expenditure £000s | Interest £000s | Service Charge £000s |
|---|---|-------------------|-------------------------|
| Contract Payments in 2014/2015 | 112 | 430 | 634 |
| Contract Payments between 2015/2016 and 2018/2019 | 385 | 1,541 | 2,977 |
| Contract Payments between 2019/2020 and 2023/2024 | 1,013 | 1,634 | 3,956 |
| Contract Payments between 2024/2025 and 2028/2029 | 1,456 | 842 | 3,393 |

Liabilities

Although the payments made to the contractor are described as unitary payments, they have been calculated to compensate the contractor for the fair value of the services they provide, the capital expenditure incurred and interest payable whilst the capital expenditure remains to be reimbursed. The liability outstanding to pay the liability to the contractor for capital expenditure incurred is as follows:

| 2012/2013 £000s | | 2013/2014 £000s |
|--------------------|--------------------------------------|--------------------|
| -3,098 | Balance outstanding at start of year | -3,072 |
| 26 | Payments during the year | 107 |
| -3,072 | Balance outstanding at the year-end | -2,965 |

Property Plant and Equipment

The assets used to provide services at Crosby Leisure Centre are recognised on the Council's Balance Sheet. The following table shows the value of assets held under Crosby Leisure Centre PFI scheme at each Balance Sheet date and an analysis of the movement in those values:

| 2012/2013 £000s | Other Land & Buildings: PFI Assets | 2013/2014 £000s |
|--------------------|-------------------------------------|--------------------|
| | <u>Cost or Valuation</u> | |
| 7,584 | Opening Balance at 1 April | 7,450 |
| 113 | Additions | 1 |
| -247 | Revaluations | 0 |
| 7,450 | Closing Balance at 31 March | 7,451 |
| | <u>Depreciation and Impairments</u> | |
| -437 | Opening Balance at 1 April | 0 |
| -220 | Depreciation Charge | -205 |
| 657 | Revaluations | 0 |
| 0 | Closing Balance at 31 March | -205 |
| | <u>Balance Sheet Amount</u> | |
| 7,147 | Opening Balance at 1 April | 7,450 |
| 7,450 | Closing Balance at 31 March | 7,246 |

Arvato Public Sector Services Limited

On 1 October 2008, the Council entered into an agreement with Arvato Public Sector Services Limited to manage the following services: Information Technology, Transactional Human Resources and Payroll, Benefits, Revenues and Customer Contact. The contract also contains an element for assets to be provided by arvato to deliver the services contained in the contract. This has been assessed as requiring the administrative plant and equipment assets involved to be accounted for in the same way as the PFI contract, i.e. on Balance Sheet with a corresponding liability. Depreciation is totally attributable to the principal charge. Any increase due to indexation (Contingent Rent) is removed from the Net Cost of Services and charged to Financing and Investment Income and Expenditure.

The Council only has the right to terminate the contract if it pays redundancy payments, breakage costs, service provider lost profit for the remainder of the contract, handover costs and direct losses. The service provider has the right to terminate the contract if it pays the Council's retendering costs, procurement costs, interim management costs handover costs and direct losses.

Payments

The contract price for the ten years was agreed at the start of the contract and yearly inflation is added to the contract price each 1 April based on the pay award and retail price index for the relevant year, subject to agreed service standards which are reviewed annually. Where necessary, variations to the contract price are negotiated and agreed following changes to statutory requirements or changes in demand.

At 31 March 2014, the amount of payments (at Balance Sheet date prices) due to be made under the agreement, separated into repayment of liability and service charges is as follows (no future interest costs can be established until a contingent rents is calculated in the year the actual 'unitary' charge is made)

| Commitments under Service Concession | Repayment of Liability £000s | Service Charge £000s | Total £000s |
|---|---------------------------------|-------------------------|----------------|
| Contract Payments in 2014/2015 | 1,052 | 15,355 | 16,407 |
| Contract Payments between 2015/2016 and 2018/2019 | 5,301 | 54,020 | 59,321 |

Liabilities

An analysis of the movement in the value of the liabilities for both schemes is shown below:

| <u>2012/2013</u> £000s | | <u>2013/2014</u> £000s |
|---------------------------|--------------------------------------|---------------------------|
| -8,284 | Balance outstanding at start of year | -7,408 |
| 876 | Payments during the year | 1,054 |
| -7,408 | Balance outstanding at the year-end | -6,354 |

Property Plant and Equipment / Intangible Assets

The following table shows the value of assets held under the arvato contract at each Balance Sheet date and an analysis of the movement in those values:

| 2012/2013 | | Arvato | 2013/2014 | |
|--|-------------------------------|-------------------------------------|--|-------------------------------|
| Vehicles, Plant & Equipment £000s | Intangible Assets £000s | | Vehicles, Plant & Equipment £000s | Intangible Assets £000s |
| | | <u>Cost or Valuation</u> | | |
| 8,186 | 1,355 | Opening Balance at 1 April | 8,186 | 1,355 |
| 0 | 0 | Additions | 0 | 0 |
| 8,186 | 1,355 | Closing Balance at 31 March | 8,186 | 1,355 |
| | | <u>Depreciation and Impairments</u> | | |
| -1,157 | -100 | Opening Balance at 1 April | -1,907 | -226 |
| 0 | -126 | Amortisation for the Year | 0 | -150 |
| -750 | 0 | Depreciation Charge | -904 | 0 |
| -1,907 | -226 | Closing Balance at 31 March | -2,811 | -376 |
| | | <u>Balance Sheet Amount</u> | | |
| 7,029 | 1,255 | Opening Balance at 1 April | 6,279 | 1,129 |
| 6,279 | 1,129 | Closing Balance at 31 March | 5,375 | 979 |

56 PARTICIPATION IN PENSION SCHEMES

As part of the terms and conditions of employment of its officers and other employees, the Authority offers retirement benefits. Although retirement benefits will not actually be payable until employees retire, the Authority has a commitment to make the payments that needs to be disclosed at the time that employees earn their future entitlement.

The Authority participates in three pension schemes:

Pension Schemes Accounted for as Defined Contribution Schemes

Teachers' Pension Scheme (TPS)

Teachers employed by the Authority are members of the Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education. It provides teachers with specified benefits upon their retirement, and the Authority contributes towards the costs of making contributions based on a percentage of members' pensionable salaries.

The Scheme is a multi-employer defined benefit scheme. 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. Valuations of the notional fund are undertaken every four years.

The scheme has approximately 5,000 participating employers and consequently the Authority 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 purpose of this Statement of Accounts, it is therefore accounted for on the same basis as a defined contribution scheme. As a proportion of the total contributions into the Teachers' Pension Scheme during the year ending 31 March 2014, the Authority's own contributions equate to approximately 0.31%.

In 2013/2014, the Council paid £9.733m to Teachers' Pensions in respect of teachers' retirement benefits, representing 14.1% of teachers' pensionable pay. The figures for 2012/2013 were £9.538m and 14.1%. Contributions of £0.809m remained payable at the year-end. The contributions due to be paid in 2014/2015 are estimated to be £9.830m.

In cases of redundancy or early retirement in the interests of the efficiency of the service, the Authority is responsible for the cost of any additional benefits awarded that are outside the terms of the teachers' scheme. In 2013/2014 these contributions amounted to £1.273m, representing 1.84% of teachers' pensionable pay. The figures for 2012/2013 were £1.297m and 1.92%.

NHS Pension Scheme

As a result of the transfer of responsibility for Public Health to local authorities in April 2013 (see Note 7) a number of staff also transferred who are members of the NHS Pension Scheme, administered by NHS Pensions on behalf of the Department of Health. It provides staff with specified benefits upon their retirement, and the Authority contributes towards the costs of making contributions based on a percentage of members' pensionable salaries.

The Scheme is a multi-employer defined benefit scheme. The scheme is unfunded and the Department of Health uses a notional fund as the basis for calculating the employers' contribution rate paid by local authorities. Valuations of the notional fund are undertaken every four years.

The scheme has approximately 9,000 participating employers and consequently the Authority 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 purpose of this Statement of Accounts, it is therefore accounted for on the same basis as a defined contribution scheme. As a proportion of the total contributions into the NHS Pension Scheme during the year ending 31 March 2014, the Authority's own contributions equate to approximately 0.002%.

In 2013/2014, the Council paid £0.125m to NHS Pensions in respect of retirement benefits, representing 14.1% of the employees' pensionable pay. No figures for 2012/2013 are available. Contributions of £0.011m remained payable at the year-end. The contributions due to be paid in 2014/2015 are estimated to be £0.134m.

Defined Benefit Schemes**Local Government Pension Scheme (LGPS)**

All employees not eligible to join the Teachers' Pension Scheme or the NHS Pension Scheme are, subject to certain qualifying criteria, eligible to join the Local Government Pension Scheme. Wirral Metropolitan Borough Council acts as the administering authority of the LGPS as lead authority for the Merseyside councils' scheme, the Merseyside Pension Fund (MPF). This is a funded defined benefit final salary scheme (career average revalued earnings scheme from 1 April 2014), meaning that the Authority and employees pay contributions into the fund, calculated at a level intended to balance the pension liabilities with investment assets.

In 2013/2014, the Council paid £20.119m to the MPF in respect of retirement benefits, representing 22.9% of employees' pensionable pay. The figures for 2012/2013 were £23.629m and 27.2%. Contributions of £1.989m remained payable at the year-end.

In cases of redundancy or early retirement in the interests of the efficiency of the service, the cost of any added years awarded is borne by the Council and not the Local Government Pension Scheme. In 2013/2014 these contributions amounted to £1.430m representing 1.63% of pensionable pay. The figures for 2012/2013 were £1.308m and 1.51%.

The principal risks of the scheme to the Authority are the longevity assumptions, statutory changes to the scheme, structural changes to the scheme (i.e. large-scale withdrawals from the scheme), changes to inflation, bond yields and the performance of the equity investments held by the scheme. These are mitigated to a certain extent by the statutory requirements to charge the General Fund the amounts required by statute, as described in the accounting policies note.

Transactions Relating to Post-employment Benefits

The cost of retirement benefits is recognised in the Cost of Services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge we are required to make against Council Tax is based on the cash payable in the year, so the real cost of retirement benefits are reversed out of the General Fund via the Movement in Reserves Statement.

The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year:

| 2012/2013 | | Comprehensive Income and Expenditure Statement | 2013/2014 | |
|---------------|---|--|---------------|---|
| LGPS £000s | TPS Unfunded Liabilities £000s | | LGPS £000s | TPS Unfunded Liabilities £000s |
| 15,997 | 0 | <u>Cost of Services:</u> | 20,381 | 0 |
| 1,049 | 0 | Current Service Cost | 852 | 0 |
| 348 | 0 | Curtailment Cost | 439 | 0 |
| | | Administration Expenses | | |
| 12,839 | 561 | <u>Financing and Investment Income and Expenditure:</u> | 13,574 | 484 |
| | | Net Interest Cost | | |
| 30,233 | 561 | Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services | 35,246 | 484 |
| 54,212 | 1,621 | Re-measurement of the Net Defined Benefit Liability | -74,624 | -822 |
| 84,445 | 2,182 | Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement | -39,378 | -338 |

| 2012/2013 | | Movement in Reserves Statement | 2013/2014 | |
|---------------|---|--|---------------|---|
| LGPS £000s | TPS Unfunded Liabilities £000s | | LGPS £000s | TPS Unfunded Liabilities £000s |
| -30,233 | -561 | Reversal of net charges made to the Surplus or Deficit for the Provision of Services for post employment benefits in accordance with the Code | -35,246 | -484 |
| | | <u>Actual amount charged against the General Fund for pensions in the year:</u> | | |
| 25,056 | 1,297 | <ul style="list-style-type: none"> employers' contributions payable to the scheme retirement benefits payable direct to pensioners | 21,549 | 1,273 |

Assets and Liabilities in Relation to Retirement Benefits

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 plans is as follows:

| 2012/2013 | | | 2013/2014 | |
|---------------|---|---|---------------|---|
| LGPS £000s | TPS Unfunded Liabilities £000s | | LGPS £000s | TPS Unfunded Liabilities £000s |
| -884,995 | -13,729 | Present Value of the Defined Benefit Obligation | -839,065 | -12,118 |
| 551,075 | 0 | Fair Value of Plan Assets | 566,072 | 0 |
| -333,920 | -13,729 | Net Liability arising from defined benefit obligation | -272,993 | -12,118 |

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

| 2012/2013 | | | 2013/2014 | |
|----------------|----------------------------|--|----------------|----------------------------|
| LGPS | TPS | | LGPS | TPS |
| £000s | Unfunded Liabilities £000s | | £000s | Unfunded Liabilities £000s |
| 760,109 | 12,844 | Opening Balance at 1 April | 884,995 | 13,729 |
| 15,997 | 0 | Current Service Cost | 20,381 | 0 |
| 36,675 | 561 | Interest Cost on Pension Liabilities | 36,670 | 484 |
| 5,510 | 0 | Contributions from scheme participants | 5,564 | 0 |
| | | Remeasurement Gains (-) and Losses: | 0 | 0 |
| 8,441 | 168 | - Actuarial Gains / Losses arising from changes in demographic assumptions | 5,055 | 125 |
| 86,025 | 1,453 | - Actuarial Gains / Losses arising from changes in financial assumptions | -51,286 | -525 |
| 0 | 0 | - Experience Gains / Losses | -33,710 | -422 |
| -28,811 | -1,297 | Benefits paid | -29,456 | -1,273 |
| 1,049 | 0 | Curtailment Cost | 852 | 0 |
| 884,995 | 13,729 | Closing Balance at 31 March | 839,065 | 12,118 |

Reconciliation of the Movements in the Fair Value of the Scheme (Plan) Assets

| 2012/2013 | | | 2013/2014 | |
|----------------|----------------------------|---|----------------|----------------------------|
| LGPS | TPS | | LGPS | TPS |
| £000s | Unfunded Liabilities £000s | | £000s | Unfunded Liabilities £000s |
| 485,578 | 0 | Opening Balance at 1 April | 551,075 | 0 |
| 23,836 | 0 | Interest Income | 23,096 | 0 |
| | | Remeasurement Gains / Losses (-): | | |
| 40,254 | 0 | - The return on plan assets, excluding the amount included in the net operating expense | -5,317 | |
| 25,056 | 1,297 | Contributions from Employer | 21,549 | 1,273 |
| 5,510 | 0 | Contributions from Employees into the Scheme | 5,564 | 0 |
| -28,811 | -1,297 | Benefits paid | -29,456 | -1,273 |
| -348 | 0 | Administration Expenses | -439 | 0 |
| 551,075 | 0 | Closing Balance at 31 March | 566,072 | 0 |

Local Government Pension Scheme Assets Comprised:

| 2012/2013 | | | 2013/2014 | |
|----------------|----------|---------------------------|----------------|----------|
| Quoted | Unquoted | | Quoted | Unquoted |
| £000s | £000s | | £000s | £000s |
| 10,846 | 0 | Cash and Cash Equivalents | 15,029 | 0 |
| | | Equities: | | |
| 139,660 | 0 | - UK Quoted | 149,632 | 0 |
| 174,137 | 0 | - Global Quoted | 172,360 | 0 |
| 313,797 | 0 | | 321,992 | 0 |
| | | Bonds: | | |
| 28,002 | 0 | - UK Government | 23,883 | 0 |
| 13,499 | 0 | - UK Corporate | 14,936 | 0 |
| 60,877 | 0 | - UK Index Linked | 53,875 | 0 |
| 102,378 | 0 | | 92,694 | 0 |

| 2012/2013 | | | 2013/2014 | |
|-----------------|-------------------|---|-----------------|-------------------|
| Quoted £000s | Unquoted £000s | | Quoted £000s | Unquoted £000s |
| 0 | 27,148 | Property: | | |
| 3,180 | 8,479 | - UK Direct Property | 0 | 27,638 |
| 0 | 4,809 | - Property Managed (UK) | 3,491 | 8,958 |
| | | - Property Managed (Global) | 0 | 5,311 |
| 3,180 | 40,436 | | 3,491 | 41,907 |
| | | Alternatives: | | |
| 478 | 14,000 | - Private Equity (UK) | 406 | 14,553 |
| 0 | 14,399 | - Private Equity (Global) | 0 | 13,730 |
| 1,481 | 21,632 | - Hedge Funds (UK) | 1,600 | 23,175 |
| 0 | 1,024 | - Hedge Funds (Global) | 0 | 847 |
| 2,145 | 3,071 | - Infrastructure (UK) | 1,714 | 5,128 |
| 0 | 3,288 | - Infrastructure (Global) | 0 | 4,496 |
| 7,393 | 4,473 | - Opportunities (UK) | 8,258 | 7,893 |
| 4,320 | 2,734 | - Opportunities (Global) | 4,869 | 4,290 |
| 15,817 | 64,621 | | 16,847 | 74,112 |
| | | | | |
| 446,018 | 105,057 | Total Assets (Quoted / Unquoted) | 450,053 | 116,019 |
| | | | | |
| | 551,075 | Total Assets | | 566,072 |

Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent upon assumptions about mortality rates, salary levels etc. Both the Local Government Pension Scheme and Teachers' Pension Scheme Unfunded Liabilities have been estimated by Mercer Human Resource Consulting, an independent firm of actuaries, estimates being based on the latest full actuarial valuation of the scheme as at 31 March 2013.

