Liverpool City Council

# Statement Of Accounts 2010/11

*For the year ended*

*31 March 2011*

*These accounts are produced subject to audit.*

# LIVERPOOL CITY COUNCIL

## STATEMENT OF ACCOUNTS 2010/11

**Contents** **Pages**



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# Foreword by the Director of Finance and Resources

## 1. Introduction

The Statement of Accounts is a record of the City Council's financial activities for 2010/11 with comparative figures for 2009/10. They have been prepared in accordance with the accounting practices set out in the *Code of Practice on Local Authority Accounting* (the Code) as published by the Chartered Institute of Public Finance and Accountancy (CIPFA) together with guidance notes issued by them.

The purpose of the Foreword is to provide readers of the accounts with a guide to the most significant aspects of the City Council's financial performance for the year along with an understanding of the more significant assets and liabilities disclosed in the Balance Sheet.

On 1 April 2010 the City Council, along with all other councils, adopted International Financial Reporting Standards (IFRS). The accounts for 2010/11 therefore are the first to be prepared under these new arrangements. The move to an IFRS-based system of accounting has resulted in a number of significant changes, including the adoption of a new accounting Code (referred to above), new accounting policies and new formats for the principal financial statements. These changes are explained later in the Foreword and considered in more detail in Note 6 to the accounts.

## 2. Explanation of the Financial Statements

The accounts show the core financial statements grouped together, along with detailed disclosure notes followed by the supplementary statements and Group Accounts. The core financial statements include:

**The Movement in Reserves Statement (MIRS)**
This is a summary of the changes that have taken place in the lower half of the Balance Sheet during the year showing the movement in those reserves which are available for the City Council to spend and those that have been created to reconcile the technical aspects of accounting which are not generally available to spend.

**The Comprehensive Income and Expenditure Statement (CIES)**
The Comprehensive Income and Expenditure Statement consolidates the total gains and losses experienced by the City Council during the year.

**The Balance Sheet**
The Balance Sheet summarises the City Council's financial position at 31 March each year. The top part of the statement shows the assets and liabilities of the City Council and the lower part shows the City Council's reserves. These are split into those reserves which are available to support future revenue and capital expenditure and those which have been created to reconcile the statutory and accounting financial positions, and are not available to support expenditure.

**The Cash Flow Statement**
The Cash Flow Statement summarises the changes in cash and cash equivalents during the year.

The supplementary statements include:

**The Collection Fund**
The Collection Fund shows the collection and distribution of local taxes.

**The Group Accounts**

The Group Accounts consolidate the City Council's financial position with that of the various companies that it controls or has significant influence over, to provide an overall picture of its economic activity and exposure to risk.

## 3. Commentary on the Financial Year

The 2010/11 financial year has been very challenging. In May 2010 the General Election saw the establishment of a new coalition Government with a clear policy of reducing the national budget deficit through reducing the amount of resources provided to Local Government in both the current and future financial years. This has had a major impact on the City Council's financial position. On 24 May 2010 the Chancellor of the Exchequer announced the Government's intention to reduce in-year spending for 2010/11 by £6.3 billion, which included spending reductions to Local Government of £1.2 billion. The annual on-going impact on the City Council of these funding reductions is £20.1m, including reductions of £9.3m in Area Based Grant (ABG), £4.6m in the Housing Market Renewal Initiative (HMRI), and other capital funding reductions of £4.9m. At the same time the Chancellor also announced a major reduction in funding for one-off City Council projects of £358.9m including the Building Schools for the Future (BSF Wave 6) Programme.

In addition to major reductions in its grant funding the Government announced its Emergency Budget on 22 June 2010. The key features included limited or no pay awards for the years 2011/12 and 2012/13 for public sector employees, an increase in employer's national insurance thresholds and an increase in VAT from 17.5% to 20% from 4 January 2011, resulting in an increase in certain charges for City Council services.

Furthermore, in October 2010, the Government announced the high level settlements to Government Departments for 2011/12 to 2014/15 in its Comprehensive Spending Review. The subsequent Local Government Finance Settlement in December 2010 provided detailed provisional grant settlements for local authorities for the years 2011/12 and 2012/13 and these were confirmed in February 2011.The Settlement outlined significant reductions in grant support for local authorities and resulted in the City Council needing to find budget savings over the two year period of £141.1m. As part of the Settlement, the City Council was also notified of significant reductions in its capital allocations, including reductions of 40% in Transport and Children's Services for 2011/12.

Whilst these funding reductions impact primarily on the financial years 2011/12 and 2012/13 the City Council has put in place measures in 2010/11 to deal with the scale of these funding reductions. For instance, it has reviewed its management structure, reorganised its service operations, and reviewed its "back-office" functions. The Budget Report approved at City Council on 2 March 2011 sets out how the £91.4m budget gap identified in 2011/12 was addressed and the ongoing impact into 2012/13.

However, despite the very challenging financial climate in 2010/11 there were some notable successes. Some of the key highlights for the year include:

- Working with partners to complete 307 new affordable homes.
- Maximising employment and training opportunities across the City with the creation of 100 new apprenticeships.
- Working with partners for the completion of the Lime Street Gateway to provide an attractive gateway for visitors arriving by rail.
- A new Tesco superstore development at Park Lane with environmental improvements to improve the District centre.
- Completion of the restoration of the Festival Gardens.
- The on-going re-development of Edge Lane and Hall Lane carriageways.

- The start of the renovation of Central Library.
- The opening of three new school buildings (Alsop High School, West Derby Comprehensive and Ernest Cookson Special School) as part of the Building Schools for the Future Programme.
- In Education, we have surpassed the national average of 75.4% for the third year running for the number of pupils gaining 5 or more grade C or above GCSE's (81.8%).
- Graded excellent by the Commission for Social Care Inspection (CSCI) for Adult Social Care services.

The significant aspects of the City Council's financial position for 2010/11 are set out below:

**a) General Fund Revenue Expenditure**
During the year the City Council manages and controls spending on services such as schools, social services and leisure facilities through its General Fund. The General Fund is a statutory account that records only those expenses that regulations allow to be charged against the amount to be collected from council tax payers and by which the City Council sets its annual budget. This contrasts with the financial position shown in the Consolidated Income and Expenditure Statement which shows the true accounting position for the year as if the City Council was a commercial entity, and includes such expenses as depreciation and amounts to reflect pension costs. The General Fund position for the year is shown in the Movement in Reserves Statement.

The final General Fund budget position for the City Council for 2010/11 anticipated net expenditure of £592.7m with an increase to working balances of £1.0m and planned net movement in earmarked reserves of £6.9m. The actual year end position was such that net City Council expenditure was £577.3m with an increase of working balances of £1.0m and an additional contribution from reserves of £1.2m. There was an additional creation of reserves of £16.6m at the year end.

| | Budget (restated) £m | Actual £m | Variance £m |
|---|---|---|---|
| **Expenditure** | | | |
| Net City Council Expenditure (net of service grants and income) | 592.7 | 577.3 | (15.4) |
| Increase in Working Balances | 1.0 | 1.0 | 0 |
| Contribution From Reserves | (35.7) | (36.9) | (1.2) |
| Contribution To Reserves | 28.8 | 45.4 | 16.6 |
| | **586.8** | **586.8** | **0** |
| **Funded by:** | | | |
| Total Formula Grant | (325.1) | (325.1) | 0 |
| Area Based Grant | (101.2) | (101.2) | 0 |
| Council Tax Revenues from Collection Fund | (160.5) | (160.5) | 0 |
| | **(586.8)** | **(586.8)** | **0** |

Of the additional reserves created:

- £1.8m arises from under-spending from service areas where there are legal requirements to carry the resources forward;
- £4.5m is in respect of contractual commitments carried forward into 2011/12;
- £2.7m is in respect of identified risks;
- £6.2m is required for approved initiatives that have now been re-phased;
- £1.4m arises from the carry forward of grant monies that are now required to be shown as reserves under IFRS.

**b) Material Expenses in the year**

Where items of income and expenditure are unusual in nature they are referred to as exceptional items. An exceptional item of £119.9m has been credited to the 2010/11 Comprehensive Income and Expenditure Statement relating to reductions in actuarially calculated pension costs. This amendment has arisen as a result of changes to the way in which future pension liabilities are calculated for employees who are members of the Merseyside Pension Fund. The reason for this reduction in pension liabilities is given in Note (d) below.

**c) Major Capital Acquisitions and Disposals**

During the year the City Council both acquired and disposed of a number of property assets in the Balance Sheet. New assets under construction include a new site for Gateacre Community Comprehensive School (£19.5m) and Childwall Library (£1.7m).

During the year a number of City Council maintained community schools acquired Trust / Academy status and the rules governing such arrangements require that the assets are transferred to the new body at no cost. Schools that were transferred to Trusts and Academies in 2010/11 include: Broadgreen, Childwall, Shorefields, Parklands and Matthew Arnold. The total value of the schools transferred out of the Balance Sheet was £65m.

**d) Pensions Liability**

The City Council contributes, along with its employees, to two pension schemes, the Local Government Pension Scheme (LGPS) and the Teachers' Pension Scheme. Only those liabilities relating to the LGPS are shown in the City Council's Balance Sheet. The pension liabilities for teachers cannot be separated out from the overall liability for teachers nationally and are therefore not shown in the City Council's Balance Sheet.

The Balance Sheet therefore shows the City Council's underlying commitment with regard to LGPS retirement benefits. The total liability shown in the Balance Sheet of £649.4m (£853.4m for 2009/10) has a significant impact on the Balance Sheet, reducing the City Council's net worth to £320.5m. However, the pension liability is £204.0m lower than that reported for the previous financial year. This reduction is mainly due to the impact of changes announced by the Government last year to the way in which scheme liabilities are calculated. A decision was made to calculate future pension increases with an inflation measure based on the Consumer Price Index (CPI) rather than the Retail Price Index (RPI). As CPI is lower than RPI, this has given rise to a past service gain within the accounting figures, and a consequent reduction in the year end liabilities. This has been shown as an exceptional item in the accounts.

However, readers of the accounts should note that the pension fund deficit of £649.4m is based on a snapshot in time and it does not predict the fund's future financial condition or its ability to pay benefits in the future. For instance, fund assets can improve significantly in future years depending on investment performance, whilst any shortfall can be met by increased pension contributions over the remaining working lives of employees or by changes to the scheme. At the time of writing, the various pension funds to which the City Council and its employees contribute are under review by the Government and the value of the liability shown may change in the future depending on the outcome of that review.

**e) Borrowing and Capital Investment**

At 31 March 2011 the City Council had outstanding borrowing of £327.0m. This includes local authority bonds, stocks and amounts borrowed from financial institutions and the Public Works Loan Board (PWLB). The prime purpose of borrowing, other than for short term cash flow purposes, is to fund the capital investment plans of the City Council, i.e. expenditure on the construction of new schools and roads.

During the year the City Council spent £202.8m on new capital projects (see below) and this was financed from various means, including borrowing.

| | Actual £m |
|---|---|
| Housing | 24.9 |
| Regeneration, Highways and Transport | 33.9 |
| Children's Services | 49.5 |
| Leisure and Culture Services | 2.0 |
| Equal Pay | 7.9 |
| Grants to other bodies | 84.2 |
| Other | 0.4 |
| **Total Expenditure** | **202.8** |
| | |
| **Financed by:** | |
| Grants | 168.3 |
| External Borrowing | 25.1 |
| Capital Receipts | 7.1 |
| Revenue Contributions | 2.3 |
| **Total Financing** | **202.8** |

When undertaking borrowing, the City Council ensures that its plans are prudent and affordable in the long term and seeks to monitor its borrowing and other forms of credit throughout the year. The City Council ensures that its borrowing is in accordance with its approved Capital Borrowing Strategy which seeks to raise new fixed interest rate borrowing when interest rates are low and short term variable interest rate borrowing when such rates are expected to be below long term rates, thereby minimising the amount of interest the City Council will pay on its borrowing. Interest paid during the year on existing long term borrowing from bonds, stock issues, banks and the PWLB totalled £14.2m. The City Council's borrowing average life to maturity for all long term loans was 12 years, and the average interest rate was 4.24%.

**f) Provisions**

Where the City Council has a liability to make future payments but the precise timing of the payment and the amount is uncertain then it creates provisions in the Balance Sheet. At 31 March 2011 the City Council has the following material provisions:

- Equal Pay Back Pay of £30.8m. This provision was created to meet potential claims from current and former employees relating to alleged breaches of equal pay legislation. During the year the City Council settled claims totalling £9.2m and re-assessed the value of outstanding claims enabling it to reduce the provision by £5.5m.
- Highways Liability of £5.8m. This provision was created to meet the cost of compensation relating to highways tripping claims. During the year £2.3m of claims were settled although a re-assessment of outstanding claims necessitated an increase in the provision of £2.8m.
- Uninsured risks of £7.4m. This reserve was created to meet the cost of general liability claims which are not covered by external insurance. During the year amounts totalling £1.5m were settled whilst the provision was increased by £1.2m.

Further details on provisions can be found in Note 29.

**g) Reserves**

As previously mentioned, the City Council sets aside money as reserves in order to prudently plan for future expenditure commitments and to mitigate financial risks identified as part of the budget monitoring process. If reserves are not created then any future liabilities arising from risk issues would impact adversely on the City Council's financial position when they occurred. The creation of reserves therefore is considered essential for the purposes of robust financial management. Not all the reserves created though are available for general use by the City Council as a number have been created to satisfy specific statutory and legal requirements, such as reserves held by schools. Reserves can be created for both capital and revenue purposes.

The reserves available to support revenue expenditure include:

| | Reserves at 31/3/2011 £m |
|---|---|
| Specific Scheme Reserves | 19.4 |
| Reserves for the Management of Risks | 73.0 |
| PFI Reserves | 5.2 |
| Legally Restricted Reserves | 28.4 |
| Working Balance (General Fund) | 16.0 |
| Other | 1.3 |
| **Total Revenue Reserves at 31 March 2011** | **143.3** |

The reserves available to support capital expenditure include:

| | Reserves at 31/3/2011 £m |
|---|---|
| Capital Receipts Reserve | 18.6 |
| Unapplied Capital Grants Reserve | 85.4 |
| Major Repairs Reserve | 0.2 |
| **Total Capital Reserves at 31 March 2011** | **104.2** |

The Unapplied Capital Grants reserve relates to grants waiting to be applied to fund capital expenditure in 2011/12 and future financial years.

The Balance Sheet also shows a number of technical reserves such as the Revaluation Reserve and Capital Adjustment Account. These reserves are not available to spend having been created to reconcile the City Council's accounting position with the statutory financial position as used to set the annual General Fund budget.

Further detail on reserves can be found in Notes 8 – 10 to the accounts.

## 4. Significant Changes in Accounting Policies - Adoption of IFRS

From 1 April 2010 the City Council is required to prepare its accounts in accordance with International Financial Reporting Standards (IFRS). The date of transition to IFRS for the City Council is the first day of the preceding financial year, 1 April 2009. Where the introduction of IFRS based accounting standards leads to a different financial treatment for assets and liabilities presented in the Balance Sheet, then those accounting standards are taken to apply retrospectively and the Balance Sheet at 1 April 2009 is restated. The first year of IFRS adoption therefore sees the City Council present three Balance Sheets: one giving the restated position as at 1 April 2009, a comparative Balance Sheet for 31 March 2010 and one for 31 March 2011. Along with this the City Council is required to explain how its previously reported performance and financial position are affected by the transition to IFRS.

The move to an IFRS-based Code has resulted in a considerable number of changes in accounting practices and disclosures; the more significant of these are set out below (a fuller explanation of the changes is provided in Note 6).

Whilst the adoption of IFRS has had an impact on the previous reported financial position, Capital Finance Regulations have been introduced to prevent the accounting changes from impacting on the General Fund position.

### a) Investment property
The adoption of International Accounting Standard (IAS) 40, *Investment Property*, has required the City Council to review the conditions under which it records the number and value of investment properties in its Balance Sheet. However, other than reclassifying a number of assets previously considered to be surplus as investment property (see below), there has been no change in the classification of properties previously considered to be held for investment purposes.

### b) Non-Current Assets held for Sale
Assets awaiting sale were previously shown in the surplus asset category in the Balance Sheet. Under IFRS5, *Non-Current Assets held for Sale*, only those assets that meet with the revised criteria as "held for sale" can be shown in this category. This has meant that properties that were previously surplus and awaiting a decision on disposal have been re-classified as investment property whilst those that were for sale and not meeting the new criteria under IFRS5 (i.e. being actively marketed) were also re-classified as investment property. The impact of these changes on the Balance Sheet at 1 April 2009 therefore is to increase the value of investment properties by £7.9m. No assets met the definition as held for sale at 1 April 2009.

### c) Component Accounting
Under the previous accounting regime all expenditure on the acquisition or enhancement of tangible fixed assets was reviewed for its impact on asset values. Under the IFRS Code, the concept of component accounting has been introduced which requires assets to be split into their significant component parts and depreciated separately. The City Council has adopted a policy in which assets are analysed across five components with values and useful lives assigned by valuation officers. The main purpose of component accounting is to ensure that revenue accounts are charged with the correct amount of depreciation for the year and that the Balance Sheet shows the correct valuation of assets. Components, or parts of, are de-recognised from the Balance Sheet whenever there is subsequent capital expenditure and this is recognised in the CIES as an asset disposal. The adoption of this accounting policy is prospective and applies only to the financial year 2010/11 and future years. There has been no restatement of previously reported figures.

### d) Employee Benefit Liabilities
The adoption of IAS19, *Employee Benefits*, has required the City Council to estimate the cost of untaken employee holidays and other compensated absences at the end of 2008/09 (and in subsequent years) and make an accrual in the Balance Sheet. The value of this initial accrual at 1 April 2009 is £9.4m. The accrual is not taken into account when determining the City Council's statutory General Fund position, being reversed in the Movement in Reserves Statement and shown in the Accumulating Absences Adjustment Account in the Balance Sheet.

### e) Leases and Lease-type arrangements
The adoption of IAS17, the accounting standard for leases, and the interpretive guidance contained in IFRIC12, *Service Concession Arrangements*, and IFRIC4, *Determining whether an Arrangement contains a lease*, has required the City Council to review its substantial leasehold portfolio and major contracts with suppliers for evidence of lease-type arrangements. The principle requirement is to determine whether assets used or provided under various leasehold and contractual arrangements should be shown on or off the City Council's Balance Sheet according to the substance of the arrangement. Under the IFRS Code there is a requirement to consider the land and property elements of leases separately and account for them appropriately as either operating or finance leases. There was no requirement for this split under the previous accounting arrangements.

With regard to land and property leasehold arrangements, the City Council has had to restate a number of leases where it acted as the lessor as finance leases and remove the property element of the assets from its Balance Sheet at 1 April 2009 (value £3.9m). No amendment has been made to rental income on the grounds of materiality.

The demands of IFRIC4 require the City Council to review its major contractual arrangements for evidence of assets being used in performance of the contract that take the form of lease-type arrangements. Where such assets are identified the City Council is required to review whether those arrangements are operating or finance leases and amend its Balance Sheet accordingly. If assets are considered to be used under finance lease terms then they are brought onto the City Council's Balance Sheet as if the City Council owned them and contract payments separated out into amounts considered to meet the lease liability and the amount used to perform the service.

The City Council has reviewed the details of its contractual arrangements with various suppliers and has concluded that none of these arrangements take the form of leases.

### f) Recognition of Grant income

The adoption of IAS20, *Accounting for Government Grants*, has required the City Council to review how it recognises and discloses grants in its revenue account and Balance Sheet. Grants now have to be considered as to whether they have a restriction or a condition on their use, i.e. whether there is a possibility that they will have to be paid back. Where there is no condition and the grant will not be paid back then it is recognised immediately in revenue even if there is no qualifying expenditure in the period. Where there is a condition and the grant remains unspent at the year end then it is shown either as a creditor (revenue grant) or as a capital grant receipt in advance (capital grant).

The adoption of this standard has had a significant impact on the recognition of grants shown in the City Council's accounts and has required the de-recognition of a number of accounts (the Government Grants Deferred Account, the Developer Contributions Account and Capital Grants Unapplied Account) and the creation of two new accounts: Capital Grants Receipts in Advance and the Capital Grants Unapplied Reserve. These changes are shown and explained more fully in Note 6. There has been no change to the City Council's overall financial position as a result of these changes.

### g) Presentational Amendments

The adoption of IFRS has resulted in a significant change in the format of the principal financial statements. The main changes are summarised below:

- **The Movement in Reserves Statement** is a new statement and replaces the previous Statement of Movement in General Fund Balance and the Movement in Reserves note. The Statement is a summary of the changes that have taken place in the lower part of the Balance Sheet during the year showing the movement in those reserves which are available for the City Council to spend and those that have been created to reconcile the technical aspects of accounting which are not generally available to spend.
- **The Comprehensive Income and Expenditure Statement (CIES)** replaces the previous Income and Expenditure account and now includes what was classified as the Statement of Total Recognised Gains and Losses under the previous accounting arrangements. The CIES consolidates the total gains and losses experienced by the City Council during the financial year.
- The main change in the presentation of the **Balance Sheet** is that the reserves section is now split between Usable Reserves (those available to support City Council services in the future) and Unusable Reserves (which include the adjustments required to reconcile accounting standards with the statutory requirements of what expenditure can be charged to the General Fund).

- The **Cash Flow Statement** is split into four sections under IFRS: operating activities, investing activities, financing activities and cash and cash equivalents. The indirect method of completing the cash flow statement has been used as opposed to the direct method that has been used in previous years as this is recommended under the Code. The Cash Flow Statement shows the changes in cash and cash equivalents of the City Council during the reporting period whereas under previous accounting arrangements this statement did not include movements in cash equivalents.

### h) Other Changes

The adoption of IFRS has also required a number of minor changes that have affected the previously reported Balance Sheet position, including:

- Provisions, where there is now a requirement to separately identify the amount expected to be settled in the next financial year and reclassify this as a short term provision (£17.1m change to the 1 April 2009 position);
- Cash equivalents, where there is a requirement to identify that portion of investments that are considered to be sufficiently liquid as to resemble cash (£24.2m change to the 1 April 2009 position);
- Deferred Liabilities, where there is now a requirement to identify the amount of finance lease liabilities to be incurred in the next financial year and reclassify this as a short term creditor (£4.0m change to the 1 April 2009 position).

## 5. Post Balance Sheet Events

At the date the accounts were authorised for issue (30 June 2011) the City Council was not aware of any significant developments occurring after the Balance Sheet date that have relevance to the reported financial position.

## 6. Involvement with Companies

Where the City Council has the ability to control or significantly influence companies then it is required to produce Group Accounts. The Group Accounts consolidate the City Council's financial position with that of the various Group entities with which it is involved to provide an overall picture of the City Council's financial activities and exposure to risk.

Companies are classified according to whether they are subsidiaries, associates or joint ventures. The classification for 2010/11 is as follows:

Subsidiary companies:

- Arena and Convention Centre Liverpool Ltd
- Liverpool Science Park Ltd
- Solus Treasury Services Ltd (from July 2010)

Joint venture companies:

- Liverpool Direct Ltd
- Liverpool Partnership LLP Ltd
- 2020 Liverpool Ltd
- Enterprise-Liverpool Ltd
- Geraud Markets Liverpool Ltd
- Liverpool Vision
- Glendale-Liverpool Ltd

On 2 July 2010 the City Council acquired Solus Treasury Services Ltd, a company set up in 2003 with Lloyds TSB Bank to facilitate the redevelopment of the King's Dock Waterfront and the eventual construction of the Arena and Convention Centre. The City Council acquired the whole of the share capital of the company for the nominal sum of £1. The company is classed as a subsidiary of the City Council and has been consolidated into the 2010/11 Group accounts. At the date these accounts were authorised for issue (30 June 2011), the City Council is in discussion with Lloyds TSB Ltd, Solus, and HMRC regarding a possible restructuring of the Company and its leasehold arrangements.

Additional details on Solus and the financial performance of group entities can be found in the notes to the Group Accounts.

## 7. Financial Outlook 2011/12 to 2014/15

In December 2010 the Government announced major reductions to the grant support for the City Council for the next two years. As a result, the City Council faced budget shortfalls of £91.4m in 2011/12 and a further £49.7m in 2012/13, a total of £141.1m over two years. Funding reductions had been planned for and outlined in the City Council's previous four year Medium Term Financial Plan (MTFP), however consistent with other local authorities the full impact of reductions and cessation of specific grants such as Area Based Grant were not forecast.

On 2 March 2011 the City Council agreed its budget for 2011/12 setting out how the City Council will make savings of £91.4m and the impact on 2012/13. Uncertainty remains about 2013/14 and 2014/15 and the Government has started a Local Government Resource Review from January 2011. Included in the review are outline proposals for some form of local retention or localisation of business rates as well as changes to the overall grant distribution formula.

**Susan Curran**
**Director of Finance and Resources**
**30 June 2011**

# STATEMENT OF RESPONSIBILITIES

## The City Council's Responsibilities

The City Council is required:

- To make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Authority, that officer is the Director of Finance and Resources.

- To manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.

- To approve the Statement of Accounts.

## The Responsibilities of the Director of Finance and Resources

The Director of Finance and Resources is responsible for the preparation of the City Council's Statement of Accounts in accordance with proper practices as set out in the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom.

In preparing this Statement of Accounts, the Director of Finance and Resources has:

- Selected suitable accounting policies and applied them consistently.

- Made judgements and estimates that were reasonable and prudent.

- Complied with the Code of Practice.

The Director of Finance and Resources has also:

- Kept proper accounting records which were up to date.

- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

I certify that this Statement of Accounts presents a true and fair view of the financial position and income and expenditure of Liverpool City Council for the year ended 31 March 2011.

**Susan Curran CPFA**
**Director of Finance and Resources**
**30 June 2011**

## MOVEMENT IN RESERVES STATEMENT

This statement shows the movement in the year on the different reserves held by the City Council, analysed into "Usable Reserves" (those that can be applied to fund expenditure or reduce local taxation) and "Unusable Reserves" (which cannot be used to fund services).
The "(Surplus) or Deficit on the Provision of Services" line shows the true economic cost of providing the City Council's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. This is 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 City Council.

| | General Fund | Earmarked General Fund Reserves | Housing Revenue Account | Capital Receipts Reserve | Major Repairs Reserve | Capital Grants Unapplied | Total Usable Reserves | Unusable Reserves | Total Authority Reserves |
|---|---|---|---|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| **Balance 31 March 2009** | **(11,033)** | **(97,166)** | **(7,979)** | **(17,599)** | **(216)** | **(35,517)** | **(169,510)** | **(194,241)** | **(363,751)** |
| **Movement in reserves during 2009/10:** | | | | | | | | | |
| (Surplus) or deficit on the provision of services | 4,461 | 0 | 0 | 0 | 0 | 0 | 4,461 | 0 | 4,461 |
| Other Comprehensive Income & Expenditure | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 187,348 | 187,348 |
| **Total Comprehensive Income & Expenditure** | 4,461 | 0 | 0 | 0 | 0 | 0 | 4,461 | 187,348 | 191,809 |
| Adjustment between accounting basis & funding under regulations (Note 7) | (30,022) | 0 | 7,979 | (1,101) | 0 | (21,451) | (44,595) | 44,595 | 0 |
| **Net Increase/Decrease before Transfers to Earmarked Reserves** | (25,561) | 0 | 7,979 | (1,101) | 0 | (21,451) | (40,134) | 231,943 | 191,809 |
| Transfers to/from Earmarked Reserves (Note 9) | 21,565 | (21,565) | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Increase/Decrease in 2009/10** | (3,996) | (21,565) | 7,979 | (1,101) | 0 | (21,451) | (40,134) | 231,943 | 191,809 |
| **Balance 31 March 2010** | **(15,029)** | **(118,731)** | **0** | **(18,700)** | **(216)** | **(56,968)** | **(209,644)** | **37,702** | **(171,942)** |
| **Movement in reserves during 2010/11:** | | | | | | | | | |
| (Surplus) or deficit on the provision of services | (21,477) | 0 | 0 | 0 | 0 | 0 | (21,477) | 0 | (21,477) |
| Other Comprehensive Income & Expenditure | 0 | 0 | 0 | 0 | 0 | 0 | 0 | (127,054) | (127,054) |
| **Total Comprehensive Income & Expenditure** | (21,477) | 0 | 0 | 0 | 0 | 0 | (21,477) | (127,054) | (148,531) |
| Adjustment between accounting basis & funding under regulations (Note 7) | 11,971 | 0 | 0 | 126 | 0 | (28,414) | (16,317) | 16,317 | 0 |
| **Net Increase/Decrease before Transfers to Earmarked Reserves** | (9,506) | 0 | 0 | 126 | 0 | (28,414) | (37,794) | (110,737) | (148,531) |
| Transfers to/from Earmarked Reserves (Note 9) | 8,551 | (8,551) | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Increase/Decrease in 2010/11** | (955) | (8,551) | 0 | 126 | 0 | (28,414) | (37,794) | (110,737) | (148,531) |
| **Balance 31 March 2011** | **(15,984)** | **(127,282)** | **0** | **(18,574)** | **(216)** | **(85,382)** | **(247,438)** | **(73,035)** | **(320,473)** |

## 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.

| 2009/10 Gross Expend. £'000 | 2009/10 Gross Income £'000 | 2009/10 Net Expend. £'000 | | 2010/11 Gross Expend. £'000 | 2010/11 Gross Income £'000 | 2010/11 Net Expend. £'000 |
|---|---|---|---|---|---|---|
| 83,958 | (69,646) | 14,312 | Central Services to the Public | 89,274 | (70,271) | 19,003 |
| 194,322 | (51,720) | 142,602 | Cultural, Environmental, Regulatory and Planning Services | 214,484 | (50,618) | 163,866 |
| 603,207 | (472,994) | 130,213 | Education and Children's Services | 645,854 | (491,321) | 154,533 |
| 51,452 | (20,731) | 30,721 | Highways and Transport Services | 50,354 | (20,057) | 30,297 |
| 361,824 | (322,213) | 39,611 | Other Housing Services | 352,961 | (285,569) | 67,392 |
| 186,446 | (44,506) | 141,940 | Adult Social Care | 186,399 | (48,069) | 138,330 |
| 14,199 | (3,587) | 10,612 | Corporate and Democratic Core | 13,269 | (202) | 13,067 |
| 50,103 | (41,389) | 8,714 | Non Distributed Costs | 53,412 | (41,152) | 12,260 |
| | | | *Exceptional Item: Reduction in past service pension costs (Note 45)* | (119,872) | 0 | (119,872) |
| | | | *Exceptional Item: Reduction in provision for Equal Pay Back Pay settlements (Note 29)* | (5,513) | 0 | (5,513) |
| **1,545,511** | **(1,026,786)** | **518,725** | **Cost of Services** | **1,480,622** | **(1,007,259)** | **473,363** |
| | | 62,452 | Other Operating Expenditure (Note 11) | | | 188,130 |
| | | 119,876 | Financing and Investment Income and Expenditure (Note 12) | | | 53,157 |
| | | (696,592) | Taxation and Non-Specific Grant Income (Note 14) | | | (736,127) |
| | | **4,461** | **(Surplus) or Deficit on Provision of Services** | | | **(21,477)** |
| | | (36,397) | (Surplus) or deficit on revaluation of Property, Plant and Equipment assets | | | (15,819) |
| | | (138) | (Surplus) or deficit on revaluation of available for sale financial assets | | | 138 |
| | | 218,722 | Actuarial (gains)/losses on pension assets/liabilities | | | (111,373) |
| | | 5,161 | Exceptional Item: Asset amendments 2009/10 | | | 0 |
| | | **187,348** | **Other Comprehensive Income and Expenditure** (Note 10) | | | **(127,054)** |
| | | **191,809** | **Total Comprehensive Income and Expenditure** | | | **(148,531)** |

# Balance Sheet

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the City Council. The net assets of the City Council (assets less liabilities) are matched by the reserves held.