The principal assumptions used by the actuary have been:

| 2012/2013 | | 2013/2014 |
|-----------|--|----------------------------|
| | <u>Long-term expected rate of return on assets in the scheme:</u> | |
| 7.0% | Equity Investments | 7.0% |
| 2.8% | Government Bonds | 3.4% |
| 3.9% | Other Bonds | 4.3% |
| 5.7% | Property | 6.2% |
| 0.5% | Cash/Liquidity | 0.5% |
| 7.0% | Other Assets | Dependent on Type of Asset |
| | <u>Mortality assumptions (years):</u> | |
| 21.8 | Longevity at 65 for current pensioners: Men | 22.3 |
| 24.7 | Longevity at 65 for current pensioners: Women | 25.2 |
| 23.7 | Longevity at 65 for future pensioners: Men | 24.7 |
| 26.6 | Longevity at 65 for future pensioners: Women | 28.0 |
| | <u>Other assumptions</u> | |
| 2.4% | Rate of Inflation - CPI | 2.4% |
| 3.9% | Rate of increase in salaries | 3.9% |
| 2.4% | Rate of increase in pensions - CPI | 2.4% |
| 4.2% | Rate for discounting scheme liabilities (LGPS) | 4.4% |
| 3.7% | Rate for discounting scheme liabilities (TPS Unfunded Liabilities) | 4.3% |

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table above. 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 for longevity, for example, assume that life expectancy increases for men and women. In practice, this is unlikely to occur, and changes in some of the assumptions are interrelated. The estimations in the sensitivity analysis have followed the accounting policies of the scheme, i.e. on an actuarial basis using the projected unit cost 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 | |
|--|--|---------------------------------|
| | Increase in Assumption £000s | Decrease in Assumption £000s |
| <u>Local Government Pension Scheme</u> | | |
| Longevity (increase or decrease in 1 year) | 16,516 | -16,516 |
| Rate of Inflation (increase or decrease by 0.1%) | 15,064 | -15,064 |
| Rate of Increase in Salaries (increase or decrease by 0.1%) | 3,327 | -3,327 |
| Rate of Increase in Pensions (increase or decrease by 0.1%) | 15,064 | -15,064 |
| Rate for Discounting Scheme Liabilities (increase or decrease by 0.1%) | -14,799 | 14,799 |
| <u>Teachers' Additional Unfunded Pensions</u> | | |
| Longevity (increase or decrease in 1 year) | 322 | -322 |
| Rate of Inflation (increase or decrease by 0.1%) | 86 | -86 |
| Rate for Discounting Scheme Liabilities (increase or decrease by 0.1%) | -86 | 86 |

Impact on the Authority's Cash Flows

The objectives of the Local Government Pension Scheme are to keep employers' contributions at as constant a rate as possible. The Council has agreed a strategy with the scheme's actuary to achieve a funding level of 100% over the next 22 years. Funding levels are monitored on an annual basis. The most recent triennial valuation took place on 31 March 2013 and has set contributions levels for 2014/2015 to 2016/2017. This valuation took account of the changes to the scheme from 1 April 2014 which introduced a new career average revalued earnings scheme for future service rather than a final salary scheme. The next valuation will take place on 31 March 2016.

The total contributions expected to be made to the local government pension scheme by the Council in the year to 31 March 2015 is £42.956m. This includes a one-off payment in April of £28.645m to cover the deficit recovery contributions for the next three years (for which the Council received a discount). Contributions in 2015/2016 and 2016/2017 will be significantly less as no deficit recovery contribution will be required in those years. The Council will temporarily utilise £19.477m of Earmarked Reserves in 2014/2015 to fund part of the payment. Earmarked Reserves will be increased again in 2015/2016 and 2016/2017 when no deficit recovery payment is required.

The total payments expected to be made by the Council to former teachers receiving additional unfunded pensions in the year to 31 March 2015 is £1.283m.

The weighted average duration of the defined benefit obligation for Local Government Pension Scheme members is 18 years in 2013/2014 (15 years in 2012/2013). The weighted average duration for former teachers receiving additional unfunded pensions is 7 years in 2013/2014 (9 years in 2012/2013).

57 CONTINGENT LIABILITIES

Business Rates Appeals: The Council has made a provision for Appeals that is its best estimate of the actual liability as at the year-end based on appeals that were outstanding at 31 March 2014. It is not possible to quantify appeals that have not yet been lodged with the Valuation Office Agency so there is a risk to the Council that national and local appeals may have a future impact on the accounts.

Collateral warranty by the Council in favour of the Security Trustee (Prudential Trustee Company Limited)

The Council has given a number of warranties for up to 35 years in respect of environmental pollution, statements, title, encumbrances, planning matters, statutory obligations, adverse orders, tenancies, information and statistics supplied, sales off, disputes and litigation, rights of entry to maintain and repair, absence of adverse replies, electricity sub-stations and shop leases, leasehold property, wayleaves, telecommunications and works undertaken.

In addition the following specific warranties have been given from the date of transfer (30 October 2006):

- Unlimited warranty for up to 35 years in respect of vires claims
- Warranty for up to 20 years in respect of claims in relation to asbestos, except that this shall not apply in respect of the first £10,685,780 of costs and expenses incurred in aggregate on asbestos works.

In aggregate the value of these warranties is limited to £100,500,000 plus any costs associated with interest and loan breakage costs due under the One Vision Loan Agreement.

Collateral warranty by the Council in favour of One Vision Housing Limited

The Council has given a number of warranties for up to 17 years in respect of statements, title, encumbrances, planning matters, statutory obligations, adverse orders, tenancies, information and statistics supplied, sales off, disputes and litigation, rights of entry to maintain and repair, absence of adverse replies, electricity sub-stations and shop leases, leasehold property, wayleaves, telecommunications and works undertaken.

In addition the following specific warranties have been given from the date of transfer (30 October 2006):

- Warranty not exceeding £100,500,000 for up to 20 years in respect of environmental pollution.
- Warranty for up to 20 years in respect of claims in relation to asbestos, except that this shall not apply in respect of the first £8,439,750 of costs and expenses incurred in aggregate on asbestos works.
- Unlimited warranty for up to 17 years in respect of vires claims.

Contamination Costs: During 2011/2012 it was identified there was a site in the Borough that was contaminated and there would be significant costs associated with clearing the contamination. Sefton has established an Earmarked Reserve of £1.500m to cover potential costs associated with clearing the contamination. There is a potential further liability if the costs of clearing the contamination are greater than currently envisaged.

Equal Pay Claims: The Council have created a provision to cover the potential costs of claims received to 31 March 2014 which are expected to be settled in 2014/2015. There are currently no other equal pay claims that have been lodged with the Council.

Merseyside Pension Fund - Contractor Admission Bodies: The Council provides guarantees for any potential unfunded liabilities on the Merseyside Pension Fund for Sefton New Directions Limited and Arvato Public Sector Services Limited. The most recently notified value of the guarantee for Sefton New Directions is £0.975m. Following the most recent valuation there is currently no guarantee value required for Arvato. However, this may change in future years. Sefton and Arvato's parent company would jointly fund any future liability, the split dependent on the factors leading to the liability.

Municipal Mutual Insurance: The Scheme of Arrangement for the above company was enacted during 2012/2013. The liability upon the Council as a scheme creditor cannot be fully estimated at this stage for unknown claims incurred but not reported between 1974 and 1992. Whilst the Council has considered the financial impact in producing its Statement of Accounts, by including resources in its Insurance Provision, there is a risk that the Council's financial liability could increase from this level.

58 CONTINGENT ASSETS

Plaza Community Cinema, Crosby: The Council provided financial assistance to the Trustees of the Plaza Cinema between 2006 and 2008. If the Cinema ceases to trade before 16 July 2016 then £100,000 will be due to the Council.

Receipts from Former Council House Sales: The Council have agreed to share any proceeds of former council house sales if they are subsequently sold by One Vision Housing Limited. The arrangement lasts until 31 March 2037 and the amount received will depend on the number of sales each year.

VAT Sharing Arrangement: As part of the voluntary stock transfer an agreement was reached with One Vision Housing Limited to share their VAT that they can claim from HM Revenue and Customs. This arrangement is unique to councils and registered social landlords upon transfer. This arrangement is due to end on 30 October 2016. Sefton's share of reclaimable VAT is likely to be in the region of £0.4m until the end of the arrangement.

59 FINANCIAL INSTRUMENTS

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability of another. Typical financial instruments include trade payables and borrowings (liabilities) and investments and trade receivables (assets).

Financial Instruments in so far as the Authority is concerned relate to investments, cash and cash equivalents, loans receivable, borrowings, trade payables and receivables.

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

| | Long Term | | Current | |
|--|---------------------|---------------------|---------------------|---------------------|
| | 31/03/2013 £000s | 31/03/2014 £000s | 31/03/2013 £000s | 31/03/2014 £000s |
| Investments | | | | |
| Loans and receivables | 1 | 1 | 20,056 | 20,084 |
| Cash and cash equivalents | | | 20,435 | 37,234 |
| Total investments | 1 | 0 | 40,491 | 57,318 |
| Receivables | | | | |
| Loans and receivables | 7,898 | 7,301 | | |
| Financial assets carried at contract amounts | | | 33,943 | 36,655 |
| Total Receivables | 7,898 | 7,301 | 33,943 | 36,655 |
| Borrowings | | | | |
| Financial liabilities at amortised cost | 123,171 | 120,527 | 941 | 3,439 |
| Bank overdraft | | | 561 | 6,743 |
| Total borrowings | 123,171 | 120,527 | 1,502 | 10,182 |
| Other Long Term Liabilities | | | | |
| PFI and finance lease liabilities | 22,796 | 20,229 | | |
| Total other long term liabilities | 22,796 | 20,229 | | |
| Payables | | | | |
| Financial liabilities carried at contract amount | | | 35,261 | 33,808 |
| PFI and finance lease liabilities | | | 2,831 | 2,285 |
| Total payables | | | 38,092 | 36,093 |

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

| | 31 March 2014 | | |
|---|---|--------------------------------|--------|
| | Financial Liabilities | Financial Assets | Total |
| | Liabilities measured at amortised cost £000s | Loans and receivables £000s | |
| Interest expense | -7,112 | 0 | |
| Interest payable and similar charges | -7,112 | 0 | -7,112 |
| Interest Receivable | | 576 | |
| Income on Investment Properties | 0 | 1,597 | |
| Interest and investment income | 0 | 2,173 | 2,173 |
| Net loss (-) / gain for the year | -7,112 | 2,173 | |

Comparative figures for the previous financial year are made up as follows:

| | 31 March 2013 | | |
|---|---|--------------------------------|----------------|
| | Financial Liabilities | Financial Assets | |
| | Liabilities measured at amortised cost £000s | Loans and receivables £000s | Total £000s |
| Interest expense | -7,374 | - | |
| Interest payable and similar charges | -7,374 | 0 | -7,374 |
| Interest Receivable | | 652 | |
| Income on Investment Properties | - | 1,876 | |
| Interest and investment income | 0 | 2,528 | 2,528 |
| Net loss (-) / gain for the year | -7,374 | 2,528 | |

Fair Value of Assets and Liabilities.

Financial liabilities and financial assets represented by loans and receivables are carried in the Balance Sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments, using the following assumptions:

- The discount rate used in the net present value calculation is equal to the current rate in relation to the same instrument from a comparable lender. This rate will be the rate applicable in the market on the date of valuation, for an instrument of the same duration.
- For PWLB debt the new borrowing rate has been used, as opposed to the premature repayment rate.

The fair value calculation has been based on the comparable new borrowing / deposit rate for the same financial instruments from a comparable lender. A consistent approach has been applied to assets and liabilities.

The purpose of the fair value valuation is to allow evaluation quantitatively of the Authority's financial position and performance with regard to each class of financial instrument, and also to indicate the extent of the Authority's risk exposure arising as a result of these transactions. The fair value also indicates the cost / benefits to the Council of retaining fixed interest borrowings and investments to maturity.

The fair values calculated are as follows:

| | 31 March 2013 | | 31 March 2014 | |
|---------------------------------------|--------------------------|---------------------|--------------------------|---------------------|
| | Carrying amount £000s | Fair value £000s | Carrying amount £000s | Fair value £000s |
| Borrowing | 124,112 | 136,161 | 123,966 | 131,364 |
| Other Short and Long-term liabilities | 25,627 | 31,429 | 22,514 | 26,829 |

Following the requirement to report the fair value of PFI and other Service Concessions, short term liabilities are now included in the above table. This enables the full carrying amount of the concessions to be included and comparable against the fair value. The previous years figures have been restated to reflect this.

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

| | 31 March 2013 | | 31 March 2014 | |
|-----------------------|--------------------------|---------------------|--------------------------|---------------------|
| | Carrying amount £000s | Fair value £000s | Carrying amount £000s | Fair value £000s |
| Loans and receivables | 20,056 | 20,073 | 20,084 | 20,096 |
| Long-term Receivables | 7,898 | 7,898 | 7,301 | 7,301 |

The fair value is more than the carrying amount because the Authority's portfolio of investments includes a number of fixed rate investments where the interest rate receivable is higher than the rates available for similar investments at the Balance Sheet date. This guarantee to receive interest above the current market rate increases the amount that the Authority would receive if it agreed to early repayment of the investments.

Short term receivables and payables are carried at cost as this is a fair approximation of the value.

60 **NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS**

The Authority is required to disclose information, which enables the user of these statements of accounts to evaluate the nature and extent of any risk arising from Financial Instruments.

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

- i) Credit risk – the possibility that other parties may fail to pay amounts due to the Authority;
- ii) Liquidity risk – the possibility that the Authority may not have funds available to meet its commitments to make payments;
- iii) Market risk – the possibility that financial loss may arise for the Authority as a result of changes in such measures as interest rates or stock market movements.

The Treasury Management Policy and Strategy documents approved by Council annually seek to limit the risk of potential adverse effects on resources available to fund services arising due to the impact of unpredictable movements in the financial markets on treasury management activity undertaken by the in-house team.

Credit Risk

The main element of credit risk the Authority is exposed to arises from deposits with banks, building societies and money market funds, as well as credit exposures to the Authority's customers.

This risk is managed through the Authority's Treasury Management Policy and Strategy documents approved by Council annually. These documents set out the limits in terms of value and duration over which investment can be made with the various Banks and Building Societies included on the Authority's Counter Party lending list. This counter party list is made up of the institutions that have been rated using the Fitch and Moody's scoring methodologies and any changes to the institutions rating that result in a non compliance with the minimum criteria will see the institution taken off the counter party list.

Credit rating agencies such as Fitch and Moody's rate institutions depending upon:

- Long term ability to meet all of their most senior financial obligations on a timely basis
- Short term ability to meet financial obligations within a relatively short time period
- Individual rating attempts to assess how a bank would be viewed if it was entirely independent of any external support
- Support rating is the likelihood of a potential supporter's propensity and ability to support the institution

The sovereign rating is an additional rating criteria that is now used. It reflects the strength of a country's economy, and hence the ability of a country's Government to support its financial institutions.

The credit criteria in respect of Financial Assets held by the Authority is as detailed below:

| Financial Asset Category | Criteria | Maximum Investment |
|----------------------------------|---|--|
| Deposits with banks | Sovereign rating: AA+ Short Term: F1+ Long Term: A- Individual rating: C Support: 2 Active in sterling markets | £25m (the Authority currently operates a £15m operational limit) |
| Deposits with building societies | Short Term: F1 (Fitch) / P-1 (Moody) Active in sterling markets Minimum total assets: £2,000m | £7.5m (except Nationwide £15m) |
| Deposits with money market funds | Sovereign rating: AAA | £15m |

The above table demonstrates that the Authority will only invest in institutions that have the highest credit rating scores. For Banks, a risk score of F1+ (exceptionally strong credit quality), A- (high credit quality – low credit risk and considered to have a strong capacity to pay financial commitments) and Building Societies that have a risk score of F1 (highest credit quality), P-1 (low risk).

The following analysis summarises the Authority's potential maximum exposure to credit risk at the balance sheet date. The figures represent the actual investment made and, based on experience of default and uncollectability over the last 8 financial years, adjusted to reflect current market conditions:

| Estimated maximum exposure at 31/03/13 | | Amount at 31/03/14 | Historical experience of default | Historical experience adjusted for market conditions at 31/03/14 | Estimated maximum exposure to default & uncollectability at 31/03/14 |
|--|----------------------------|--------------------|----------------------------------|--|--|
| £000s | | £000s | % | % | £000s |
| | | A | B | C | (A x C) |
| 0 | Deposits with Banks | 36,466 | 0 | 0 | 0 |
| 0 | Deposits with Money Market | 20,393 | 0 | 0 | 0 |
| 361 | Customers | 13,880 | 2.83% | 2.83% | 393 |
| 361 | | | | | 393 |

The Authority has no history of non-repayment of investments. There were no instances of counterparties failing to meet contractual obligations in relation to deposits during the financial year, and whilst no guarantee can be given against default, the Authority does not expect any losses from non-performance by any of its counterparties in relation to deposits.

The Authority also reduces its exposure of credit risk by limiting the number of investments with a maturity period of between 1 and 5 years to a maximum of 40% of our total investments. This ensures that the Authority does not tie up all its funds for a long period of time, increasing the risk of a bank running into financial problems.