Reserves are reported in two categories:

(i) Usable reserves: those reserves that the City Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve may only be used to fund capital expenditure or repay debt).

(ii) Unusable reserves: those that the City Council 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'.

| 1 April 2009 £'000 | 31 March 2010 £'000 | | Note Ref. | 31 March 2011 £'000 |
|---|---|---|---|---|
| 1,170,468 | 1,240,479 | Property, Plant & Equipment | 17 | 1,136,700 |
| 127,475 | 69,741 | Investment Property | 18 | 68,873 |
| 2,402 | 1,706 | Intangible Assets | 19 | 1,069 |
| 45,024 | 45,165 | Long Term Investments | 20 | 45,024 |
| 1,379 | 1,235 | Long Term Debtors | 21 | 1,191 |
| 1,346,748 | 1,358,326 | **Long Term Assets** | | 1,252,857 |
| 37,145 | 41,095 | Short Term Investments | 23 | 45,648 |
| 0 | 0 | Assets Held for Sale | 25 | 552 |
| 490 | 563 | Inventories | | 457 |
| 155,758 | 122,903 | Short Term Debtors | 26 | 99,777 |
| 43,455 | 114,906 | Cash and Cash Equivalents | 27 | 136,724 |
| 236,848 | 279,467 | **Current Assets** | | 283,158 |
| (60,481) | (13,530) | Short Term Borrowing | 23 | (13,523) |
| (132,495) | (146,219) | Short Term Creditors | 28 | (132,369) |
| (17,146) | (54,379) | Provisions (Short Term) | 29 | (35,775) |
| (210,122) | (214,128) | **Current Liabilities** | | (181,667) |
| (60,891) | (11,968) | Provisions (Long Term) | 29 | (11,925) |
| (281,041) | (327,964) | Long Term Borrowing | 23 | (316,978) |
| (608,851) | (853,356) | Liability related to Defined Benefit Pension Schemes | 45 | (649,371) |
| (58,879) | (58,307) | Other Long Term Liabilities | 23 | (55,601) |
| (61) | (128) | Capital Grants Receipts in Advance | | 0 |
| (1,009,723) | (1,251,723) | **Long Term Liabilities** | | (1,033,875) |
| 363,751 | 171,942 | **Net Assets** | | 320,473 |
| (169,510) | (209,644) | Usable Reserves | 8 | (247,438) |
| (194,241) | 37,702 | Unusable Reserves | 10 | (73,035) |
| (363,751) | (171,942) | **Total Reserves** | | (320,473) |

# CASH FLOW STATEMENT

The Cash Flow Statement shows the changes in cash and cash equivalents of the City Council during the reporting period. The statement shows how the City Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the City Council 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 City Council'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.

| **2009/10** | | **2010/11** |
|---|---|---|
| **£'000** | | **£'000** |
| **4,461** | **Net (surplus) or deficit on the provision of services** | **(21,477)** |
| (208,833) | Adjustments to net surplus or deficit on the provision of service for non-cash movements | (140,689) |
| 146,559 | Adjustments for items included in the net surplus or deficit on the provision of service that are investing and financing activities | 147,789 |
| **(57,813)** | **Net cash flows from Operating Activities** (Note 30) | **(14,377)** |
| (27,478) | Net cash flows from Investing Activities (Note 31) | (25,581) |
| 13,840 | Net cash flows from Financing Activities (Note 32) | 18,140 |
| **(71,451)** | **Net (increase) or decrease in cash and cash equivalents** | **(21,818)** |
| **43,455** | **Cash and cash equivalents at the beginning of the reporting period** | **114,906** |
| **114,906** | **Cash and cash equivalents at the end of the reporting period** (Note 27) | **136,724** |

# Index of Explanatory Notes to the Core Financial Statements

# NOTES TO THE CORE FINANCIAL STATEMENTS

## 1. Accounting Policies

### General Principles

Accounting policies are the specific principles, bases, conventions, rules and practices applied by the City Council in preparing and presenting its financial statements. For local authorities the Accounts and Audit (England) Regulations 2011 require that financial statements are prepared in accordance with proper accounting practices. For the City Council, proper accounting practice is set out in:

- The Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 as issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.
- The Best Value Accounting Code of Practice 2010/11. This sets out the proper practice with regard to the definition of total cost, the treatment of overheads and the format of the service expenditure analysis contained within the Comprehensive Income and Expenditure Statement.

The Code is based on approved International Financial Reporting Standards (IFRS), including International Accounting Standards (IAS), except where these conflict with specific statutory provisions. The specific policies used by the City Council are set out below.

### Accruals of Income and Expenditure

The accounts of the City Council are prepared on an accruals basis. This means that expenditure and income are recognised in the accounts in the period in which they are incurred or earned, not simply when cash payments are made or received. In particular:

- Income from the provision of City Council services and sales of goods is recognised at the point when the service or sale is made and it is likely that payment will be received.
- 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 income 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 debtors is written down and a charge made to revenue for the income that might not be collected.
- For amounts recognised but still owing in the Collection Fund at the balance sheet date (council tax and national non domestic rates arrears), an allowance is made for non-collection which is charged to the Collection Fund. When debts are written-off they are charged to the relevant impairment provision in the balance sheet and the adequacy of the provision then reviewed in the light of outstanding arrears.
- Amounts due for capital receipts are recognised and accrued for in the Comprehensive Income and Expenditure Statement. Balances are adjusted through a transfer in the

Movement on Reserves Statement to the Useable Capital Receipts Reserve.

- Capital and revenue grants are recognised and accrued for in the Comprehensive Income and Expenditure Statement when the conditions governing their use have been satisfied.

**Agency Arrangements**

Where the City Council acts in the capacity of agent for another organisation, the related expenditure and income is not included in the City Council's Comprehensive Income and Expenditure Statement (CIES), as it is not incurred as part of the authority's normal responsibilities. The following are examples of where the City Council acts as agent:

- **Business Improvement Districts (BIDs)**
  BID projects are for the benefit of a particular area and are financed by a BID levy paid by the non domestic ratepayers in the area. The City Council acts as agent for the BID and therefore most BID transactions are not recognised in the City Council's CIES. The exceptions are any grant aid contributions made by the City Council to the BID, BID levy collection costs and associated (reimbursement) income. These are shown as expenditure and income for the relevant service within Cost of Services in the CIES.
- **Council Tax**
  In its capacity as a billing authority the City Council acts as an agent: it collects and distributes council tax income on behalf of the major preceptors and itself. The cash collected by the billing authority from council tax debtors belongs proportionately to the billing authority and the major preceptors. There will therefore be a debtor/creditor position between the billing authority and each major preceptor to be recognised since the net cash paid to each major preceptor in the year will not be its share of cash collected from council taxpayers.
- **National Non Domestic Rates (NNDR)**
  The City Council acts as agent on behalf of central government in collecting NNDR from local taxpayers. Therefore the income collected is not income of the City Council and is not reflected in the accounts; however the cost of collection allowance given to the City Council for its work in collecting NNDR is recognised as income for the City Council. Cash collected from NNDR taxpayers but not yet paid over to central government is recognised within the Balance Sheet as a creditor. Equally any amount paid to Government in excess of what has been collected is included as a debtor.

**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 3 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. Cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the City Council's cash management.

**Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors**

Prior period adjustments arise as a result of changes in accounting policy or the correction of material errors. 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 prior period adjustments. Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the City Council's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied. Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

## Employee Benefits

### a) Benefits Payable During Employment
Short-term employee benefits are those due to be settled within 12 months of the year-end. They include salaries, paid annual leave, paid sick leave, bonuses and non-monetary benefits for current employees. They are recognised as an expense in the year in which employees render service to the City Council. An accrual is made for the cost of holiday entitlements earned by employees but not taken before the year-end which employees can carry forward into the next financial year, net of the cost of any holiday taken by employees in excess of their pro-rata entitlement at the end of the financial year. The accrual is made at the wage / salary rates applicable in 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 in accordance with statutory guidance to the Accumulated Absence Adjustment Account via the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

### b) Termination Benefits
Termination benefits are amounts payable as a result of a decision by the City Council to terminate employment before the normal retirement date or a decision by an employee to accept voluntary redundancy. Termination benefits are charged on an accruals basis to the relevant service area in the CIES when the City Council is demonstrably committed to the termination of the employment.

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

### c) Post Employment Benefits
Employees of the Council are eligible to join one of two separate pension schemes:

- The Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education (DfE);
- The Local Government Pensions Scheme.

Both schemes provide defined benefits to members (retirement lump sums and pensions). However, the arrangements for the teachers' scheme mean that liabilities for these benefits cannot ordinarily be identified specifically to the City Council. The scheme is therefore accounted for as a defined contribution scheme and no liability for future payments of benefits is recognised in the Balance Sheet. The Education and Children's Services line in the CIES is charged with the employer's contributions payable to Teachers' Pensions in the year.

**Local Government Pension Scheme (LGPS)**

City Council employees, other than teachers, are eligible to join the LGPS. In Liverpool the appropriate fund is the Merseyside Pension Fund (MPF) which is administered by Wirral Metropolitan Borough Council. In addition to the information shown below, a separate set of accounts and further information can be obtained from the Merseyside Pension Fund at 7th Floor, Castle Chambers, 43 Castle Street, Liverpool, L69 2NW, or via the website www.merseysidepensionfund.org.uk.

The pension costs recognised in the City Council's accounts for LGPS employees have been supplied by Mercer Human Resource Services Ltd and are in full accordance with IAS19 *Employee Benefits*. This requires the City Council to account for its share of the pension fund assets and liabilities in its Balance Sheet, as well as recognising the full cost of providing for future retirement benefits in its CIES. The assumptions used in determining pension costs are as follows:

- The liabilities of the MPF pension scheme attributable to the City Council are included in the Balance Sheet on an actuarial basis using the projected unit method, i.e. an estimation 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 earnings for current employees.
- Liabilities are discounted to their value at current prices, using an appropriate discount rate. In estimating liabilities for retirement benefits at 31 March 2011 for the 2010/11 Statement of Accounts, the actuary assumed a real discount rate of 2.1% (based on actual corporate bond yield of 5.5% less 3.4% inflation assumption).
- The assets of the MPF attributable to the City 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 seven components:
  - Current service cost – the increase in liabilities as a result of years of service earned in the year, allocated in the CIES to the revenue accounts of services for which the employees worked. It is based on the most recent actuarial valuation at the beginning of the period, with the actuarial assumptions updated to reflect conditions at that date.
  - Past service cost – the increase in liabilities as a result of current year decisions which affect years of service earned in previous years debited to the Surplus or Deficit on the Provision of Services in the CIES as part of Non Distributed Costs.
  - Interest cost – the expected increase in the present value of liabilities during the year as they move one year closer to being paid – debited to the Financing and Investment Income & Expenditure line in the CIES.
  - Expected return on assets – the annual investment return on the fund assets attributable to the City Council, based on an average of the expected long-term return – credited to the Financing and Investment Income & Expenditure line in the CIES.
  - Gains/losses on settlements and curtailments – relate to specific decisions made by the authority that are not covered by the actuarial assumptions, for example a reduction in employees because of the transfer or termination of an operation. Gains and losses arising from such decisions are included in the Surplus or Deficit on the Provision of Services in the CIES as part of Non distributed Costs.
  - 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 – debited/credited to the Pension Reserve and recognised within “Other Comprehensive Income & Expenditure” in the CIES.
  - Contributions paid to the MPF – cash paid as employer’s contributions to the pension fund is not accounted for as an expense in the CIES but is a reconciling item in the Movement in Reserves Statement (see below).

Statutory provisions limit the City Council to raising council tax to cover the amounts actually payable to the MPF or directly to pensioners in the year and therefore any difference between the amounts calculated under IAS19 and the statutory pension fund contributions are accounted for in the Movement on Reserves Statement via a transfer to and from the Pensions Reserve. In this manner the notional debits and credits for retirement benefits are removed and replaced with debits for the cash actually paid to the pension fund together with any amounts payable to the fund but unpaid at the year-end. The negative balance that arises on the Pension Reserve thereby measures the beneficial impact to the General Fund of being able to account for retirement benefits on a cash basis rather than as benefits are earned.
The Fund is subject to actuarial valuation every three years with the latest valuation being 31 March 2010.

**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.

**Teachers' Pension Scheme**
The Teachers' Pension Scheme is administered by Teachers' Pensions on behalf of the Department for Education (DfE). Although classed as a defined benefit scheme, the Code requires the City Council to account for teachers' pensions on a defined contribution basis as it is not possible for the City Council to identify its share of the underlying assets and liabilities in the scheme. Consequently, no liability for future pension payments is recognised in the Balance Sheet and the pension costs charged to the CIES are the employer's contributions payable to the scheme in the financial year. The contribution rate is set by the DfE.
Further information on the Teachers' Pension Scheme can be found from the website, www.teacherspensions.co.uk.

## Events after the Balance Sheet Date

Events after the Balance Sheet date are those 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 date of authorisation for issue are not reflected in the Statement of Accounts.

## Exceptional Items

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

## Financial Instruments

**Financial Liabilities**
Financial liabilities are initially measured at fair value and subsequently carried in the Balance Sheet at their amortised cost. Annual charges to the Financing and Investment Income & Expenditure line in the CIES for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.
This means that the amount presented in the Balance Sheet for the City Council's borrowings is the outstanding principal repayable (plus accrued interest); and interest charged to the CIES is the amount payable for the year according to the loan agreement.

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

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

**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.

**a) Loans and Receivables**

Loans and receivables are recognised on the Balance Sheet initially at fair value and thereafter at amortised cost. Annual credits to the Financing and Investment Income & Expenditure line in the CIES for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. This means that the amount presented in the Balance Sheet for the City Council's loans is the outstanding principal receivable (plus accrued interest) and interest credited to the CIES is the amount receivable for the year in the loan agreement.

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

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

Any gains and losses that arise on the de-recognition of an asset are credited or debited to the Financing and Investment Income & Expenditure line in the CIES.

**b) Available-for-Sale Assets**

Available-for-sale assets are initially measured and subsequently carried at fair value. Where the asset has fixed or determinable payments, annual credits to the Financing and Investment Income & Expenditure line in the CIES for interest receivable are based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument. Where there are no fixed or determinable payments, income (e.g. dividends) is credited to the CIES when it becomes receivable by the City Council.

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

- instruments with quoted market prices – the market price

- other instruments with fixed and determinable payments – discounted cash flow analysis
- equity shares with no quoted market prices – at cost less impairment.

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

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

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

**Financial Guarantees**

Where the City Council provides financial guarantees to third parties these are initially measured at fair value and amortised to the CIES over an appropriate period. If the guarantee looks certain to be called then the amount required to be recognised is in accordance with IAS37 *Provisions, Contingent Liabilities and Contingent Assets,* adjusted for the fair value less cumulative amortisation to date.

**Foreign Currency Transactions**

The City Council maintains its accounts in sterling. Income and expenditure arising from transactions in foreign currency are converted into sterling at the exchange rate applicable on the date the transaction occurred and adjusted at the year end for currency fluctuations. Gains or losses are recognised in the Financing and Investment Income & Expenditure line in the CIES.

**Government Grants and Contributions**

Government grants and other third party contributions / donations are accounted for on an accruals basis and recognised when the conditions attached to the payments have been met, and there is reasonable assurance that they will be received.

**a) Revenue Grants**

Amounts due to the City Council are credited to the CIES when the conditions attached to the grants / contributions are satisfied. Amounts advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (service-specific revenue grants and contributions) or Taxation and Non-Specific Grant Income (non-ring-fenced revenue grants) in the CIES.

**b) Capital Grants**

Amounts due as capital grants and contributions are credited to the CIES when the conditions attached to their receipt are satisfied. Amounts advanced for which conditions have not been satisfied are carried in the Balance Sheet as a prepayment in the Capital Grants Receipts in Advance Account. When conditions are satisfied, the grant or contribution is credited to the Taxation and Non-Specific Grant Income line in the CIES, or to individual service lines within Cost of Services if the grant is used to fund Revenue Expenditure Funded From Capital Under Statute (REFCUS).

When capital grants are credited to the CIES they are reversed out of the General Fund

Balance in the Movement in Reserves Statement. When grants are used to finance capital expenditure in the year they are transferred to the Capital Adjustment Account whereas those grants that are not used to finance capital expenditure are transferred to the Capital Grants Unapplied Reserve. When the grant is applied in a subsequent year it is transferred from the Capital Grants Unapplied Reserve to the Capital Adjustment Account.

**c) Area Based Grant**

Area Based Grant (ABG) is a non-ringfenced general grant allocated by central government directly to local authorities as revenue funding that is credited to Taxation and Non-Specific Grant Income in the CIES.

**Intangible Assets**

Intangible fixed assets are those assets that do not have physical substance but are identifiable and controlled by the City Council (such as software licences). Expenditure is capitalised at cost in the Balance Sheet when it is expected that future economic benefits or service potential will flow from the intangible asset to the City Council. Amounts are not revalued but are amortised over their useful economic life to the relevant service in the CIES. Assets are tested for impairment whenever there is an indication that they may be impaired and any losses recognised are posted to the relevant service line in the CIES. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to Other Operating Expenditure in the CIES.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

**Interests in Companies and Other Entities**

The City Council has material interests in a number of companies that have the nature of subsidiaries, associates and jointly controlled entities which require it to prepare group accounts. In the City Council's own single-entity accounts, these interests are shown as financial assets at cost, less any provision for losses.

The City Council has opted to consolidate its interests in joint venture companies using the equity method and the Group CIES and Balance Sheet reflect the City Council's share of net assets and net operating position respectively.

**Inventories**

Inventories are included in the Balance Sheet at the lower of cost and net realisable value. It is considered that the difference between cost and current replacement cost (i.e. latest purchase price) is not material.

**Investment Property**

Investment properties are those that are used solely to earn rentals or for capital appreciation purposes. Properties that are used in any way to facilitate the delivery of services or held for sale are not Investment properties.

Investment properties are measured initially at cost and subsequently at fair value (market value). Assets are not depreciated but are subject to annual revaluation according to market conditions at the year-end. Gains and losses on revaluation and disposal are posted to the Financing and Investment Income & Expenditure line in the CIES. However, statutory arrangements are in place to ensure that gains and losses have no impact on the General Fund Balance and they are reversed out in the Movement in Reserves Statement to the Capital Adjustment Account and, in the case of sale proceeds greater than £10,000, to the Capital Receipts Reserve.

Rentals received in relation to investment properties are credited to the Financing and Investment Income line.

**Jointly Controlled Operations and Jointly Controlled Assets**

Jointly controlled operations are activities undertaken by the City Council in conjunction with other entities that do not involve the creation of a separate entity. The City Council recognises on its Balance Sheet any assets that it controls and the liabilities that it incurs and debits and credits the CIES with the expenditure it incurs and the share of income it earns from the activity of the operation.

Jointly controlled assets are items of property, plant or equipment that are jointly controlled by the City Council and other entities arising from jointly controlled operations. The City Council accounts for its share of the jointly controlled assets, the liabilities and expenses that it incurs on its own behalf or jointly with others in respect of its interest in the joint venture and income that it earns from the venture.

**Leases**

Leases fall into two types: finance and operating with the former transferring substantially all the risks and rewards incidental to ownership of the asset from the lessor to the lessee. Leases that do not transfer substantially all risk and reward are classified as operating leases. Where a lease is for land and buildings, the two elements are considered separately for classification. Equally, where the City Council enters into arrangements that do not take the legal form of a lease but convey rights to use assets in return for payment then the arrangement is accounted for in the same manner as a lease provided that the arrangement depends on the use of the asset and the City Council is able to control the asset's use. These arrangements are termed "embedded leases" or "implied leases".

**Operating Leases**

**a) As Lessee**

Rentals paid under operating leases are charged to services in the CIES. Charges are made on a straight-line basis over the life of the lease.

**b) As Lessor**

Where the City Council acts as lessor and 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 relevant service in the CIES.

**Finance Leases**

**a) As Lessee**

Assets used by the City Council under finance lease terms are recognised on the Balance Sheet at the commencement of the lease at the fair value of the asset or the present value of the minimum lease payments, if lower. The recognition of the asset is matched by a liability (deferred liability) for the obligation to pay the lessor. Amounts paid upfront on entry into a lease (premiums) are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred.

Lease payments are apportioned between:

- a capital charge for the acquisition of the interest in the asset – applied to write down the lease liability;
- a finance charge (debited to the Financing and Investment Income & Expenditure line in the CIES.

Assets recognised under finance leases are accounted for using the policies applied to such assets, i.e. they are subject to depreciation over the lease term, revaluation and impairment losses. The City Council is not required to raise council tax to cover depreciation, revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution (called the minimum revenue provision) is made from revenue towards the deemed capital investment in accordance with statutory requirements. Depreciation, 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.

**b) As Lessor**

Where the City Council grants a finance lease for an asset, 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 is written off to Other Operating Expenditure in the CIES (or to Financing and Investment Income & Expenditure if the asset is an Investment Property). A credit, representing the City Council's net investment in the lease (this being the lower of the fair value of the leased asset or the present value of the minimum lease payments) is also taken to the CIES matched by a lease asset (long-term debtor) in the Balance Sheet. The difference between the two is the gain / loss on disposal.

Lease rentals receivable are apportioned between:

- a charge for the acquisition of the interest in the property – applied to write down the lease debtor (together with any premiums received);
- finance income (credited to the Financing and Investment Income & Expenditure line in the CIES).

Statutory regulations require that the gain / loss on disposal does not affect the General Fund Balance. Consequently, the carrying value of the asset is transferred to the Capital Adjustment Account via the Movement in Reserves Statement, and the net investment in the lease is shown as a capital receipt. When an upfront premium is received, this is posted out of the General Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement. Where the amount due in relation to the leased 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 via 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.

## Overheads and Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA *Best Value Accounting Code of Practice 2010/11* (BVACOP). 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 City 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.

These two cost categories are defined in BVACOP and accounted for as separate headings in the CIES as part of Cost of Services.

## Property, Plant and Equipment

Property, plant and equipment (PPE) assets have physical substance and are held by the City Council for the provision of services or for administrative purposes on a continuing basis.

**a) Recognition**

Expenditure on the acquisition, creation or enhancement of PPE is capitalised on an accruals basis. The City Council does not set a de minimis level for the capitalisation of such expenditure. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (e.g. repairs and maintenance) is charged as an expense to the relevant service in the CIES when it is incurred.

**b) Measurement (Valuation Bases)**

All assets are initially measured at cost. The initial cost includes all expenditure that is directly attributable to bringing the asset into working condition for its intended use. Borrowing costs are not capitalised whilst assets are under construction.

When an asset is acquired other than by purchase the cost is deemed to be the fair value of the asset, unless the acquisition does not have commercial substance (i.e. where an asset is acquired via an exchange), the cost of the acquisition is the carrying amount of the asset given up by the City Council.

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

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

- Infrastructure and assets under construction are measured on the basis of depreciated historical cost
- In previous years, Community Assets have been measured at nominal value due to the lack of historic cost information. From 1 April 2011, Community Assets have been shown at historic cost.
- All other assets are measured at fair value which is determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

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 (e.g. vehicles, plant and equipment) that have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for fair value.

**c) Revaluation**

Assets included in the Balance Sheet at fair value are formally revalued at intervals not exceeding five years and revised amounts included in the Balance Sheet. All valuations are undertaken by a qualified valuer contracted to the City Council. However, short-life assets, such as vehicles and computer equipment are not revalued but included at depreciated historic cost as a proxy for fair value. This treatment will not materially affect the accounts.

Increases in valuation are credited to the Revaluation Reserve to recognise unrealised gains. In rare instances, gains can be credited to the CIES when they arise from the reversal of a loss previously charged to a service. The Revaluation Reserve contains gains recognised since 1 April 2007 only, the date of its implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

When assets are subject to revaluation losses they are accounted for as follows:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains);
- 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 CIES.

**d) Impairment**

Assets are subject to an annual impairment review at the end of each financial year for evidence of reductions in value. Where indications exist and the reduction is 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 as follows:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains);
- 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 CIES.

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

**e) Depreciation**

With the exception of freehold land (which has an indeterminable finite useful life) and assets under construction, depreciation is provided for on all PPE assets (including those held under PFI and other service concession arrangements) by the systematic allocation of their depreciable amounts over their useful lives. However, where assets have been valued to include land and property together then depreciation has been charged on land and this is not in strict accordance with the Code. This valuation practice has been discontinued for some time and as assets are revalued then separate valuations are obtained. There remain however, a number of assets that still await separate valuations.

The City Council does not charge depreciation on Community Assets as these assets are intended to be held in perpetuity and have an indeterminable useful life.

With the exception of assets acquired through finance lease agreements, the provision for depreciation is made on a straight-line basis by allocating the cost (or re-valued amount) of the asset over the number of years that the asset is expected to be of useful benefit. Assets acquired via a finance lease are depreciated in line with the repayment of the principal element of the lease.

Fixed assets that are on the balance sheet by virtue of a finance lease are depreciated over the term of the lease period. Such assets are subject to regular revaluation and impairment reviews. However, where assets are subject to upward revaluation and the remaining lease term is less than the useful life of the asset, a residual value is determined. The depreciation amount is then calculated on the difference between the fair value of the asset and the residual amount divided by the remaining lease term. This avoids charging excessive amounts of depreciation in the later years of a lease.

The useful life of an asset is estimated on a realistic basis and is regularly reviewed as part of the revaluation process. Where the useful life of a fixed asset is revised, depreciation is charged over the revised life of the asset. Infrastructure assets are depreciated over 25 years and plant, vehicles and equipment are depreciated over the expected use period as advised by a suitably qualified officer.

Where an item of PPE has major components whose cost is significant in relation to the total cost of the asset, the components are depreciated separately. In applying componentisation, the City Council disregards all assets with a value of less than **£750,000** on the grounds that there will be no material difference in depreciation by aggregating or not the separate components of the asset. Infrastructure assets are not componentised. For all items of PPE above the de minimis level, the following component archetypes are recognised for all new acquisition, subsequent capital expenditure and valuation:

- Land, which will always be separately identified;
- Building structures, to include all brick, concrete, steel and other structural fabrications;
- Internal structures, which will include windows, wall and floor finishes, electrical and plumbing works, mechanical heating and ventilation, etc;
- Ground works such as school playgrounds, hard-standing used for car parking, landscaping etc;
- Other material components, e.g. elevators and lifts where the cost is significant in relation to the cost of the main asset.

Each component is separately valued and a useful life assigned, by which depreciation is calculated.

The carrying amount of a PPE component is de-recognised on disposal or when no future benefits are expected from its use. The carrying amount of a replaced or restored component is also de-recognised with the new component recognised at cost. This applies regardless of whether the replaced part has been separately depreciated, i.e. recognised as a separate component. Where the carrying amount of the replaced part has not been separately determined then the City Council uses the cost of the replaced part as an indication of the carrying value of the replaced part at the time of acquisition or enhancement subject to previous depreciation and impairment.

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

**Disposals and Non-Current Assets Held for Sale**

When it becomes probable that a PPE asset will be sold it is reclassified as an Asset Held for Sale. When an asset is deemed to be available for sale it is revalued immediately according to the valuation conventions of the asset and then carried at the lower of the revalued 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 CIES. Gains in fair value are recognised only up to the amount of any previously recognised losses 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 their carrying amount before they were classified as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable amount at the date of the decision not to sell.

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 PPE or Assets Held for Sale) is written off to the Other Operating Expenditure line in the CIES as part of the gain or loss on disposal. Any receipts from disposals are also credited to the Other Operating Expenditure line in the CIES 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.

To comply with statutory restrictions on the use of capital receipts, gains and losses are reversed out of the CIES by transferring the disposal proceeds to the Capital Receipts Reserve and transferring the carrying amount of the asset to the Capital Adjustment Account. The amounts are transferred out of the General Fund Balance in the Movement in Reserves Statement. In accordance with regulations, amounts less than £10,000 are not transferred to the Capital Receipts Reserve.

Where applicable, the proportion of housing capital receipts that is required to be paid over to central government as a ‘Housing Pooled Capital Receipt’ is charged to Other Operating Expenditure in the CIES and an equal amount is transferred from the Capital Receipts Reserve and credited to General Fund Balance via the Movement in Reserves Statement.

**Charges to Revenue for Non-Current Assets**

Where applicable all service revenue accounts in the CIES are charged with the following amounts during the year:

- a depreciation charge for the use of the assets;
- revaluation and impairment losses where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off;
- an amortisation charge for intangible fixed assets used in the year.

In accordance with statutory requirements, the charges made to services for the use of assets is reversed out of the General Fund balance through an adjustment in the Movement in Reserves Statement to the Capital adjustment Account

**Redemption of Debt**

The City Council is not required to raise council tax to cover depreciation, impairment losses and amortisation of intangible assets. However, it is required to make an annual provision (the Minimum Revenue Provision, MRP) to contribute towards the reduction in the overall borrowing of the City Council. This is a charge against council tax. The City Council is free to determine its own method for calculating a prudent provision and has adopted the following principles:

- For all capital expenditure incurred before the 1 April 2008 and for all capital expenditure funded via supported borrowing, MRP is calculated at 4% of the underlying need to borrow as measured by the Capital Financing Requirement.

- For all capital expenditure incurred after 1 April 2008 financed by unsupported (prudential) borrowing, MRP is calculated using the asset life method.
- For assets included in the Balance Sheet under finance lease and PFI arrangements, MRP is calculated on an annuity basis matching the cash flows made to the PFI provider.

Depreciation, impairment losses and amortisation charges are therefore replaced by the MRP by way of adjusting transactions with the Capital Adjustment Account and the Movement in Reserves Statement.

**Private Finance Initiative (PFI) and Similar Contracts**

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

The recognition of the asset is matched by the recognition of a liability for amounts due to the scheme operator to pay for the assets. Non current assets recognised on the Balance Sheet are revalued and depreciated in the same way as property, plant and equipment owned by the City 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 CIES;
- **finance cost** – an interest charge on the outstanding Balance Sheet liability, debited to the Financing and Investment Income & Expenditure line in the CIES;
- **contingent rent** – increases in the amount to be paid for the property arising during the contract, debited to the Financing and Investment Income & Expenditure line in the CIES;
- **payment towards liability** – applied to write down the Balance Sheet liability towards the PFI operator;
- **lifecycle replacement costs** – recognised as PPE on the Balance Sheet or if not material then expensed in the year.

To ensure that the method of accounting for PFI has no impact on council tax requirements, regulations permit the City Council to determine its MRP on the same basis as the annual reduction in the lease liability. In this manner the total PFI charge and the MRP charge made to the General Fund equals the unitary charge.

**Provisions, Contingent Liabilities and Contingent Assets**

**Provisions**

Provisions are made for any liability of uncertain timing where there is 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.

Provisions are charged to the appropriate service line in the CIES in the year that the obligation arises and are based on the best estimate of the amount that is likely to settle the obligation. When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year and when it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement anticipated), the provision is reversed and credited back to the relevant service.

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

**Provision for Back Pay Arising from Unequal Pay Claims**

The Statement of Accounts reflect the recommended accounting practice for potential claims for back pay arising from unequal pay claims. The City Council has accounted for its estimate of the maximum expected costs in the CIES and, as allowed under Capital Finance Regulations, has made an adjustment in the Movement in Reserves Statement to defer the impact of the cost to the General Fund until actual payment is made. An Equal Pay Back Pay Account in the Balance Sheet holds an amount equal to the back pay which has been deferred from being charged to the General Fund. The balance on the Equal Pay Back Pay Account will be debited back to the General Fund balance in the Movement in Reserves Statement in future financial years as payments are made.
Amounts approved by the Secretary of State to be funded from capital resources are credited to the Movement in Reserves Statement and debited to the Capital Adjustment Account. When prudential borrowing is used to fund the expenditure the minimum charge to revenue is based on the amortisation period set out in regulations.

**Contingent Liabilities**
Contingent liabilities are not recognised in the accounting statements. They are disclosed by way of a note to the accounts if there is a possible obligation to make payments in the future. For each class of contingent liability, where appropriate, the City Council discloses the nature of the contingency, a brief description, an estimate of its financial effect, an indication of the uncertainties relating to the amount or timing of any outflow and the possibility of any reimbursement.

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

**Reserves**
Amounts are set aside as either earmarked reserves for future policy purposes or as general reserves for contingencies. Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in the CIES. The reserve is then appropriated back into the General Fund Balance via the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure.

Some reserves have been created to comply with various statutory and accounting requirements and these tend not to be available for general use (examples include the Pensions Reserve and the Revaluation Reserve).

**Revenue Expenditure Funded From Capital Under Statute (REFCUS)**
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 CIES in the year. Where the City Council has funded this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of council tax.

**Value Added Tax (VAT)**
VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs (HMRC). VAT receivable is excluded from income.

## 2. Accounting Standards That Have Been Issued but Have Not Yet Been Adopted

The City Council is required under IAS1 *Presentation of Financial Statements* to disclose information relating to the impact on the financial statements arising from the adoption by the Code of accounting standards that have been issued but not yet applied by the City Council.

**FRS 30 Heritage Assets**
The 2011/12 Code has introduced a change in accounting policy in relation to the treatment of heritage assets that will need (if applicable) to be fully adopted in the City Council's 2011/12 financial statements. Prior to full adoption, the City Council is required to make disclosure of the estimated effect of the new standard in the 2010/11 financial statements.

Heritage assets are assets held by an entity principally for their contribution to knowledge or culture that are considered intrinsic to the functions of that entity. Such items may include paintings, antiques, art collections, etc. Where such assets are identified the principal disclosures required are as follows:

- the creation of a new class of asset with separate disclosure on the face of the Balance Sheet
- an indication of the extent and nature of such assets held by the entity
- valuation and subsequent measurement information
- the entity's policy for the acquisition, maintenance, disposal of heritage assets and the movement in such assets during the year

After considering the appropriate accounting standard the City Council has decided that whilst it does hold works of art and other valuable collections, such assets do not meet with the recognition criteria as heritage assets and so consequently there will be no separate disclosures in these or the 2011/12 financial statements.

## 3. Critical Judgements in Applying Accounting Policies

In applying the accounting policies set out in Note 1, the City Council has had to make assumptions and form judgements about transactions which are complex in nature and where there is uncertainty about future events. The critical judgements made in the Statement of Accounts are as follows:

| Judgement | Financial Risk |
|---|---|
| The Government has embarked on a programme of austerity measures as it seeks to balance the national economy. This will have a significant impact on the level of government support for the City Council and there is some uncertainty whether planned maintenance or overhaul of fixed assets can be sustained in future years and this may impact on the useful lives assigned to assets and hence their service potential. However, the City Council has determined that this uncertainty is not yet sufficient to provide an indication that its assets might be impaired. | Impairment affects the carrying value of Property, Plant and Equipment (PPE). There is a danger that if impairment is not identified then PPE values are overstated in the Balance Sheet. |
| The national economy is undergoing a period of slow growth and households are facing pressure from increased prices, lower earnings and job losses. The City Council has reviewed the level of its council tax bad debt provisions in the light of this uncertainty, and after making appropriate amendments, has judged the level of bad debt provisions to be adequate and prudent. | Failure to anticipate the required level of impairment provision can lead to the potential overstatement of receivables in the Balance Sheet and of the amounts recognised as income in the City Council's accounts. |
| The City Council has a substantial portfolio of leased assets. Many of these arrangements are historic with very long rental periods. In determining whether individual leases are on/off the City Council's balance sheet the precise legal form of every | In applying a judgement based on substance over form there is a possibility that some leases could be incorrectly shown in the balance sheet and the fair value of PPE assets |

| | |
|---|---|
| lease has not been considered, instead leases have been reviewed according to their general characteristics to arrive at a judgement based on substance over form. The City Council has therefore judged that for all leases over 99 years in length the risk and reward of ownership rests with the lessee and such leases have been treated as finance leases in the financial statements. | incorrectly identified. |
| The City Council has entered into a number of contracts for the supply of services and in some cases has created a number of companies to facilitate service delivery. Some of these arrangements call for the use of assets that potentially take the substance of lease-type agreements. The City Council has made a judgement that it has no arrangements that meet the definition of an "embedded lease". | Failure to identify "embedded lease" arrangements under IFRIC4 can potentially lead to incorrect PPE values and the incorrect recognition of expenses in the operating statement. |
| Property, Plant and Equipment assets are judged to be held for their service potential rather than future resale value, and therefore the City Council does not allocate residual values to assets when calculating depreciation. When assets are de-recognised any capital receipt so received is secondary to the original reason for holding the asset. | Depreciation is calculated by reference to the useful life of an asset and its residual value. By not assigning residual values to assets this can lead to the potential overstatement of depreciation and the understatement of asset carrying values in the Balance Sheet. The calculation of depreciation however does not affect the amount to be collected from council tax payers. |
| The City Council has judged that amounts held on deposit or invested for periods of less than three months are sufficiently liquid as to be classed as cash equivalents. Judgement is also required as to whether the primary purpose of holding such investments is for meeting short term cash commitments (in which case the investment is classified as a cash equivalent) or for investment return (in which case the investment remains classified as a short term investment). | Alternative judgements concerning liquidity would affect the amounts reported under cash and short term investments and the Cash Flow statement. |
| The City Council's two PFI contracts have been judged to contain finance lease arrangements and the assets shown on the City Council's Balance Sheet. In assessing the value of the leases the implied interest rate in the lease has been estimated to arrive at a split between interest and capital payments. | Alternative interpretations and estimates may affect the carrying values of PPE assets shown in the Balance Sheet. |
| The assets disclosed as investment properties in the City Council's Balance Sheet have been judged to meet the recognition criteria under IFRS of being held for rental income or capital appreciation. The precise meaning of these criteria is open to interpretation. | Different interpretations may lead to some assets currently disclosed on the Balance Sheet as investments being considered as PPE. If this were the case then the amount of depreciation charged in the year would have been understated as investment properties are non-depreciable assets. |
| The City Council has involvement with various external entities. When determining the extent of the Group boundary for Group Accounts purposes, judgement has been exercised when determining the extent of control and influence. | Different interpretations may lead to different outcomes regarding the companies to include for Group Accounts and heir classification as subsidiaries, associates or joint ventures. |
| The City Council has recently acquired a company (Solus Treasury Services Ltd) which was created to facilitate the redevelopment of the King's Dock. The transactions of the company are complex in nature and the recognition of such is subject to alternative interpretations. The City Council has judged that the most appropriate way to disclose its involvement is to show it as an investment within its own accounts, together with a full disclosure of the reason and assumptions made about the company. Furthermore, the City Council has judged that there is no goodwill arising on the acquisition, and that the entity intends to continue its activities for the foreseeable future. | Alternative interpretations of the transactions can give rise to different accounting treatments and hence the reported assets and liabilities in the Balance Sheet. |

## 4. Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty

The financial statements contain estimated figures that are based on assumptions made by the City Council about the future or that are otherwise uncertain and these can affect the reported amount of assets and liabilities in the Balance Sheet and income and expenditure in the CIES. The estimates are based on previous experience, current trends and other factors that management believe to be relevant at the time the accounts are prepared. However, because future events cannot be determined with certainty, actual results could differ from the assumptions and estimates made resulting in material differences

The items in the City Council's Balance Sheet at 31 March 2011 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

| Area of Estimation Uncertainty | Risk arising from the estimation process | Effect if actual results differ from assumptions |
|---|---|---|
| Property, Plant and Equipment (PPE) | PPE assets are carried at significant values in the City Council's Balance Sheet. These assets are depreciated over useful lives that are dependent on assumptions about the future level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the City Council will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets. | If the useful life of assets is reduced then the amount of depreciation increases and the carrying value of Property, Plant and Equipment assets reduces.<br><br>It is estimated that the annual depreciation charge for PPE assets increases by £2.6m for every year that useful lives are reduced. |
| Pension Liability | The net pension liability is dependent upon a number of complex and inter-related actuarial assumptions and judgements, i.e. the rate of inflation, rate of increase in salaries, age of retirement, rate of increase in pensions, mortality rates and expected returns on assets. Owing to the inherent uncertainty of some of the assumptions (which can change annually) there is inevitably some uncertainty concerning the value of the net pension liability in the financial statements. Indeed, it is evident that changes in the assumptions can give rise to major changes in the liability within the year and across years, i.e. actuarial gains and losses.<br><br>The City Council employs a firm of consulting actuaries, Mercer, to provide expert advice about the assumptions to be applied in calculating the liability. | The effect of changes in the individual actuarial assumptions on the net pension liability can be measured. For instance, a 0.1% increase in the discount rate results in a decrease in the pension liability of £31.2m.<br><br>However, the assumptions interact in complex ways. During 2010/11, the actuary advised that the net pensions liability had decreased by £111.4m as a result of estimates being corrected as a result of experience and decreased by £92.6m attributable to updating of the assumptions. |
| Provisions | The City Council has created provisions for liabilities where the settlement is uncertain both as to the timing and amount of payment. The main provisions created include:<br>- equal pay (£30.8m)<br>- highways liability (£5.8m)<br>- uninsured losses (£7.4m) | An increase in the level of claims of 10%, with average settlement values remaining constant, it is estimated would increase the level of provision required as follows:<br>a) Equal pay - £3.9m<br>b) Highways Liability - £0.7m<br>c) Uninsured Losses -£0.7m |

| | | |
|---|---|---|
| | Given that the eventual transfer of economic benefit can be several years ahead, the City Council has to estimate and use judgement as to the amount and timing of any transfer i.e. the number of claims received and average settlement values. However, the City Council cannot know with certainty how much will eventually be paid and therefore there is uncertainty and risk to future year budgets if the amounts set aside prove insufficient.<br><br>The City Council has estimated the value of amounts likely to be settled in the following twelve months based on previous experience and knowledge of specific cases where appropriate. | |
| Arrears | The City Council has significant sums due to it which are classed as "past due" and for which an impairment provision is required.<br>The more significant arrears that require an impairment provision are council tax (£114m) and accounts receivable (£15m).<br><br>However, the level of required provision is based on various assumptions and estimates, such as the state of the national economy and previous collection rates. Consequently, there is some uncertainty given the current economic climate, as to whether collection rates will be sustained and therefore as to the required level of impairment provision. | If collection rates were to deteriorate thereby requiring additional impairment provision, the recoverable amount of arrears would fall. It is estimated that each 10% fall in collection rates would require an additional provision of £2.0 million for council tax and £1.5 million for accounts receivable, with a corresponding fall in the fair value of the debtor in the balance sheet. |
| Collection Fund surplus / deficit | The Collection Fund deficit for the year of £1.1m is based on a number of estimates such as: the number of band D properties, the number of exempt properties, the number of single person discounts etc, which apply for the year. However, these variables are inter-related and being dynamic are subject to change throughout the year. There is a risk therefore that not all of the changes will have been identified and incorporated in the Collection Fund surplus / deficit for the year. | Although there are a number of estimates used in the calculation of the Collection Fund surplus / deficit, using the example of single person discounts, it is estimated that if the number of discounts was under estimated by 10% then there would be an increase in the Collection Fund deficit of £2.4m. |
| Employee Benefits | The employee benefit accrual for non-teaching employees is based on a sample of annual leave information provided by employees from all areas of the City Council. The resulting average untaken leave is applied across all employees. The estimate for untaken leave at 31 March 2011 is based on the sample results for 31 March 2010. | If average outstanding annual leave differed by one day from the estimate then the accrual would vary by £0.6m. However, per statutory regulations there would be no impact on the City Council's General Fund. |

This list does not include assets and liabilities that are carried at fair value based on a recently observed market price, such as investment properties.

## 5. Events after the Balance Sheet Date

These accounts have been authorised for issue by Susan Curran, Director of Finance and Resources, on 30 June 2011 and reflect all known post balance sheet events affecting the financial statements for the year 2010/11 up to this date. 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 2011, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

At the time of authorisation there were no material post balance sheet events.

## 6. Transition to IFRS

The Statement of Accounts for 2010/11 is the first to be prepared on an IFRS basis. Adoption of the IFRS based Code has resulted in the restatement of various balances and transactions, with the result that some of the amounts presented in the financial statements are different from the equivalent figures presented in the Statement of Accounts for 2009/10 under the previous Statement of Recommended Practice (SORP).

The following tables explain the differences between the amounts presented in the 2009/10 financial statements and the equivalent amounts presented in the 2010/11 financial statements.

### Tangible Fixed Assets

The IFRS Code has introduced some significant changes to the accounting arrangements for fixed assets. These changes are retrospective and require restatement of the 1 April 2009 Balance Sheet and corresponding 2009/10 transactions. The key changes are:

**Revaluation and Impairment Losses**
The Code introduces a clear distinction between revaluation losses and impairment losses with the former reflecting general price falls across asset classes and the latter reflecting both price falls and economic consumption that are asset specific. The Code allows both types of valuation loss to be recognised in the Revaluation Reserve up to the balance in the reserve with any additional loss being charged to the CIES. In contrast, the SORP prohibited impairment losses being set against the Revaluation Reserve requiring recognition as a charge to net cost of services.

The Code also requires that revaluation gains should be used to reverse previous revaluation losses. Impairment losses are only reversed when the same conditions that merited the loss give rise to the gain.

As a result of this change all impairment losses identified at 1 April 2009 and during 2009/10 on assets carried at revalued amounts that were previously charged to the CIES have now been charged to the Revaluation Reserve subject to there being sufficient balance in the Reserve. In addition, revaluation gains have also been used to reverse revaluation losses in the CIES when such amounts had previously been taken to the Revaluation Reserve.

**Investment Property**
The Code defines Investment Property as assets held purely for capital appreciation or income generation purposes. When investment properties are revalued, gains and losses are recognised in the CIES and not the Revaluation Reserve as was required by the SORP. Consequently, there is no requirement to maintain a Revaluation Reserve balance for

investment property. In addition, any gains or losses on disposal are shown with other changes in value of investment properties, within Financing and Investment Income & Expenditure.

As a result of the above changes, the Revaluation Reserve balance for investment properties has been removed. Gains and losses on investment properties that were previously recognised in the Revaluation Reserve have been charged to the Financing and Investment Income & Expenditure line in the CIES. Impairment losses that were charged to Cost of Services have been removed and charged to Financing and Investment Income & Expenditure. Assets that no longer meet the definition of an investment property have been transferred to the "Surplus Assets" category within PPE.

**Assets Held for Sale**
The Code requires strict criteria to be met for an asset to be classified as "held for sale". Assets in this category are measured at the lower of their carrying amount or fair value less costs to sell and are not subject to depreciation. Impairment / revaluation losses on initial classification as held for sale or subsequent write down to fair value are charged to the CIES, with any balance in the Revaluation Reserve remaining until the asset is derecognised. If the fair value is higher than the carrying value at the date of reclassification or subsequently at the end of each reporting date and the carrying amount has had a previous impairment or revaluation loss charged to the CIES, the gain can be recognised in CIES, but is restricted to the amount of the previous impairment or revaluation loss.

Investment Property that is to be disposed of is not reclassified to "Held for Sale" but remains as Investment Property until disposed of.

As a result of these changes the City Council has reviewed the previous SORP category of surplus assets held for disposal and reclassified them as "Investment Properties" or "Assets Held for Sale" as appropriate. In addition, the value of assets in the new "Assets Held for Sale" category has been restated to the lower of carrying value and fair value as required by the Code. Any revaluation losses that were charged to the Revaluation Reserve under the SORP have been transferred to Non Distributed Costs in the CIES as required by the Code

**Assets held under Leases**
Under the Code, property leases are accounted for as separate leases of land and buildings. Previously each property lease would have been accounted for as a single lease. This change in accounting treatment has resulted in the buildings element of some property leases (where the City Council is the lessor) now being treated as leased out under a finance lease rather than an operating lease. The related buildings have been removed from the opening Balance Sheet (they were previously classed as Investment Properties), with a balancing entry in the Capital Adjustment Account. The value of the amendment at 1 April 2009 is £3.887m.

The impact of these changes on the financial statements is as follows:

a) Balance Sheet

| | **1 April 2009 (SORP)** | **IFRS Adjustments** | **31 March 2010 (SORP)** | **IFRS Adjustments** |
|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 |
| Property, Plant and Equipment | 1,170,293 | 175 | 1,240,304 | 175 |
| Surplus Assets Held for Disposal | 12,010 | (12,010) | 18,776 | (18,776) |
| Investment Properties | 119,527 | 7,948 | 55,027 | 14,714 |
| Revaluation Reserve | (150,977) | 27,094 | (182,770) | 29,093 |
| Capital Adjustment Account | (207,423) | (23,207) | (87,527) | (25,206) |

b) Comprehensive Income and Expenditure Statement 2009/10

| | 2009/10 Statements £'000 | IFRS Adjustments £'000 |
|---|---|---|
| Cultural, Environmental, Regulatory & Planning Services | 140,190 | (957) |
| Education & Children's Services | 124,654 | (3,064) |
| Other Housing Services | 34,337 | (1,204) |
| Adult Social Care | 141,747 | (1,361) |
| Non Distributed Costs | 8,847 | (134) |
| Financing & Investment Income & Expenditure: | | |
| Trading Operations | 22,890 | (23,268) |
| Investment Properties | 26,000 | 24,804 |

**<u>Short term accumulating compensated absences</u>**

Employees build up an entitlement to paid holidays as they work. The Code requires the cost of such entitlement to be recognised when it is earned. As a result, the City Council is required to accrue for any annual leave earned but not taken at 31 March each year. Under the SORP, no such accrual was required.
However, the Government has issued Capital Finance Regulations which require that such annual leave accruals are not to be charged to the General Fund. Such amounts are therefore transferred to an Accumulated Absences Adjustment Account via the Movement in Reserves Statement, until the benefits are used.

Accruing for short term accumulating compensated absences in accordance with the Code has resulted in the following changes being made to the 2009/10 financial statements:

a) Balance Sheet

| | 1 April 2009 (SORP) £'000 | IFRS Adjustments £'000 | 31 March 2010 (SORP) £'000 | IFRS Adjustments £'000 |
|---|---|---|---|---|
| Short Term Creditors | (126,918) | (9,447) | (134,165) | (11,515) |
| Accumulating Absences Adjustment Account | 0 | 9,447 | 0 | 11,515 |

b) Comprehensive Income & Expenditure Statement 2009/10

| | 2009/10 Statements £'000 | IFRS Adjustments £'000 |
|---|---|---|
| Central Services to the Public *(including Court Services)* | 14,173 | 65 |
| Cultural, Environmental, Regulatory & Planning Services | 140,190 | (4) |
| Education & Children's Services | 124,654 | 2,164 |
| Highways & Transport Services | 29,254 | (30) |
| Other Housing Services | 34,337 | (52) |
| Adult Social Care | 141,747 | (103) |
| Corporate & Democratic Core | 10,590 | 22 |
| Financing & Investment Income & Expenditure: Trading Operations | 22,890 | 6 |

**<u>Government Grants</u>**

**Capital Grants**
Under the Code, grants and contributions for capital schemes are recognised as income in the CIES when they become receivable. Previously such grants which had been used to fund capital schemes were held on the balance sheet as "Government Grants Deferred" and recognised as income over the life of the assets which they were used to fund. Grants which are

receivable but which will not have to be repaid to the grantor are shown initially as income in the CIES and then held in a “Capital Grant Unapplied” reserve until used. Under the SORP such grants were held within the Long Term Liabilities section of the balance sheet as “Unapplied Capital Grants” or “Unapplied Capital Contributions”.

**Revenue Grants**
Under the SORP, revenue grants were accrued and credited to income in the same period as the related expenditure was charged. Revenue grants received in advance were held on the Balance Sheet as creditors until the related expenditure was incurred. Under the Code the grant funding is recognised as income in the CIES when receivable (to the extent that it will not have to be repaid), even if related expenditure is not incurred until a future financial year.

As a consequence of adopting the accounting policy required by the Code, the financial statements have been amended as follows:

- The balance on Government Grants Deferred at 31 March 2009 has been transferred to the Capital Adjustment Account in the opening 1 April 2009 Balance Sheet.
- Unapplied capital grants which are receivable but will not have to be repaid to the grantor have been transferred from Long Term Liabilities to Reserves; the element receivable in 2009/10 has been shown in the CIES as income (then transferred to Reserves via the Movement in Reserves Statement).
- Revenue grants held as creditors at 31 March 2009 have been transferred to earmarked reserves to the extent that they would not have to be repaid to grantors. The related earmarked reserves have been drawn down in 2009/10 to the extent that the revenue grants were used to fund related expenditure in 2009/10. Revenue grants received in 2009/10 but which were held as creditors at 31 March 2010 under the SORP have been shown in the CIES as income (to the extent that they would not have to be repaid to grantors). Earmarked reserves have been created to carry forward the grant funding to 2010/11.

This has resulted in the following changes to the 2009/10 financial statements:

a) Balance Sheet

| | **1 April 2009 (SORP)** | **IFRS Adjustments** | **31 March 2010 (SORP)** | **IFRS Adjustments** |
|---|---|---|---|---|
| | £’000 | £’000 | £’000 | £’000 |
| Short Term Creditors | (126,918) | 7,895 | (134,165) | 2,642 |
| Other Long Term Liabilities* | (584,862) | 521,958 | (697,223) | 635,735 |
| Capital Grants Receipts in Advance | 0 | (61) | 0 | (128) |
| Earmarked Reserves | (89,271) | (7,895) | (116,089) | (2,642) |
| Capital Grants Unapplied (Reserve) | 0 | (35,517) | 0 | (56,968) |
| Capital Adjustment Account | (207,423) | (486,380) | (87,527) | (578,639) |

** Comprising: Government Grant Deferred, Unapplied Capital Grants, Unapplied Capital Contributions and Deferred Liabilities*

b) Comprehensive Income & Expenditure Statement 2009/10

| | **2009/10 Statements** | **IFRS Adjustments** |
|---|---|---|
| | **£’000** | **£’000** |
| Central Services to the Public *(including Court Services)* | 14,173 | 74 |
| Cultural, Environmental, Regulatory & Planning Services | 140,190 | 3,373 |
| Education & Children’s Services | 124,654 | 6,459 |
| Highways & Transport Services | 29,254 | 1,497 |
| Other Housing Services | 34,337 | 6,530 |
| Adult Social Care | 141,747 | 1,657 |
| Non Distributed Costs | 8,847 | 1 |
| Taxation & Non Specific Grant Income | (568,544) | (128,048) |

## Cash Equivalents

The Code requires certain short term investments to be classified as "Cash Equivalents" and presented with Cash on the Balance Sheet. This has the following impact on the Balance Sheet:

| | 1 April 2009 (SORP) | IFRS Adjustments | 31 March 2010 (SORP) | IFRS Adjustments |
|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 |
| Short Term Investments | 61,385 | (24,240) | 130,395 | (89,300) |
| Cash & Cash Equivalents | 19,215 | 24,240 | 25,606 | 89,300 |

## Provisions and Deferred Liabilities

The Code requires that the element of provisions that is anticipated to be settled within the next financial year to be reflected as a short term liability. Under the SORP all provisions were classed as long term liabilities.