As mentioned previously, the Authority has changed its investment policy with banks and now only invests with extremely highly rated banks (with a Sovereign rating: AA+) that are backed by the Government in which the bank is situated. The profile of investments by country is shown below:

| | Total Investments at 31 March 2013 £000s | Total Investments at 31 March 2014 £000s |
|----------------------------|--|--|
| United Kingdom Banks | 20,056 | 20,084 |
| Other: Republic of Ireland | 0 | 0 |
| | 20,056 | 20,084 |

The Authority does not generally allow credit for customers, such that £11.705m of the £13.880m balance is past its due date for payment. The past due amount can be analysed by age as follows:

| | 31 March 2013 £000s | 31 March 2014 £000s |
|--------------------------|------------------------|------------------------|
| Less than three months | 2,829 | 2,407 |
| Three months to one year | 2,388 | 2,529 |
| More than one year | 6,775 | 6,769 |
| | 11,992 | 11,705 |

A provision for bad debts relating to customers exists which totals £3.192m at 31 March 2014 (£2.966m at 31 March 2013). This provision relates to a wide variety of assets of which none are individually significant. The provision was increased by £0.769m in 2013/2014 (£0.213m in 2012/2013) and £0.542m was written-off during the year (£0.613m in 2013/2014).

Of this debt £4.994m is secured against properties at 31 March 2014 (£4.990m as at 31 March 2013). These properties are held as collateral but cannot be pledged or resold unless the owner defaults.

Liquidity Risk

The Authority has a comprehensive cash flow management system that seeks to ensure that cash is available as needed. If unexpected movements happen, the Authority has ready access to borrowings from the Public Works Loans Board (PWLB) and Money Markets as a result of the annual Treasury Management Policy and Strategy documents approved by Council. The authority has set an affordable borrowing limit that reflects its underlying need to borrow for a capital purpose, and this includes an allowance for exceptional cash flow movements. There is thus no significant risk that the Authority will be unable to raise finance to meet its commitments.

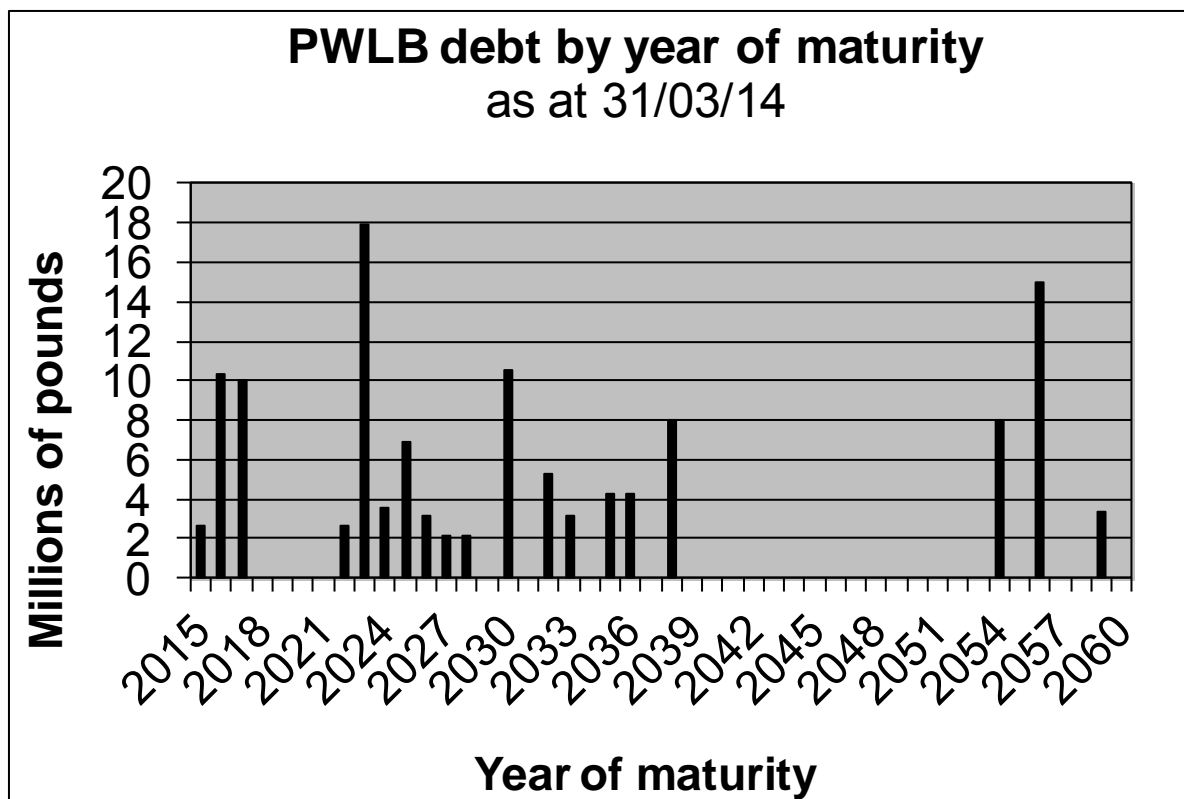
The risk for the Authority is that it will need to replace its borrowings at a time when interest rates are unfavourable, leading to additional ongoing financing costs. The strategy for the Council is to ensure that by careful planning of the repayment date for new and replacement loans, and (when economic to do so) the restructuring of debt, the maturity profile of its fixed rate loans do not exceed or fall below the limits for the periods set out below. These limits also ensure that the Authority does not have significant amounts of variable borrowing in the long term, exposing itself to major movements in interest rates. Analyses of the Council's debt by type and maturity are shown in the following tables.

| <u>31 March</u> <u>2013</u> £000s | <u>Analysis of Loans by Type:</u> | Range of Interest Rates Payable (%) | <u>31 March</u> <u>2014</u> £000s |
|---|--|---|---|
| 124,092 | Public Works Loan Board | 1.86 – 11.13 | 123,946 |
| 0 | Money Market | | 0 |
| 16 | Individuals | 0.00 | 16 |
| 0 | Other Local Authorities | | 0 |
| 4 | Other | 6.50 | 4 |
| 124,112 | Total | | 123,966 |

| 31 March 2013 £000s | Analysis of Loans by Maturity: | 31 March 2014 £000s |
|---------------------------|---------------------------------------|---------------------------|
| 941 | Maturing within one year | 3,439 |
| 2,800 | Maturing in 1-2 years | 10,330 |
| 20,174 | Maturing in 2-5 years | 10,000 |
| 20,547 | Maturing in 5-10 years | 24,090 |
| 17,770 | Maturing in 10-15 years | 14,227 |
| 19,040 | Maturing in 15-20 years | 19,040 |
| 16,462 | Maturing in 20-25 years | 16,462 |
| 0 | Maturing in 25-30 years | 0 |
| 0 | Maturing in 30-35 years | 0 |
| 0 | Maturing in 35-40 years | 8,000 |
| 23,000 | Maturing in 40-45 years | 18,358 |
| 3,378 | Maturing in more than 45 years | 20 |
| 124,112 | Total | 123,966 |

The Analysis of Loans by Type shows the total of loans that are due to be repaid within one year (shown as Short-Term Borrowing on the Balance Sheet) and those due to be repaid in more than one year (shown as Long-Term Borrowing on the Balance Sheet).

The maturity profile of the Council's PWLB debt only is shown in the following chart.



All trade and other payables are due to be repaid within one year.

Market Risk

a) Foreign Exchange Risk

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

b) Price Risk

The Authority has no financial assets at the Balance Sheet date which are classified as 'Available for Sale' for example equity shareholdings and quoted investments and is thus not exposed to risk arising from movements in the price of such assets due to changes in general economic conditions.

c) Interest Rate Risk

The Authority is exposed to significant risk in terms of its exposure to interest rate movements on its borrowings and investments. As an example of this, a rise in interest rate has the following effects:

- i) Borrowings at variable rates – the interest expense charged to the surplus or deficit on the provision of services will rise;
- ii) Borrowings at fixed rates – the fair value of the loan will fall;
- iii) Investments at variable rates – the interest income credited to the surplus or deficit on the provision of services will rise;
- iv) Investments at fixed rates – the fair value of the investment will fall.

Borrowings are carried at amortised cost on the Balance Sheet not fair value, and so nominal gains and losses on fixed rate borrowings would not impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure. However, changes in variable rates on borrowings and investments will be posted to the Surplus or Deficit on the Provision of Services and affect the General Fund Balance.

The annual Treasury Management Policy and Strategy documents approved by Council contain a number of strategies for managing interest rate risk. To guard against the impact of adverse changes in interest rates, the maximum proportion of borrowing subject to variable interest rates is limited to 33% along with a maximum proportion of investments subject to variable rates limited to 40%.

During periods of falling interest rates, and where economic circumstances make it favourable, the Authority will look to reschedule its loans in order to limit its exposure to losses and so reduce its capital financing costs.

The in-house Treasury Management team receives professional advice and has an active strategy for assessing interest rate exposure via the use of indicators. This is used to establish and monitor the budget for capital financing costs, allowing any adverse changes to be accommodated. The monitoring of interest rate exposure assists with the decision as to whether new borrowing or investment undertaken is fixed or variable.

Based on the assessment strategy for interest rate risk if interest rates had been 1% higher with all other variables held constant on 31 March, the financial effect would be (note that the percentages quoted are for illustrative purposes only and are not an indication of the likely change):

| 31 March 2013 £000s | | 31 March 2014 £000s |
|---------------------------|--|---------------------------|
| 450 | Increase in interest receivable on variable rate investments (and resultant impact on the Surplus or Deficit on the Provision of Services) | 497 |
| 13,540 | Increase in fair value of fixed rate loans (no impact on Other Comprehensive Income and Expenditure) | 13,453 |
| 24 | Increase in fair value of fixed rate investments (impact on Other Comprehensive Income and Expenditure) | 122 |
| -1,323 | Increase in fair value of financial liabilities (no impact on Other Comprehensive Income and Expenditure) | -1,031 |

The impact of a 1% fall in interest rates would be as above but with the movements being reversed. The 1% variation chosen for sensitivity analysis can be treated as a flat line change, so a 5% variation will result in amounts totalling five times the amount included in the table above.

The Authority held no loans at variable rate at the Balance Sheet date so any movement in interest rates will have no effect on the Comprehensive Income and Expenditure Statement.

61 STATEMENT OF ACCOUNTING POLICIES**(a) GENERAL PRINCIPLES**

The Statement of Accounts summarises the Council's transactions for the 2013/2014 financial year and its position at the year end of 31 March 2014. The Council is required to prepare an Annual Statement of Accounts by the Accounts and Audit (England) Regulations 2011 in accordance with proper accounting practices. These practices primarily comprise the *Code of Practice on Local Authority Accounting in the United Kingdom 2013/2014* and the *Service Reporting Code of Practice for Local Authorities 2013/2014*, supported by *International Financial Reporting Standards (IFRS)*.

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

The accounts have been prepared on a going concern basis. The assumption is that the Council will continue in operation for the foreseeable future.

(b) 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 provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure 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 debts may not be settled, the balance of receivables is written down and a charge made to revenue for the income that might not be collected.

(c) ACQUIRED OPERATIONS

Responsibility for the provision of a range of public health services was transferred from the primary care trusts (PCT) to local authorities from 1 April 2013. This has been treated as an Acquired Operation and is shown separately in the Income and Expenditure Statement below Continuing Operations.

Some Council expenditure was previously funded by PCTs. For 2012/2013 this expenditure is shown under the relevant service heading, e.g. Cultural and Related Services. For 2013/2014 the equivalent expenditure is now shown under the Public Health service heading.

(d) CARBON REDUCTION COMMITMENT

The Council is required to participate in the Carbon Reduction Commitment (CRC) Energy Efficiency Scheme. This scheme has completed its introductory phase and the second phase of the scheme started in April 2013. The Council is required to purchase allowances retrospectively, on the basis of emissions (i.e. carbon dioxide produced as energy is used). As carbon dioxide is emitted (i.e. as energy is used), a liability and an expense are recognised.

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 cost of the Council's services and is apportioned to services on the basis of energy consumption.

(e) 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 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 Authority has five different reserve accounts as at 31 March 2014 that it has determined to be Cash Equivalents.

In the Balance Sheet and 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.

(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 Property, Plant and Equipment and Intangible 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, revaluation and impairment losses or amortisation. However it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the Council in accordance with statutory guidance. Depreciation, revaluation and impairment losses are therefore replaced by the contribution in the General Fund Balance (Statutory Provision for the Financing of Capital Investment) by way of an adjusting transaction with the Capital Adjustment Account in the Movement of Reserves Statement for the difference between the two.

(g) EMPLOYEE BENEFITS**Benefits payable during employment**

Short term employee benefits are those due to be settled within 12 months of the year end. They include such benefits as wages, 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 for services in the year in which the employees render service for the Council. An accrual is made for the cost of holiday entitlements (or any form of leave e.g. time off in lieu), earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following financial year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday entitlements are charged to revenue in the financial year to which the holiday absence occurs.

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the authority to terminate an officer's appointment before the normal retirement date or an officer's decision to accept voluntary redundancy in exchange for those benefits and are charged on an accruals basis to the appropriate service or, where applicable, to the Non Distributed Costs line in the Comprehensive Income and Expenditure Statement at the earlier of when the Authority can no longer withdraw the offer of those benefits or when the Authority recognises costs for a restructuring.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Authority 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 Council are members of three separate pension schemes:

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

These Schemes are defined benefits schemes in that they provide defined benefits to members (retirement lump sums and pensions) earned as employees working for the Council.

However, the arrangements for the Teachers' Pension Scheme and NHS Pension Scheme mean that liabilities for these benefits cannot ordinarily be identified specifically to the Council. The scheme is therefore accounted for as if it were a defined contribution scheme and 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. The Public Health line in the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to NHS Pensions in the year.

The Local Government Pension Scheme

The Local Government Scheme is accounted for as a defined benefits scheme:

- The liabilities of the 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 current earnings for current employees.
- Liabilities are discounted to their present value at current prices using a discount rate of 4.4% based on the indicative rate of return on high quality corporate bonds (based on a weighted average of 'spot yields' on AA rated corporate bonds).
- The assets of Merseyside Pension Fund attributable to the Council are included in the Balance Sheet at their fair value:
 - Quoted Securities – current bid price,
 - Unquoted securities – professional estimate,
 - Unitised securities- current bid price,
 - Property – market value.
- The change in the net pensions liability is analysed into the following components:

Service cost comprising:

- 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 employee worked.
- Past Service Cost - the increase in liabilities as a result of scheme amendment or curtailment whose effect relates to years of service earned in earlier years - debited to the Surplus or 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), i.e. net interest expense of the Authority - 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 year as a result of contribution and benefit payments.

Remeasurements comprising:

- The Return on Plan Assets – excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.
- Actuarial Gains and Losses - changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions - charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.

Contributions paid to the Merseyside Pension 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 Authority 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 therefore measures the beneficial impact on the General Fund of being required to account for retirement benefits on the basis of cash flows rather than benefits which 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 BALANCE SHEET DATE

Events after the Balance Sheet date 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.
- Those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is 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 authorisation to issue are not reflected in the Statement of Accounts.

(i) FINANCIAL INSTRUMENTS**General Comment**

A financial instrument is any contract that gives rise to a financial asset in one entity, and a financial liability in another. Most straight forward financial assets (receivables, bank deposits, investments etc) and liabilities (payables, borrowings etc) are covered by this policy.

Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are subsequently 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 investment. 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.

For most of the borrowings that the Council has, this means that the amount 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.

Financial Assets

Financial Assets are classified into two types;

- Loans and receivables - assets that have fixed or determinable payments but are not quoted in an active market.
- Available for sale assets - assets that have a quoted market price and/or do not have fixed or determinable payments. The Council has no Available for Sale Assets.

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. For most of the loans that the council has made, this means that the amount presented in the Balance Sheet is the principle outstanding plus or minus accrued interest and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

If an asset is identified as impaired because of the likelihood arising from a past event that payments due under a contract will not be made, the asset is written down and a charge made to the relevant service (for receivables specific to that service) or 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 or losses that result from the de-recognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

Warranties and Guarantees

The Council has entered into a number of Guarantees that are not required to be accounted for as Financial Instruments. These guarantees are reflected in the Statement of Accounts to the extent that at some future date a provision or earmarked reserve may have to be set up. These guarantees relate to:

- Housing stock transfer warranties,
- Pension guarantees related to contractor admissions bodies, such as New Directions, arvato and Capita Symonds.

(j) 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 effected.

(k) 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 authority where there is reasonable assurance that:

- The Authority 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 the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as payables. When conditions are satisfied, the grant or contribution is credited to the relevant services line (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (Non-Ringfenced Government Grants and Capital Grants and Government 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 Reserve. Where it has been applied, it is posted to the Capital Adjustments Account. Amounts in the Capital Grants Unapplied Reserve are transferred to the Capital Adjustments Account once they have been applied to fund capital expenditure.

(l) HERITAGE ASSETS

A heritage asset is an asset that is held due to its historical, artistic, scientific, technological, or environmental qualities, and is maintained principally for its contribution to knowledge and culture. The Authority's heritage assets are held in a number of locations, such as Town Halls and the Atkinson Centre.

The collection consists principally of a ceramic collection, a silver collection, works of art, an Egyptology collection, several war memorials, and the art installation "Another Place". The collection is mainly valued on an insurance valuation basis. However, a number of war memorials are held that are valued at a nominal £1.

The assets are felt to have indeterminate lives and a high residual value; hence the Authority does not consider it appropriate to charge depreciation.

The Authority considers that obtaining valuations for the collection would involve disproportionate cost. This is because of the diverse nature of the assets and the lack of comparable market values.