In the same way, the element of Deferred Liabilities (i.e. finance lease liabilities) that is due to be paid in the next financial year is classed as a Short Term Creditor under the Code, rather than within long term liabilities. This has the following impact on the Balance Sheet:

| | 1 April 2009 (SORP) | IFRS Adjustments | 31 March 2010 (SORP) | IFRS Adjustments |
|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 |
| Short Term Creditors | (126,918) | (4,025) | (134,165) | (3,181) |
| Provisions (short term) | 0 | (17,146) | 0 | (54,379) |
| Provisions (long term) | (78,037) | 17,146 | (66,347) | 54,379 |
| Other Long Term Liabilities* | (584,862) | 4,025 | (697,223) | 3,181 |

** Comprising: Government Grant Deferred, Unapplied Capital Grants, Unapplied Capital Contributions and Deferred Liabilities*

## Cumulative Effect of IFRS Transition

a) Balance Sheet

| | 1 April 2009 (SORP) | IFRS Adjustments | 1 April 2009 (Code) | 31 March 2010 (SORP) | IFRS Adjustments | 31 March 2010 (Code) |
|---|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| **Long Term Assets:** | | | | | | |
| Property, Plant & Equipment | 1,170,293 | 175 | 1,170,468 | 1,240,304 | 175 | 1,240,479 |
| Surplus Assets Held for Disposal | 12,010 | (12,010) | 0 | 18,776 | (18,776) | 0 |
| Investment Properties | 119,527 | 7,948 | 127,475 | 55,027 | 14,714 | 69,741 |
| **Current Assets:** | | | | | | |
| Short Term Investments | 61,385 | (24,240) | 37,145 | 130,395 | (89,300) | 41,095 |
| Cash and Cash Equivalents | 19,215 | 24,240 | 43,455 | 25,606 | 89,300 | 114,906 |
| **Current Liabilities:** | | | | | | |
| Short Term Creditors | (126,918) | (5,577) | (132,495) | (134,165) | (12,054) | (146,219) |
| Provisions (Short Term) | 0 | (17,146) | (17,146) | 0 | (54,379) | (54,379) |
| **Long Term Liabilities:** | | | | | | |
| Provisions (Long Term) | (78,037) | 17,146 | (60,891) | (66,347) | 54,379 | (11,968) |
| Other Long Term Liabilities | (584,862) | 525,983 | (58,879) | (697,223) | 638,916 | (58,307) |
| Capital Grants Receipts in Advance | 0 | (61) | (61) | 0 | (128) | (128) |
| **Useable Reserves:** | | | | | | |
| Earmarked Reserves | (89,271) | (7,895) | (97,166) | (116,089) | (2,642) | (118,731) |
| Capital Grants Unapplied (Reserve) | 0 | (35,517) | (35,517) | 0 | (56,968) | (56,968) |
| **Unusable Reserves:** | | | | | | |
| Revaluation Reserve | (150,977) | 27,094 | (123,883) | (182,770) | 29,093 | (153,677) |
| Capital Adjustment Account | (207,423) | (509,587) | (717,010) | (87,527) | (603,845) | (691,372) |
| Accumulating Absences Adjustment Account | 0 | 9,447 | 9,447 | 0 | 11,515 | 11,515 |

## b) Comprehensive Income & Expenditure Statement 2009/10

| | 2009/10 (SORP) | IFRS Adjustments | 2009/10 (Code) |
|---|---|---|---|
| | £'000 | £'000 | £'000 |
| Central Services to the Public (including Court Services) | 14,173 | 139 | 14,312 |
| Cultural, Environmental, Regulatory & Planning Services | 140,190 | 2,412 | 142,602 |
| Education & Children's Services | 124,654 | 5,559 | 130,213 |
| Highways & Transport Services | 29,254 | 1,467 | 30,721 |
| Other Housing Services | 34,337 | 5,274 | 39,611 |
| Adult Social Care | 141,747 | 193 | 141,940 |
| Corporate & Democratic Core | 10,590 | 22 | 10,612 |
| Non Distributed Costs | 8,847 | (133) | 8,714 |
| Financing & Investment Income & Expenditure: | | | |
| Trading Operations | 22,890 | (23,262) | (372) |
| Investment Properties | 26,000 | 24,804 | 50,804 |
| Taxation & Non Specific Grant Income | (568,544) | (128,048) | (696,592) |

## 7. Movement in Reserves Statement: Adjustments between Accounting Basis and Funding Basis under Regulations

The Comprehensive Income and Expenditure Statement is produced in accordance with proper accounting practice. Statute, however, requires the City Council to set its General Fund budget and council tax in a different manner.
This note details the adjustments that are made to the Comprehensive Income and Expenditure Statement (CIES) to obtain the General Fund position in line with statutory provisions. The adjustments are shown as a line in the Movement in Reserves Statement.

| **Adjustments in 2009/10** | **Usable Reserves** | | | | | **Unuseable Reserves** |
|---|---|---|---|---|---|---|
| | **General Fund Balance** | **Housing Revenue Account** | **Capital Receipts Reserve** | **Major Repairs Reserve** | **Capital Grants Unapplied** | **Movement in Unusable Reserves** |
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| **Items debited or credited to the CIES but required by statute to be excluded when determining the General Fund Balance:** | | | | | | |
| Depreciation and impairment of non current assets (Property Plant & Equipment) | (87,098) | | | | | 87,098 |
| Revaluation losses on Property Plant and Equipment | - | | | | | - |
| Movements in the market value of Investment Properties & assets held for sale | (24,803) | | | | | 24,803 |
| Amortisation of intangible assets | (696) | | | | | 696 |
| Capital grants and contributions | 191,347 | | | | (21,451) | (169,896) |
| Revenue expenditure funded from capital under statute | (80,904) | | | | | 80,904 |
| Net gain / loss on disposal of non-current assets (& assets held for sale that would otherwise be classified as non-current) | (24,676) | | (5,937) | | | 30,613 |
| Difference between finance costs calculated in accordance with the Code and finance costs calculated in accordance with statutory requirements | (10) | | | | | 10 |
| Difference between pension costs calculated in accordance with the Code (i.e. in accordance with IAS19) and contributions due under pension scheme regulations | (25,783) | | | | | 25,783 |
| Difference between Council Tax / Residual Community Charge income credited to the CIES and amounts receivable under statutory provisions | 454 | | | | | (454) |
| Difference between Equal Pay Back Pay claims charged to the CIES and amounts chargeable under statutory provisions | 10,000 | | | | | (10,000) |
| Difference between officer remuneration charged to the CIES in accordance with the Code and amounts chargeable in accordance with statutory provisions | (2,068) | | | | | 2,068 |
| **Items not debited or credited to the CIES but required by statute to be included when determining the General Fund Balance:** | | | | | | |
| Statutory provision for the repayment of debt | 19,611 | | | | | (19,611) |
| Capital expenditure charged to the General Fund balance | 2,692 | | | | | (2,692) |
| Transfer from Capital Receipts Reserve to meet payments to the Housing Capital Receipts Pool | (109) | | 109 | | | 0 |
| Transfer of HRA balance to General Fund as approved by Secretary of State | (7,979) | 7,979 | | | | 0 |
| **Other Items:** | | | | | | |
| Use of Capital Receipts Reserve to fund capital expenditure | | | 4,727 | | | (4,727) |
| **Total Adjustments 2009/10** | **(30,022)** | **7,979** | **(1,101)** | **0** | **(21,451)** | **44,595** |

| **Adjustments in 2010/11** | **Usable Reserves** | | | | | **Unuseable Reserves** |
|---|---|---|---|---|---|---|
| | **General Fund Balance** | **Housing Revenue Account** | **Capital Receipts Reserve** | **Major Repairs Reserve** | **Capital Grants Unapplied** | **Movement in Unusable Reserves** |
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| **Items debited or credited to the CIES but required by statute to be excluded when determining the General Fund Balance:** | | | | | | |
| Depreciation and impairment of non current assets (Property Plant & Equipment) | (100,512) | | | | | 100,512 |
| Revaluation losses on Property Plant and Equipment | 0 | | | | | 0 |
| Movements in the market value of Investment Properties & assets held for sale | 432 | | | | | (432) |
| Amortisation of intangible assets | (682) | | | | | 682 |
| Capital grants and contributions | 196,652 | | | | (28,414) | (168,238) |
| Revenue expenditure funded from capital under statute | (92,050) | | | | | 92,050 |
| Net gain / loss on disposal of non-current assets (& assets held for sale that would otherwise be classified as non-current), including de-recognition of asset components | (123,498) | | (7,085) | | | 130,583 |
| Difference between finance costs calculated in accordance with the Code and finance costs calculated in accordance with statutory requirements | (9) | | | | | 9 |
| Difference between pension costs calculated in accordance with the Code (i.e. in accordance with IAS19) and contributions due under pension scheme regulations | 92,612 | | | | | (92,612) |
| Difference between Council Tax / Residual Community Charge income credited to the CIES and amounts receivable under statutory provisions | 2,525 | | | | | (2,525) |
| Difference between Equal Pay Back Pay claims charged to the CIES and amounts chargeable under statutory provisions | 13,409 | | | | | (13,409) |
| Difference between officer remuneration charged to the CIES in accordance with the Code and amounts chargeable in accordance with statutory provisions | 1,397 | | | | | (1,397) |
| **Items not debited or credited to the CIES but required by statute to be included when determining the General Fund Balance:** | | | | | | |
| Statutory provision for the repayment of debt | 19,479 | | | | | (19,479) |
| Capital expenditure charged to the General Fund balance | 2,288 | | | | | (2,288) |
| Transfer from Capital Receipts Reserve to meet payments to the Housing Capital Receipts Pool | (72) | | 72 | | | 0 |
| **Other Items:** | | | | | | |
| Use of Capital Receipts Reserve to fund capital expenditure | 0 | | 7,139 | | | (7,139) |
| **Total Adjustments 2010/11** | **11,971** | **0** | **126** | **0** | **(28,414)** | **16,317** |

Note that the City Council no longer maintains a Housing Revenue Account (HRA), after transferring its housing stock to a Registered Social Landlord (Liverpool Mutual Homes) on 31 March 2008. On 30 June 2009 the City Council received approval from the Government to close its HRA with effect from 31 March 2009. As a result, there are no HRA transactions during 2009/10 or 2010/11 other than the transfer of the residual HRA balance of £7.979m to the General Fund.

A breakdown of the unusable reserves, and analysis of movements in the year, is shown in Note 10.

## 8. Usable Reserves

Usable reserves are those that can be applied to fund expenditure or reduce the requirement to raise local taxation. The opening balances, movements in the year, and closing balances for usable reserves are shown in the Movement in Reserves Statement and Note 7. Further analysis of the movement in earmarked reserves is shown in Note 9.

The **Capital Receipts Reserve** holds capital receipts available to fund future capital expenditure or repayment of external debt. The reserve is credited with the value of capital receipts generated in the year and then debited to reflect the amounts used to finance capital expenditure, repay external debt, and pay over to the Government pool in respect of housing receipts.

The **Capital Grants Unapplied** reserve holds capital grants and contributions received, and which do not have to be repaid to the relevant grantor, which have not yet been used to finance capital expenditure. When the grants are used to finance capital expenditure they are transferred directly to the Capital Adjustment Account.

The **Major Repairs Reserve** was a statutory reserve. Any balance is available in future years to be spent on housing related projects.

## 9. Earmarked Reserves

In order to plan for future expenditure commitments and prudently manage its resources, the City Council has made contributions to and drawn upon specific earmarked reserves during the year. The creation of reserves is considered fundamental to the financial resilience and well-being of the City Council and acts to mitigate financial risks identified as part of the budget monitoring process. In addition, not all earmarked reserves are available for the general use of the City Council as a number have been created to satisfy specific statutory and legal provisions. Details of the movement on earmarked reserves are as follows:

| **Balance at 1 April 2009 (Restated)** | **Movement in the year 2009/10** | | **Balance at 31 March 2010 (Restated)** | | | **Movement in the year 2010/11** | | **Balance at 31 March 2011** |
|---|---|---|---|---|---|---|---|---|
| | **Transfers In** | **Transfers Out** | | | | **Transfers In** | **Transfers Out** | |
| **£'000** | **£'000** | **£'000** | **£'000** | | | **£'000** | **£'000** | **£'000** |
| | | | | **Earmarked Reserves:** | | | | |
| 16,596 | 20,213 | (12,965) | 23,844 | Specific Schemes | (i) | 11,677 | (16,087) | 19,434 |
| 47,048 | 28,820 | (9,300) | 66,568 | Risks | (ii) | 15,363 | (8,986) | 72,945 |
| 4,152 | 2,040 | (2,229) | 3,963 | PFI Reserves | (iii) | 3,460 | (2,244) | 5,179 |
| 7,895 | - | (5,253) | 2,642 | Grants | (iv) | 1,333 | (2,642) | 1,333 |
| 21,475 | 7,002 | (6,763) | 21,714 | Restricted | (v) | 13,577 | (6,900) | 28,391 |
| **97,166** | **58,075** | **(36,510)** | **118,731** | **Total Earmarked Reserves** | | **45,410** | **(36,859)** | **127,282** |

**Notes:**

**(i)** **Specific Scheme Reserves** have been established to enable the City Council to prudently manage its finances and relate mainly to expenditure and funding commitments that have been re-phased from 2010/11 into 2011/12 and future years.

| Balance 31 March 2010 (Restated) £'000 | | Note | Movements in the Year £'000 | Balance 31 March 2011 £'000 |
|---|---|---|---|---|
| 3,500 | Collection Fund Reserve | 1 | (2,550) | 950 |
| 5,125 | Contractual Commitments | 2 | (599) | 4,526 |
| 2,200 | Jobs & Skills Creation | 3 | - | 2,200 |
| 1,372 | LABGI Funded Projects | 4 | (564) | 808 |
| 3,580 | Supporting People | 5 | - | 3,580 |
| - | Step Clever Programme | 6 | 3,135 | 3,135 |
| 8,067 | Other Initiatives | | (3,832) | 4,235 |
| **23,844** | | | **(4,410)** | **19,434** |

1. To mitigate the impact on the 2011/12 General Fund budget arising from the recovery of the Collection Fund deficit identified in 2010/11.
2. To carry forward funding for 2010/11 contractual commitments where the related work will be completed in 2011/12 and future years.
3. To utilise sums received in 2009/10 to fund schemes and initiatives for creating new jobs and supporting businesses. This reserve will be drawn down in 2011/12 to support the Employment and Skills budget.
4. To reflect the re-phasing of schemes into later years funded by the Local Authority Business Growth Incentive Grant (LABGI).
5. To provide for a variety of commissioning intentions in the Supporting People service in future years. This reserve will be used in 2011/12 to support the Adult Social Care Budget.
6. To carry forward grant funding received in 2010/11 to ensure the continued delivery of the Step Clever Programme.

**(ii)** The City Council maintains a corporate risk register. To manage the financial implication of these risks the City Council has prudently established a number of earmarked **risk reserves** to mitigate the anticipated impact on its budget and future years service delivery. These reserves are shown below**:**

| Balance 31 March 2010 (Restated) £'000 | | Note | Movements in the Year £'000 | Balance 31 March 2011 £'000 |
|---|---|---|---|---|
| 1,521 | Bellwin Scheme | 1 | 50 | 1,571 |
| 1,500 | Emergency Fund | 2 | - | 1,500 |
| 20,000 | Future Risks | 3 | (950) | 19,050 |
| 7,357 | Grant Clawback | 4 | 3,600 | 10,957 |
| 8,745 | Potential Future Liability Claims | 5 | 3,871 | 12,616 |
| 10,500 | Single Status Pay Arrears | 6 | 3,500 | 14,000 |
| 7,650 | Future Service Reviews | 7 | (1,165) | 6,485 |
| 2,500 | Invest to Save Schemes | 8 | - | 2,500 |
| 6,795 | Other | | (2,529) | 4,266 |
| **66,568** | | | **6,377** | **72,945** |

1. This is a central government initiative whereby local authorities can apply to have any costs associated with unforeseen catastrophes met from a central fund, subject to an initial excess payable by the City Council.
2. To fund costs arising from any emergency that is not assessed by central government as eligible for Government support under the Bellwin Scheme.
3. To cover risks associated with a range of issues under review by the Director of Finance and Resources and Management Team.
4. To cover potential claw-back of government grant received.
5. To fund potential liability claims that may arise in the future.

6. To fund the payment of pay arrears arising from the introduction of the Single Status Pay Agreement in 2011/12.
7. To fund restructuring costs associated with future value for money (VFM) and service reviews to be undertaken in 2011/12 and future years.
8. To fund support for the 2011/12 budget for proposals that generate revenue savings in future years and meet a defined payback period.

(iii) The City Council has established reserves in relation to its two **PFI schemes**. The reserves have been established to enable the amount of unspent PFI grant received in the year to be carried forward to be spent in future years.

(iv) The **Grants Reserve** is required to be held due to a change in accounting treatment required by the introduction of IFRS. The grants reserve represents revenue grant income that has been received with no “condition” (i.e. does not have to be repaid to the grantor) but where the related expenditure has not yet been incurred. The creation of the reserve allows the income to be carried forward into the next financial year.

(v) The City Council is obliged to maintain a number of **Restricted Reserves**; these are sums of money that the City Council is required to set aside for legally defined purposes (e.g. the Dedicated Schools Grant is ring-fenced and can only be used as defined in the Schools Finance (England) Regulations 2009).
Contained within the restricted reserves is the Locally Managed Schools Balance (LMS). This is a statutory reserve comprised of sums allocated to schools (including Extended Schools and Children’s Centres) under schemes of delegated management. The schools balances are not available for the City Council’s general use.

| 2009/10 | | | 2010/11 | |
|---|---|---|---|---|
| **No.** | **£’000** | | **No.** | **£’000** |
| 186 | 20,254 | Schools in Surplus | 196 | 26,489 |
| 30 | (2,856) | Schools in Deficit | 20 | (1,587) |
| 216 | 17,398 | | 216 | 24,902 |

## 10. Unusable Reserves

Unusable reserves are those that the City Council 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 created to reflect the timing differences between amounts shown in the Comprehensive Income and Expenditure Statement and amounts charged to the General Fund under statutory provisions.

| 1 April 2009 £’000 | 31 March 2010 £’000 | | 31 March 2011 £’000 |
|---|---|---|---|
| (123,883) | (153,677) | Revaluation Reserve | (144,363) |
| 0 | (138) | Available for Sale Financial Instruments Reserve | 0 |
| (717,010) | (691,372) | Capital Adjustment Account | (590,350) |
| (69) | (59) | Financial Instrument Adjustment Account | (50) |
| (473) | (365) | Deferred Capital Receipts Reserve | (269) |
| 608,851 | 853,356 | Pensions Reserve | 649,371 |
| 3,896 | 3,442 | Collection Fund Adjustment Account | 917 |
| 25,000 | 15,000 | Equal Pay Back Pay Account | 1,591 |
| 9,447 | 11,515 | Accumulated Absences Adjustment Account | 10,118 |
| **(194,241)** | **37,702** | **Total Unusable Reserves** | **(73,035)** |

## Revaluation Reserve

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

- re-valued 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.

| 2009/10 (Restated) £'000 | | £'000 | 2010/11 £'000 |
|---|---|---|---|
| **(123,883)** | **Balance at 1 April** | | **(153,677)** |
| (40,292) | Upward revaluation of assets | (20,384) | |
| 3,895 | Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Service | 4,565 | |
| **(36,397)** | **Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Service** | | **(15,819)** |
| 4,844 | Difference between fair value depreciation and historical cost depreciation | 4,652 | |
| 1,759 | Accumulated gains on assets sold or scrapped | 20,481 | |
| **6,603** | **Amount written off to the Capital Adjustment Account** | | **25,133** |
| **(153,677)** | **Balance at 31 March** | | **(144,363)** |

## Available for Sale Financial Instruments Reserve

The Available for Sale Financial Instruments Reserve records unrealised revaluation gains arising from holding available-for-sale investments, such as equity shares, plus any unrealised losses that have not arisen from impairment of the assets. The reserve is matched by an investment in the Balance Sheet. During 2010/11 the City Council's equity shares were sold and the gains realised, shown in the CIES within "Other Investment Income".

| 2009/10 £'000 | | 2010/11 £'000 |
|---|---|---|
| **0** | **Balance at 1 April** | **(138)** |
| (138) | Upward revaluation of investments | 0 |
| 0 | Accumulated gain on investments sold written out to Comprehensive Income and Expenditure Statement | 138 |
| **(138)** | **Balance at 31 March** | **0** |

## Capital Adjustment Account

The Capital Adjustment Account (CAA) 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 CAA is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the CIES (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The CAA is credited with the amounts set aside by the City Council as finance for the costs of acquisition, construction and enhancement.

The CAA contains accumulated gains and losses on Investment Properties and gains recognised on donated assets that have yet to be consumed by the City Council. It 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.

| **2009/10 £'000** | | | **2010/11 £'000** |
|---|---|---|---|
| **(717,010)** | **Balance at 1 April (Restated)** | | **(691,372)** |
| | **Reversal of capital charges debited or credited to the Comprehensive Income and Expenditure Statement:** | | |
| 87,098 | Charges for depreciation and impairment of non current assets (PPE) | 100,512 | |
| 696 | Amortisation of intangible assets | 682 | |
| - | Revaluation Gains and Losses | 391 | |
| 80,904 | Revenue expenditure funded from capital under statute | 92,050 | |
| 30,485 | 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 | 130,251 | |
| 199,183 | | | 323,886 |
| (6,603) | Adjusting amounts written out of the Revaluation Reserve | | (25,133) |
| **192,580** | **Net written out amounts of the cost of non current assets consumed in the year** | | **298,753** |
| | **Capital financing applied in the year:** | | |
| (4,727) | Use of the Capital Receipts Reserve to finance new capital expenditure | (7,139) | |
| (159,229) | Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing. | (137,414) | |
| (10,667) | Application of grants to capital financing from the Capital Grants Unapplied Account | (30,824) | |
| (2,692) | Capital expenditure charged to the General Fund | (2,288) | |
| (19,611) | Statutory provision for the financing of capital investment charged to the General Fund | (19,479) | |
| **(196,926)** | | | **(197,144)** |
| 24,803 | Movement in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement | | (823) |
| 5,181 | Other movements | | 236 |
| **(691,372)** | **Balance at 31 March** | | **(590,350)** |

The "Other movements" on the CAA in 2009/10 included £5.161m of adjustments to assets held or let under the terms of finance leases. A review of the City Council's lessee and lessor interests in 2009/10 had identified that two assets held under the terms of a finance lease as lessee (net value £2.9m) and 26 assets let under the terms of a finance lease as lessor (collective value £8.1m) should have been recognised and derecognised respectively in previous years' Balance Sheets. The amendments were made in 2009/10 and required an exceptional line within Other Comprehensive Income and Expenditure in line with CIPFA guidance.

### Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different rates at which gains and losses relating to financial instruments (such as premiums and discounts on repayment of debt) are recognised in the CIES and the amount required by statute to be met from the General Fund.

Premiums and discounts are debited / credited to the CIES when they are incurred, but reversed out of the General Fund Balance to the Financial Instruments Adjustment Account in the Movement in Reserves Statement. Over time, the expense / income is posted back to the General Fund Balance in accordance with statutory arrangements for spreading the burden on council tax.

During 2010/11 the City Council received a discount on the redemption of stock. The redeemed stock had no remaining term so in accordance with statutory requirements the whole discount was credited to the General fund in 2010/11.

| 2009/10 £'000 | | | 2010/11 £'000 |
|---|---|---|---|
| **(69)** | **Balance at 1 April** | | **(59)** |
| 0 | Premiums / (discounts) incurred in year and charged to the Comprehensive Income & Expenditure Statement | (283) | |
| 10 | Premiums / (discounts) incurred in current and previous years to be charged against the General Fund Balance in accordance with statutory provisions | 292 | |
| 10 | Amount by which finance costs charged to the Comprehensive Income & Expenditure Statement are different from finance costs chargeable in year in accordance with statutory requirements | | 9 |
| **(59)** | **Balance at 31 March** | | **(50)** |

### 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 (i.e. where council houses have previously been sold to tenants with the benefit of a City Council mortgage). The related capital receipts are recognised only when the cash is received; the amount is then transferred to the Capital Receipts Reserve.

| 2009/10 £000 | | 2010/11 £'000 |
|---|---|---|
| **(473)** | **Balance at 1 April** | **(365)** |
| 108 | Mortgages repaid in year (transfer to the Capital Receipts Reserve) | 96 |
| **(365)** | **Balance at 31 March** | **(269)** |

### Pension 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 City Council accounts for post employment benefits in the CIES 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 City Council 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 between the benefits earned by past and current employees and the resources the City Council has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

| 2009/10 £'000 | | 2010/11 £'000 |
|---|---|---|
| **608,851** | **Balance at 1 April** | **853,356** |
| 218,722 | Actuarial gains or losses on pension assets and liabilities | (111,373) |
| 80,517 | 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 | (37,819) |
| (54,734) | Employer's pensions contributions and direct payments to pensioners payable in the year | (54,793) |
| **853,356** | **Balance at 31 March** | **649,371** |

### Collection Fund Adjustment Account

The Collection Fund Adjustment Account manages the differences arising from the recognition of council tax (and residual community charge) income in the CIES compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund. The balance on the Account effectively shows the City Council's share of the overall Collection Fund surplus or deficit.

| 2009/10 £'000 | | 2010/11 £'000 |
|---|---|---|
| **3,896** | **Balance at 1 April** | **3,442** |
| (454) | 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 | (2,525) |
| **3,442** | **Balance at 31 March** | **917** |

### Equal Pay Back Pay Account

The Equal Pay Back Pay Account manages the difference between the amounts recognised as provisions to meet the cost of equal pay back pay claims, and the amounts charged to the General Fund under statutory provisions.

In 2010/11 the City Council received a capitalisation direction from the Department of Communities and Local Government enabling £7.896m of expenditure relating to the settlement of Equal Pay Back Pay claims to be funded from capital sources (£10m in 2009/10). This amount is shown within the figure for revenue expenditure funded from capital under statute in the Movement in Reserves Statement, balanced by a transfer from the Equal Pay Back Pay Account. In addition, the overall provision for potential claims was reassessed during 2010/11 and has been reduced by £5.513m, with a compensating transfer to the Equal Pay Back Pay Account.

| 2009/10 £'000 | | | 2010/11 £'000 |
|---|---|---|---|
| 25,000 | **Balance at 1 April** | | 15,000 |
| 0 | Reduction in provision for Equal Pay back pay settlements | (5,513) | |
| (10,000) | Capitalisation direction – transfer to Movement in Reserves Statement | (7,896) | |
| (10,000) | Amount by which amounts charged for Equal Pay claims to the Comprehensive Income and Expenditure Statement are different from the cost of settlements chargeable in the year in accordance with statutory requirements | | (13,409) |
| 15,000 | **Balance at 31 March** | | 1,591 |

### Accumulated Absences Adjustment Account

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

| 2009/10 £'000 | | | 2010/11 £'000 |
|---|---|---|---|
| 9,447 | **Balance at 1 April** | | 11,515 |
| (9,447) | Settlement or cancellation of accrual made at the end of the preceding year | (11,515) | |
| 11,515 | Amounts accrued at the end of the current year | 10,118 | |
| (2,068) | Amount by which employee 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 | | (1,397) |
| 11,515 | **Balance at 31 March** | | 10,118 |

## 11. Comprehensive Income & Expenditure Statement: Other Operating Expenditure

The table below shows analysis of the line "Other Operating Expenditure" from the CIES.

| 2009/10 £'000 | | 2010/11 £'000 |
|---|---|---|
| 63,667 | Levies | 64,044 |
| 109 | Payments to the Government Housing Capital Receipts Pool | 72 |
| (1,324) | Gains/Losses on the Disposal of Non-Current Assets | 123,623 |
| 0 | Revaluation losses on non current assets held for sale | 391 |
| 62,452 | **Total** | 188,130 |

The gains and losses on the disposal of non current assets relates to both asset disposals and, for 2010/11, losses incurred as a result of the requirement within the Code to de-recognise asset components that have been replaced or restored. This requirement to de-recognise components under the Code applied only from 1 April 2011.

The loss (after taking account of sales proceeds) on asset disposals was £71.246m in 2010/11 (a gain of £1.324m in 2009/10). During 2010/11 a number of schools acquired Trust status and, under the vesting arrangements, the City Council was legally required to transfer the school assets to the Trust School. The value of the assets transferred to the Trusts for nil consideration was £65m.

Net losses of £52.377m were incurred on the de-recognition of asset components. These losses relate mainly to demolitions and replacement assets. In the case of demolitions, the value of the cleared site remains in the overall valuation of Property Plant & Equipment.

It should be noted that gains and losses on the disposal of Investment Properties are reported within Financing and Investment Income & Expenditure (see Note 12 below).

## 12. Comprehensive Income and Expenditure Statement: Financing and Investment Income & Expenditure

The table below shows analysis of the line "Financing and Investment Income & Expenditure" from the CIES.

| 2009/10 £'000 | | 2010/11 £'000 |
|---|---|---|
| 21,191 | Interest Payable and Similar Charges | 20,567 |
| 50,349 | Pensions Interest Cost and Expected Return on Pensions Assets | 36,067 |
| (2,096) | Interest Receivable and Similar Income | (3,231) |
| 50,804 | Investment Properties: Changes in fair value & (gains)/losses on disposal | (846) |
| 0 | Other Investment Income | (168) |
| (372) | Trading Operations | 768 |
| 119,876 | **Total** | 53,157 |

The figure for Investment Properties in 2009/10 relates mainly to two significant items:

- The disposal of assets with a value of £26m under the terms of a finance lease as part of the Liverpool One development agreement with Grosvenor. The lease agreement is for 250 years and an annual rental is payable by the developer (£1.568m in 2010/11, £0.423m in 2009/10); this income is classified as contingent rental income and included within the figure for Interest Receivable and Similar Income above. However there was no initial capital receipt on disposal therefore a loss on disposal of £26m was shown in 2009/10.
- During 2009/10 a major review of investment property valuations was undertaken, with the result that impairment of £23m was charged to the CIES for investment properties in that year.

Further analysis of Trading Operations is shown in Note 13 below.

## 13. Trading Operations

The City Council operates a wholesale fruit and vegetable market, several retail markets, two civic halls and a number of commercial and industrial estates. The performance of the main trading operations is shown below:

| | 2009/10 | | | | 2010/11 | |
|---|---|---|---|---|---|---|
| **Gross Expend. £'000** | **Gross Income £'000** | **Net Expend £'000** | | **Gross Expend. £'000** | **Gross Income £'000** | **Net Expend £'000** |
| 739 | (431) | 308 | Markets | 604 | (426) | 178 |
| 2,496 | (1,074) | 1,422 | Civic Halls | 2,267 | (973) | 1,294 |
| 1,065 | (2,475) | (1,410) | Estates | 589 | (1,658) | (1,069) |
| 2,053 | (2,267) | (214) | School Meals | 2,173 | (2,243) | (70) |
| 3,778 | (3,762) | 16 | Schools Trading Services | 3,731 | (3,348) | 383 |
| 1,293 | (667) | 626 | Building Control | 1,100 | (740) | 360 |
| (198) | (922) | (1,120) | Central Services (including Building Cleaning) | 157 | (465) | (308) |
| **11,226** | **(11,598)** | **(372)** | | **10,621** | **(9,853)** | **768** |

## 14. Comprehensive Income and Expenditure Statement: Taxation and Non Specific Grant Income

The table below shows analysis of the line "Taxation and Non Specific Grant Income" from the Comprehensive Income and Expenditure Statement.

| 2009/10 £'000 | | 2010/11 £'000 |
|---|---|---|
| (162,199) | Income from Council Tax & Residual Community Charge | (163,063) |
| (260,268) | Distribution from National Non Domestic Rate Pool | (283,867) |
| | Non-Ring Fenced Government Grants: | |
| (60,073) | Revenue Support Grant | (41,220) |
| (75,282) | Area Based Grant | (101,203) |
| (6,660) | PFI Grant | (8,993) |
| (2,384) | LPSA Grant | 0 |
| (327) | Local Authority Business Growth Incentive Grant | 0 |
| (129,399) | Capital Grants and Contributions | (137,781) |
| **(696,592)** | **Total** | **(736,127)** |

## 15. Comprehensive Income and Expenditure Statement: Non Distributed Costs

Included within the figures for Non Distributed Costs are income and expenditure relating to the City Council's contractual arrangements with Liverpool Direct Limited (LDL). As part of these arrangements the City Council provides employees (through a secondment agreement) and other support services, and is reimbursed accordingly by LDL. The costs of the seconded employees have been considered as corporate expenses of the City Council and accounted for, with the related income, within Non Distributed Costs.
LDL bills the City Council for services it provides to the City Council under the terms of the contract. There is no direct relationship in the contract between the cost of employees provided to LDL and the charge for services. The charge by LDL for the contracted services provided to the City Council is a service expense and is therefore accounted for within individual service lines within the CIES.

## 16. Amounts Reported for Resource Allocation Decisions

The analysis of income and expenditure by service on the face of the CIES is that specified by the Best Value Accounting Code of Practice. However, during 2010/11, decisions about resource allocation were taken by the City Council's Councillors and management team on the basis of budget reports analysed across Business Aims*. 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 pension contributions) rather than current service cost of benefits accrued in the year.

- Accruals for employee benefits (in respect of outstanding holiday pay) are not included in the budget reports during the year.

The income and expenditure of the City Council's principal Business Aims recorded in the budget reports for the year is as follows:

(*Note that the City Council's management structure has been reviewed; the table below reflects the management structure as reported to members during 2010/11).

| Income and Expenditure | Develop Our Communities | Empower our Residents | Grow the City's Economy | Corporate Development | Central Services | Total |
|---|---|---|---|---|---|---|
| **2010/11** | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** |
| Fees, charges and other service income | (70,929) | (184,949) | (81,810) | (59,528) | (107,154) | (504,370) |
| Government grants | (36,958) | (448,993) | (1,764) | (319,138) | - | (806,853) |
| **Total Income** | **(107,887)** | **(633,942)** | **(83,574)** | **(378,666)** | **(107,154)** | **(1,311,223)** |
| Employees | 59,780 | 374,446 | 25,760 | 27,525 | 42,495 | 530,006 |
| Other service exp. | 140,174 | 450,772 | 100,939 | 329,657 | 124,968 | 1,146,510 |
| Asset charges | 31,082 | 49,976 | 14,354 | 1,079 | 3,444 | 99,935 |
| Support service recharges | 30,063 | 84,810 | 17,938 | 47,378 | 22,296 | 202,485 |
| **Total Expenditure** | **261,099** | **960,004** | **158,991** | **405,639** | **193,203** | **1,978,936** |
| **Net Expenditure** | **153,212** | **326,062** | **75,417** | **26,973** | **86,049** | **667,713** |

The equivalent analysis for 2009/10 is as follows:

| Income and Expenditure | Develop Our Communities | Empower our Residents | Grow the City's Economy | Corporate Development | Central Services | Total |
|---|---|---|---|---|---|---|
| **2009/10** | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** |
| Fees, charges and other service income | (67,268) | (196,221) | (102,067) | (60,477) | (116,158) | (542,191) |
| Government grants | (54,536) | (457,773) | (5,306) | (302,097) | (134) | (819,846) |
| **Total Income** | **(121,804)** | **(653,994)** | **(107,373)** | **(362,574)** | **(116,292)** | **(1,362,037)** |
| Employees | 57,229 | 377,496 | 26,487 | 26,918 | 42,323 | 530,453 |
| Other service exp. | 144,975 | 437,708 | 103,149 | 314,980 | 126,382 | 1,127,194 |
| Asset charges | 40,359 | 25,746 | 37,975 | 1,209 | 4,260 | 109,549 |
| Support service recharges | 38,049 | 82,885 | 32,411 | 46,008 | 25,336 | 224,689 |
| **Total Expenditure** | **280,612** | **923,835** | **200,022** | **389,115** | **198,301** | **1,991,885** |
| **Net Expenditure** | **158,808** | **269,841** | **92,649** | **26,541** | **82,009** | **629,848** |

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

This reconciliation shows how the figures in the analysis of Business Aims income and expenditure relate to the amounts included in the CIES:

| | 2009/10 £'000 | 2010/11 £'000 |
|---|---|---|
| **Net Expenditure in the Business Aims Analysis** (reported to Councillors) | **629,848** | **667,713** |
| Amounts in the Comprehensive Income and Expenditure Statement not reported to Management in the Analysis | **(24,566)** | **(129,864)** |
| Amounts included in the Analysis not included in the Cost of Services in the Comprehensive Income and Expenditure Statement | **(86,557)** | **(64,486)** |
| **Cost of Services in Comprehensive Income and Expenditure Statement** | **518,725** | **473,363** |

**Reconciliation to Subjective Analysis**

This reconciliation shows how the figures in the analysis of Business Aims income and expenditure relate to a subjective analysis of the Surplus or Deficit on the Provision of Services included in the CIES.

| | Business Aims Analysis | Amounts not reported to management for decision making | Amounts not included in the cost of services | Allocation of Recharges | Cost of Services | Corporate Amounts | Total |
|---|---|---|---|---|---|---|---|
| **2010/11** | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Fees, Charges & Other Service Income | (504,370) | - | 25,535 | 278,413 | **(200,422)** | (20,107) | (220,529) |
| Interest and Investment Income | - | - | - | - | **-** | (4,245) | (4,245) |
| Income from Council Tax | - | - | - | - | **-** | (163,063) | (163,063) |
| Government Grants and Contributions | (806,853) | - | 16 | - | **(806,837)** | (573,064) | (1,379,901) |
| **Total Income** | **(1,311,223)** | **-** | **25,551** | **278,413** | **(1,007,259)** | **(760,479)** | **(1,767,738)** |
| Employee Expenses | 530,006 | (129,864) | (9,026) | - | **391,116** | 44,879 | 435,995 |
| Other Service Exp. | 1,146,510 | - | (75,407) | (81,289) | **989,814** | 11,820 | 1,001,634 |
| Support Service Recharges | 202,485 | - | (5,361) | (197,124) | **-** | - | - |
| Depreciation, Amortisation and Impairment | 99,935 | - | (243) | - | **99,692** | 243 | 99,935 |
| Interest Payments | - | - | - | - | **-** | 20,567 | 20,567 |
| Precepts & Levies | - | - | - | - | **-** | 64,044 | 64,044 |
| Payments to Housing Capital Receipts Pool | - | - | - | - | **-** | 72 | 72 |
| Revaluation Gains and Losses | - | - | - | - | **-** | 391 | 391 |
| Gain or Loss on Disposal of Fixed Assets | - | - | - | - | **-** | 123,623 | 123,623 |
| **Total Expenditure** | **1,978,936** | **(129,864)** | **(90,037)** | **(278,413)** | **1,480,622** | **265,639** | **1,746,261** |
| **Surplus or Deficit on the Provision of Services** | **667,713** | **(129,864)** | **(64,486)** | **-** | **473,363** | **(494,840)** | **(21,477)** |

The equivalent reconciliation for 2009/10 is as follows:

| | Business Aims Analysis | Amounts not reported to management for decision making | Amounts not included in the Cost of Services | Allocation of Recharges | Cost of Services | Corporate Amounts | Total |
|---|---|---|---|---|---|---|---|
| **2009/10 Comparative Figures** | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** |
| Fees, Charges & Other Service Income | (542,191) | - | 29,596 | 305,655 | **(206,940)** | (24,360) | (231,300) |
| Interest and Investment Income | - | - | - | - | - | (2,096) | (2,096) |
| Income from Council Tax | - | - | - | - | - | (162,199) | (162,199) |
| Government Grants and Contributions | (819,846) | - | - | - | **(819,846)** | (534,393) | (1,354,239) |
| **Total Income** | **(1,362,037)** | **-** | **29,596** | **305,655** | **(1,026,786)** | **(723,048)** | **(1,749,834)** |
| Employee Expenses | 530,453 | (24,566) | (9,193) | - | **496,694** | 59,548 | 556,242 |
| Other Service Exp. | 1,127,194 | - | (77,740) | (86,203) | **963,251** | 38,058 | 1,001,309 |
| Support Service Recharges | 224,689 | - | (5,237) | (219,452) | **-** | - | - |
| Depreciation, Amortisation and Impairment | 109,549 | - | (23,983) | - | **85,566** | 1,535 | 87,101 |
| Interest Payments | - | - | - | - | **-** | 21,191 | 21,191 |
| Precepts & Levies | - | - | - | - | **-** | 63,667 | 63,667 |
| Payments to Housing Capital Receipts Pool | - | - | - | - | **-** | 109 | 109 |
| Gain or Loss on Disposal of Fixed Assets | - | - | - | - | **-** | 24,676 | 24,676 |
| **Total Expenditure** | **1,991,885** | **(24,566)** | **(116,153)** | **(305,655)** | **1,545,511** | **208,784** | **1,754,295** |
| **Surplus or Deficit on the Provision of Services** | **629,848** | **(24,566)** | **(86,557)** | **-** | **518,725** | **(514,264)** | **4,461** |

## 17. Property, Plant and Equipment

Movements in Property Plant and Equipment in 2010/11 were as follows:

| | Other Land and Buildings | Vehicles, Plant, Furniture & Equip | Infrastructure Assets | Community Assets | Surplus Assets | Assets Under Construction | Total Property, Plant and Equip | PFI Assets included in Property, Plant & Equipment |
|---|---|---|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| **Cost or Valuation** | | | | | | | | |
| **At 1 April 2010 (Restated)** | **1,138,358** | **29,056** | **294,488** | **58,668** | **-** | **38,311** | **1,558,881** | **113,969** |
| Additions | 46,190 | 8,522 | 30,480 | 2,918 | 458 | 21,845 | 110,413 | - |
| Revaluations in the Revaluation Reserve | 8,154 | - | - | - | 1,913 | - | 10,067 | - |
| De-recognition - disposals | (82,443) | - | - | (226) | - | - | (82,669) | (37,414) |
| De-recognition - other | (57,335) | - | - | - | (21,543) | - | (78,878) | - |
| Assets reclassified (to)/ from Held for Sale | (5,193) | - | - | - | - | - | (5,193) | - |
| Other Transfers | (1,675) | - | - | - | 30,548 | (28,754) | 119 | - |
| Other Movements | - | (2,459) | - | - | - | - | (2,459) | - |
| **At 31 March 2011** | **1,046,056** | **35,119** | **324,968** | **61,360** | **11,376** | **31,402** | **1,510,281** | **76,555** |
| **Depreciation and Impairment** | | | | | | | | |
| **At 1 April 2010 (Restated)** | **209,104** | **16,689** | **33,941** | **58,668** | **-** | **-** | **318,402** | **9,951** |
| Depreciation charge for 2010/11 | 33,444 | 4,545 | 10,856 | - | 397 | - | 49,242 | 2,793 |
| Depreciation to the Revaluation Reserve – on revaluation | (10,316) | - | - | - | (1) | - | (10,317) | - |
| Impairment losses/(reversals) recognised in the Revaluation Reserve | 4,511 | - | - | - | 54 | - | 4,565 | - |
| Impairment losses/(reversals) in the Surplus/Deficit on the Provision of Service | 51,270 | - | - | - | - | - | 51,270 | - |
| De-recognition – disposals | (6,447) | - | - | (226) | - | - | (6,673) | (1,936) |
| De-recognition – other | (21,863) | - | - | - | (4,639) | - | (26,502) | - |
| Assets reclassified (to)/ from Held for Sale | (2,784) | - | - | - | - | - | (2,784) | - |
| Other Transfers | (7,974) | - | - | - | 6,811 | - | (1,163) | - |
| Other Movements | - | (2,459) | - | - | - | - | (2,459) | - |
| **At 31 March 2011** | **248,945** | **18,775** | **44,797** | **58,442** | **2,622** | **-** | **373,581** | **10,808** |
| **Net Book Value** | | | | | | | | |
| **At 31 March 2011** | **797,111** | **16,344** | **280,171** | **2,918** | **8,754** | **31,402** | **1,136,700** | **65,747** |
| **At 31 March 2010 (Restated)** | **929,254** | **12,367** | **260,547** | **-** | **-** | **38,311** | **1,240,479** | **104,018** |

Comparative Movements in 2009/10 were as follows:

| | Other Land and Buildings | Vehicles, Plant, Furniture & Equip | Infrastructure Assets | Community Assets | Surplus Assets | Assets Under Construction | Total Property, Plant and Equip | PFI Assets included in Property, Plant & Equipment |
|---|---|---|---|---|---|---|---|---|
| | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** |
| **Cost or Valuation** | | | | | | | | |
| **At 1 April 2009 (Restated)** | **1,061,091** | **26,848** | **266,758** | **53,710** | **-** | **-** | **1,408,407** | **111,432** |
| Additions | 50,278 | 3,999 | 28,071 | 3,920 | - | 38,311 | 124,579 | - |
| Revaluations in the Revaluation Reserve | 32,475 | - | - | - | - | - | 32,475 | 2,537 |
| De-recognition - disposals | - | - | - | - | - | - | - | - |
| De-recognition - other | - | - | - | - | - | - | - | - |
| Assets reclassified (to)/ from Held for Sale | (1,760) | - | - | - | - | - | (1,760) | - |
| Other Transfers | (3,726) | - | (341) | 1,038 | - | - | (3,029) | - |
| Other Movements | - | (1,791) | - | - | - | - | (1,791) | - |
| **At 31 March 2010** | **1,138,358** | **29,056** | **294,488** | **58,668** | **-** | **38,311** | **1,558,881** | **113,969** |
| **Depreciation and Impairment** | | | | | | | | |
| **At 1 April 2009 (Restated)** | **145,925** | **14,441** | **23,863** | **53,710** | **-** | **-** | **237,939** | **7,214** |
| Depreciation charge for 2009/10 | 39,362 | 4,039 | 10,121 | - | - | - | 53,522 | 2,737 |
| Depreciation to the Revaluation Reserve – on revaluation | (7,759) | - | - | (58) | - | - | (7,817) | - |
| Impairment losses/(reversals) recognised in the Revaluation Reserve | 3,837 | - | - | 58 | - | - | 3,895 | - |
| Impairment losses/(reversals) in the Surplus/Deficit on the Provision of Service | 28,677 | - | - | 4,900 | - | - | 33,577 | - |
| De-recognition – disposals | - | - | - | - | - | - | - | - |
| De-recognition – other | - | - | - | - | - | - | - | - |
| Assets reclassified (to)/ from Held for Sale | - | - | - | - | - | - | - | - |
| Other Transfers | (938) | - | (43) | 58 | - | - | (923) | - |
| Other Movements | - | (1,791) | - | - | - | - | (1,791) | - |
| **At 31 March 2010** | **209,104** | **16,689** | **33,941** | **58,668** | **-** | **-** | **318,402** | **9,951** |
| **Net Book Value** | | | | | | | | |
| **At 31 March 2010** | **929,254** | **12,367** | **260,547** | **-** | **-** | **38,311** | **1,240,479** | **104,018** |
| **At 31 March 2009 (Restated)** | **915,166** | **12,407** | **242,895** | **-** | **-** | **-** | **1,170,468** | **104,218** |

**Depreciation**
Depreciation has been provided on all fixed assets that have been deemed to have a useful finite life. The life of an asset is determined at the time of acquisition or revaluation.
Fixed assets are depreciated to a nil value, with depreciation calculated using the "straight-line" method and applied to the current value of the asset at the opening Balance Sheet date. No depreciation has been provided on freehold land or community assets (such as parks).
In those instances where land and buildings have been valued together then depreciation has been charged on land as well as buildings. This is not in accordance with the Code and may result in an overstatement of depreciation. However, as properties are revalued as part of the rolling programme, the land and building values are being identified separately and the land value excluded from the depreciation calculation.

**Revaluations**
The City Council carries out a rolling programme that ensures that all assets included within Property, Plant and Equipment required to be measured at fair value is revalued at least every five years. All valuations were carried out by valuation staff in 2020 Liverpool Ltd, a property management company. 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. Short lived assets such as vehicles have been included at historic cost less depreciation as a proxy for fair value.

| | Other Land and Buildings £'000 | Surplus Assets £'000 | Total £'000 |
|---|---|---|---|
| Carried at Historical Cost | - | - | - |
| Valued at Fair Value as at: | | | |
| 31 March 2011 | 138,166 | 7,364 | 145,530 |
| 31 March 2010 | 46,075 | - | 46,075 |
| 31 March 2009 | 172,186 | - | 172,186 |
| 31 March 2008 | 249,753 | - | 249,753 |
| 31 March 2007 | 190,931 | 1,390 | 192,321 |
| **Total Cost or Valuation** | 797,111 | 8,754 | 805,865 |

**Material Impairment Losses**

The following table identifies material impairment losses recognised in the Surplus or Deficit on the Provision of Services during 2010/11:

| Asset | Value of Impairment Loss | Valuation type | Reportable Segment | Circumstances that led to the impairment |
|---|---|---|---|---|
| | £'000 | | | |
| Four Oaks Primary School | 2,397 | Existing Use Value | Empower Our Residents | This property is scheduled for imminent demolition |
| Alsop High School | 14,601 | Depreciated Replacement Cost | Empower Our Residents | The school has been subject to significant redevelopment – the expenditure incurred was capitalised, the impairment is as a result of the subsequent valuation. |
| Housing Market Renewal Portfolio | 15,547 | Existing Use Value | Grow the City's Economy | This portfolio is subject to an impairment review each year. The majority of the property purchased, secured and demolished in the year is valued at a nominal amount. This results in both significant impairment and de-recognition of components. |

| | | | | |
|---|---|---|---|---|
| Everton Park Lifestyles Sports Centre | 5,730 | Depreciated Replacement Cost | Develop Our Communities | This valuation differed from the previous valuation due to: – obsolescence rates used being higher and the replacement costs used took into account more modern building methods. |
| New Heys School | 3,535 | Existing Use Value | Empower Our Residents | Impairment is due to the school now being valued on an existing use basis rather than the previous Depreciated Replacement Cost basis. The School is on a short term lease to an Academy but will then revert back to LCC. At which point it will likely become a Surplus Asset. |
| Princes Road Special School | 1,081 | Depreciated Replacement Cost | Empower Our Residents | This valuation differed from the previous valuation due to: – obsolescence rates used being higher and the replacement costs used took into account more modern building methods. |
| Ellergreen Lifestyles Sports Centre | 1,923 | Depreciated Replacement Cost | Develop Our Communities | This valuation differed from the previous valuation due to: – obsolescence rates used being higher and the replacement costs used took into account more modern building methods. |

## 18. Investment Properties

The following items of income and expense have been accounted for in the Financing and Investment Income & Expenditure line in the CIES.

| | 2009/10 £'000 | 2010/11 £'000 |
|---|---|---|
| Rental Income from Investment Property | (2,387) | (1,578) |
| Direct Operating Expenses arising from Investment Property | 988 | 857 |
| **Net Gain / (Loss)** | **(1,399)** | **(721)** |

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

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

| 2009/10 £'000 (Restated) | | 2010/11 £'000 |
|---|---|---|
| **127,475** | **Balance at Start of Year** | **69,741** |
| | **Additions:** | |
| 1,317 | Purchases / Donations | - |
| 426 | Subsequent expenditure | - |
| (36,780) | **Disposals** | (410) |
| (24,803) | **Net gains/(losses) from fair value adjustments** | 823 |
| | **Transfers:** | |
| 2,106 | To/from Property, Plant and Equipment | (1,281) |
| **69,741** | **Balance at the End of the Year** | **68,873** |

## 19. Intangible Assets

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

All software is given a finite useful life, based on assessments of the period that the software is expected to be of use to the City Council. The useful life assigned to software is:

- Finance System Software - 7 years
- Other software – 3 Years

The carrying amount of intangible assets is amortised on a straight-line basis over the estimated useful life. The amortisation of £0.682m in 2010/11 was initially charged to the City Council's Finance Service and was then absorbed as an overhead across all the service headings in the Cost of Services. No impairment was identified during the year.

| | 2009/10 £'000 | 2010/11 £'000 |
|---|---|---|
| **Balance at Start of Year:** | | |
| Gross Carrying Amounts | 4,793 | 4,793 |
| Accumulated Amortisation | (2,391) | (3,087) |
| **Net Carrying Amount at Start of Year** | **2,402** | **1,706** |
| **Additions:** | | |
| Purchases | - | 45 |
| Amortisation | (696) | (682) |
| **Net carrying amount at end of year** | **1,706** | **1,069** |
| **Comprising:** | | |
| Gross Carrying Amounts | 4,793 | 4,838 |
| Accumulated Amortisation | (3,087) | (3,769) |

The net carrying amount at the end of the year relates mainly to software for the City Council's finance system (£1.024m).

## 20. Long Term Investments

The figure for Long Term Investments is made up of shareholdings held by the City Council and an investment made in a Special Purpose Vehicle (SPV) set up with Lloyds TSB Bank as part of the financing arrangements for the Arena and Convention Centre facility.

| 2009/10 £'000 | | 2010/11 £'000 |
|---|---|---|
| 45,000 | Investment in Special Purpose Vehicle | 45,000 |
| 141 | Equity Shares | - |
| 24 | Shares in Subsidiaries, Associates and Joint Ventures | 24 |
| **45,165** | **Total Long Term Investments** | **45,024** |

The investment in a Special Purpose Vehicle (SPV) is a company, Solus Treasury Services Ltd, created in 2003 in conjunction with Arlingclose Ltd as a tax efficient vehicle for elements of the construction costs associated with the Arena and Convention Centre facility built in the King's

Waterfront development site. The arrangement contains a multi-layered series of lease agreements designed so that the assets eligible for taxable allowances are in the financial statements of Solus on the basis of a finance lease, and then sub-leased to the City Council under the terms of an operating lease (at a nominal amount). The finance lease was entered into with Lloyds TSB General Leasing Ltd. The investment of £45m in Solus provides the funding by which the entity is able to meet its expenses relating to its leasing obligation.

On 2 July 2010 the City Council purchased the entire issued share capital of Solus from Arlingclose Ltd for consideration of £1. The entity is now classed as a wholly owned subsidiary of the City Council although it continues as a separate legal entity. The City Council appointed both directors to the company's Board.

During the course of the year the City Council has reviewed the value of its investment in the SPV for evidence of impairment. Considering that all parties have continued to act in accordance with the various arrangements governing the operation of the SPV (e.g. the SPV has met the lease rentals as due and continues to hold the balance of funds in a bank account) then there is reasonable expectation that the City Council will recover its investment in full and therefore there is no evidence of impairment at 31 March 2011.

More information on Subsidiaries, Associates and Joint Ventures in which the City Council has a shareholding is shown in the Group Accounts.

The City Council is also involved with a number of other companies and whilst it has no shareholding in these entities, the Code still requires disclosure with regard to financial performance. This information is set out in the Group Accounts.

## 21. Long Term Debtors

Long term debtors consist mainly of mortgages that have been advanced by the City Council for the purchase of properties by council tenants, housing associations and private persons who have been unable to obtain mortgages from building societies or banks. In addition the City Council has made advances to low income owner-occupiers in HMRI clearance areas to enable them to purchase a replacement property. These equity loans are repayable when the property is sold in the future.

| **Balance as at 31 March 2010 £'000** | | **Balance as at 31 March 2011 £'000** |
|---:|---|---:|
| 1,027 | Housing Advances | 695 |
| 83 | Equity Loans | 383 |
| 125 | Other | 113 |
| **1,235** | **Total** | **1,191** |

## 22. Capital Expenditure and Capital Financing

The table below shows the capital expenditure incurred in the year (including revenue expenditure funded from capital sources under statutory provisions), together with the resources that have been used to finance it. Revenue expenditure funded from capital under statute is charged to the relevant service line within the Comprehensive Income and Expenditure Statement, but is included in this note as it is treated as capital for financing purposes.

| | 2009/10 £'000 | 2010/11 £'000 |
|---|---|---|
| **Capital Expenditure:** | | |
| Property, Plant and Equipment | 81,938 | 88,568 |
| Assets Under Construction | 38,311 | 21,845 |
| Investment Properties | 426 | 0 |
| Intangible Assets | 0 | 45 |
| Long Term Debtors | 0 | 300 |
| **Total Additions to Assets** | **120,675** | **110,758** |
| | | |
| Revenue Expenditure Funded from Capital under Statute | 80,904 | 92,050 |
| | | |
| **Total expenditure to be financed from capital sources** | **201,579** | **202,808** |
| | | |
| **Financed by:** | | |
| Grants and contributions | 168,579 | 168,238 |
| Capital Receipts | 4,727 | 7,139 |
| Revenue contributions | 2,692 | 2,288 |
| Finance Leases | 1,265 | 0 |
| External Borrowing | 24,316 | 25,143 |
| | **201,579** | **202,808** |

The **Capital Financing Requirement** (CFR) measures the City Council's notional requirement to finance capital expenditure through borrowing (both supported and unsupported). Unsupported borrowing relates to borrowing that attracts no Government support and which falls entirely upon council tax payers. The CFR is used to calculate the statutory minimum charge for debt repayment known as the Minimum Revenue Provision (MRP). The movement on the CFR in the year is shown below:

| | 2009/10 £'000 | 2010/11 £'000 |
|---|---|---|
| **Opening Balance at 1 April** | 505,363 | 512,750 |
| Plus capital expenditure in year to be financed by borrowing: | | |
| - Supported Borrowing | 6,110 | 12,417 |
| - Unsupported Borrowing | 18,206 | 12,726 |
| - New Credit Arrangements | 2,702 | 0 |
| Less: MRP and other adjustments | (19,631) | (19,490) |
| **Closing Balance at 31 March** | **512,750** | **518,403** |

## Capital Commitments

Significant commitments under capital contracts include:

| | **Expenditure Approved and Contracted 31 March 2011** £'000 |
|---|---|
| **Leisure & Culture:** | |
| Central Library | 2,100 |
| Childwall Library Improvements | 621 |
| | |
| **Children's Services:** | |
| Building Schools for the Future – Alsop | 1,916 |
| Building Schools for the Future – W.Derby | 1,854 |
| Building Schools for the Future – Cardinal Heenan | 10,048 |
| Building Schools for the Future – Gateacre | 2,240 |
| Building Schools for the Future – King David | 4,955 |
| Building Schools for the Future – ICT | 7,175 |

| | |
|---|---|
| Building Schools for the Future – Other | 804 |
| Four Oaks Primary | 7,766 |
| Croxteth Primary | 4,760 |
| | |
| **Housing:** | |
| HMRI programme | 5,797 |
| Strategic Acquisitions & Other Clearance | 2,747 |
| Granby Regeneration & Acquisitions | 1,030 |
| Private Sector Initiative | 1,407 |
| Other Housing Projects | |
| | |
| **Transport:** | |
| City Centre Movement Strategy | 6,007 |
| Minor Highways Work | 1,057 |
| Hall Lane | 5,280 |
| Edge Lane West | 5,464 |
| Other | 2,920 |
| | |
| **Other Services:** | |
| Supported Living – Sedgemoor Centre | 933 |

For HMRI schemes, the above note reflects the commitments given to third parties (and reflected within scheme budgets) that such schemes will take place.