Heritage Assets are recognised and measured (including the treatment of revaluation gains and losses) in accordance with the Authority's accounting policies on property, plant and equipment (note (q)). The carrying amounts of Heritage Assets would be reviewed where there was evidence of impairment, e.g. where an item has suffered physical deterioration or breakage or where doubts arise about its authenticity. Any impairment would be recognised and measured in accordance with the Authority's general policies on impairment (see Impairment section of note (q)). If any items were disposed of, the proceeds would be accounted for in accordance with the Authority's general provisions relating to the disposal of property, plant and equipment. Disposal proceeds are disclosed separately in the notes to the financial statements and are accounted for in accordance with statutory accounting requirements relating to capital expenditure and capital receipts.

(m) 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 licenses) is capitalised when it is expected that the future economic benefits or service potential will flow from the intangible asset to the Council.

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

Intangible assets are carried at amortised cost. An intangible asset is amortised over its useful life to the relevant service lines 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 of Reserves Statement and posted to the Capital Adjustments Account and (if sales proceeds exceed £10,000) the Capital Receipts Reserve.

(n) INTERESTS IN COMPANIES AND OTHER ENTITIES

The Council has a material interest in a company that is a subsidiary and is required to prepare group accounts. In the Council's own single entity accounts the interest in the company is recorded as a long term investment at cost.

In the group accounts transactions and balances between the Council and subsidiary are netted out on consolidation.

(o) INVENTORIES AND LONG TERM CONTRACTS

Inventories are included in the Balance Sheet at the lower of cost or net realisable value. The cost of inventories is assigned using the First-In-First-Out costing formula.

Long term contracts are accounted for on the basis of charging the Surplus or Deficit on the Provision of Services with the value of works and services received under the contract during the financial year.

(p) INVESTMENT PROPERTY

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 the production of goods or is held for sale.

Investment Properties are measured initially at cost. This is the amount of cash or cash equivalents paid or the fair value of other consideration given to acquire an asset at the time of its acquisition. They are subsequently measured at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arms length. Properties are not depreciated but are revalued on a three year rolling basis according to market conditions at the year end. An impairment review of those assets not revalued as part of the rolling programme is undertaken, and any changes in the fair value of assets noted is reflected within the accounts. Due to changes in the guidance a move to an annual revaluation of all investment properties will be undertaken in 2014/2015. 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 General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any proceeds above £10,000) the Capital Receipts Reserve.

(q) LEASES

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

However, where lease agreements now deemed to be finance leases were concluded before December 2010 the Local Authorities (Capital Finance and Accounting) (Amendment) (England) Regulations 2010 Number 454 allows ameliorating transactions to be made. This means the impact on Council Taxpayers will be the same as under the previously held policy of treating these leases as revenue items. This will remain the case until the agreements are reassigned.

Subsequent to this, leases will be classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to the ownership of property from the lessor to the lessee. All other leases are to be 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 a payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

THE COUNCIL AS A LESSEE**Finance Leases**

Property, plant and equipment held under Finance leases will be recognised on the balance sheet at the commencement of the lease at its fair value measured at the leases inception (or the present value of the minimum lease payments if lower). The asset recognised will be matched by a liability for the obligation to pay the lessor. Initial direct costs of the Authority are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred.

Lease payments will be apportioned between:

- A charge for the acquisition of the interest in the property, plant or equipment - applied to write down the lease liability,
- 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 is 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 (where ownership of the asset does not transfer to the Council at the end of the lease period).

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 revaluation 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 benefiting from the use of the leased property, plant and 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 (i.e. there is a rent free period at the commencement of the lease).

THE COUNCIL AS A 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 Authority's net investment in the lease is credited to the same line in the Comprehensive Income and Expenditure Statement also as part of a gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal) matched by a lease (long term debtor) asset in the balance sheet.

Lease rentals receivable will be apportioned between:

- A charge for the acquisition of the interest in the property, plant or equipment - applied to write down the lease 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 is not permitted by Statute to increase the General Fund Balance and is required to be treated as a capital receipt. Where a premium, 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 lease 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 Property, Plant and Equipment is fully provided for under separate arrangements for capital financing. Amounts are therefore 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 (i.e. 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 term on the same basis as rental income.

(r) OVERHEADS AND SUPPORT SERVICES

The costs of overhead and support services are charged to those services that benefit from them, in accordance with the costing principles of the CIPFA Service Reporting Code of Practice for Local Authorities 2013/2014. The total absorption costing principle is used – the full cost of overheads and support services are 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 impairment losses chargeable on Assets Held for Sale, Assets Under Construction and Surplus Assets.

These two cost categories are defined in the Service Reporting Code of Practice and accounted for as separate headings in the Comprehensive Income and Expenditure Statement, as part of the Total Cost of Services.

(s) PRIOR YEAR ADJUSTMENTS, CHANGES IN ACCOUNTING POLICY AND ESTIMATES AND ERRORS

Prior year 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 year adjustment.

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

(t) PRIVATE FINANCE INITIATIVE 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 Authority carries the assets used under the contracts on its Balance Sheet as 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.

These 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 operator 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 (the profile of write downs is calculated on the same basis as for a finance lease);
- Lifecycle replacement costs - proportion of the amounts payable is posted to the Balance Sheet as a prepayment and then recognised as additions to Property, Plant and Equipment when the relevant works are eventually carried out.

(u) 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 (PP&E).

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 authority and the cost of the item can be measured reliably. Expenditure that remains but does not add to an assets potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

Measurement

Assets are initially measured at cost, comprising:

- The purchase price,
- 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 initial estimate of the costs of dismantling and removing the item and restoring the site upon which it is located.

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

The cost of assets acquired other than by purchase is deemed to be its fair value, unless the acquisition does not have commercial substance (i.e. it will not lead to a variation in the cash flows of the authority). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying value of the asset given up by the Authority.

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

- Infrastructure, community assets and assets under construction – depreciated historical cost,
- Non HRA dwellings and rented property - fair value, determined using the basis of existing use,
- All other assets - fair 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 (DRC) is used as an estimate of fair value.

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

Assets that create networks i.e. a series of small items that together create a single service potential are not recognised unless they constitute 5% of PP&E or £5m, whichever is the lesser.

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

Where decreases in value 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 accumulated gains),
- 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.

The Revaluation Reserve contains 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 accumulated gains),

- 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.

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, such assets that are not yet available for use (i.e. assets under construction) and assets held for a commercial return (i.e. investment properties).

Where an item of Property Plant or Equipment asset has major components whose cost is significant in relation to the total cost of the item, then the components are depreciated separately. However, CIPFA has allowed an amnesty so that only as assets are revalued do significant components need to be valued separately. Therefore buildings not revalued since 2009/2010 may contain significant components that have yet to be separated. These are currently being depreciated over the useful life of the building. As the Council has a five year revaluation programme, all components should be separately valued by 2014/2015.

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 apparent 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 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 losses previously recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on 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 the 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.

Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.

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.

When an asset has been fully depreciated it is assumed, unless otherwise known, that the asset is disposed of or decommissioned in the following year. The gross value of the asset and the matching accumulated depreciation are then written out as disposals in that year.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts.

The written off value of disposals is not a charge against council tax, as the cost of Property, Plant and Equipment is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the capital adjustments account from the General Fund Balance in the Movement in Reserves Statement.

(v) PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS**Provisions**

Provisions are made where an event has taken place that gives the Authority 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 authority 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, and 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.

When payments are eventually made, they are charged to the provision carried within the Balance Sheet. Estimated settlements are reviewed at the end of each financial year - where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made) 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. an insurance claim), this is only recognised as income for the relevant service if it is virtually certain the reimbursement will be received if the Council settles the obligation.

Amounts required to settle any obligation have not been discounted when included in the accounts.

Equal Pay Claims

The Authority has established a provision to cover the potential costs of known Equal Pay claims that are expected to be settled in 2014/2015. This is accounted for in line with the normal policy above.

Internal Insurance Cover

The Authority has established a provision to cover the potential costs of certain known uninsured losses, i.e. losses arising from excesses that apply to the Authority's main insurance policies. This is accounted for in line with the normal policy above.

Provision for NNDR Appeals

The Authority has established a provision to cover the potential costs for refunding ratepayers who have successfully appealed against the rateable value of their properties. The provision covers the Council's locally retained share (49%) of the cost. This is accounted for in line with the normal policy above.

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 authority. 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.

Contingent Assets

A contingent asset arises where an event has taken place that gives the Council 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 authority.

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 benefit or service potential.

(w) RESERVES

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When the 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 of Reserves Statement so that there is no net change against council tax for the expenditure.

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

(x) REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE

Expenditure incurred during the year that may be capitalised under statutory provisions but that 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 from 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.

(y) VAT

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.

8 COLLECTION FUND

The Collection Fund 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 non-domestic rates.

| 2012/2013 £000s | <u>INCOME AND EXPENDITURE ACCOUNT</u> | Note | 2013/2014 | | |
|--------------------|---|------|--------------------------------|-----------------------------|-----------------------|
| | | | <u>Business Rates</u> £000s | <u>Council Tax</u> £000s | <u>Total</u> £000s |
| | <u>INCOME</u> | | | | |
| | <u>Council Tax</u> | | | | |
| -113,780 | Income from Council Tax Payers | | | -119,632 | -119,632 |
| | Transfers from the General Fund | | | | |
| -26,930 | – Council Tax Benefit | 7 | | 0 | 0 |
| 0 | – Hardship Relief | | | -150 | -150 |
| | <u>Business Rates</u> | | | | |
| -60,128 | Income from Business Ratepayers | | -65,932 | | -65,932 |
| 0 | Transitional Protection Payments | | -1,957 | | -1,957 |
| | <u>Contributions</u> | | | | |
| -501 | Contributions towards previous year's deficit | 2 | | -1,004 | -1,004 |
| -201,339 | Total Income | | -67,889 | -120,786 | -188,675 |
| | <u>EXPENDITURE</u> | | | | |
| | <u>Distribution of Resources</u> | | | | |
| 139,201 | Precepts and Demands - Council Tax | 4 | | 114,787 | 114,787 |
| 0 | Shares of Non-domestic Rates Income | 5 | 65,545 | | 65,545 |
| 58,351 | Payment to National Pool | 6 | 0 | | 0 |
| | <u>Transfers to the General Fund</u> | | | | |
| 322 | Cost of Collection Allowance | | 322 | | 322 |
| 0 | Council Tax Benefit | 7 | | 425 | 425 |
| | <u>Impairment of Debts / Appeals</u> | | | | |
| 4,113 | Provision for Bad and Doubtful Debts | 8 | 927 | 1,976 | 2,903 |
| 0 | Provision for Appeals | 9 | 4,636 | 0 | 4,636 |
| 201,987 | TOTAL EXPENDITURE | | 71,430 | 117,188 | 188,618 |
| 648 | MOVEMENT ON THE FUND BALANCE | | 3,541 | -3,598 | -57 |
| | <u>COLLECTION FUND BALANCES</u> | | | | |
| 361 | Balances Brought Forward | | 0 | 1,009 | 1,009 |
| 648 | Movement on the Fund Balance in Year | | 3,541 | -3,598 | -57 |
| 1,009 | BALANCES AT YEAR END | | 3,541 | -2,589 | 952 |
| | <u>BALANCES TO BE ALLOCATED</u> | | | | |
| 0 | Central Government | | 1,770 | 0 | 1,770 |
| 866 | Sefton MBC | | 1,735 | -2,205 | -470 |
| 98 | Merseyside Police and Crime Commissioner | | 0 | -265 | -265 |
| 45 | Merseyside Fire and Rescue Authority | | 36 | -119 | -83 |
| 1,009 | | | 3,541 | -2,589 | 952 |

NOTES TO THE COLLECTION FUND

1 COUNCIL TAX BASE

The Council's tax base, i.e., the number of chargeable dwellings in each valuation band for 2013/2014 (adjusted for dwellings where discounts apply) converted to a number of band D dwellings, has been calculated as follows:

| <u>Band</u> | <u>Number of Chargeable Dwellings After Discounts</u> | <u>Proportion of Band D Charge</u> | <u>Band D Equivalent Dwellings</u> |
|---|---|------------------------------------|------------------------------------|
| A* | 53.24 | 5/9 | 29.58 |
| A | 19,494.37 | 6/9 | 12,996.25 |
| B | 18,320.22 | 7/9 | 14,249.06 |
| C | 23,820.47 | 8/9 | 21,173.75 |
| D | 12,559.82 | 9/9 | 12,559.82 |
| E | 7,160.31 | 11/9 | 8,751.49 |
| F | 3,496.66 | 13/9 | 5,050.73 |
| G | 2,471.97 | 15/9 | 4,119.95 |
| H | 176.76 | 18/9 | 353.52 |
| | 87,553.82 | | 79,284.15 |
| Adjustment for estimated collection rate (96.50%) | | | -2,774.95 |
| Adjustment for Ministry of Defence properties | | | 7.00 |
| Council Tax Base | | | 76,516.20 |

* Properties subject to disabled relief

Band "D" Equivalent is the statutory method of expressing the cost of Council Tax for any given area if all properties are valued as a proportion of a band D property, e.g. band H, which is equivalent to twice the value of band D, would therefore be charged twice the band D equivalent.

2 COLLECTION FUND DEFICIT REPAYMENTS IN THE YEAR

The following amounts were received during the year in respect of the estimated collection fund deficit:

| <u>Council Tax</u> | <u>2012/2013</u> £000 | <u>2013/2014</u> £000 |
|--|--------------------------|--------------------------|
| Sefton Council | -430 | -855 |
| Merseyside Police and Crime Commissioner | -49 | -103 |
| Merseyside Fire and Rescue Service | -22 | -46 |
| | -501 | -1,004 |

3 BUSINESS RATES MULTIPLIER AND RATEABLE VALUE

Under the arrangements for nationally uniform business rates, the Council collects rates for its area, which are based on local rateable values multiplied by a uniform rate. The multiplier rate was set at 47.1p in the pound in 2013/2014 (45.8p in 2012/2013).

At 31 March 2014 the total non-domestic rateable value was £177,685,331 in Sefton (£179,114,696 at 31 March 2013).

4 PRECEPTS AND DEMANDS ON THE COLLECTION FUND

The following precepts and demands have been made on the fund during the year:

| Council Tax | 2012/2013 £000 | 2013/2014 £000 |
|--|-------------------|-------------------|
| Sefton Council (Including Parish Precepts) | 118,903 | 97,775 |
| Merseyside Police and Crime Commissioner | 14,026 | 11,755 |
| Merseyside Fire & Rescue Authority | 6,272 | 5,257 |
| | 139,201 | 114,787 |

The council tax precepts and demands have reduced in 2013/2014 due to the replacement of council tax benefit with local council tax reduction scheme discounts from 1 April 2013.

5 SHARES OF NON-DOMESTIC RATES INCOME

Business rates income is shared on the following basis:

| Business Rates | Share % | 2012/2013 £000 | 2013/2014 £000 |
|------------------------------------|------------|-------------------|-------------------|
| Central Government | 50% | n/a | 32,773 |
| Sefton Council | 49% | n/a | 32,117 |
| Merseyside Fire & Rescue Authority | 1% | n/a | 655 |
| | 100% | n/a | 65,545 |

This is the first year of business rates retention. Previously all business rates income was paid to the National Pool. As a result there are no comparators for 2012/2013.

6 NATIONAL NON-DOMESTIC RATE POOL

Payments to the National Pool ceased in 2013/2014 as a result of the introduction of business rates retention on 1 April 2013.

7 TRANSFERS TO / FROM THE GENERAL FUND – COUNCIL TAX BENEFIT

Council tax benefit ceased to be paid from 1 April 2013 and was replaced by a local council tax reduction scheme in 2013/2014. At the time of the last subsidy claim there were still a number of claims for council tax benefit outstanding that related to a period before 1 April 2013. In order to fund the cost of these claims the Government allowed billing authorities to retain any amounts recouped as a result of previous overpayments. The amount recouped in the year exceeded outstanding payments made and the net income recorded in 2013/2014 was transferred to the General Fund at the year-end.

8 PROVISION FOR BAD AND DOUBTFUL DEBTS

The Collection Fund provides for bad debts on Council Tax and Business Rates arrears. The following movements on the bad debt provisions were recorded in the year:

| Council Tax | 2012/2013 £000 | 2013/2014 £000 |
|-----------------------------|-------------------|-------------------|
| Balance at 1 April | -3,581 | -3,350 |
| Write-offs in year | 2,889 | 353 |
| Increase / Decrease in Year | -2,658 | -1,976 |
| Balance at 31 March | -3,350 | -4,973 |

| Business Rates | <u>2012/2013</u> £000 | <u>2013/2014</u> £000 |
|-----------------------------|--------------------------|--------------------------|
| Balance at 1 April | -3,020 | -2,409 |
| Write-offs in year | 2,066 | 1,817 |
| Increase / Decrease in Year | -1,455 | -927 |
| Balance at 31 March | -2,409 | -1,519 |

9 PROVISION FOR APPEALS

The Collection Fund also provides for provision for appeals against the rateable valuation set by the Valuation Office Agency (VOA) not settled as at 31st March 2014. The table below shows the movements on the appeals provision in the year:

| Business Rates | <u>2012/2013</u> £000 | <u>2013/2014</u> £000 |
|-----------------------------|--------------------------|--------------------------|
| Balance at 1 April | n/a | 0 |
| Refunds in year | n/a | 0 |
| Increase / Decrease in Year | n/a | -4,636 |
| Balance at 31 March | n/a | -4,636 |

9 GROUP ACCOUNTS

The standard financial statements consider the Council only as a single entity. Sefton Council now conducts some of its adult and social care services activities through a wholly owned company, Sefton New Directions Limited, which began trading on 1 April 2007.

Thus a full picture of the Council's economic activities, financial position, service position, accountability for resources and exposure to risk is not presented in the Council's single entity financial statements. As a result, group financial statements are used to reflect the full extent of Sefton Council's involvement with its group undertakings in order to provide a clearer picture of the Council's activities as a group.

The following pages include:

- Group Movement in Reserves Statement,
- Group Comprehensive Income and Expenditure Statement,
- Reconciliation of the Single Entity Deficit / Surplus (-) on Provision of Services to the Group Deficit / Surplus (-) on Provision of Services,
- Group Balance Sheet,
- Group Cash Flow Statement, and,
- Notes to the Group Accounts.

The main effect of consolidation has been to reduce revenue reserves by £0.088m (£0.798m as at 31 March 2013), representing the Authority's 100% share of accumulated net losses in the Company.

The Group Comprehensive Income and Expenditure Statement records a surplus for Sefton New Directions Limited of £5.732m (a £0.797m deficit in 2012/2013).

After adjusting for Movements on Reserves the surplus achieved by Sefton New Directions Limited in 2013/2014 was £0.710m (a £1.067m surplus in 2012/2013).

Both organisations have a financial year-end of 31 March.

Copies of the Company's accounts for 2013/2014 can be obtained from The Company Secretary, Sefton New Directions Head Office, Third Floor, The Investment Centre, 375 Stanley Road, Bootle, Merseyside, United Kingdom, L20 3EF.

GROUP MOVEMENT IN RESERVES STATEMENT

This statement shows the movement in the year on the different reserves held by the authority, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and unusable reserves. The Surplus or (Deficit) on the Provision of Services line shows the true economic cost of providing the authority'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 /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.

| Movements in Reserves in 2013/2014 | Council | New Directions | Total Usable | New Directions | Council | Total Authority |
|---|----------------------------|-------------------|------------------|-----------------------------|------------------------------|--------------------|
| | Usable Reserves £000 | Surplus £000 | Reserves £000 | Pensions Reserve £000 | Unusable Reserves £000 | Reserves £000 |
| Balance at 1 April 2013 | -91,612 | 798 | -90,814 | 5,352 | -110,215 | -195,677 |
| Movements in Year | | | | | | |
| Deficit / Surplus (-) on the provision of services | 57,569 | -710 | 56,859 | 0 | 0 | 56,859 |
| Other Comprehensive Income and Expenditure | 0 | 0 | 0 | -5,022 | -75,133 | -80,155 |
| Total Comprehensive Income and Expenditure | 57,569 | -710 | 56,859 | -5,022 | -75,133 | -23,296 |
| Adjustments between accounting basis and funding basis under regulations (Note 5 of single entity accounts) | -73,500 | 0 | -73,500 | 0 | 73,500 | 0 |
| Net Increase (-) / Decrease before Transfers to Earmarked Reserves | -15,931 | -710 | -16,641 | -5,022 | -1,633 | -23,296 |
| Transfers to / from Earmarked Reserves (Note 39 of single entity accounts) | 0 | 0 | 0 | 0 | 0 | 0 |
| Increase in Year | -15,931 | -710 | -16,641 | -5,022 | -1,633 | -23,296 |
| Balance at 31 March 2014 | -107,543 | 88 | -107,455 | 330 | -111,848 | -218,973 |

| Movements in Reserves in 2012/2013 | Council | New Directions | Total Usable | New Directions | Council | Total Authority |
|---|----------------------------|-------------------|------------------|-----------------------------|------------------------------|--------------------|
| | Usable Reserves £000 | Surplus £000 | Reserves £000 | Pensions Reserve £000 | Unusable Reserves £000 | Reserves £000 |
| Balance at 1 April 2012 | -91,537 | 1,865 | -89,672 | 3,488 | -197,367 | -283,551 |
| Movements in Year | | | | | | |
| Deficit / Surplus (-) on the provision of services | 28,082 | -1,067 | 27,015 | 0 | 0 | 27,015 |
| Other Comprehensive Income and Expenditure | 0 | 0 | 0 | 1,864 | 58,995 | 60,859 |
| Total Comprehensive Income and Expenditure | 28,082 | -1,067 | 27,015 | 1,864 | 58,995 | 87,874 |
| Adjustments between accounting basis and funding basis under regulations (Note 5 of single entity accounts) | -28,157 | 0 | -28,157 | 0 | 28,157 | 0 |
| Net Increase (-) / Decrease before Transfers to Earmarked Reserves | -75 | -1,067 | -1,142 | 1,864 | 87,152 | 87,874 |
| Transfers to / from Earmarked Reserves (Note 39 of single entity accounts) | 0 | 0 | 0 | 0 | 0 | 0 |
| Increase (-) / Decrease in Year | -75 | -1,067 | -1,142 | 1,864 | 87,152 | 87,874 |
| Balance at 31 March 2013 | -91,612 | 798 | -90,814 | 5,352 | -110,215 | -195,677 |

GROUP 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.

| 2012/2013 | | | Note | 2013/2014 | | |
|-------------------|-----------------|-----------------|------|-------------------|-----------------|-----------------|
| Gross Expenditure | Gross Income | Net Expenditure | | Gross Expenditure | Gross Income | Net Expenditure |
| £000s | £000s | £000s | | £000s | £000s | £000s |
| 111,681 | -25,796 | 85,885 | | 112,298 | -27,119 | 85,179 |
| 35,196 | -34,043 | 1,153 | | 9,649 | -6,134 | 3,515 |
| 264,819 | -196,267 | 68,552 | | 268,362 | -202,529 | 65,833 |
| 9,322 | -291 | 9,031 | | 8,665 | -397 | 8,268 |
| 27,080 | -9,784 | 17,296 | | 35,023 | -10,152 | 24,871 |
| 22,224 | -7,293 | 14,931 | | 22,740 | -8,690 | 14,050 |
| 20,311 | -5,279 | 15,032 | | 21,291 | -8,679 | 12,612 |
| 117,566 | -108,595 | 8,971 | | 124,303 | -117,241 | 7,062 |
| 5,517 | 0 | 5,517 | | 3,818 | 0 | 3,818 |
| 17,072 | -7,957 | 9,115 | | 14,310 | -7,611 | 6,699 |
| 149 | 0 | 149 | 3 | 375 | 0 | 375 |
| | | | | 620,834 | -388,552 | 232,282 |
| | | | | | | |
| 0 | 0 | 0 | | 18,344 | -20,523 | -2,179 |
| 630,937 | -395,305 | 235,632 | | 639,178 | -409,075 | 230,103 |
| | | | | | | |
| | | 948 | | | | 854 |
| | | 38,582 | | | | 37,385 |
| | | 14 | | | | 10 |
| | | 10,171 | | | | 49,326 |
| | | -1,034 | | | | 63 |
| | | 0 | | | | -3,568 |
| | | 48,681 | | | | 84,070 |
| | | | | | | |
| | | 7,388 | | | | 7,121 |
| | | 13,462 | 8 | | | 13,981 |
| | | -658 | | | | -583 |
| | | -1,149 | | | | -1,214 |
| | | -1,835 | | | | -1,559 |
| | | -1,380 | | | | 488 |
| | | -25 | | | | -50 |
| | | 15,803 | | | | 18,184 |
| | | | | | | |
| | | -188 | | | | 275 |
| | | -117,921 | | | | -99,991 |
| | | -115,794 | | | | 0 |
| | | 0 | | | | -30,383 |
| | | -27,822 | | | | -125,776 |
| | | -11,376 | | | | -19,623 |
| | | -273,101 | | | | -275,498 |
| | | | | | | |
| | | 27,015 | | | | 56,859 |
| | | | | | | |
| | | 3,162 | | | | 313 |
| | | 58,254 | 8 | | | -81,968 |
| | | -557 | | | | 1,500 |
| | | 60,859 | | | | -80,155 |
| | | | | | | |
| | | 87,874 | | | | -23,296 |

Reconciliation of the Single Entity Deficit / Surplus (-) on Provision of Services to the Group Deficit / Surplus (-) on Provision of Services

| <u>2012/2013</u> £000s | | <u>2013/2014</u> £000s |
|---------------------------|--|---------------------------|
| 28,082 | Deficit for the year on Provision of Services on the Authority Income and Expenditure Statement | 57,569 |
| -1,067 | Surplus in the Group Income and Expenditure Statement Attributable to Group Entities (adjusted for Intra-Group Transactions) | -710 |
| 27,015 | Deficit for the year on Provision of Services on the Group Income and Expenditure Statement | 56,859 |

GROUP BALANCE SHEET

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Authority. The net assets of the Authority (assets less liabilities) are matched by the reserves held by the authority. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those reserves that the Authority 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 Authority is not able to use to provide services. This category of reserves includes 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'.

| <u>31 March</u> <u>2013</u> £000s | | <u>Note</u> | <u>31 March</u> <u>2014</u> £000s |
|---|--|-------------|---|
| 618,917 | Property, Plant and Equipment | 9 | 551,335 |
| 11,057 | Heritage Assets | | 11,057 |
| 39,506 | Investment Property | | 38,362 |
| 1,460 | Intangible Assets | | 1,230 |
| 7,548 | Long Term Receivables | | 7,301 |
| 678,488 | Long-Term Assets | | 609,285 |
| 20,056 | Short Term Investments | | 20,084 |
| 7,704 | Assets Held for Sale | | 7,759 |
| 292 | Inventories | | 623 |
| 33,841 | Short Term Receivables | 10 | 35,475 |
| 2,248 | Prepayments | | 2,021 |
| 21,398 | Cash and Cash Equivalents | 11 | 32,558 |
| 85,539 | Current Assets | | 98,520 |
| -941 | Short Term Borrowing | | -3,439 |
| -35,592 | Short Term Payables | 12 | -33,049 |
| -19,475 | Receipts in Advance | | -13,520 |
| -560 | Provisions | 13 | -762 |
| -2,831 | Deferred Liabilities | | -2,285 |
| -59,399 | Current Liabilities | | -53,055 |
| -8,259 | Provisions | | -8,242 |
| -123,171 | Long Term Borrowing | | -120,527 |
| -22,796 | Deferred Liabilities | | -20,229 |
| -354,264 | Pensions Liability | 8 | -286,770 |
| -461 | Grants/Contributions Receipts in Advance (Capital) | | -9 |
| -508,951 | Long Term Liabilities | | -435,777 |
| 195,677 | Net Assets | | 218,973 |

| 31 March 2013 £000s | Balance Sheet (Continued) | Notes | 31 March 2014 £000s |
|---------------------------|--|-------|---------------------------|
| | Reserves | | |
| | <u>Usable Reserves</u> | | |
| 18,149 | General Fund - Delegated Schools | | 17,792 |
| 6,576 | General Fund - Non Delegated Services | | 10,066 |
| -798 | New Directions - Profit and Loss Account | | -88 |
| 51,174 | Earmarked Reserves | | 60,653 |
| 5,371 | Capital Receipts Reserve | | 7,231 |
| 10,342 | Capital Grants and Contributions Unapplied | | 11,801 |
| 90,814 | | | 107,455 |
| | <u>Unusable Reserves</u> | | |
| 76,741 | Revaluation Reserve | | 72,228 |
| 386,495 | Capital Adjustment Account | | 329,140 |
| -783 | Financial Instruments Adjustment Account | | -724 |
| 557 | Deferred Capital Receipts | | 422 |
| -353,001 | Pensions Reserve | 8 | -285,441 |
| -866 | Collection Fund Adjustment Account | | 470 |
| -4,280 | Accumulated Absences Account | | -4,577 |
| 104,863 | | | 111,518 |
| 195,677 | Total Group Reserves | | 218,973 |

The Notes to the single entity accounts on pages 21 to 98, and to the Group Accounts on pages 109 to 115 form part of the financial statements.

GROUP CASH FLOW STATEMENT

The Cash Flow Statement shows the changes in cash and cash equivalents of the authority during the reporting year. The statement shows how the authority 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 authority are funded by way of taxation and grant income or from the recipients of services provided by the authority. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the authority's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the authority.

| <u>2012/2013</u> £000s | | <u>Note</u> | <u>2013/2014</u> £000s |
|---------------------------|---|-------------|---------------------------|
| | <u>Operating Activities</u> | | |
| 27,015 | Net Deficit on the provision of services | | 56,859 |
| -47,975 | Adjustments to net surplus or deficit on the provision of services for non-cash movements | | -41,063 |
| 2,570 | Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities | | -26,565 |
| -18,390 | Net cash flows from Operating Activities | 14 | -10,769 |
| | <u>Investing Activities</u> | | |
| 27,289 | Purchase of property, plant and equipment, investment property and intangible assets | | 27,232 |
| 5,030 | Purchase of short-term and long-term investments | | 0 |
| 0 | Other payments for investing activities | | 0 |
| -1,507 | Proceeds from the sale of property, plant and equipment, investment property and intangible assets | | -4,384 |
| 0 | Proceeds from short-term and long-term investments | | -30 |
| -11,500 | Other receipts from investing activities | | -17,690 |
| 19,312 | Net cash flows from Investing Activities | | 5,128 |
| | <u>Financing Activities</u> | | |
| 0 | Cash receipts of short- and long-term borrowing | | 0 |
| -103 | Other receipts from financing activities | | -8,772 |
| 1,996 | Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts | | 2,229 |
| 7,749 | Repayments of short- and long-term borrowing | | 1,024 |
| 4,845 | Other payments for financing activities | | 0 |
| 14,487 | Net cash flows from Financing Activities | | -5,519 |
| 15,409 | Net decrease / increase (-) in cash and cash equivalents | | -11,160 |
| -36,807 | Cash and cash equivalents at the beginning of the reporting period | | -21,398 |
| -21,398 | Cash and cash equivalents at the end of the reporting period | 11 | -32,558 |

NOTES TO THE GROUP ACCOUNTS**1 INTRODUCTION**

The notes below include details of where the inclusion of Sefton New Directions Limited has altered the disclosures within Sefton's single entity accounts. All other notes to the Group Financial Statements are as shown in the Notes to the single entity accounts.

2 PRIOR PERIOD ADJUSTMENTS

There have been several significant changes in relation to the International Accounting Standard (IAS) 19 on Employee Benefits. The Group Accounts have been amended to take account of the changes in Sefton's single entity accounts. Details of the adjustments required are outlined in Note 1 to the single entity accounts. No prior period adjustments were required for Sefton New Directions' accounts.

3 EXCEPTIONAL COSTS

During 2013/2014 New Directions incurred exceptional costs as follows:

| <u>2012/2013</u> £000 | | <u>2013/2014</u> £000 |
|--------------------------|--|--------------------------|
| 149 | Redundancy Costs | 121 |
| 0 | FRS17 Curtailment Costs re. Redundancies | 75 |
| 0 | FRS17 Pension Costs Provision re. Redundancies | 179 |
| 149 | Total | 375 |

4 DISCLOSURE OF AUDIT COSTS

Sefton New Directions Limited incurred the following fees relating to external audit and inspection.

| <u>2012/2013</u> £000 | | <u>2013/2014</u> £000 |
|--------------------------|--|--------------------------|
| 13 | Fees payable to Hazlewoods for external audit services | 13 |
| 13 | Total | 13 |

Sefton's expenditure on audit costs is shown in Note 19 to the single entity accounts.

5 ASSETS ON OPERATING LEASES

Sefton New Directions Limited made operating lease payments of £0.061m in 2013/2014 relating to Land and Buildings and other assets (£0.029m in 2012/2013). Sefton New Directions was committed to making payments of £0.084m for operating leases in 2014/2015; £0.032m of this commitment is due to expire in one year and £0.052m is due to expire in over five years.

Sefton's expenditure on operating leases is shown in Note 53 to the single entity accounts.

6 AMOUNTS REPORTED FOR RESOURCE ALLOCATIONS DECISIONS

The analysis of income and expenditure by service on the face of the Group Comprehensive Income and Expenditure Statement is that specified by the Service Reporting Code of Practice.

The authority is also required to disclose this information in the way it is reported internally to management. The Authority's departmental income and expenditure analysis is provided in Note 6 to the single entity accounts. This remains unchanged when presented on a Group Basis and as a result is not repeated here.

The following tables provide a reconciliation between the departmental income and expenditure provided in Note 8 to the single entity accounts and (1) the cost of services and (2) the surplus or deficit on the provision of services shown in the Group Comprehensive Income and Expenditure Statement.