## 23. Financial Instruments

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

### a) Balances

The following categories of financial instrument are carried in the Balance Sheet.

| | | Long Term | | Short Term | |
|---|---|---|---|---|---|
| | | **31 March 2010 £'000** | **31 March 2011 £'000** | **31 March 2010 £'000** | **31 March 2011 £'000** |
| **Investments** | | | | | |
| Loans and receivables | (i) | 45,000 | 45,000 | 130,395 | 154,448 |
| Available-for-sale financial assets | (ii) | 141 | - | - | - |
| Unquoted equity investment at cost | (iii) | 24 | 24 | - | - |
| Financial assets at fair value through profit and loss | | - | - | - | - |
| **Total Investments** | | 45,165 | 45,024 | 130,395 | 154,448 |
| **Borrowings** | | | | | |
| Financial liabilities at amortised cost | (iv) | 327,964 | 316,978 | 13,530 | 13,523 |
| Financial liabilities at fair value through profit and loss | | - | - | - | - |
| **Total Borrowings** | | 327,964 | 316,978 | 13,530 | 13,523 |
| **Other Long Term Liabilities** | | | | | |
| PFI and finance lease liabilities | (v) | 58,307 | 55,601 | 3,181 | 2,706 |
| | | 58,307 | 55,601 | 3,181 | 2,706 |

Long term debtors, trade creditors and receivables and cash balances are not included in the table above, as they are reported elsewhere in the financial statements.

(i) The balance for loans and receivables includes short term investments which are reported as Cash Equivalents on the Balance Sheet, being short term highly liquid investments that are readily convertible to known amounts of cash and which are held for the purpose of meeting short term cash commitments. The amount reported as Cash Equivalents is disclosed in Note 27.
Accrued interest on investments is shown within the balance for short term investments (£0.148m at 31 March 2011, £0.095m at 31 March 2010).
Long term loans & receivables represent the investment of £45m that the City Council has made in a Special Purpose Vehicle (Solus Treasury Services Ltd – see Note 20 for more information).

(ii) Available for sale financial assets represented equity shares held by the City Council. These were valued at fair value based on the share price at 31 March 2010 (£0.141m) with the revaluation gain posted to the Available for Sale Financial Instruments Reserve and shown within Other Comprehensive Income and Expenditure in 2009/10. The shares were sold during 2010/11, and the gain on disposal posted to Financing and Investment Income & Expenditure, with a compensating entry to Other Comprehensive Income & Expenditure as required by the Code.

(iii) The figure for Unquoted Equity represents shares held by the City Council in six of the companies that it has set up with partner organisations to deliver City Council services (Enterprise-Liverpool Ltd, Geraud-Markets Liverpool Ltd, 2020 Liverpool Ltd, Liverpool Direct Ltd, Glendale Liverpool Ltd and Arena & Convention Centre Liverpool Ltd). The equity is shown in the Balance Sheet at cost as the shareholdings are purely nominal and it is envisaged that they will not be sold, no gains or losses are anticipated and no dividends are receivable.

(iv) Accrued interest on borrowings is shown as a short term financial liability (£3.523m at 31 March 2011, £3.530m at 31 March 2010).

(v) The long term element of PFI and finance lease liabilities is shown as "Other Long Term Liabilities" on the balance sheet. The short term element (the element due to be paid within 12 months) is shown within the balance for Short Term Creditors (see Note 28). More information on PFI contracts and liabilities is shown in Note 44. More information on lease liabilities is shown in Note 43.

**b) Financial Instruments Gains and Losses**

The gains and losses recognised in the CIES for 2010/11 in relation to financial instruments are as follows:

| **2010/11** | **Financial Liabilities measured at amortised cost** | **Other financial liabilities (PFI & Finance Leases)** | **Financial Assets: Loans and receivables** | **Financial Assets: Available for Sale** | **Total** |
|---|---|---|---|---|---|
| | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** |
| Interest expense | 14,177 | 6,359 | - | - | 20,536 |
| Losses on de-recognition | - | - | - | - | - |
| Impairment losses | - | - | - | - | - |
| **Total Expense in Surplus or Deficit on the Provision of Service** | 14,177 | 6,359 | - | - | 20,536 |

| | | | | | |
|---|---|---|---|---|---|
| Interest income | - | (1,568) | (1,328) | (9) | (2,905) |
| Interest income accrued on impaired financial assets | - | - | - | - | - |
| Gains on de-recognition | (305) | - | - | (168) | (473) |
| **Total Income in Surplus or Deficit on the Provision of Service** | (305) | (1,568) | (1,328) | (177) | (3,378) |
| Gains on revaluation | - | - | - | - | - |
| Losses on revaluation | - | - | - | - | - |
| Amounts recycled to the Surplus or Deficit on the Provision of Services after de-recognition | - | - | - | 138 | 138 |
| **Surplus/deficit arising on revaluation of financial assets in Other Comprehensive Income and Expenditure** | - | - | - | 138 | 138 |
| **Net Gain/(Loss) for the Year** | **13,872** | **4,791** | **(1,328)** | **(39)** | **17,296** |

The equivalent statement of gains and losses for 2009/10 is as follows:

| **2009/10** | **Financial Liabilities measured at amortised cost** | **Other financial liabilities (PFI & Finance Leases)** | **Financial Assets: Loans and receivables** | **Financial Assets: Available for Sale** | **Total** |
|---|---|---|---|---|---|
| | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** |
| Interest expense | 14,324 | 6,833 | - | - | 21,157 |
| Losses on de-recognition | - | - | - | - | - |
| Impairment losses | - | - | - | - | - |
| **Total Expense in Surplus or Deficit on the Provision of Service** | 14,324 | 6,833 | - | - | 21,157 |
| Interest income | - | (1,542) | (1,630) | (9) | (3,181) |
| Interest income accrued on impaired financial assets | - | - | - | - | - |
| Gains on de-recognition | (8) | - | - | - | (8) |
| **Total Income in Surplus or Deficit on the Provision of Service** | (8) | (1,542) | (1,630) | (9) | (3,189) |
| Gains on revaluation | - | - | - | (138) | (138) |
| Losses on revaluation | - | - | - | - | - |
| Amounts recycled to the Surplus or Deficit on the Provision of Services after de-recognition | - | - | - | - | - |
| **Surplus/deficit arising on revaluation of financial assets in Other Comprehensive Income and Expenditure** | - | - | - | (138) | (138) |
| **Net Gain/(Loss) for the Year** | **14,316** | **5,291** | **(1,630)** | **(147)** | **17,830** |

## c) Fair Values of Financial Assets and Liabilities Carried At Amortised Cost

Financial liabilities and financial assets represented by loans and receivables are carried on 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 life of the instruments, using the following assumptions:

- For loans from the Public Works Loans Board (PWLB) and other loans payable, premature repayment rates from the PWLB have been applied to provide the fair value under PWLB debt redemption procedures.

- For loans receivable, prevailing benchmark market rates have been used to provide the fair value.
- No early repayment or impairment is recognised.
- Where an instrument has a maturity of less than 12 months or is a trade or other receivable the fair value is taken to be the principal outstanding or the billed amount.

The fair values calculated are as follows:

| | 31 March 2010 | | 31 March 2011 | |
|---|---|---|---|---|
| | Carrying Amount £'000 | Fair Value £'000 | Carrying Amount £'000 | Fair value £'000 |
| **Financial Liabilities** | | | | |
| PWLB Debt | 131,022 | 137,717 | 121,010 | 128,371 |
| Non PWLB Debt | 210,472 | 207,933 | 209,491 | 233,658 |
| **Total** | **341,494** | **345,650** | **330,501** | **362,029** |
| **Loans & Receivables** | | | | |
| Money market loans < 1 year | 130,395 | 130,396 | 154,448 | 154,448 |
| Money market loans > 1 year | - | - | - | - |
| Other | 45,000 | 45,000 | 45,000 | 45,000 |
| **Total** | **175,395** | **175,396** | **199,448** | **199,448** |

The fair value of financial liabilities is higher than the carrying amount because the City Council's portfolio of loans includes a number of fixed rate loans where the interest rate payable is below current borrowing rates but above the redemption rates available for similar loans in the market at the Balance Sheet date. This shows a notional future loss (based on economic conditions at 31 March 2011) arising from a commitment to pay interest to lenders above current redemption rates.

There is no significant difference between the fair value and carrying amount of financial assets because the City Council's portfolio of investments is at similar rates to those available in the market at the Balance Sheet date. This reflects the short duration of the portfolio.

Trade payables and receivables are not included in the table above as the fair value is taken to be the invoiced or billed amount.

Available for sale financial assets are carried in the Balance Sheet at their fair value, based on the quoted share price where there is an active market for the instrument.

A fair value figure for the City Council's shareholdings in its partner organisations (£0.024m) is not included in the table above, as the shareholdings are nominal, not quoted in an active market, and it is not envisaged that they will be sold.

Liabilities relating to PFI contracts and finance leases are not included in the above table as the carrying value of the lease liability is the present value of the minimum lease payments using the interest rate implicit in the lease. It is therefore considered that the carrying value of the finance leases is the same as the fair value.

## 24. Nature and Extent of Risks Arising from Financial Instruments

There are a number of risks associated with financial instruments, including:

- Credit risk: the possibility that other parties may fail to pay amounts due to the City Council;
- Liquidity risk: the possibility that the City Council might not have funds available to meet its day to day obligations to make payments;

- Re-financing risk: the possibility that the City Council may need to renew a financial instrument on maturity at disadvantageous interest rates or terms;
- Market risk: the possibility that financial loss might arise for the City Council as a result of changes in such measures as interest rates movements.

**a) Overall Procedures for Managing Risk**

The City Council's overall risk management procedures focus on the unpredictability of financial markets, and on implementing restrictions to minimise these risks. The procedures for risk management are determined through a legal framework set out in the Local Government Act 2003 and associated regulations. These require the City Council to comply with the CIPFA Prudential Code, the CIPFA Code of Practice on Treasury Management in the Public Services and Investment Guidance issued through the Act. Overall, these procedures require the City Council to manage risk in the following ways:

- By formally adopting the requirements of the Code of Practice on Treasury Management;
- By approving annually in advance, prudential and treasury indicators for the following three years limiting:
    - The City Council's overall borrowing;
    - Its maximum and minimum exposures to fixed and variable rates;
    - Its maximum and minimum exposures regarding the maturity structure of its debt;
    - Its maximum annual exposures to investments maturing beyond a year.
- By approving an investment strategy for the forthcoming year setting out its criteria for both investing and selecting investment counterparties in compliance with Government Guidance.

These are required to be reported and approved at or before the City Council's annual council tax setting budget. These items are reported within the annual Treasury Management Strategy which outlines the detailed approach to managing risk in relation to the City Council's financial instrument exposure. Actual performance is also reported semi-annually to Members.

The annual Treasury Management Strategy which incorporates the prudential indicators was approved by the City Council as part of its budget for 2010/11. The key issues within this strategy were:

- The authorised limit for 2010/11 was set at £490m (£490m in 2009/10). This is the maximum limit of external borrowings or other long term liabilities.
- The operational boundary was expected to be £380m (£410m in 2009/10). This is the expected level of debt and other long term liabilities during the year.
- The maximum amounts of fixed and variable interest rate exposure were set at 100% and 50% based on the City Council's net debt.
- The maximum and minimum exposures to the maturity structure of debt were set to manage exposure to refinancing risk (see section d below).

These policies are implemented by a central Treasury Management team. The City Council maintains written principles for overall risk management, as well as written policies (Treasury Management Practices – TMPs) covering specific areas, such as interest rate risk, credit risk, and the investment of surplus cash. These TMPs are a requirement of the Code of Practice and are reviewed periodically.

**b) Credit risk**

Credit risk is the risk that amounts due to the City Council may not be received. Amounts due to the authority from financial assets can arise either from loans and investments made, or from income receivable for goods and services provided by the authority.

This risk is minimised through the City Council's approved Annual Investment Strategy, which limits the amounts which can be invested with any individual financial institution, and specifies the levels of independent credit ratings which institutions must hold for the City Council to invest with them. The effect of the limits is to restrict as far as is practical the City Council's exposure to risk from the failure of a financial institution.

The full Investment Strategy for 2010/11 is contained within the annual Treasury Management Strategy approved by City Council as part of its budget for 2010/11.

The following analysis summarises the City Council's potential maximum exposure to credit risk, based on experience of default assessed by the ratings agencies adjusted to reflect current market conditions. This analysis excludes accrued interest, and also excludes amounts held in the City Council's own bank account where the credit risk is deemed to be minimal.

| | Amount at 31 March 2011 £'000 | Historical experience of default % | Adjustment for market conditions at 31 March 2011 % | Estimated maximum exposure to default 31 March 2011 £'000 | Estimated maximum exposure to default 31 March 2010 £'000 |
|---|---|---|---|---|---|
| | A | B | C | (A * C) | |
| Deposits with banks and financial institutions | | | | | |
| - AAA rated counterparties | 119,300 | 0.00% | 0.00% | 0 | 0 |
| - AA rated counterparties | 35,000 | 0.03% | 0.03% | 10 | 6 |
| - A rated counterparties | 0 | 0.08% | 0.08% | 0 | 4 |
| - UK Building Societies | 0 | 0.00% | 0.00% | 0 | 0 |
| Investments in Companies | 45,024 | 0.03% | 0.03% | 14 | 14 |
| | **199,324** | | | **24** | **24** |

No breaches of the City Council's counterparty criteria occurred during the reporting period, and the City Council does not anticipate any losses from non-performance by any of its counterparties in relation to deposits. Therefore no impairment provision is required in relation to the City Council's investments and deposits. Whilst the recent credit crisis in international markets has raised the overall possibility of default, the City Council maintains strict credit criteria for investment counterparties.
In relation to the above financial instruments, the City Council held no collateral as security during the reporting period.

It is not possible to provide a meaningful overall default percentage for trade debtors. These are carried in the City Council's Balance Sheet net of an impairment provision, which represents the extent to which it is estimated that the debt may be uncollectible. The impairment is estimated on the basis of known factors affecting individual debtors and previous collection performance of that type of debt. Note 26 (Short Term Debtors) shows all amounts due to the City Council at the Balance Sheet date together with impairment amounts set aside in relation to specific income streams.

**c) Liquidity Risk**

Liquidity risk is the risk that the City Council may not have sufficient cash available to meet is day to day obligations to make payments.

The City Council keeps a minimum of £2m in liquid accounts that can be drawn upon as required. It also has ready access to borrowings from both the PWLB and commercial lenders to meet its longer term spending and shorter term cash flow requirements. By statute, all amounts borrowed by a local authority are secured without priority across all of its revenues. This statutory provision helps to ensure that the City Council is readily able to access the funds that it needs, and has no significant liquidity risk.

The City Council manages its liquidity position through the risk management procedures noted above (i.e. the setting and approval of prudential indicators and the approval of the Treasury Management and Investment Strategy reports), as well as through cash flow management procedures required by the Code of Practice. This seeks to ensure that cash is available as required.

**d) Refinancing and Maturity Risk**

The City Council maintains a significant debt and investment portfolio. A longer term risk to the City Council relates to managing the exposure to replacing financial instruments as they mature. This risk relates to the maturing of both longer term financial liabilities and longer term financial assets.

The approved prudential indicator limits for the maturity structure of debt and the limits placed on investments in excess of one year are the key parameters used to address this risk. Actions by the Treasury Management team to address the operational risks include:

- Monitoring the maturity profile of financial liabilities and amending the profile through either new borrowing or the rescheduling of existing debt;
- Monitoring the maturity profile of investments to ensure sufficient liquidity is available for the City Council's day to day cash flow needs, and the spread of longer term investments provides stability of maturities and returns in relation to the longer term cash flow needs.

The maturity analysis of financial liabilities in relation to borrowing is shown below (figures exclude accrued interest). The maturity analysis for PFI contracts and finance leases is covered in Notes 43 and 44.

| | **31 March 2010 £'000** | **31 March 2011 £'000** |
|---|---|---|
| Less than one year | 10,000 | 10,000 |
| Between one and five years | 60,000 | 50,000 |
| Over five years | 267,964 | 266,978 |
| | 337,964 | 326,978 |

The maturity analysis of investments is shown below (figures exclude accrued interest but include that element of investments that is reclassified as Cash Equivalents for the Balance Sheet):

| | **31 March 2010 £'000** | **31 March 2011 £'000** |
|---|---|---|
| Less than one year | 130,300 | 154,300 |
| Between one and five years | - | - |
| Over five years | - | - |
| | 130,300 | 154,300 |

**e) Market risk**

There are three main market risks to which the City Council is exposed:

**(i) Interest Rate Risk**

The City Council is exposed to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the City Council, depending on how variable and fixed interest rates move across differing financial instrument periods. For instance, a rise in variable and fixed interest rates would have the following effects:

- Borrowings at variable rates: the interest expense charged to the Comprehensive Income and Expenditure Statement will rise;
- Borrowings at fixed rates: the fair value of the borrowing liability will fall;
- Investments at variable rates: the interest income credited to the Comprehensive Income and Expenditure Statement will rise;
- Investment at fixed rates: the fair value of the assets will fall.

Borrowings are not carried at fair value on the Balance Sheet, so nominal gains and losses on fixed rate borrowings would not impact on the Comprehensive Income and Expenditure Statement. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Surplus or Deficit on the Provision of Services and affect the General Fund Balance. Movements in the fair value of fixed rate investments that have a quoted market price will be reflected in the Other Comprehensive Income and Expenditure Statement.

The City Council has a number of strategies for managing interest rate risk. The Annual Treasury Management Strategy draws together the City Council's prudential indicators and its expected treasury operations, including an expectation of interest rate movements. From this Strategy a prudential indicator is set which provides maximum and minimum limits for fixed and variable interest rate exposure. The Treasury Management team monitor market and forecast interest rates during the year to adjust exposures appropriately. For instance, during periods of falling interest rates, and where economic circumstances make it favourable, fixed rate investments may be taken for longer periods to secure better long term returns.

If all interest rates had been 1% higher (with all other variables held constant), the additional interest expense that the City Council would incur would amount to £1.6m. The City Council would not receive additional Government support as the mechanism to compensate councils for interest and principal repayments is based on a different set of assumptions independent of the City Council's mix of fixed / variable rate borrowings.

The approximate impact of a 1% fall in interest rates would be as above but with the movements being reversed. These assumptions are based on the same methodology as used in Note 23 (Fair Value of Assets and Liabilities carried at Amortised Cost).

**(ii) Price Risk**

The City Council does not generally invest in equity shares but does have shareholdings to the value of £0.024m in a number of joint venture, associate and subsidiary companies. It is considered that the City Council is not exposed to significant losses arising from movements in the price of the shares.

PFI contracts are structured in such a manner that movements in the Retail Price Index (RPI) are reflected in future contract payments. This does not affect the value of liabilities disclosed in the Balance Sheet.

**(iii) Foreign Exchange Risk**

The City Council maintains a Euro bank account to facilitate receipts and payments with European institutions, and whilst it is exposed to losses (and gains) arising from currency fluctuations, the low amount on deposit at 31 March 2011 (£0.279m; £0.281m at 31 March 2010) minimises that risk.

## 25. Assets Held for Sale

| | Current Assets 2009/10 £'000 | Current Assets 2010/11 £'000 |
|---|---|---|
| **Balance at start of year** | **-** | **-** |
| Assets newly classified as held for sale: | | |
| Property, Plant & Equipment | 1,760 | 2,409 |
| Revaluation losses | - | (391) |
| Assets sold | (1,760) | (1,466) |
| **Balance at Year-End** | **-** | **552** |

## 26. Short Term Debtors

The following table shows the amounts owed to the City Council which had not been received at 31 March 2011 and amounts paid in advance for services to be received in 2011/12. The City Council also makes provision for monies owed which it anticipates may not be recovered. These amounts are then deducted from the total value of debtors shown in the accounts. An analysis of this impairment provision is included below:

| Balance 31 March 2010 Gross Debtor £'000 | Impairment £'000 | Net Debtor £'000 | | Balance 31 March 2011 Gross Debtor £'000 | Impairment £'000 | Net Debtor £'000 |
|---|---|---|---|---|---|---|
| | | | Local Tax Payers: | | | |
| 15,088 | (15,085) | 3 | - Community Charge | 14,875 | (14,873) | 2 |
| 108,701 | (92,132) | 16,569 | - Council Tax (City Council share) | 114,291 | (102,260) | 12,031 |
| 11,954 | (11,021) | 933 | - Recoverable Costs of Collection | 12,335 | (11,619) | 716 |
| 7,765 | (7,246) | 519 | Council Dwellings Rents | 7,697 | (7,240) | 457 |
| | | | Central Government: | | | |
| 13,506 | - | 13,506 | - NNDR debtor | 11,871 | - | 11,871 |
| 44,371 | - | 44,371 | - Other Debtors | 40,097 | - | 40,097 |
| 25,125 | (6,354) | 18,771 | Accounts Receivable (*) | 14,651 | (2,132) | 12,519 |
| 2,262 | (1,990) | 272 | Property Rents | 1,030 | (736) | 294 |
| 34,931 | (10,718) | 24,213 | Miscellaneous | 28,581 | (12,021) | 16,560 |
| 3,746 | - | 3,746 | Prepayments by the City Council | 5,230 | - | 5,230 |
| **267,449** | **(144,546)** | **122,903** | **Total Short Term Debtors** | **250,658** | **(150,881)** | **99,777** |

* The balance due on Accounts Receivable represents amounts outstanding on invoices raised by the City Council for services provided to the public and other bodies that are subject to charges.

The Code also requires the balance on short term debtors to be presented in the following format:

| **Net Debtor 31 March 2010** £'000 | | **Net Debtor 31 March 2011** £'000 |
|---|---|---|
| 58,145 | Central Government Bodies | 52,115 |
| 4,543 | Other Local Authorities | 3,662 |
| 8,673 | NHS Bodies | 5,166 |
| 470 | Public Corporations and Trading Funds | 0 |
| 51,072 | Other Entities and Individuals | 38,834 |
| **122,903** | **Total Debtors (Net of Impairment)** | **99,777** |

## 27. Cash and Cash Equivalents

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

| 31 March 2009 £'000 | 31 March 2010 £'000 | | 31 March 2011 £'000 |
|---|---|---|---|
| 19,215 | 25,606 | Cash held in bank current accounts / in hand | 27,924 |
| 24,240 | 89,300 | Short-term investments | 108,800 |
| **43,455** | **114,906** | **Total Cash and Cash Equivalents** | **136,724** |

## 28. Short Term Creditors

The balance for Short Term Creditors is made up of the following:

| Balance 1 April 2009 (Restated) £'000 | Balance 31 March 2010 (Restated) £'000 | | Balance 31 March 2011 £'000 |
|---|---|---|---|
| (2,679) | (3,484) | Council Tax in Advance (City Council share) | (3,034) |
| (2,338) | (1,862) | Overpayments by ex Council Tenants | (1,862) |
| (7,265) | (7,514) | Pension Fund Contributions | (6,765) |
| (7,996) | (8,561) | PAYE and National Insurance due to HMRC | (8,478) |
| (4,299) | (12,799) | Government Departments | (9,713) |
| (27,920) | (28,190) | Trade Creditors | (25,714) |
| (56,731) | (56,165) | Miscellaneous Creditors | (49,997) |
| (9,795) | (12,948) | Receipts in Advance | (13,982) |
| (9,447) | (11,515) | Employee Benefits (accrued leave) | (10,118) |
| (4,025) | (3,181) | Short term element of Deferred Liabilities | (2,706) |
| **(132,495)** | **(146,219)** | **Total Short Term Creditors** | **(132,369)** |

Analysis of the balance at 1 April 2009 is included as the introduction of IFRS has caused the balance to change from the previously reported position under the SORP.
The Code also requires the balance on Short Term Creditors to be presented in the following format:

| Balance 31 March 2009 (Restated) £'000 | Balance 31 March 2010 (Restated) £'000 | | Balance 31 March 2011 £'000 |
|---|---|---|---|
| (15,296) | (24,430) | Central Government Bodies | (20,865) |
| (7,809) | (9,855) | Other Local Authorities | (6,166) |
| (465) | (4,270) | NHS Bodies | (1,007) |
| (335) | (457) | Public Corporations and Trading Funds | (42) |
| (108,590) | (107,207) | Other entities and individuals | (104,289) |
| **(132,495)** | **(146,219)** | **Total Short Term Creditors** | **(132,369)** |

## 29. Provisions

The City Council has established a number of provisions for known quantifiable liabilities arising from past events. The liabilities are reported on the Balance Sheet as short or long term depending on whether the liability is forecast to be settled within the next financial year. The movement on these provisions is shown below:

| | Equal Pay Back Pay | General Liability Claims | Highways Tripping Claims | DWP Benefit Subsidy | S117 Claims | Unsustainable Housing Stock | Other | Total |
|---|---|---|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| **Balance 1 April 2010:** | 45,501 | 7,682 | 5,312 | 3,765 | 1,195 | 990 | 1,902 | 66,347 |
| **Analysed as:** | | | | | | | | |
| **Short Term element** | 45,501 | 1,888 | 2,887 | 2,171 | 0 | 740 | 1,192 | 54,379 |
| **Long Term element** | 0 | 5,794 | 2,425 | 1,594 | 1,195 | 250 | 710 | 11,968 |
| Increase in year | 0 | 3,862 | 2,792 | 0 | 0 | 120 | 871 | 7,645 |
| Amounts used in year | (9,201) | (1,493) | (2,286) | (2,227) | 0 | (233) | (933) | (16,373) |
| Unused amounts reversed in year | (5,513) | (2,649) | (64) | (1,538) | 0 | 0 | (155) | (9,919) |
| **Balance 31 March 2011:** | 30,787 | 7,402 | 5,754 | 0 | 1,195 | 877 | 1,685 | 47,700 |
| **Analysed as:** | | | | | | | | |
| **Short Term element** | 30,787 | 1,253 | 2,476 | 0 | 0 | 478 | 781 | 35,775 |
| **Long Term element** | 0 | 6,149 | 3,278 | 0 | 1,195 | 399 | 904 | 11,925 |
| **Note reference** | (a) | (b) | (c) | (d) | (e) | (f) | (g) | |

Note that the analysis of the balance at 1 April 2010 has been amended from that reported within the 2009/10 Statement of Accounts; some provisions previously reported separately are now included within the classification of "General Liability Claims".