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

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

| 2012/2013 £000 | | 2013/2014 £000 |
|-------------------|--|-------------------|
| 246,474 | Net expenditure in the Departmental Analysis | 261,728 |
| -949 | Net expenditure of services and support services not included in the Analysis | -910 |
| -9,107 | Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the Analysis | -30,157 |
| -786 | Amounts included in the Analysis not included in the Comprehensive Income and Expenditure Statement | -558 |
| 235,632 | Cost of Services in Group Comprehensive Income and Expenditure Statement | 230,103 |

Reconciliation to Subjective Analysis

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

| <u>2013/2014</u> | Departmental Analysis £000 | Sefton New Directions £000 | Amounts not reported to management for decision making £000 | Amounts not included in I&E £000 | Allocation of Recharges £000 | Cost of Services £000 | Corporate Amounts £000 | Total £000 |
|--------------------------------------|-------------------------------|-------------------------------|--|--|---------------------------------|--------------------------|---------------------------|-----------------|
| Fees, charges & other Service Income | -120,593 | -9,264 | 4,074 | 0 | 46,516 | -79,267 | -7,063 | -86,330 |
| Interest and investment income | 0 | 0 | 0 | 0 | 0 | 0 | -2,180 | -2,180 |
| Income from council tax | 0 | 0 | 0 | 0 | 0 | 0 | -99,991 | -99,991 |
| Income from NNDR | 0 | 0 | 0 | 0 | 0 | 0 | -30,383 | -30,383 |
| Other Operating Income | 0 | 0 | 0 | 0 | 0 | 0 | -3,618 | -3,618 |
| Government grants and contributions | -307,478 | 0 | -22,330 | 0 | 0 | -329,808 | -145,399 | -475,207 |
| Total Income | -428,071 | -9,264 | -18,256 | 0 | 46,516 | -409,075 | -288,634 | -697,709 |

| 2013/2014 (continued) | Departmental Analysis £000 | Sefton New Directions £000 | Amounts not reported to management for decision making £000 | Amounts not included in I&E £000 | Allocation of Recharges £000 | Cost of Services £000 | Corporate Amounts £000 | Total £000 |
|--|-------------------------------|-------------------------------|--|-------------------------------------|---------------------------------|--------------------------|---------------------------|----------------|
| Employee Expenses | 220,523 | 6,128 | 904 | 0 | 0 | 227,555 | 16,499 | 244,054 |
| Other service expenses | 399,122 | 2,203 | -14,335 | -558 | -17,328 | 369,104 | 3,369 | 372,473 |
| Support Service Recharges | 29,188 | 0 | 0 | 0 | -29,188 | 0 | 0 | 0 |
| Depreciation amortisation and impairment | 40,966 | 23 | 1,530 | 0 | 0 | 42,519 | 488 | 43,007 |
| Interest Payments | 0 | 0 | 0 | 0 | 0 | 0 | 7,121 | 7,121 |
| Precepts and Levies | 0 | 0 | 0 | 0 | 0 | 0 | 38,239 | 38,239 |
| Payment to Housing Capital Receipts Pool | 0 | 0 | 0 | 0 | 0 | 0 | 10 | 10 |
| Gain or Loss on Disposal of non-current assets | 0 | 0 | 0 | 0 | 0 | 0 | 49,389 | 49,389 |
| Taxation | 0 | 0 | 0 | 0 | 0 | 0 | 275 | 275 |
| Total Expenditure | 689,799 | 8,354 | -11,901 | -558 | -46,516 | 639,178 | 115,390 | 754,568 |
| Surplus or deficit on the provision of services | 261,728 | -910 | -30,157 | -558 | 0 | 230,103 | -173,244 | 56,859 |

The table below shows comparative figures for 2012/2013:

| 2012/2013 | Departmental Analysis £000 | Sefton New Directions £000 | Amounts not reported to management for decision making £000 | Amounts not included in I&E £000 | Allocation of Recharges £000 | Cost of Services £000 | Corporate Amounts £000 | Total £000 |
|--|-------------------------------|-------------------------------|--|-------------------------------------|---------------------------------|--------------------------|---------------------------|-----------------|
| Fees, charges & other Service Income | -97,738 | -9,391 | 10,623 | 0 | 28,410 | -68,096 | -7,813 | -75,909 |
| Interest and investment income | 0 | 0 | 0 | 0 | 0 | 0 | -2,534 | -2,534 |
| Income from council tax | 0 | 0 | 0 | 0 | 0 | 0 | -117,921 | -117,921 |
| Other Operating Income | 0 | 0 | 0 | 0 | 0 | 0 | -2,439 | -2,439 |
| Government grants and contributions | -327,209 | 0 | 0 | 0 | 0 | -327,209 | -154,992 | -482,201 |
| Taxation | 0 | 0 | 0 | 0 | 0 | 0 | -188 | -188 |
| Total Income | -424,947 | -9,391 | 10,623 | 0 | 28,410 | -395,305 | -285,887 | -681,192 |
| Employee Expenses | 217,950 | 6,669 | -2,333 | 0 | 0 | 222,286 | 16,251 | 238,537 |
| Other service expenses | 390,797 | 1,773 | -13,251 | -786 | -9,056 | 369,477 | 3,504 | 372,981 |
| Support Service Recharges | 19,354 | 0 | 0 | 0 | -19,354 | 0 | 0 | 0 |
| Depreciation amortisation and impairment | 43,320 | 0 | -4,146 | 0 | 0 | 39,174 | 412 | 39,586 |
| Interest Payments | 0 | 0 | 0 | 0 | 0 | 0 | 7,388 | 7,388 |
| Precepts and Levies | 0 | 0 | 0 | 0 | 0 | 0 | 39,530 | 39,530 |
| Payment to Housing Capital Receipts Pool | 0 | 0 | 0 | 0 | 0 | 0 | 14 | 14 |
| Gain or Loss on Disposal of non-current assets | 0 | 0 | 0 | 0 | 0 | 0 | 10,171 | 10,171 |
| Total Expenditure | 671,421 | 8,442 | -20,447 | -786 | -28,410 | 630,937 | 77,270 | 708,207 |
| Surplus or deficit on the provision of services | 246,474 | -949 | -9,824 | -786 | 0 | 235,632 | -208,617 | 27,015 |

7 EMPLOYEES' EMOLUMENTS IN EXCESS OF £50,000

Sefton New Directions Limited had no employees whose remuneration was over £50,000 in 2013/2014 (also none in 2012/2013):

Details of Sefton Employees' Emoluments are shown in Notes 16 and 17 to the single entity accounts.

8 PARTICIPATION IN PENSION SCHEMES

Sefton New Directions Limited employees are eligible to join the same Local Government Pension Scheme as those employees in Sefton.

The following transactions have been made in the Group Comprehensive Income and Expenditure Statement during the year:

| 2012/2013 | | Comprehensive Income and Expenditure Statement | 2013/2014 | |
|-------------------------|--|--|-------------------------|--|
| Sefton Council £000s | Sefton New Directions Limited £000s | | Sefton Council £000s | Sefton New Directions Limited £000s |
| 15,997 | 669 | <u>Cost of Services:</u> | | |
| 1,049 | 0 | Current Service Cost | 20,381 | 778 |
| 348 | 0 | Curtailment Cost | 852 | 75 |
| | | Administration Expenses | 439 | 0 |
| 13,400 | 62 | <u>Financing and Investment Income & Expenditure:</u> | | |
| | | Net Interest Cost | 14,058 | -77 |
| 30,794 | 731 | Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services | 35,730 | 776 |
| 55,833 | 2,421 | Actuarial Losses on Pension Assets and Liabilities | -75,446 | -6,522 |
| 0 | -557 | Deferred Tax re. Actuarial losses on pension fund assets and liabilities for Sefton New Directions Limited | 0 | 1,500 |
| 86,627 | 2,595 | Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement | -39,716 | -4,246 |

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 plans is as follows:

| 2012/2013 | | | 2013/2014 | |
|---------------|--|---|---------------|--|
| LGPS £000s | Sefton New Directions Limited £000s | | LGPS £000s | Sefton New Directions Limited £000s |
| -898,724 | -35,905 | Present Value of the Defined Benefit Obligation | -851,183 | -29,572 |
| 551,075 | 27,314 | Fair Value of Plan Assets | 566,072 | 27,472 |
| 0 | 1,976 | Related Deferred Tax Assets | 0 | 441 |
| -347,649 | -6,615 | Net Liability arising from defined benefit obligation | -285,111 | -1,659 |

Assets and Liabilities in Relation to Retirement Benefits
 Reconciliation of present value of scheme liabilities

| 2012/2013 | | | 2013/2014 | |
|----------------|-------------------------------|--------------------------------------|----------------|-------------------------------|
| Sefton Council | Sefton New Directions Limited | | Sefton Council | Sefton New Directions Limited |
| £000s | £000s | | £000s | £000s |
| 772,953 | 29,993 | 1 April | 898,724 | 35,905 |
| 15,997 | 669 | Current Service Cost | 20,381 | 778 |
| 37,236 | 1,451 | Interest Cost on Pension Liabilities | 37,154 | 1,496 |
| 5,510 | 217 | Contributions by scheme participants | 5,564 | 201 |
| 96,087 | 4,178 | Remeasurement Gains (-) and Losses | -80,763 | -8,298 |
| -30,108 | -603 | Benefits paid | -30,729 | -585 |
| 1,049 | 0 | Curtailment Cost | 852 | 75 |
| 898,724 | 35,905 | 31 March | 851,183 | 29,572 |

Reconciliation of fair value of scheme assets:

| 2012/2013 | | | 2013/2014 | |
|----------------|--|--------------------------------------|----------------|-------------------------------|
| Sefton Council | Sefton New Directions Limited Restated | | Sefton Council | Sefton New Directions Limited |
| £000s | £000s | | £000s | £000s |
| 485,578 | 23,859 | 1 April | 551,075 | 27,314 |
| 23,836 | 1,389 | Interest Income | 23,096 | 1,573 |
| 40,254 | 1,757 | Remeasurement Gains / Losses (-) | -5,317 | -1,776 |
| 26,353 | 695 | Employer contributions | 22,822 | 745 |
| 5,510 | 217 | Contributions by scheme participants | 5,564 | 201 |
| -30,108 | -603 | Benefits paid | -30,729 | -585 |
| -348 | 0 | Administration Expenses | -439 | 0 |
| 551,075 | 27,314 | 31 March | 566,072 | 27,472 |

The liabilities show the underlying commitments that the Authority and Sefton New Directions Limited have in the long-run to pay additional retirement benefits. The total liability of £287m has a substantial impact on the net worth of the Group as recorded in the Balance Sheet, resulting in an overall balance of £220m.

The deficit for Sefton New Directions Limited on the Local Government Pension Scheme will be made good by increased contributions over the remaining working life of employees, as assessed by the scheme Actuary.

The total contributions expected to be made to the Local Government Pension Scheme by Sefton New Directions Limited in the year to 31 March 2015 is £0.644m.

Basis for Estimating Assets and Liabilities

All assumptions are the same as for Sefton Council (shown in Note 56 to the Notes to the single entity accounts) except for the rate for discounting scheme liabilities which is 4.5%.

9 PROPERTY, PLANT AND EQUIPMENT

The Property, Plant and Equipment (PP&E) figure in the Group Balance Sheet includes £0.041m for Vehicles, Plant and Equipment of Sefton New Directions Limited at 31 March 2014 (£0.035m at 31 March 2013) and £0.020m for Land and Buildings (£0.022m at 31 March 2013). Details of Sefton's PP&E are shown in Note 22 to the single entity accounts.

10 CURRENT ASSETS

The Current Assets figure in the Group Balance Sheet includes £0.138m for Receivables of Sefton New Directions Limited at 31 March 2014 (£0.310m at 31 March 2013). Details of Sefton's Receivables are shown in Note 32 to the single entity accounts.

11 CASH AND CASH EQUIVALENTS

The balance of Cash and Cash Equivalents held by Sefton MBC and Sefton New Directions Limited are shown below:

| <u>31 March</u> <u>2013</u> £000s | | <u>31 March</u> <u>2014</u> £000s |
|---|---|---|
| 19,930 | Sefton MBC - Cash and Cash Equivalents | 30,444 |
| 1,468 | Sefton New Directions Limited - Bank Deposits | 2,114 |
| 21,398 | Total Cash and Cash Equivalents | 32,558 |

12 CURRENT LIABILITIES

The Current Liabilities figure in the Group Balance Sheet includes £0.538m for Payables of Sefton New Directions Limited at 31 March 2014 (£0.366m at 31 March 2013). Details of Sefton's Payables are shown in Note 34 to the single entity accounts.

13 PROVISIONS

The Current Liabilities figure in the Group Balance Sheet includes £0.528m for Short Term Provisions of Sefton New Directions Limited at 31 March 2014 (£0.276m at 31 March 2013). Details of Sefton's provisions are shown in Note 35 to the single entity accounts. Movements in New Directions' provisions during 2013/2014 were as follows:

| | | <u>1 April</u> <u>2013</u> £000s | <u>Additions</u> <u>in Year</u> £000s | <u>Applied</u> <u>In Year</u> £000s | <u>Released</u> <u>In Year</u> £000s | <u>31 March</u> <u>2014</u> £000s |
|-----|--|--|---|---|--|---|
| (a) | Short-term Restructuring Costs | -276 | -328 | 76 | 0 | -528 |
| | | -276 | -328 | 76 | 0 | -528 |

Movements in New Directions' provisions during 2012/2013 were as follows:

| | | <u>1 April</u> <u>2012</u> £000s | <u>Additions</u> <u>in Year</u> £000s | <u>Applied</u> <u>In Year</u> £000s | <u>Released</u> <u>In Year</u> £000s | <u>31 March</u> <u>2013</u> £000s |
|-----|--|--|---|---|--|---|
| (a) | Short-term Restructuring Costs | -679 | -149 | 552 | 0 | -276 |
| (b) | Pay and Grading | -116 | 0 | 116 | 0 | 0 |
| | | -795 | -149 | 668 | 0 | -276 |

(a) **Restructuring Costs** – Restructuring costs reflects a provision for severance payments as management made and communicated a formal decision prior to 31 March 2014 to eliminate certain positions. Payments are expected to be made in the year ending 31 March 2015. The full amount was not utilised during the year ended 31 March 2014 due to the longer than expected process of implementing restructuring and liaising with trade unions. Such factors are the main uncertainties regarding the timing and quantum of payments yet to be made.

(b) **Pay and Grading** - The pay and grading review reflects a contingent liability disclosed in prior years where management have reached a negotiated resolution and are now able to reliably measure the liability arising on the company. Final payments were made in the year ending 31 March 2013.

14 **CASH FLOW STATEMENT – OPERATING ACTIVITIES**

The cash flows for operating activities include the following items:

| <u>2012/2013</u> £000s | | <u>2013/2014</u> £000s |
|---------------------------|-------------------|---------------------------|
| -799 | Interest received | -517 |
| 8,547 | Interest paid | 7,064 |

15 **STATEMENT OF ACCOUNTING POLICIES**

In addition to the accounting policies described in the Note 61 to the single entity accounts, the following policy is applicable to Sefton New Directions.

(a) **EXCEPTIONAL COSTS**

When items of income and expense 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 Sefton New Directions' financial performance. The additions to the Restructuring Provision are considered to be exceptional.

10 ANNUAL GOVERNANCE STATEMENT

1. SCOPE OF RESPONSIBILITY

- 1.1 Sefton Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards and that public money is safeguarded and properly accounted for and used economically, efficiently and effectively. Sefton Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.
- 1.2 In discharging this overall responsibility, Sefton Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, which includes arrangements for the management of risk.
- 1.3 Sefton Council has approved and adopted a code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE Framework *Delivering Good Governance in Local Government*. This statement explains how Sefton Council has complied with the code and also meets the requirements of regulation 4(2) of the Accounts and Audit Regulations 2011 regulation 4 (3) which requires all relevant bodies to prepare an Annual Governance Statement.

2. THE PURPOSE OF THE GOVERNANCE FRAMEWORK

- 2.1 The governance framework comprises the systems and processes, culture and values, by which the authority is directed and controlled and its activities through which it accounts to, engages with and leads its communities. It enables the authority to monitor the achievement of its strategic objectives and corporate vision and to consider whether those objectives have led to the delivery of appropriate services that are value for money. The Councils governance arrangements are designed to manage risk to a reasonable level, the arrangements cannot eliminate risk but can provide reasonable assurance of the Annual Governance Statement.
- 2.2 The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot remove all risk of failing to achieve our policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to:-
- i. identify and prioritise the risks that could prevent the Council from achieving its policies, aims and objectives;
 - ii. assess how likely it is that identified risks will happen and what would be the potential impact if they did; and
 - iii. manage the risks efficiently, effectively and economically.
- 2.3 The governance framework has been in place at Sefton Council from the 1 April 2013 and up to the date of the approval of the statement of accounts.
- 2.4 The following paragraphs summarise the core principles of Sefton Councils Governance Framework and reflect the arrangements in place to meet the six core principles of effective governance, which are:
- Focusing on the purpose of the authority and on outcomes for the community and creating and implementing a vision for the local area;
 - Members and officers working together to achieve a common purpose with clearly defined functions and roles;
 - Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour;
 - Taking informed and transparent decisions which are subject to effective scrutiny and managing risk;
 - Developing the capacity and capability of members and officers to be effective;
 - Engaging with local people and other stakeholders to ensure robust public accountability.

3. **THE GOVERNANCE FRAMEWORK**

3.1 The Governance Framework in Sefton comprises the systems and processes, culture and values that allow us as a Council to achieve our Corporate Objectives and establish the extent to which services are delivered in an effective, efficient and economic way.

3.2 Some of the key elements of Sefton's systems and processes that comprise its governance arrangements are outlined in the Council's Code of Corporate Governance. The main areas and key elements of delivery are summarised below:-

- Our Vision; that is working as One Sefton for the benefit of local people, businesses and visitors and processes established to promote and embed the concept of "One Council";
- Annual accounts are published on a timely basis to communicate the Council's activities and achievements and its financial position and performance;
- Delivery of the Council's vision is supported by Service Development / Delivery Plans, team plans and individual performance development reviews;
- Members have articulated their priorities including the most vulnerable and economic growth;
- Performance Management including Management Accountability Frameworks to ensure improvement is driven throughout the Council;
- A risk based system of performance Management exists within the Council;
- The Constitution establishes the roles and responsibilities of the executive, non-executive and scrutiny functions, it also sets out the Officers delegation by means of a standing cascade and Member / Officer protocol;
- Codes of Conduct, Financial Procedure Rules and protocols for standards complaints are also set out in the Council's Constitution;
- All decisions made by Committees, Council, Cabinet, Cabinet Members under their delegated powers and Chief Officers executive decisions are recorded and published on line for transparency; delegation arrangements to Cabinet Members are renewed annually;
- An established risk function that sits within the Risk and Audit Service. The Council has a Risk Strategy, Policy and Corporate Risk Management Handbook; a Corporate Risk Management Group is established; this group, Corporate Risk Owners, Strategic Leadership Team and Audit & Governance review the Corporate Risk Register quarterly;
- Fraud reports are provided to Audit & Governance on a quarterly basis, this includes proactive work in regard to fraud risks and investigation work undertaken;
- Transformation programme is a regular item reported to Cabinet and Overview and Scrutiny Committees, all major projects have their own project boards and risk registers, a Strategic Capital Investment Group has been established;
- Procedure Rules and Internal Management processes for:-
 - i. Financial Management
 - ii. Procurement
 - iii. Information Governance and Data Security
 - iv. Health & Safety
 - v. Whistle-blowing and Complaints handling
 - vi. Anti-fraud and Corruption
- Effective Financial Management and Control;
- Adequate and effective Internal Audit Service, set out in the Constitution;
- Effective External Audit Service;
- Functions and Duties of the monitoring Officer, Head of Paid Service and the Section 151 Officer are set out in the Council's Constitution;
- An effective Audit & Governance Committee is established, its Terms of Reference are established in the Council's Constitution;
- A formal Member training and Development Strategy has been adopted by the Council;
- A Public Consultation and Engagement Panel, led by Members, has been established;
- A Partnership Working Protocol is in place.

4. **REVIEW OF EFFECTIVENESS**

4.1 Sefton Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of senior managers within the authority who have responsibility for the development and maintenance of the governance environment, the Chief Internal Auditor's annual report, which includes a report on the effectiveness of internal audit and also by comments made by the external auditors and other review agencies and inspectorates. An improvement plan has been drawn up resulting from the review; progress against the improvement plan will be reported to Audit & Governance on a quarterly basis.

The process that has been applied in maintaining and reviewing the effectiveness of the governance framework is outlined as follows:

4.2 The Council continues to assess how its overall corporate governance responsibilities are discharged in line with the CIPFA Code of Corporate Governance (based on the new CIPFA/SOLACE guidance on ensuring 'Good Governance in Local Government') and the addendum "Delivering Good Governance in Local Government Framework" published in 2012.

4.3 Sefton Council has established a Corporate Governance Working Group made up of the Head of Corporate Finance & ICT (S151 Officer), the Head of Corporate Legal Services (Monitoring Officer), the Head of Governance and Civic Services (Members and Governance) and the Head of Corporate Personnel. This group meets continuously throughout the year to review the Council's Code of Corporate Governance, this group is responsible for:-

- Overseeing and implementing the Councils Code of Corporate Governance;
- Maintaining and updating the code following updates in any guidance, principles etc.;
- Reporting annually to Members on compliance with the Code and any changes that may be necessary to ensure its effectiveness in practice.

4.4 The Constitution is periodically reviewed by the Head of Corporate Legal Services (Monitoring Officer) and the Head of Governance and Civic Services, all amendments undertaken in 2013/14 have been reported to the Council's Audit & Governance Committee in accordance with the Council's Constitution and the Terms of Reference of the Committee. Protocols for the Hearing of Standards issues have been developed and included in the Audit & Governance Committee's responsibilities.

4.5 The Councils review of effectiveness of the system of internal control is informed by:

- the work undertaken by Internal Audit during the year
- the review of Internal Audit and compliance with the CIPFA Code of Practice for Internal Audit
- the work undertaken by the external auditor and reported in the annual audit and inspection letter
- other work undertaken by independent inspection bodies
- The Governance Review

4.6 Purpose of Authority and Outcome for Community

The Council has a Corporate Vision established which focuses on working as one Sefton for the benefit of the local people, businesses and visitors. The Vision and promise sets out how the Council want to work with each other and with our communities and partners to make Sefton a great place to be. An annual Statement of Accounts is published which communicates the authority's financial position and performance. The Council has taken a strategic approach to reserve planning to ensure the efficient use of reserves over the medium term; this has allowed governance arrangements to be realigned and arrangements for Capital investment to be developed.

Service Plans, Team Plans and individual Performance Development Reviews underpin the Council's vision and support the promotion and embedding of the concept of "One Council". Risks to delivery of service are also included in Delivery Plans and a Corporate Risk Register is utilised to manage the risk to the Council of it not meeting its strategic objectives / Vision.

Members have clearly articulated their priorities including the most vulnerable and economic growth, this is included in the development of relationships with regional and local partners including Health.

Performance Management remains a key component of driving quality within available resources, management accountability frameworks have been established to ensure that they drive performance through the Council, a risk based systems of performance Management exists within the Council and a Health and Well Being Board has been established.

4.7 Members and Officer working together with Clearly Defined Functions and Roles

The roles of the executive, non executive and scrutiny functions are all contained within the Council's Constitution, the Scheme of Officer delegations is also set out in Chapter 10 of the Constitution including delegation by means of a standing cascade. Schemes of Delegation are considered on a regular basis to ensure they remain effective in ensuring officers are able to fulfil their functions and roles. The Member / Officer protocol contains details of communication arrangements between Members and officers.

The Councils procedures and Internal Management processes including the Councils Financial Procedure Rules and the Contract Standing Orders / Procurement Rules are the responsibility of the Head of Corporate Finance & ICT; the Constitution mandates compliance with these rules and provides for an annual review of each of them. The Audit & Governance Committee are presented with amendments for approval twice yearly.

The functions and duties of the Head of Paid Service (Chief Executive), Monitoring Officer (Head of Corporate Legal Services) and the Section 151 Officer (Head of Corporate Finance & ICT) are set out in the Council's Constitution (Chapter10).

The Head of Paid Service has established and maintains effective communication with the Leader of the Council, the Member / Officer protocol contains details of the communication arrangements between Members and Officers including the Chief Executive.

The role of the CFO and Section 151 Officer is a key member of the Council's Strategic Leadership Team developing and implementing strategy and enabling the delivery of the Council's Strategic Objectives. The Section 151 Officer:-

- leads the promotion and delivery of good financial management to ensure that public monies is safeguarded at all times;
- is involved in the leadership and direction of the finance function that is resourced to be fit for purpose; and
- is professionally qualified and suitability experienced.

The Council has established effective financial management and control, its financial management arrangements comply with the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010).

The Council maintains an adequate and effective Internal Audit Service which undertakes a programme of comprehensive work providing a framework of assurance to satisfy the Council that the risks to its objectives and those inherent in undertaking its service delivery have been properly identified and are being managed by controls that are adequate and effective in operation.

The Role of the Head of Internal Audit is provided by the Risk and Audit Service Manager (Chief Internal Auditor). The Council has complied with the CIPFA Statement on the Role of the Head of Internal Audit in the Public Service Organisations and the Public Sector Internal Audit Standards. The Chief Internal Auditor has produced an annual report to the Audit & Governance Committee in which, the CIA has formed the opinion that the Council continues to operate within an adequate and generally effective overall control environment.

4.8 Demonstrating Value of Good Governance through Standards and Behaviour

Codes of Conduct for Members and Staff are contained within the Council's Constitution and the Code of Conduct for Members and Officers dealing with Planning matters is also set out in this document. Training has been provided to members on the new code of conduct. Responsibility for ensuring compliance with all appropriate codes of conduct lies with the Audit & Governance Committee and protocols for hearing standards complaints have been established and refined over the last 12 months.

The Standards Committee is responsible for ensuring high ethical standards amongst Elected Members and produces an annual review.

A review of anti fraud and corruption arrangements has been undertaken in 2013/14, this identified the Council's position against the CIPFA Managing the Risk Of Fraud requirements, the resulting actions are to be reported to the Audit & Governance Committee. Policies and Procedures are to be reviewed as part of the agreed actions and training to be implemented to raise awareness. A Corporate Fraud Response Plan will be developed by the Chief Internal Auditor in conjunction with the Head of Corporate Legal Services and the Head of Corporate Personnel. Regular reports are presented to Audit & Governance in relation to the Council's anti fraud and corruption arrangements; further proactive work is planned for 2014/15.

A review of the Council Confidential Reporting (Whistle-blowing) arrangements is to be undertaken in 2014/15 and training is to be developed and implemented to raise awareness.

4.9 Informed and Transparent Decisions

An effective scrutiny function has been established, the roles and responsibilities are set out in the Council's Constitution (Chapter10). The Council's Overview and Scrutiny function have undertaken a number of pieces of work looking at the work of other public sector providers, most notably in the Health Service.

All decisions made by Committees, Council, Cabinet, Cabinet Member (under their delegated powers) and Chief Officer executive decisions are recorded and published on line for transparency. Delegations arrangements for Cabinet Members are reviewed annually as part of the appointments process. The Council publishes a calendar of meetings and deadlines for the submission of agenda items; agendas and reports are produced promptly and provided to the relevant Members.

The Members Code of Conduct has been operating for 12 months, Members have been provided with training relevant to this Code.

The Council's Audit and Governance Committee is well established and meets quarterly. Its terms of reference are set out in the Constitution and include consideration of governance/risk management issues/ policies; annual/ periodic reports from internal audit and external audit and the annual statement of accounts. Training is provided by way of an established annual programme to ensure members are made aware of the requirements of their role.

A Corporate Complaints procedure is established, this is to be reviewed in 2014/15.

Amalgamation of the risk and audit function into one service has strengthened the establishment of the framework for identifying and managing risk. A Corporate Risk Management Group has been established chaired by the Head of Corporate Finance & ICT attended by Directors and Heads of Service; the Corporate Risk Register (CRR) is presented and discussed at these meetings, the CRR is also provided to the Audit & Governance Committee on a quarterly basis. The Council has an established strategy and policy. The Council will develop its risk framework further in 2014/15 with the standardisation of Departmental / Section / Operational Risk Registers as part of the process to further embed risk management throughout the Council.

4.10 Capacity and Capability of Members

The Council has adopted a formal Member Training and Development Strategy, this follows from an award of North West Charter for Member Development that recognises the need for high Leadership standards in Local Government. The Council has created a Learning and Development Board consisting of representation from all services and this informs the Cabinet Member Corporate Services.

The Council has published a Partnership Working Protocol which will help ensure that effective governance arrangements are consistently applied to all partnership working arrangement entered into by the Council.

4.11 Public Accountability

A Public Consultation and Engagement Panel, led by Members is a central feature of ensuring the most effective channels are used to engage a wide range of the communities and stakeholders. Local Area Committees continue to give clear communication channels for matters specific to individual areas. Other focus and consultation groups are actively used to seek the views of a wide range of interest groups, through to landlords and business groups.

Sefton developed a Local Plan which was presented to citizens for consultation. A process for the Consultation of key plans is in place.

Competing demands in the community are managed through the Council budgeting process and the decision made on the agreeing the budget on an annual basis.

The Council has a clear policy in regard to how staff and their representatives are consulted and involved in decision making.

5. **SIGNIFICANT GOVERNANCE ISSUES**

5.1 The following includes an outline of actions taken or proposed to deal with significant governance issues in relation to the authority achieving its vision.

5.2 Risk Management

The Council has an established Risk Strategy and Policy which was re-launched in 2012/13 as part of the review of risk management. Further the Council has an established Corporate Risk Management Group. However, further development of the Council's risk framework is required in 2014/15 with the standardisation of Departmental / Section / Operational risk registers in order to further embed risk management processes throughout the Council.

5.3 Strategic Counter Fraud Arrangements

A review of the Council's strategic counter fraud and anti corruption arrangements was undertaken in 2013/14. The Council's current position was reviewed against best practice (CIPFA's 'Managing the Risk of Fraud'). A report has been produced and the action plan is currently being finalised. Relevant policies and procedures will be reviewed as part of the agreed actions and training will be delivered to raise awareness. A Fraud Response Plan will also be developed and implemented. A review of the Council's Confidential Reporting Policy (Whistle-blowing) and the arrangements in place in regard to the policy and reporting mechanisms are to be reviewed in 2014/15, an action plan will be provided and improvements implemented as required.

5.4 Public Sector Internal Audit Standards (PSIAS)

A new set of Public Sector Internal Audit Standards came into effect from 1st April 2013. A review undertaken in 2013/14 identified partial compliance; full compliance with the standards will be developed in 2014/15 by means of an action plan. Progress will be reported to Audit & Governance Committee.

5.5 Partnership Assurance

The Council has sought to address the provision of an assurance statement by arvato government services in relation to the adequacy of internal controls contained within the fundamental financial systems operated by arvato on behalf of Sefton. Sefton Council has previously been provided with an Assurance Statement / letter in this regard, however, there has not been sufficient evidence in place to support the statement provided. Arvato have undertaken some work in this area and have established a internal audit / quality assurance team and a framework under which they will operate to provide an evidence supported Assurance Statement for 2014/15 accounts, however the framework will not be in place to provide an evidential statement for 2013/14, i.e, this statement. Arvato are to provide a limited assurance statement based on risk registers and quality assurance undertaken by Managers for inclusion in this Annual Governance Statement with a view to ensuring the framework and statement produced in 2014/15 are supported by auditable evidence.

5.6 Corporate Complaints Procedure

This is to be reviewed in 2014/15.

6. **STATEMENT**

- 6.1 We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of the effectiveness and will monitor the implementation and operation as part of the next annual review.

Signed

**Diane Roberts
Chair, Audit and Governance
Committee**

**Margaret Carney
Chief Executive**

10 September 2014

Date

ANNUAL GOVERNANCE STATEMENT 2013/2014

SIGNIFICANT GOVERNANCE ISSUES - ACTION PLAN

| <u>AGS Ref Number</u> | <u>Governance Issue</u> | <u>Actions Planned To Address The Issue</u> | <u>Responsible Officer(s)</u> | <u>Target Date</u> |
|------------------------------|--|---|--|--------------------------------|
| 5.2 | <u>Risk Management</u> | Development of the Council's Risk Framework. Standardisation of Departmental / Section / Operational Risk Register | Head of Corporate Finance & ICT | March 2015 |
| 5.3 | <u>Strategic Counter Fraud Arrangements</u> | Policies and Procedures relating to strategic counter fraud to be reviewed amended and approved. Training to be delivered to raise awareness of the Councils counter fraud response. A Fraud Response Plan to be developed agreed and approved. A review of the Council's Confidential Reporting arrangements to be undertaken, actions arising to be implemented. | Head of Corporate Finance & ICT / Risk & Audit Service Manager Head of CF&ICT / R&A Service Head of Corporate Legal Services / Head of Corporate Personnel | March 2015 Dec 2014 |
| 5.4 | <u>Public Sector Internal Audit Standards (PSIAS)</u> | Actions to implement / embed PSIAS to be agreed and reported to Audit & Governance Committee. Actions to be implemented and Internal Audit to comply with PSIAS | Risk & Audit Service Manager Risk & Audit Service Manager | Dec 2014 Ongoing |

| <u>AGS Ref Number</u> | <u>Governance Issue</u> | <u>Actions Planned To Address The Issue</u> | <u>Responsible Officer(s)</u> | <u>Target Date</u> |
|------------------------------|--|--|---|---|
| 5.5 | <u>Partnership Assurance Arrangements</u> | <p>Actions to implement / embed PSIAS to be agreed and reported to Audit & Governance Committee.</p> <p>Actions to be implemented and Internal Audit to comply with PSIAS</p> <p>Assurance Statement to be provided by arvato as part of the 2014 / 15 Annual Governance Statement.</p> <p>Auditable process in regard to the arvato Assurance Statement to be confirmed and reported to Audit & Governance.</p> <p>Review of evidence to support statement and of the outcomes of Audits to ensure actions being followed up and recommendations implemented.</p> | <p>Risk & Audit Service Manager</p> <p>Risk & Audit Service Manager</p> <p>Head of Corporate Finance & ICT / Risk & Audit Service Manager</p> | <p>Dec 2014</p> <p>Ongoing</p> <p>May 2015</p> <p>April 2015</p> <p>June 2015</p> |
| 5.6 | <u>Corporate Complaints Procedure</u> | To be reviewed | Head of Governance & Civic Services | March 2015 |

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

Report on the financial statements

Our opinion

In our opinion the financial statements, defined below:

- give a true and fair view of the state of the Authority's and Group's affairs as at 31 March 2014 and of the Authority's and Group's income and expenditure and cash flows for the year then ended; and
- have been properly prepared in accordance with the requirements of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 and the CIPFA Service Reporting Code of Practice 2013/14.

This opinion is to be read in the context of what we say in the remainder of this report.

What we have audited

The financial statements, which are prepared by Sefton Metropolitan Borough Council, comprise:

- the Authority and Group Balance Sheet as at 31 March 2014;
- the Authority and Group Comprehensive Income and Expenditure Statement for the year then ended;
- the Authority and Group Movement in Reserves Statement for the year then ended;
- the Authority and Group Statement of Cash Flows for the year then ended;
- the Collection Fund for the year then ended;
- the accounting policies; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in their preparation is the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 supported by the CIPFA Service Reporting Code of Practice 2013/14.