### Notes:

a) The Equal Pay Back Pay provision has been established to meet potential claims from current and former City Council employees relating to alleged breaches by the City Council of equal pay legislation. The estimated outstanding liability has been derived from claims already made against the City Council to date, and is reviewed regularly as claims are settled. As a result the outstanding liability has been reduced by £5.513m in 2010/11. It is anticipated that the remaining payments will be made in 2011/12.

b) The provision for General Liability Claims is for compensation and associated claimants' costs relating to that part of liability claims which are not covered by external insurance policies. The provision is based on claim and incident data held on the Risk Management and Legal Services claims management systems and is reviewed on an ongoing basis, with payments made as claims are settled.
Employee liability, public liability, property and motor claims are covered by external insurance policies which limit the City Council's maximum liability on individual claims. The City Council is self-insured for claims up to these negotiated policy excesses (£1m for public and employee liability, £0.150m for property liability, £0.050m for motor claims) so makes provision for claims up to this amount for which it estimates there is a potential legal liability.
The City Council also maintains a Self-Insurance earmarked reserve to assist in managing claims, and to fund risk-avoidance measures. The balance on the earmarked reserve is

£7.371m (2009/10 £6.057m) which is included within the reserves for Management of Risks (Potential Future Liability Claims) in Note 9.

c) The provision for Highways Tripping Claims is to finance the cost of compensation and associated claimants' legal costs relating to highways tripping claims. The adequacy of the provision is reviewed on an ongoing basis as cases are settled.

d) In previous years a provision has been established for the potential clawback of Housing Benefit and Council Tax Benefit subsidy received by the City Council. During 2010/11 the Department of Work and Pensions (DWP) settled the outstanding subsidy claims relating to 2007/08, 2008/09 and 2009/10. Levels of clawback have been reducing significantly in recent years, despite increases in the amounts claimed, due to improved performance and accuracy of the Benefits Service. For example, clawback relating to the 2009/10 grant claim was only £0.058m. With this in mind, and given that there were no significant amendments to the regulations relating to Housing/Council Tax Benefits in 2010/11, it is considered that there will be no significant clawback of subsidy in relation to the 2010/11 subsidy claim. However due to the size of the claim [£318m in 2010/11] an earmarked reserve of £1.8m has been established to cover any potential clawback arising from issues identified in the audit of the 2010/11 claim. This reserve was based on average clawback percentages from previous subsidy claims, and forms part of the reserve for Management of Risks (Grant Clawback) in Note 9.

e) This provision is in respect of a court judgement relating to Section 117 of the Mental Health Act, which required local authorities to provide after care facilities without charge. Those authorities, including the City Council, who previously charged for such services are now required to make repayments to clients. An assessment of the City Council's liability has been undertaken based on the estimated contributions made by clients to the care packages. The timing of settlement of the claims is uncertain due to disputes over the amounts charged and period covered by the claims. Settlement is not anticipated in 2011/12.

f) Following the transfer of housing stock to Liverpool Mutual Homes (LMH) in March 2008, the City Council retained a liability for the net costs incurred by LMH (to be charged to the City Council) in managing and maintaining the proportion of stock identified as unsustainable and not included in the LMH business plan. The properties will be vacated and demolished and the cleared sites returned to the City Council for regeneration. The remaining clearance programme is anticipated to take place over the next three years.

g) There are a number of other provisions established by the City Council which are not individually significant.

## 30. Cash Flow Statement - Operating Activities

The cash flows for Operating Activities include the following items:

| 2009/10 £'000 | | 2010/11 £'000 |
|---|---|---|
| 21,192 | Interest Paid | 20,501 |
| (2,625) | Interest Received | (1,222) |

## 31. Cash Flow Statement - Investing Activities

| 2009/10 £'000 | | 2010/11 £'000 |
|---|---|---|
| 114,213 | Purchase of property, plant and equipment, investment property and intangible assets | 117,923 |
| 4,997 | Purchase of short-term and long-term investments | 4,552 |
| (5,938) | Proceeds from the sale of property, plant and equipment, investment property and intangible assets | (7,086) |
| - | Proceeds from shot-term and long-term investments | - |
| (140,750) | Other receipts from investing activities | (140,970) |
| **(27,478)** | **Net cash flows from investing activities** | **(25,581)** |

## 32. Cash Flow Statement - Financing Activities

| 2009/10 £'000 | | 2010/11 £'000 |
|---|---|---|
| - | Cash receipts of short- and long-term borrowing | - |
| - | Other receipts from financing activities | (3,006) |
| 4,118 | Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts | 3,181 |
| 35 | Repayments of short and long term borrowing | 10,986 |
| 9,687 | Other payments for financing activities | 6,979 |
| **13,840** | **Net cash flows from financing activities** | **18,140** |

## 33. Agency Services

The City Council acts as agent in the following areas:

a) On behalf of the **City Centre Business Improvement District** (BID) in respect of collection of the BID levy from business ratepayers in the BID area. The BID works in partnership to continually improve the environment in the retail and leisure heart of the city centre. The income collected and paid over to the Liverpool BID Company (£0.679m in 2010/11; £0.703m in 2009/10) is not included within the City Council's Comprehensive Income and Expenditure Statement.
b) On behalf of **Central Government** in respect of collection of National Non Domestic Rates. The Notes to the Collection Fund give more information on the amounts collected for Central Government.
c) On behalf of the **major precepting authorities** (Merseyside Police and Merseyside Fire and Rescue Authority) in respect of collection of Council Tax. The Notes to the Collection Fund give more information on the amounts of council tax collected and precepts paid over to the precepting authorities.

## 34. Road Charging Schemes – Transport Act 2000

The Transport Act 2000 allows local authorities to introduce schemes of road user charging or a work place parking levy. For 2010/11 no such activities have been entered into by the City Council.

## 35. Partnership Schemes under the Health Act 1999

The City Council initially established a partnership agreement with the North Liverpool Primary Care Trust using powers under Section 31 of the Health Act 1999 to 'pool' budgets from the two organisations and created a single budget for the provision of Integrated Community Equipment and Disability Advice Services.

The full agreement on setting up the Integrated Equipment Service Partnership commenced on 1 January 2004 and authority for the Executive Director to sign the Partnership Agreement was formally ratified by the City Council Executive Board on 28 April 2006.

The Agreement has been reviewed under Section 75 of the NHS Act 2006 for the period 2007 – 2010. Approval has been made by the PCT Board in September 2007, and City Council approval was given at City Council Executive Board on 20 June 2008 in Report DSS/041/07.

Liverpool PCT hosted the Pool which was made up of contributions in 2010/11 of £2.893m from the City Council and £3.381m from the PCT. Total 2010/11 investment into the Pool was £6.274m. (In 2009/10 total investment into the pool was £6.015m, made up of contributions of £2.231m from the City Council and £3.784m from the PCT.)

The Memorandum Account for the Pool reported a balanced outturn position for 2010/11 and 2009/10.

## 36. Members Allowances

The following amounts were paid to members of the City Council in 2010/11:

| 2009/10 £'000 | | 2010/11 £'000 |
|---|---|---|
| 902 | Basic Allowances | 902 |
| 391 | Special Responsibility Allowances | 388 |
| 6 | Travel and Subsistence Expenses | 3 |
| **1,299** | | **1293** |

Further Information on members' allowances can be obtained from Committee & Member Services, Municipal Buildings, Dale Street, Liverpool, L2 2DH.

## 37. Audit Commission Fees

The City Council has incurred the following costs in relation to external audit and inspection:

| 2009/10 £'000 | | 2010/11 £'000 |
|---|---|---|
| 554 | External Audit Services | 548 |
| 17 | Statutory Inspections | 33 |
| 378 | Certification of Grant Claims | 196 |
| - | Other Services Provided | - |
| **949** | **Total** | **777** |

## 38. Officers' Remuneration

Regulation 7(2)(b) of the Accounts and Audit (England) Regulations 2011 requires local authorities to provide an analysis of the number of employees whose remuneration in the year was £50,000 or more, excluding those classified as senior employees who are subject to separate disclosure requirements (see below). The definition of remuneration includes all sums paid to or receivable by an employee, expense allowances chargeable to tax and the monetary value of benefits received other than in cash; employer pension contributions are not included.

During 2010/11, in recognition of the need to make significant budget savings in future years, the City Council offered a voluntary severance scheme to its employees. Any severance payments made are included in the definition of remuneration, so this has resulted in a number of employees being brought into this remuneration disclosure for the first time, or appearing in a higher banding than would result from their normal remuneration. Such payments in respect of agreed terminations therefore distort both the number and/or banding of employees. It is estimated that 184 employees have been included in the disclosure below due to termination payments received in 2010/11.

| 2009/10 No. of Employees | | | Pay Bands | 2010/11 No. of Employees | | |
|---|---|---|---|---|---|---|
| Teachers | Other | Total | | Teachers | Other | Total |
| 119 | 84 | 203 | £ 50,000 - £ 54,999 | 131 | 119 | 250 |
| 70 | 31 | 101 | £ 55,000 - £ 59,999 | 69 | 64 | 133 |
| 53 | 32 | 85 | £ 60,000 - £ 64,999 | 51 | 43 | 94 |
| 40 | 23 | 63 | £ 65,000 - £ 69,999 | 36 | 51 | 87 |
| 15 | 8 | 23 | £ 70,000 - £ 74,999 | 33 | 29 | 62 |
| 8 | 10 | 18 | £ 75,000 - £ 79,999 | 8 | 13 | 21 |

| | | | | | | |
|---|---|---|---|---|---|---|
| 5 | 6 | 11 | £ 80,000 - £ 84,999 | 8 | 17 | 25 |
| 3 | 4 | 7 | £ 85,000 - £ 89,999 | 3 | 13 | 16 |
| 5 | 6 | 11 | £ 90,000 - £ 94,999 | 4 | 9 | 13 |
| 2 | 1 | 3 | £ 95,000 - £ 99,999 | 0 | 5 | 5 |
| 0 | 1 | 1 | £100,000 - £104,999 | 3 | 9 | 12 |
| 3 | 0 | 3 | £105,000 - £109,999 | 2 | 4 | 6 |
| 2 | 0 | 2 | £110,000 - £114,999 | 1 | 1 | 2 |
| 3 | 7 | 10 | £115,000 - £119,999 | 1 | 2 | 3 |
| 1 | 7 | 8 | £120,000 - £124,999 | 0 | 2 | 2 |
| | | - | £125,000 - £129,999 | 1 | 0 | 1 |
| | | - | £130,000 - £134,999 | 0 | 1 | 1 |
| | | - | £135,000 - £139,999 | - | 1 | 1 |
| | | - | £140,000 - £144,999 | - | - | - |
| | | - | £145,000 - £149,999 | - | - | - |
| | | - | £205,000 - £209,000 | - | 1 | 1 |
| **329** | **220** | **549** | | **351** | **384** | **735** |

Regulation 7(2)(c) of the Accounts and Audit (England) Regulations 2011 requires the separate disclosure and analysis of remuneration for senior employees (defined by the regulations as those employees forming part of the City Council's senior management team, or holding certain statutory posts, whose salary is over £50,000, and any additional employees whose salary is over £150,000). Under the regulations, employees whose salary is over £150,000 are required to be identified by name.

### The following table sets out the remuneration disclosures for 2010/11 for senior employees:

| Post | Name | Employment Period | Salary | Bonuses (PRP) | Expenses allowance | Compensation for loss of employment | Non cash benefits | Total remuneration (excluding Employer's pension contribution) | Employer's pension contribution |
|---|---|---|---|---|---|---|---|---|---|
| | | | £ | £ | £ | £ | £ | £ | £ |
| Chief Executive | Ged Fitzgerald | 7/2/11 – 31/3/11 | 69,202 | 0 | 33 | 0 | 0 | 69,235 | 11,701 |
| Interim Chief Executive | David McElhinney | 1/6/10 – 6/2/11 | 102,679 | 0 | 0 | 0 | 0 | 102,679 | 22,076 |
| Chief Executive | Colin Hilton | 1/4/10 – 31/ 5/10 | 113,175 | 26,396 | 197 | 30,000 | 0 | 169,768 | 12,959 |
| Director of Education & Children's Services | Stuart Smith | 1/4/10 – 31/3/11 | 197,485 | 0 | 1,083 | 147,013 | 0 | 345,581 | 34,516 |
| Executive Director | John Kelly | 1/4/10 – 31/8/10 | 153,176 | 0 | 155 | 55,598 | 0 | 208,929 | 14,278 |
| Executive Director | Cath Green | 1/4/10 – 30/9/10 | 92,333 | 20,797 | 481 | 102,873 | 0 | 216,484 | 21,669 |
| Director of Finance & Resources | | 1/8/10 – 31/3/11 | 77,689 | 0 | 0 | 0 | 0 | 77,689 | 16,703 |
| Director of Adult Services & Health | | 1/1/11 – 31/3/11 | 30,000 | 0 | 241 | 0 | 0 | 30,241 | 6,450 |
| City Solicitor & Monitoring Officer | | 1/4/10 – 31/3/11 | 117,816 | 0 | 0 | 0 | 0 | 117,816 | 25,330 |
| Assistant Chief Executive | | 1/4/10 – 31/7/10 | 77,765 | 0 | 73 | 78,483 | 0 | 156,321 | 8,459 |
| City Treasurer | | 1/4/10 – 31/7/10 | 73,913 | 0 | 73 | 0 | 0 | 73,986 | 8,459 |

Notes:

(a) The bonuses (PRP) paid during 2010/11 relate to 2009/10. The PRP scheme has been discontinued in 2010/11.

**The comparative remuneration information for these employees in 2009/10 is as follows:**

| Post | Name | Employment Period | Salary | Bonuses (PRP) | Expenses allowance | Compensation for loss of employment | Non cash benefits | Total remuneration (excluding Employer's pension contribution) | Employer's pension contribution |
|---|---|---|---|---|---|---|---|---|---|
| | | | £ | £ | £ | £ | £ | £ | £ |
| Chief Executive | Colin Hilton | 1/4/09 – 31/3/10 | 203,048 | 25,381 | 1,126 | 0 | 0 | 229,555 | 49,159 |
| Executive Director | John Kelly | 1/4/09 – 31/3/10 | 159,975 | 40,794 | 1,059 | 0 | 0 | 201,828 | 43,198 |
| Executive Director | Stuart Smith | 1/4/09 – 31/3/10 | 159,975 | 40,794 | 1,026 | 0 | 0 | 201,795 | 41,191 |
| Executive Director | Cath Green | 1/4/09 – 31/3/10 | 159,975 | 15,068 | 0 | 0 | 0 | 175,043 | 37,634 |
| Assistant Chief Executive | | 1/4/09 – 31/3/10 | 117,816 | 27,388 | 220 | 0 | 0 | 145,424 | 31,266 |
| City Treasurer | | 1/4/09 – 31/3/10 | 117,816 | 27,388 | 220 | 0 | 0 | 145,424 | 31,266 |
| City Solicitor & Monitoring Officer | | 20/4/09 – 31/3/10 | 111,598 | 14,508 | 0 | 0 | 0 | 126,106 | 27,113 |

Notes:

(a) The bonuses (PRP) paid during 2009/10 relate to periods of employment for 2008/09 and 2009/10.

## 39. Termination Benefits

Termination benefits are amounts payable as a result of either an employer's decision to terminate an employee's employment before the normal retirement date, or an employee's decision to accept voluntary redundancy in exchange for those benefits.
During 2010/11 the City Council made termination payments to employees of £14.705m (£4.396m in 2009/10) as part of its strategy to reduce the size of the workforce in order to achieve future budget savings.

## 40. Dedicated Schools Grant (DSG)

The City Council's expenditure on schools is predominantly funded by grants provided by the Department for Education (DfE). The main source of funding is the DSG which is ring-fenced and can only be applied to meet expenditure properly included in the Schools Budget, as defined in the Schools Finance (England) Regulations 2010. The Schools Budget includes elements restricted for a range of centrally provided education services on an authority-wide basis and for the Individual Schools Budget which is divided into a budget share for each school. Over and under spends on the two elements are required to be accounted for separately.

Details of the deployment of DSG receivable for 2010/11 are as follows:

| | **Central Expenditure** | **Individual Schools Budget** | **Total** |
|---|---|---|---|
| | £'000 | £'000 | £'000 |
| Final DSG for 2010/11 | 23,773 | 248,247 | 272,020 |
| Brought forward from 2009/10 | 4,199 | (793) | 3,406 |
| Carry forward to 2011/12 agreed in advance | 0 | 0 | 0 |
| Agreed budgeted DSG distribution 2010/11 | **27,972** | **247,454** | **275,426** |
| Actual Central Expenditure | 27,407 | 0 | 27,407 |
| Actual ISB deployed to schools | 0 | 248,247 | 248,247 |
| Local Authority Contribution | 1,794 | 0 | 1,794 |
| **(Over)/Under spend carried forward to 2011/12** | **2,359** | **(793)** | **1,566** |

The original budget for central expenditure includes funding set aside prudently at the start of the year for in-year re-determinations, particularly in respect of Special School provision, rates increases and exceptional changes in pupil numbers. This resulted in an increase in the Individual Schools Budget in-year. In addition there were under spends on central expenditure resulting from lower than anticipated costs in respect of closing schools.

The equivalent DSG statement for 2009/10 is as follows:

| | **Central Expenditure** | **Individual Schools Budget** | **Total** |
|---|---|---|---|
| | **£'000** | **£'000** | **£'000** |
| Final DSG for 2009/10 | 29,105 | 241,168 | 270,273 |
| Brought forward from 2008/09 | 1,527 | (212) | 1,315 |
| Carry forward to 2010/11 agreed in advance | 0 | (954) | (954) |
| Agreed budgeted DSG distribution 2009/10 | **30,632** | **240,002** | **270,634** |
| Actual Central Expenditure | 30,381 | 0 | 30,381 |
| Actual ISB deployed to schools | 0 | 241,749 | 241,749 |
| Local Authority Contribution 2009/10 | 3,948 | 0 | 3,948 |
| **(Over)/Under spend carried forward to 2010/11** | **4,199** | **(1,747)** | **2,452** |

## 41. Grant Income

The City Council credited the following grants to the CIES in 2010/11:

| | 2009/10<br>£'000 | 2010/11<br>£'000 |
|---|---|---|
| **Credited to Taxation and Non Specific Grant Income** | | |
| Distribution from National Non Domestic Rate Pool | (260,268) | (283,867) |
| Revenue Support Grant | (60,073) | (41,220) |
| PFI Grant | (6,660) | (8,993) |
| LPSA Grant | (2,384) | 0 |
| Area Based Grant | (75,282) | (101,203) |
| Local Authority Business Growth Incentive Grant | (327) | 0 |
| Capital Grants | (129,399) | (137,781) |
| **Total** | (534,393) | (573,064) |
| **Credited to Services (including Trading Accounts)** | | |
| DWP Benefit Subsidy | (293,810) | (311,930) |
| DSG | (270,273) | (272,020) |
| Capital Grants used to fund REFCUS | (61,949) | (58,871) |
| Standards Fund | (40,283) | (43,495) |
| Supporting People | (39,219) | 0 |
| SFA Schools Sixth Form | (29,220) | (38,936) |
| Sure Start Early Years Childcare Grant | (18,905) | (21,912) |
| Schools Standards Grant | (14,565) | (14,070) |
| DWP Benefit Administration Grant | (8,114) | (7,308) |
| SFA Adult Community Learning | (4,250) | (3,966) |
| Social Care Reform | (2,400) | (2,616) |
| Drug Intervention Programme Main Grant | (2,187) | (2,026) |
| Other revenue grants | (34,671) | (29,687) |
| Total | (819,846) | (806,837) |
| **Overall total in CIES** | **(1,354,239)** | **(1,379,901)** |

Capital grants are shown as grant income within Services to the extent that they are used to fund REFCUS; otherwise they are shown within Taxation and Non Specific Grant Income. Capital grants reflected in the CIES are as follows:

| | 2009/10<br>£'000 | 2010/11<br>£'000 |
|---|---|---|
| Partnership for Schools (including BSF) | (70,369) | (94,174) |
| Homes & Communities Agency (including HMRI) | (52,722) | (46,120) |
| Department for Transport Grant | (11,131) | (22,605) |
| Regional Housing Grant | (12,065) | (8,268) |
| DCLG Grants | (10,650) | (5,616) |
| NWDA Grant | (5,827) | (4,577) |
| ERDF Grant | (10,611) | (4,252) |
| Other capital grants & contributions | (17,972) | (11,040) |
| **Total** | (191,347) | (196,652) |

The City Council has received a number of grants that have yet to be recognised as income as they have conditions attached to them that will require the funding to be returned to the grantor if the conditions are not satisfied in future years. The year end balances are as follows:

| | 31 March 2010 £'000 | 31 March 2011 £'000 |
|---|---|---|
| **Revenue grants:** | | |
| DWP Benefit Subsidy | (5,330) | (5,412) |
| Standards Fund | (2,116) | (2,564) |
| Sure Start Early Years Childcare | (1,317) | 0 |
| Emergency Fund Winter Damage | 0 | (1,059) |
| Other revenue grants | (1,646) | (460) |
| **Total** | (10,409) | (9,495) |

## 42. Related Parties

The City Council is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the City Council or to be controlled or influenced by the City Council. Disclosure of these transactions allows readers to assess the extent to which the City 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 City Council.

**Central Government**
Central government has effective control over the general operations of the City Council. It is responsible for providing the statutory framework within which the City Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the City Council has with other parties. Grants received from government departments, and recognised as income in the year, are disclosed in Note 41, together with receipts in advance not yet recognised as income.

**Other Public Bodies**
During 2010/11 the City Council made payments to other public bodies, which are considered to be related parties as they are subject to common control by central government. The net payment to such bodies was £89.112m in 2010/11 (2009/10 £83.116m). This excludes payments of precepts to the Merseyside Fire and Rescue Authority and Merseyside Police Authority, and payments of pension contributions to Merseyside Pension Fund and Teachers' Pensions (which are identified in Note 45). The total includes payment of levies to the Passenger Transport Authority (£38.423m in 2010/11, £36.930m in 2009/10) and Waste Disposal Authority (£23.799m in 2010/11, £24.830m in 2009/10).

**Members**
Members of the City Council have direct control of the City Council's financial and operating policies. The total of members' allowances paid is shown in Note 36.
Some members are directors and / or trustees of various entities in their own private capacity. During 2010/11 the City Council has transacted with these entities for goods / services or grants to the total net value of £6.017m (2009/10 £4.869m). (Where such entities also have member involvement due to being a City Council appointed representative, the transactions are shown in "Other entities" below.)

The City Council maintains a statutory members' register which records members' interests in property, companies, other public bodies, voluntary groups and societies. This is published on the City Council's website.

**Other entities controlled or significantly influenced by the City Council**
The City Council appoints members and officers to a number of companies and other entities. The Group Accounts provide additional information on the City Council's involvement with companies. During 2010/11 the City Council has transacted with these entities to the total value of £174.837m (2009/10 £160.846m). The most significant amounts within this related to

Liverpool Direct Limited (2010/11 £78.009m, 2009/10 £69.885m), Enterprise-Liverpool Ltd (2010/11 47.234m, 2009/10 £45.588m) and 2020 Liverpool Ltd (2010/11 £12.626m, 2009/10 £16.717m).

**Outstanding balances**
Amounts owed to and from other public bodies are highlighted in Notes 28 and 26 (Short term Creditors and Short term Debtors).
Outstanding trade creditors and debtors relating to other related parties were £8.845m and £6.521m respectively at 31 March 2011 (£6.494m and £4.013m at 31 March 2010).

## 43. Leases

The City Council makes use of property, plant and equipment through various lease agreements (as the lessee). Equally, the City Council has entered into lease agreements with third parties for the use of its own assets (as the lessor). These lease agreements cover both operating and finance leases.

### The City Council acting as the Lessee

### a) Finance Leases

The City Council has acquired two properties and a number of vehicles, plant and equipment under finance lease terms. The assets acquired under these leases are carried as Property, Plant and Equipment in the Balance Sheet at the following net amounts:

| | 31 March 2010 £'000 | 31 March 2011 £000 |
|---|---|---|
| Land & Buildings | 4,330 | 4,197 |
| Vehicles Plant & Equipment | 1,261 | 456 |
| | **5,591** | **4,653** |

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

| | 31 March 2010 £'000 | 31 March 2011 £'000 |
|---|---|---|
| Finance lease liabilities (net present value of minimum lease payments): | | |
| - Current | 904 | 561 |
| - Non Current | 1,700 | 1,139 |
| Finance Costs payable in future years | 301 | 229 |
| **Minimum Lease payments** | **2,905** | **1,929** |

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

| | Minimum Lease Payments | | Finance Lease Liabilities | |
|---|---|---|---|---|
| | 31 March 2010 £'000 | 31 March 2011 £'000 | 31 March 2010 £'000 | 31 March 2010 £'000 |
| Obligations payable in 2011/12 | 976 | 591 | 904 | 561 |
| Obligations payable between 2012/13 – 2015/16 | 777 | 218 | 719 | 180 |
| Obligations payable from 2016/17 onwards | 1,152 | 1,120 | 981 | 959 |
| **Total liabilities** | **2,905** | **1,929** | **2,604** | **1,700** |

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 2010/11 £0.162m contingent rents were payable by the City Council (2010/11 £0.162).

At 31 March 2011 the City Council had not made any commitments for finance leases which had been entered into but whose inception occurs after the year end.

This note excludes assets held under PFI contracts, as there are separate disclosure requirements for such assets (see Note 44).

Vehicles, Plant & Equipment
The amount paid in respect of finance lease rentals for 2010/11 was £0.854m (£1.707m in 2009/10). This represents £0.049m of finance costs and £0.805m write down of obligations to the lessor.

Land & Buildings
The amount paid in respect of finance lease rentals for 2010/11 was £0.284m (£0.284m in 2009/10). This represents £0.023m of finance costs, £0.162m of contingent rentals and £0.099m write down of obligations to the lessor.

**b) Operating Lease.**

The City Council makes use of land and buildings, vehicles, plant and equipment acquired under the terms of operating leases. The amounts paid during the year in respect of operating lease rentals are as follows:

| **2009/10 £'000** | | **2010/11 £'000** |
|---|---|---|
| 1,060 | Land & Buildings | 1,149 |
| 2,139 | Vehicles Plant & Equipment | 2,112 |
| **3,199** | **Total Operating Lease Rentals** | **3,261** |

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

| **31 March 2010 Land & Buildings £'000** | **31 March 2010 Vehicles Plant & Equipment £'000** | | **31 March 2011 Land & Buildings £'000** | **31 March 2011 Vehicles Plant & Equipment £'000** |
|---|---|---|---|---|
| 826 | 1,647 | Not later than one year | 1,065 | 1,823 |
| 3,138 | 3,020 | Later than one year and not later than five years | 3,762 | 3,347 |
| 3,019 | 104 | Later than five years | 2,382 | 104 |
| **6,983** | **4,771** | | **7,209** | **5,274** |

**The City Council acting as the Lessor**

**a) Finance leases**

Acting as the lessor, the City Council has a considerable leased asset property portfolio (approximately 12,000 leases). Many of these lease agreements are for periods in excess of 99 years with the vast majority on 999 year terms. Whilst the City Council has retained the freehold interest in these assets it considers that, to all intents and purposes, it has disposed of its interest in these assets. With such lengthy lease periods the City Council has sought to maximise upfront lease premiums at the expense of annual rentals and in fact the latter, if not waived completely, are frequently at peppercorn levels. As many of these leases will not end for many years into the future, the City Council has decided to treat the transaction as an asset disposal event and has recognised the lease premium as an asset sale (capital receipt) with the asset de-recognised from the balance sheet.

The recognition of the lease premium is not in strict accordance with the requirements of IAS17 to regard lease premiums as pre-paid amounts, but considering that the amounts were received many years ago and used to support the capital investment plans of the City Council when received, and in accordance with the regulations applicable at the time, then retrospective amendments have not been undertaken.

With no further material cash sums to recognise as income, no further disclosures are considered necessary.

**b) Operating Leases**

The City Council holds a considerable property portfolio which it uses to generate rental income, holds for capital appreciation purposes (pending eventual sale to third party developers) or has acquired for the purposes of future regeneration initiatives.

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

| **31 March 2010 £'000** | | **31 March 2011 £'000** |
|---|---|---|
| 1,167 | Not Later than One Year | 1,036 |
| 3,411 | Later than One Year and Not Later than Five Years | 2,909 |
| 3,015 | Later than Five Years | 2,481 |
| **7,593** | | **6,426** |

## 44. Private Finance Initiative (PFI) Arrangements

The City Council currently has two PFI arrangements where service delivery has commenced, and a third contract to renovate the Central Library, which is due to be completed in 2013.

### (i) Speke Forward Learning Centre

On 30 March 2001 the City Council entered into a PFI arrangement with Education Solutions Speke Ltd. for the provision of a Forward Learning Centre. The contract comprises serviced accommodation, over a period of 25 years, for the following services: School, City Learning Centre, Library, One Stop Shop, Youth and Community Centre, Adult Day Centre, Childcare Centre, Neighbourhood Centre and Leisure Centre. At the end of the contract, title to the property transfers to the City Council at nil cost with the building to be in a satisfactory condition for its continued operational use. The first payment under the terms of the contract was made in 2002/03. The contract expires in 2027/28.