In applying the financial reporting framework, the Responsible Financial Officer has made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

What an audit of financial statements involves

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

- whether the accounting policies are appropriate to the Authority's and Group's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Responsible Financial Officer; and
- the overall presentation of the financial statements.

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

Opinion on other matter prescribed by the Code of Audit Practice

In our opinion the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

Other matters on which we are required to report by exception

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

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

Responsibilities for the financial statements and the audit

Our responsibilities and those of the Responsible Financial Officer

As explained more fully in the Statement of Responsibilities set out on page 11 the Responsible Financial Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 and the CIPFA Service Reporting Code of Practice 2013/14.

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

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

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

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission on 15 October 2013, we are satisfied that, in all significant respects, Sefton Metropolitan Borough Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2014.

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

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission on 15 October 2013, as to whether the Authority has proper arrangements for:

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

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2014.

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

Our responsibilities and those of the Authority

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

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

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

Certificate

We certify that we have completed the audit of the Authority and Group financial statements of Sefton Metropolitan Borough Council in accordance with the requirements of Part II of the Audit Commission Act 1998 and the Code of Practice issued by the Audit Commission.



Ian Looker (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
101 Barbirolli Square, Manchester
Date 24/9/14

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

12 **GLOSSARY**

ACCOUNTABLE BODY

Projects financed from Government / European resources in some instances require grant claims from recognised legal entities, especially when a partnership or voluntary organisation is involved. This accountable body (usually the local authority) is held responsible for the proper completion of grant claims, ensuring that appropriate financial systems are in place and to receive and distribute the grant.

ACCRUALS

The concept that income and expenditure are recognised in the accounts as they are 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 last valuation (Asset and Liability Gains and Losses); or
- (ii) The actuarial assumptions have changed.

AMORTISATION

The accounting technique of recognising a cost or item of income in the Income and Expenditure Account over a period of years rather than when the initial payment is made. Its purpose is to charge/credit the cost/income over the accounting periods that gain benefit for the respective item. The technique is supported by relevant accounting policies and practices.

AUTHORITY

Another term used to refer to the Council.

BALANCES

These represent accumulated monies of the Authority. Non-School General Fund balances may be utilised to reduce the amount to be met from Revenue Support Grant, NNDR and local taxpayers. School balances can be used by schools to finance future years' expenditure.

BEST VALUE

The Local Government Act 1999 introduced the principle of Best Value and places a statutory duty on authorities to provide economy, efficiency and effectiveness in the provision of its services.

CAPITAL CHARGES

A charge to service revenue accounts to reflect the cost of fixed assets used in the provision of services.

CAPITAL EXPENDITURE

Capital expenditure is the acquisition of a fixed asset or expenditure which adds to the value of the existing fixed asset (e.g. building of a school). It can be spent either directly by the local authority or indirectly in the form of grants to other persons or bodies.

CAPITAL RECEIPTS

The proceeds from the sale of capital assets which, subject to various limitations, can be used to finance Capital Expenditure or to repay leasing charges or outstanding debt on assets originally financed through loan. A proportion of capital receipts may need to be set aside to meet future liabilities.

CHARTERED INSTITUTE OF PUBLIC FINANCE AND ACCOUNTANCY (CIPFA)

CIPFA is the leading professional accountancy body for public services, which has responsibility for setting accounting standards in Local Government.

CODE OF PRACTICE ON LOCAL AUTHORITY ACCOUNTING IN GREAT BRITAIN (THE CODE)

The Statement of Accounts is produced in accordance with CIPFA's Code of Practice on Local Authority Accounting in Great Britain, which is updated annually. The Code specifies the principles and practices of accounting required to prepare a Statement of Accounts which "presents fairly" the financial position and transactions of a local authority.

COMMUNITY ASSETS

These are assets that the Authority intends to hold indefinitely, have no determinable useful life and may have restrictions on their disposal. Examples include parks and historic buildings.

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 local authority's control.

CONTINGENT LIABILITY

A condition that exists at the balance sheet date, where the outcome will be confirmed only on the occurrence or non-occurrence of one or more uncertain future events. Where a material loss can be estimated with reasonable accuracy a contingent liability is accrued in the financial statements. If, however, a loss cannot be accurately estimated or the event is not considered sufficiently certain, it will be disclosed in a note to the balance sheet.

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.

COUNCIL TAX

A property based tax levied on all domestic properties in the Borough. The banding (and resultant sums due) is based on independent assessed property values. The Council sets levels of Council Tax on an annual basis under relevant statutory provisions.

CURRENT SERVICE COSTS (PENSIONS)

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

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 a business; and

- (ii) Termination of, or amendment to the terms of, a defined benefit scheme so that some or all of future service by current employees will no longer qualify for benefits or will qualify only for reduced benefits.

DEFERRED CAPITAL RECEIPTS

Deferred Capital Receipts are derived from the sale of Assets receivable over an agreed period of time, principally mortgages relating to the sale of Council houses.

DEFERRED CREDITS

These represent capital income to be received in the future, when disposals have taken place, and deferred payments have been agreed e.g. the principal outstanding from the sale of Council houses.

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 benefit 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 or prior periods.

DEPRECIATED REPLACEMENT COST (DRC)

A method of valuation that provides a recognised proxy for the market value of specialised properties.

DEPRECIATION

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

DISCRETIONARY BENEFITS

Retirement benefits that the employer has no legal, contractual or constructive obligation to award and which are awarded under the Authority's discretionary powers.

EARMARKED RESERVES

Earmarked reserves are created by setting resources aside for future events or to equalise expenditure between years. Earmarked reserves do not affect service expenditure in the year of creation.

EMOLUMENTS

Amounts paid to or receivable by an employee including expenses allowances chargeable to tax, and the estimated money value of any other benefits received by an employee other than in cash.

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.

EXISTING USE VALUE (EUV)

The estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arms-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion assuming that the buyer is granted vacant possession of all parts of the property and disregarding potential alternative uses and any other characteristics that would cause its market value to differ from that needed to replace the remaining service potential at least cost.

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.

FAIR FUNDING

Under Section 48 of the School Standards Framework Act 1998, Local Education Authorities (LEAs) are required to have schemes dealing with the financing of schools. These govern the financial relationship between maintained schools and LEAs from the inception of the new funding framework on 1 April 1999

FINANCE LEASE

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

FIXED ASSETS

Assets that yield benefits to the Local Authority and the services it provides for a period of more than one year.

GENERAL FUND

This is the account where costs are charged for the year of the major functions for which the Authority is responsible (excluding the Collection Fund). Income to the Fund includes charges made by the Authority, specific Government and other grants and receipts from the Collection Fund.

HERITAGE ASSETS

Heritage assets are assets that are held by the Authority principally for their contribution to knowledge or culture.

IMPAIRMENT

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

INFRASTRUCTURE ASSETS

These include facilities to enable other developments to take place, including roads, street lighting and coastal defence works.

INTANGIBLE FIXED ASSET

"Non-financial" fixed assets that do not have physical substance but are identifiable and are controlled by the Authority through custody or legal rights. Purchased intangibles (e.g. software licences) are capitalised at cost, whilst internally developed intangibles are only capitalised where there is a readily ascertainable market value for them.

INTEREST COST (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.

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

Defined Accounting Standards that must be applied by all reporting entities to all financial statements in order to provide a true and fair view of the entity's financial position, and a standardised method of comparison with financial statements of the other entities.

INVENTORIES

Amounts of unused or unconsumed stocks held in expectation of future use. Inventories are comprised of the following categories:

- Goods or other assets purchased for resale
- Consumable stores
- Raw materials and components
- Products and services in intermediate stages of completion
- Finished goods

LIQUID RESOURCES

Current asset investments that are readily disposable by the authority without disrupting its business and are either readily convertible to known amounts of cash at or close to the carrying amount or traded in an active market.

LOCAL MANAGEMENT OF SCHOOLS (FAIR FUNDING)

The Authority is required to delegate responsibility for the management of a large proportion of its Nursery, Primary, Secondary and Special School budgets to schools. Individual schools are allocated a share of the budget through a formula mechanism, which distributes funds primarily on the basis of age weighted pupil numbers.

LONG-TERM CONTRACTS

A contract entered into for the design, manufacture or construction of a single substantial asset or the provision of a service (or a combination of assets or services which together constitute a single project), where the time taken substantially to complete the contract is such that the contract activity falls into different accounting periods. Some contracts with a shorter duration than one year should be accounted for as long-term contracts if they are sufficiently material to the activity of the period.

MARKET VALUE

The estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arms-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

NATIONAL NON-DOMESTIC RATES (NNDR)

These are often referred to as Business Rates, and are a levy on business properties based on a national rate in the pound applied to the 'rateable value' of the property. The Government determines that national rate poundage. Local Authorities collect the sums due, but the proceeds are split, with 50% paid to Central Government, 1% paid to the Merseyside Fire and Rescue Authority and 49% retained by the Council.

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 REALISEABLE VALUE

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

NON-OPERATIONAL ASSETS

These are assets, which are held by the authority but not directly occupied, used or consumed in the delivery of services. Examples include assets that are surplus to requirements, pending sale or redevelopment.

OPERATING LEASES

In an operating lease, the ownership of the asset remains with the leasing company and the annual rent is charged to the annual service account. Expenditure financed by operating leases does not count against capital allocations.

OPERATIONAL ASSETS

These are assets that are held and occupied, used or consumed in the direct delivery of services for which the Authority is responsible.

PAST SERVICE COST / GAIN

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

PAYABLES

Amounts owed by the Authority for goods and services provided for which payment has not been made by the end of the financial year.

POOLED BUDGET

Arrangement permissible under the Health Act 1999 and National Health Service Act 2006 that provides an opportunity for partners to bring money together, in a discrete fund, to pay for the services that are an agreed part of the pooled fund arrangement for the client group who are to benefit from one or all of the services. Instead of users being inconvenienced by disputes about Health and Local Authority responsibilities, organisations will agree at the outset the range of Health and Local Government services to be purchased and provided from a pooled fund.

PRECEPT

This is a charge issued by the Merseyside Police and Crime Commissioner, Merseyside Fire and Rescue Authority (and Parish Councils where appropriate), which is collected by the Council on their behalf by adding the precept to its own Council Tax.

PRIOR YEAR ADJUSTMENTS

Those material adjustments applicable to prior years arising from changes in accounting policies and from the correction of fundamental errors. They do not include normal recurring corrections and adjustments of accounting estimates made in prior years.

PROVISIONS

Provisions represent sums set aside for liabilities or losses, which are certain to arise but, owing to their inherent nature, cannot be quantified with any certainty.

PUBLIC WORKS LOANS BOARD (PWLB)

An arm of Central Government which is the major provider of loans to finance long term funding requirements for Local Authorities.

RECEIVABLES

Sums of money due to the Authority but not received by the end of the financial year.

RELATED PARTY TRANSACTION

A related party transaction is the transfer of assets or liabilities or the performance of services by, to or for a related party irrespective of whether a charge is made. Related party transactions include the provision of services to a related party.

The materiality of related party transactions should be judged not only in terms of their significance to the authority, but also in relation to its related party.

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

A reserve is an amount, which has been set aside for a specific purpose in one financial year and carried forward to meet expenditure in future years. Reserves include earmarked reserves set aside for specific policy purposes and balances that represent resources set aside for purposes such as general contingencies and cash flow management.

RETIREMENT BENEFITS

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

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

REVENUE SUPPORT GRANT (RSG)

This is a Government grant in aid of Local Authority services generally. It is based on the Government's assessment of how much an authority needs to spend in order to provide a standard level of service.

REVENUE EXPENDITURE

This is money spent on the day-to-day running costs of providing services (e.g. salary costs). It is usually of a constantly recurring nature and produces no permanent asset.

SCHEME LIABILITIES

The liabilities of a defined benefit 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.

SECTION 52 / 106 AGREEMENTS

The Council is able to restrict or regulate the development or use of land by requiring that a developer deposit funds with the Authority when granting planning permission. The funds are either used directly by the Authority to undertake work, such as providing access from the existing highway to a new development, or held as a deposit which is refundable to the developer when the conditions attached to the planning permission, such as landscaping work, are complied with. The statutory basis for such agreements is currently contained within Section 106 of the 1990 Town and Country Planning Act and previously, within Section 52 of the 1971 Town and Country Planning Act.

SERVICE REPORTING CODE OF PRACTICE (SERCOP)

A CIPFA Code established to modernise the system of Local Authority accounting and reporting to ensure that it meets the changed and changing needs of modern Local Government; particularly the duty to secure and demonstrate best value in the provision of services.

The Code establishes 'proper practice' with regard to consistent financial reporting below the Statement of Accounts level and is statutory force in England by regulations made under the Local Government Act 2003.

SET ASIDE CAPITAL RECEIPTS

These are receipts that have to be reserved under the Local Government and Housing Act 1989 and can only be used to repay external debt or in substitution for new external borrowing.

SETTLEMENT

An irrevocable action that relieves the employer of the primary responsibility for a pension obligation and eliminates significant risks relating to the obligation and the assets used to effect the settlement. Settlement includes the transfer of scheme assets and liabilities relating to a group of employees leaving the Authority's scheme.

SPECIFIC GOVERNMENT GRANTS

These are designed to aid particular services or reimburse the costs of payments made to claimants. Examples of specific grants include Dedicated Schools Grant, Standards Fund and Housing and Council Tax Benefit Subsidy. Assistance may also be given in aid of specific capital expenditure, e.g. Housing Market Renewal Grant and Stronger Safer Communities Fund.

STATUTORY PROVISION FOR THE FINANCING OF CAPITAL INVESTMENT

This is the amount required to be set aside from revenue for the repayment of external loans. It is calculated in accordance with the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 [SI 2008/414], in conjunction with the DCLG guidance on the minimum revenue provision (published in February 2012).

TREASURY MANAGEMENT

This is the process by which the Authority controls its cash flow and its borrowing and lending activities.

TRUST FUNDS

These are funds administered by the Council on behalf of charitable organisations and/or specific organisations.

USABLE CAPITAL RECEIPTS

These are receipts which, after allowing for the proportion to be set aside, may be used to finance capital expenditure.

USEFUL LIFE

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

13 **ABBREVIATIONS**

| | |
|---------|--|
| A & G | Audit and Governance |
| CDC | Corporate and Democratic Core |
| CERMS | Continuous Emission Rate Monitoring System |
| CFR | Capital Financing Requirement |
| CIA | Chief Internal Auditor |
| CIPFA | Chartered Institute of Public Finance and Accountancy |
| CPI | Consumer Price Index |
| CRC | Carbon Reduction Commitment |
| CVS | Council for Voluntary Service |
| DCLG | Department of Communities and Local Government |
| DRC | Depreciated Replacement Cost |
| DSG | Dedicated Schools Grant |
| EUV | Existing Use Value |
| HCF&ICT | Head of Corporate Finance and ICT |
| HCLS | Head of Corporate Legal Services |
| HCP | Head of Corporate Personnel |
| HMRI | Housing Market Renewal Initiative |
| HR | Human Resources |
| HRA | Housing Revenue Account |
| IAS | International Accounting Standards |
| ICT | Information and Communication Technology |
| FRS | Financial Reporting Standard |
| IFRS | International Financial Reporting Standard |
| LASAAC | Local Authority (Scotland) Accounts Advisory Committee |
| LEA | Local Education Authority |
| LGPS | Local Government Pension Scheme |
| MBC | Metropolitan Borough Council |
| MMI | Municipal Mutual Insurance Limited |
| MPF | Merseyside Pension Fund |
| MRICS | Member of the Royal Institution of Chartered Surveyors |
| NHS | National Health Service |

| | |
|--------|---|
| NNDR | National Non-Domestic Rates |
| PCT | Primary Care Trust |
| PFI | Private Finance Initiative |
| PP&E | Property, Plant and Equipment |
| PWLB | Public Works and Loans Board |
| REECH | Renewables and Energy Efficiency in Community Housing |
| RSG | Revenue Support Grant |
| SOLACE | Society of Local Authority Chief Executives |
| SERCOP | Service Reporting Code of Practice |
| TPS | Teachers' Pension Scheme |
| VAT | Value Added Tax |
| VOA | Valuation Office Agency |

14 USEFUL ADDRESSES

Additional financial information on Sefton MBC and related organisations is usually available at libraries throughout the Borough and on our website (www.sefton.gov.uk). Further copies are also available upon request to the following addresses.

Sefton Council

Head of Corporate Finance and ICT,
Magdalen House
30 Trinity Road
Bootle
L20 3NJ

Sefton New Directions

Sefton New Directions Limited Annual Financial Statements can be obtained from:

Sefton New Directions Limited Head Office,
Third Floor,
The Investment Centre,
375 Stanley Road,
Bootle,
Merseyside,
United Kingdom
L20 3EF

Pension Fund Information

The Merseyside Pension Fund's Annual Report can be obtained from:

The Pension Manager
Merseyside Pension Fund,
PO Box 120,
7th Floor,
Castle Chambers,
43 Castle Street,
Liverpool
L69 2NW

CONTACT US

If you have any questions or comments on the Statement of Accounts please write to the Head of Corporate Finance and ICT at the above address. We would particularly like to hear from you if you have any suggestions on how the accounts could be improved.