### (ii) Schools

During 2001/02 the City Council entered into a PFI arrangement with Liverpool Schools Services Limited for serviced school accommodation. The contract comprises serviced accommodation over a period of 30 years for four secondary schools and thirteen primary schools, where three of the secondary schools are refurbishments. The contract is due to expire in 2031/32 and at the end, title to the properties transfers to the authority at nil cost with the buildings to be in a satisfactory condition for their continued operational use.

**(iii) Library**

During July 2010 a third PFI contract, for the provision of serviced accommodation at the Central Library, was signed with Inspire Partnership. The contract will be for 25 years with the Library opening to the public in early 2013.

The current PFI arrangements have resulted in assets and liabilities being recognised on the City Council's Balance Sheet in accordance with the requirements of the Code.

### a) Assets held under PFI arrangements

The following table shows the value of assets recognised under PFI arrangements and analyses the movement in the value of the assets during the year:

| | Speke FLC £'000 | Schools £'000 | Total £'000 |
|---|---|---|---|
| **Value at 31 March 2010** | **25,863** | **78,155** | **104,018** |
| Depreciation | (681) | (2,112) | (2,793) |
| De-recognition – Disposals | (11,783) | (23,695) | (35,478) |
| **Value at 31 March 2011** | **13,399** | **52,348** | **65,747** |

During the year the City Council de-recognised three PFI schools (Broadgreen Comprehensive, Shorefields & Parklands) from its Balance Sheet as a result of the schools acquiring Academy/Trust status in accordance with the vesting regulations. The liabilities for PFI payments remain with the City Council.

### b) Liabilities resulting from PFI arrangements

The following table shows the value of liabilities resulting from PFI arrangements and analyses the movement in the year. The interest shown in the table (£6.061m) has been expensed to the CIES in 2010/11.

| Movement in Value of Liabilities | Speke FLC £'000 | Schools £'000 | Total £'000 |
|---|---|---|---|
| **At 31 March 2010** | **19,269** | **39,614** | **58,883** |
| Interest Added | 1,653 | 4,408 | 6,061 |
| Repayment of Liability and Interest | (2,253) | (6,085) | (8,338) |
| **At 31 March 2011** | **18,669** | **37,937** | **56,606** |

That element of the outstanding liability that is due to be paid within the next 12 months (see note (c) below) is shown within short term creditors; the remainder forms part of the balance of "Other long term liabilities".

### c) Future contractual payments

The table below shows payments due to be made under the current PFI arrangements:

| | Speke FLC - Estimate of Cash Payments Due to be Made | | | | | |
|---|---|---|---|---|---|---|
| | 2011/12 | 2012/13 - 2016/17 | 2017/18 - 2021/22 | 2022/23 - 2026/27 | 2027/28 - 2028/29 | Total |
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Repayment of Liability | 653 | 3,838 | 5,485 | 7,790 | 903 | 18,669 |
| Interest | 1,600 | 7,125 | 5,238 | 2,520 | 36 | 16,519 |
| Service Charges | 1,794 | 10,077 | 11,789 | 13,868 | 1,168 | 38,696 |
| **Total Unitary Charge** | **4,047** | **21,040** | **22,512** | **24,178** | **2,107** | **73,884** |

| | Schools Accommodation - Estimate of Cash Payments Due to be Made | | | | | |
|---|---|---|---|---|---|---|
| | 2011/12 | 2012/13 - 2016/17 | 2017/18- 2021/22 | 2022/23 - 2026/27 | 2027/28 - 2031/32 | Total |
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Repayment of Liability | 1,492 | 8,170 | 8,579 | 9,814 | 9,882 | 37,937 |
| Interest | 4,231 | 18,469 | 13,804 | 8,774 | 2,715 | 47,993 |
| Service Charges | 7,082 | 37,183 | 42,442 | 49,031 | 50,866 | 186,604 |
| **Total Unitary Charge** | **12,805** | **63,822** | **64,825** | **67,619** | **63,463** | **272,534** |

## 45. Retirement Benefits

### Participation in Pension Schemes

As part of the terms and conditions of employment of its employees, the City Council makes contributions towards the cost of retirement benefits. Although these benefits will not actually be payable until employees retire, the City Council has a commitment to make the payments that needs to be disclosed at the time that employees earn their future entitlement.

The City Council participates in two pension schemes:

- The ***Local Government Pension Scheme*** (LGPS). All City Council employees other than teachers are eligible to join the scheme. For the City Council the appropriate scheme is the Merseyside Pension Fund, which is administered by Wirral Metropolitan Borough Council. The LGPS is a funded defined benefit final salary scheme, meaning that the City Council and employees pay contributions into a fund, calculated at a level intended to balance the pension liabilities with investment assets.

- The ***Teachers' Pension Scheme***. All teachers employed by the City Council are members of the scheme, which is administered by Teachers' Pensions on behalf of the Department for Education. It provides teachers with defined benefits upon retirement, and the City Council contributes towards the costs by making contributions based on a percentage of members' pensionable pay. The scheme is an unfunded defined benefit scheme. Although the scheme is unfunded, Teachers' Pensions use a notional fund as the basis for calculating the employers' contribution rate paid by local education authorities. However, it is not possible for the City Council to identify a share of the underlying liabilities in the scheme attributable to its own employees. For the purposes of this Statement of Accounts, it is therefore accounted for on the same basis as a defined contribution scheme.

  In 2010/11 the City Council paid £20.315m to Teachers' Pensions in respect of teachers' pension costs, representing 14.1% of teachers' pensionable pay (£20.984m and 14.1% for 2009/10).

## Transactions Relating to Retirement Benefits

In 2010/11, pension costs have been charged to the CIES in accordance with the accounting policies set out in IAS19, i.e. when they are earned by employees rather than when the benefits are eventually paid as pensions. However, under central government regulations the charge the City Council is required to make against council tax is based on the cash payable in the year to the Merseyside Pension Fund, so that the real cost of retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement. However, the City Council is responsible for all pension payments it has awarded relating to teachers' discretionary compensation (added years). These transactions are accounted for on the same basis as the LGPS, i.e. on a defined benefit basis.

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

| | Local Government Pension Scheme | | Discretionary Benefits Arrangements | |
|---|---|---|---|---|
| | 2009/10 £'000 | 2010/11 £'000 | 2009/10 £'000 | 2010/11 £'000 |
| **Comprehensive Income and Expenditure Statement** | | | | |
| **Cost of Services:** | | | | |
| Current service cost | 22,096 | 34,510 | - | - |
| Past service cost | 1,577 | (114,525) | - | (5,347) |
| Curtailment cost | 655 | 5,369 | 5,840 | 6,107 |
| | **24,328** | **(74,646)** | **5,840** | **760** |
| **Financing and Investment Income & Expenditure**: | | | | |
| Interest on Pension Liabilities | 103,777 | 112,027 | 4,919 | 4,724 |
| Expected Return on Assets | (58,347) | (80,684) | - | - |
| | **45,430** | **31,343** | **4,919** | **4,724** |
| **Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services** | **69,758** | **(43,303)** | **10,759** | **5,484** |
| **Other Comprehensive Income and Expenditure:** | | | | |
| Actuarial Gains and Losses | 205,522 | (115,452) | 13,200 | 4,079 |
| **Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement** | **275,280** | **(158,755)** | **23,959** | **9,563** |
| **Movement in Reserves Statement** | | | | |
| Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services | 69,758 | (43,303) | 10,759 | 5,484 |
| Reversal of net charges made to the Surplus or Deficit for the Provision of Services for post employment benefits in accordance with the Code | (22,267) | 90,632 | (3,516) | 1,980 |
| **Actual amount charged against General Fund Balance for Pensions in the Year:** | | | | |
| Employers' contributions payable to the scheme | **47,491** | **47,329** | | |
| Retirement benefits payable to pensioners | | | **7,243** | **7,464** |

The Past Service Cost gain in 2010/11 is due to a change in scheme benefit entitlement. In the UK budget statement on 22 June 2010, the Chancellor announced that with effect from 1 April 2011 public service pensions would be up-rated in line with the Consumer Prices Index (CPI) rather than the Retail Prices Index (RPI). This has the effect of reducing the City Council's liabilities in the Merseyside Pension Fund by £114.5m, and its liabilities relating to teachers' discretionary compensation by £5.3m, a total reduction in liabilities of £119.8m. This has been recognised as a past service gain in accordance with CIPFA guidance and guidance set out in UITF Abstract 48, since the change is considered to be a change in benefit entitlement. This change has no impact on the General Fund or amounts to be collected from Council Tax payers. The Past Service Cost gain in 2010/11 has been shown as an exceptional item in the CIES.

Included within the employers' cash payments are contributions to the LGPS for unfunded discretionary increases for which the City Council is directly responsible (added years' benefits). During 2010/11 these amounted to £2.603m (£2.641m for 2009/10).

The cumulative amount of actuarial gains and losses that has been recognised in the CIES to date is a gain of £265.538m.

### Assets and Liabilities in Relation to Retirement Benefits

Reconciliation of present value of the scheme liabilities:

| | **Funded Liabilities: Local Govt Pension Scheme** | | **Unfunded Liabilities: Discretionary Benefits** | |
|---|---|---|---|---|
| | **2009/10 £'000** | **2010/11 £'000** | **2009/10 £'000** | **2010/11 £'000** |
| **Opening Balance at 1 April** | **1,475,778** | **2,014,706** | **72,907** | **89,623** |
| Current service cost | 22,096 | 34,510 | - | - |
| Interest cost | 103,777 | 112,027 | 4,919 | 4,724 |
| Contributions by scheme participants | 12,839 | 12,642 | - | - |
| Actuarial gains and losses | 461,167 | (127,032) | 13,200 | 4,079 |
| Benefits paid | (63,183) | (75,586) | (7,243) | (7,464) |
| Past service costs | 1,577 | (114,525) | - | (5,347) |
| Curtailments | 655 | 5,369 | 5,840 | 6,107 |
| **Closing Balance at 31 March** | **2,014,706** | **1,862,111** | **89,623** | **91,722** |

Reconciliation of fair value of the scheme assets:

| **Local Government Pension Scheme** | **2009/10 £'000** | **2010/11 £'000** |
|---|---|---|
| **Opening Balance at 1 April** | **939,834** | **1,250,973** |
| Expected rate of return | 58,347 | 80,684 |
| Actuarial gains and losses | 255,645 | (11,580) |
| Employer contributions | 47,491 | 47,329 |
| Contributions by scheme participants | 12,839 | 12,642 |
| Benefits paid | (63,183) | (75,586) |
| **Closing Balance at 31 March** | **1,250,973** | **1,304,462** |

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the Balance Sheet date. Expected returns on equity investments reflect long-term real rates of return experienced in the respective markets. The actual return on scheme assets in the year was a gain of £100.2m, or 8.1% (in 2009/10, a gain of £314.0m, or 33.5%).

### Scheme History

The City Council's share of the overall assets and liabilities for pensions is as shown below. Under IAS19 guidelines the City Council is required to recognise a liability in its Balance Sheet for any discretionary benefits paid to teachers outside the terms of the Teachers' Pension Scheme. As the City Council funds these pensions on a "pay as you go" basis, there are no pension assets.

| | **31 March 2007 (restated) £'000** | **31 March 2008 (restated) £'000** | **31 March 2009 £'000** | **31 March 2010 £'000** | **31 March 2011 £'000** |
|---|---|---|---|---|---|
| **Present value of Liabilities** | | | | | |
| Local Government Pension Scheme | (1,593,696) | (1,746,880) | (1,475,778) | (2,014,706) | (1,862,111) |
| Teachers Discretionary Compensation | (76,453) | (85,128) | (72,907) | (89,623) | (91,722) |
| **Fair value of Assets** | | | | | |
| Local Government Pension Scheme | 1,140,534 | 1,150,471 | 939,834 | 1,250,973 | 1,304,462 |
| **Surplus/(Deficit) in the Scheme** | | | | | |
| Local Government Pension Scheme | (453,162) | (596,409) | (535,944) | (763,733) | (557,649) |
| Teachers Discretionary Compensation | (76,453) | (85,128) | (72,907) | (89,623) | (91,722) |
| **Total** | **(529,615)** | **(681,537)** | **(608,851)** | **(853,356)** | **(649,371)** |

The liabilities show the underlying commitment that the City Council has in the long term to pay retirement benefits. The total liability has a substantial effect on the net worth of the City Council as recorded in the Balance Sheet, resulting in a reduction in overall net worth of £649.371m to £320.473m for 2010/11. The total liability includes £37.286m for unfunded liabilities related to added years benefits paid to LGPS members. The deficit on the LGPS will be made good by increased contributions over the remaining working life of employees as assessed by the scheme actuary. The liability for teachers' discretionary added years payments rests with the City Council and under scheme regulations is funded on a "pay as you go" basis with annual payments to retired teachers.

The total contribution expected to be made to the LGPS by the City Council in the year to 31 March 2012 is £46.139m.

### Basis for Estimating Assets and Liabilities

For both the LGPS and teachers' added years payments, liabilities have been assessed on an actuarial basis using the projected unit method. Liabilities have been assessed using estimates based on the latest full valuation of the scheme as at 31 March 2010. Liabilities for both the LGPS and teachers' added years have been assessed by Mercers' Human Resources Consulting, an independent firm of actuaries. The principal assumptions used by the actuary are:

| | **Local Government Pension Scheme** | | **Discretionary Benefits** | |
|---|---|---|---|---|
| | **31 March 2010** | **31 March 2011** | **31 March 2010** | **31 March 2011** |
| Long-term expected rate of return on assets in the scheme: | | | | |
| Equity investments | 7.5% | 7.5% | - | - |
| Government Bonds | 4.0% | 4.4% | - | - |
| Other Bonds | 6.0% | 5.1% | - | - |
| Property | 6.5% | 6.5% | - | - |
| Cash liquidity | 0.5% | 0.5% | - | - |
| Other | 7.5% | 7.5% | - | - |
| Mortality assumptions: | | | | |
| Longevity at 65 for current pensioners: | | | | |
| - men | 20.3 years | 21.4 years | 20.4 years | 23.2 years |
| - women | 23.2 years | 24.1 years | 23.2 years | 24.1 years |
| Longevity at 65 for future pensioners: | | | | |
| - men | 21.3 years | 22.8 years | | |
| - women | 24.1 years | 25.7 years | | |
| Rate of inflation (RPI) | 3.3% | 3.4% | 3.2% | 3.3% |
| Rate of inflation (CPI) | 2.8% | 2.9% | n/a | 2.8% |
| Rate of increase in salaries | 4.55% | 4.4% | - | - |
| Rate of increase in pensions | 3.3% | 2.9% | 3.2% | 2.8% |
| Rate for discounting scheme liabilities | 7.1% | 5.5% | 5.5% | 5.4% |
| Take-up of option to convert annual pension into retirement lump sum | 50% | 50% | - | - |

There are no assets to cover liabilities for teachers' discretionary added years' payments.

Assets in the Merseyside Pension Fund are valued and consist of the following categories by proportion of the total assets held by the Fund:

| | Value at 31 March 2010 | Value at 31 March 2011 |
|---|---|---|
| Equity investments | 63.6% | 60.7% |
| Government Bonds | 12.1% | 10.7% |
| Other Bonds | 6.6% | 6.7% |
| Property | 6.3% | 7.9% |
| Cash Liquidity | 2.6% | 2.3% |
| Other | 8.8% | 11.7% |
| **Total Assets** | **100%** | **100%** |

### History of Experience Gains and Losses

The actuarial gains for the LGPS identified as movements on the Pensions Reserve in 2010/11 can be analysed into the following categories, measured as a percentage of assets or liabilities at 31 March 2011:

| | 2006/07 % | 2007/08 % | 2008/09 % | 2009/10 % | 2010/11 % |
|---|---|---|---|---|---|
| Differences between the expected and actual return on assets | -0.03 | -5.36 | -29.88 | 20.44 | -0.89 |
| Experience gains and losses on liabilities | - | -4.04 | 24.56 | -22.89 | 6.82 |

For teachers unfunded:

| | 2006/07 % | 2007/08 % | 2008/09 % | 2009/10 % | 2010/11 % |
|---|---|---|---|---|---|
| Experience gains and losses on liabilities | - | -11.04 | 15.77 | -14.73 | -4.45 |

## 46. Contingent Liabilities

The City Council maintains a risk assessment register and has identified the following key issues which it would assess as contingent liabilities:

- The City Council may receive claims and incur costs relating to its ownership of land and property. In one instance, the Environment Agency has advised the City Council that it may be liable for the clean up of an area of waste land within the boundary of Sefton MBC that the City Council previously used for the deposit of waste. At this time it is not possible to make any assessment of the financial implications. The City Council owns significant land holdings in the city for which environmental impact studies are outstanding.

- The City Council may receive claims and incur costs relating to its employment of staff. A review of the assessment of the City Council's liability for back pay for Equal Pay has recently been undertaken and confirms that the best available estimate is £54m which will be incurred during the financial years 2008/09 through to 2011/12. However, as employment tribunal cases are still being determined there remains uncertainty as to the eligibility of a number of claims. The City Council's arrangements for the implementation of a new pay and grade structure under Single Status are progressing. An earmarked reserve of £14m for the costs of implementation has been established but there remains uncertainty as to the likely final costs. The City Council also receives other employee claims including for asbestosis.

- The City Council has made an assessment of its future liabilities in respect of Highways Public Liability claims and set aside an appropriate level of funding. However, a significant proportion of the claims may be considered and determined by the courts and therefore there remains uncertainty over the final level of overall settlement. The maximum potential additional liability is assessed at £4.0m.

- The City Council has received significant Government grant support to services, projects or initiatives for which the City Council has acted as the "Accountable Body", either for its own direct expenditure or for the expenditure of other organisations. A significant amount of this expenditure is tied to the future of the assets over a number of years (e.g. ERDF over a 20 year life span). At the end of 2010/11 the City Council had established reserves in respect of the potential for grant claw-back should any project asset be subject to change of use or sold. Whilst the City Council has put in place robust project and grant management arrangements, the risk implication above cannot be reliably estimated.

- The City Council has a number of services provided by external companies who in turn have admitted body status in the Merseyside Pension Fund. In the current economic climate the City Council recognises that the reduction in the pension fund values will necessitate the need for partners to review their contributions according to actuarial valuations. This will in turn put additional pressure on City Council revenue budgets and these will need to be factored into the Medium Term Financial Plan (MTFP) forecasts. Partners are also required to hold pension bonds in the event of failure to pay contributions to the fund, these bond valuations are subject to review according to the service contract but again in the current climate there may be a need to increase the bond values and therefore subsequently increase revenue costs to the City Council. Contribution levels and bonds have and will be continuously monitored over the coming months.

# COLLECTION FUND

The Collection Fund shows the income received from Council Tax payers, Community Charge payers and Business Rate payers. It also shows how the income is distributed between the City Council's General Fund, the Merseyside Police Authority and the Merseyside Fire & Rescue Authority.

| 2009/10 £'000 | | Notes | 2010/11 £'000 |
|---|---|---|---|
| | **Income** | | |
| 140,097 | Council Tax | 1 | 140,066 |
| | Transfers from the General Fund | | |
| 59,326 | - Council Tax Benefits | | 60,859 |
| 65 | - Prompt Payment Discount | | - |
| 154,770 | Income collectable from Business Ratepayers | 2 | 159,200 |
| 150 | Adjustment of Previous Years Community Charge | 3 | 212 |
| | Authority Contributions for Prior Year Collection Fund Deficit: | | |
| 3,944 | - Liverpool City Council | | 3,549 |
| 422 | - Merseyside Police Authority | | 382 |
| 189 | - Merseyside Fire & Rescue Authority | | 169 |
| **358,963** | | | **364,437** |
| | **Expenditure** | | |
| | Precepts and Demands | | |
| 165,646 | - Liverpool City Council | | 163,987 |
| 17,805 | - Merseyside Police Authority | | 18,331 |
| 7,897 | - Merseyside Fire & Rescue Authority | | 8,120 |
| | Business Rates | | |
| 154,029 | - Payment to the National Pool | 2 | 158,452 |
| 741 | - Cost of Collection Allowance | | 748 |
| | Transfers to the General Fund | | |
| | - Prompt Payment Discount | | 1 |
| 12,290 | Provision for Impairment | 4 | 11,798 |
| 44 | Payment of Prior Year Community Charge Surplus | | 100 |
| **358,452** | | | **361,537** |
| **(511)** | **(Surplus)/Deficit for the Year** | | **(2,900)** |
| **4,511** | **Balance Brought Forward** | | **4,000** |
| **4,000** | **Balance Carried Forward** | | **1,100** |

# NOTES TO THE COLLECTION FUND

## 1. Council Tax

### (a) Calculation of 2010/11 Council Tax Taxbase

The Local Government Finance Act 1992 led to the introduction of the Council Tax as a replacement for the Community Charge. The Council Tax is a tax based on property valuation bands. There is a basic tax for the middle band (Band D) with proportionately higher and lower taxes for the other bands. The relevant proportions are shown in the table below.

The Council Tax Taxbase, which is the number of chargeable dwellings in each valuation band (adjusted for dwellings where discounts and exemptions apply) expressed as an equivalent number of Band D dwellings was determined as follows:

| Band | No. of Properties On Valuation List | Ratio | 2010/11 Band D Equivalent Dwellings | 2009/10 Band D Equivalent Dwellings |
|---|---|---|---|---|
| A | 132,275 | 6/9 | 88,183 | 88,163 |
| B | 35,634 | 7/9 | 27,715 | 27,252 |
| C | 25,691 | 8/9 | 22,836 | 22,247 |
| D | 13,042 | 9/9 | 13,042 | 13,056 |
| E | 4,768 | 11/9 | 5,828 | 5,851 |
| F | 2,175 | 13/9 | 3,142 | 3,129 |
| G | 1,599 | 15/9 | 2,665 | 2,667 |
| H | 135 | 18/9 | 270 | 258 |
| | 215,319 | | 163,681 | 162,623 |
| **Less**: Anticipated Changes in the Year for: | | | | |
| - Exempt properties | | | (15,009) | (13,075) |
| - Discounts | | | (16,832) | (16,873) |
| - Disabled Relief | | | (116) | (115) |
| **Add**: New Properties | | | 142 | 634 |
| - Second Homes | | | 91 | 97 |
| | | | 131,957 | 133,291 |
| **Less**: Non-Collection Allowance | | | (6,598) | (6,665) |
| **Council Tax Taxbase** | | | **125,359** | **126,626** |

### (b) Calculation of the Council Tax

The total Council Tax for Band D dwellings of £1,519.14 for 2010/11 was calculated as follows:

| 2009/10 £'000 | | 2010/11 £'000 |
|---|---|---|
| 482,087 | City Council Budget Requirement | 485,625 |
| | **Less:** | |
| (60,073) | Revenue Support Grant | (41,220) |
| (260,268) | Redistributed Non-Domestic Rates | (283,867) |
| 3,944 | Council Tax (Surplus)/Deficit | 3,549 |
| (44) | Community Charge (Surplus)/Deficit | (100) |
| 165,646 | Amount to be Collected from the Council Tax | 163,987 |
| 126,626 | **Divided** by the Council Tax Taxbase (Number of Dwellings) | 125,359 |
| **£1,308.14** | **Council Tax at Band D** | **£1,308.14** |
| | **Add**: Council Tax for Precepting Authorities: | |
| £62.37 | - Merseyside Fire & Rescue Authority | £64.77 |
| £140.61 | - Merseyside Police Authority | £146.23 |
| **£1,511.12** | **Total Council Tax for Band D dwellings** | **£1,519.14** |

### (c) Reconciliation of Estimated Council Tax Income with Actual Income

| | £'000 |
|---|---|
| Estimated Gross Income (£1,519.14 X 125,359 properties) | 190,438 |
| **Less**: Council Tax Benefits | (60,859) |
| Changes to the Council Tax Taxbase during the Year | (1,312) |
| Prompt Payment Discounts | 1 |
| **Add**: Provision for Impairment | 11,798 |
| **Council Tax Income Receivable** | **140,066** |

## 2. Income from Business Ratepayers

Under the arrangements for Uniform Business Rates, the City Council is responsible for collecting National Non-Domestic Rates (NNDR) for its own area. Rate bills are based on local rateable values multiplied by a uniform collection rate known as the multiplier, which is set by the Government. The multiplier for 2010/11 was determined at 40.7p (48.1p for 2009/10).

The total amount due after adjusting for various types of relief and other deductions is paid into a central pool (the NNDR pool) which is managed by the Government. The Government then redistributes the sums paid into the pool back to local authorities' General Funds on the basis of a fixed amount per head of population. The City Council's share of the pool for 2010/11 is £283.867m (£260.268m for 2009/10).

The total non-domestic rateable value at 31 March 2011 was £510,129,068 (£405,752,009 for 2009/10).

The payment to the Non-Domestic Rate pool for 2010/11 is shown below:

| 2009/10 £'000 | | 2010/11 £'000 |
|---|---|---|
| 196,263 | Gross Rates due at the start of the year | 210,102 |
| | Less Allowances and Adjustments: | |
| (2,415) | Small Business Relief | (3,603) |
| (11,041) | Net Variation in Rateable Assessments in the year | (9,188) |
| - | Transitional Adjustments | (8,173) |
| (25,276) | Mandatory and Discretionary Relief | (26,900) |
| (587) | Interest Paid on Rate Refunds | (322) |
| (2,174) | Provision for Impairment | (2,716) |
| 154,770 | | 159,200 |
| (741) | Cost of Collection Allowance | (748) |
| **154,029** | **Net Contribution to the NNDR Pool** | **158,452** |

## 3. Previous Years Community Charge

Although the Council Tax replaced the Community Charge on 1 April 1993, the City Council continues to account for residual Community Charge adjustments in the Collection Fund. The total adjustment of £0.212m for 2010/11 relates to a reduction in the Community Charge Provision for Impairment where collection rates have proved better than previously anticipated.

## 4. Arrears as at 31 March 2011

At 31 March 2011, the Collection Fund had local taxation arrears and related provisions for impairment as follows:

| 2009/10 Arrears £m | 2009/10 Provision For Impairment £m | | 2010/11 Arrears £m | 2010/11 Provision For Impairment £m |
|---|---|---|---|---|
| 15.1 | 15.1 | Community Charge | 14.9 | 14.9 |
| 126.2 | 107.0 | Council Tax | 132.7 | 118.8 |
| 37.1 | 29.6 | Non-Domestic Rates | 40.4 | 32.4 |
| **178.4** | **151.7** | | **188.0** | **166.1** |

Full Council Tax arrears and related impairment are recognised in the Collection Fund statement above. However, to comply with the Code requirement that the collection of Council Tax is accounted for on an agency basis, in the City Council's Balance Sheet the preceptors' share of arrears and impairment are derecognised and only the City Council's share of Council Tax arrears and impairment is shown.

Similarly, NNDR arrears and impairment, while recognised in the Collection Fund, are shown as part of the overall debtor with Central Government in the City Council's Balance Sheet, rather than as a debt due from local taxpayers.

# THE GROUP ACCOUNTS

## Introduction

In common with many other local authorities, the City Council has made extensive use of partnership and joint venture arrangements for the delivery of services. In some cases it has created separate companies with its partners to deliver those services. The use of separate companies gives rise to the possibility that the City Council's own financial statements may not fully reflect its overall economic and financial activities. The aim of the Group Accounts therefore is to provide the reader with an overall view of the economic activities of the City Council, its exposure to risk and the resources used to carry out those activities.

From 1 April 2010 the City Council has adopted International Financial Reporting Standards (IFRS) and these accounting arrangements apply equally to the Group Accounts. In adopting IFRS the consolidating entity (the City Council) retrospectively applies IFRS accounting policies to the Group when they are different to those used previously. The adoption of IFRS to the Group therefore calls for the preparation of an opening IFRS Balance Sheet at 1 April 2009 and a restated Balance Sheet and Comprehensive Income and Expenditure Statement (CIES) for 2009/10 along with detailed notes explaining any changes to the previously reported position. Readers should note however that a detailed note has already been provided (see note 6 to the single entity statements) explaining changes to the City Council only accounts relating to the adoption of IFRS and it is not the intention here to repeat that note. However, where there are changes to the previously published Group Accounts and these are not explained in the note to the single entity accounts then an additional note has been provided.

## Entities to be Included within the Group Accounts

The City Council has relationships with a number of entities over which it has varying degrees of control and influence. The Code requires that these are classified according to whether they are subsidiaries, associates or joint ventures. These are explained below:

***Subsidiary*** - an entity is a subsidiary if the City Council is able to exercise control over the operating and financial policies of the entity so as to gain benefits from the entity's activities. Control is presumed to exist when the City Council has more than half of the voting rights of an entity.

The following entities are subsidiaries of Liverpool City Council:-

- Liverpool Science Park Ltd
- Arena and Convention Centre Liverpool Ltd
- Solus Treasury Services Ltd (from 2 July 2010)

***Associate*** – an entity is an associate when the City Council is an investor and has the power to exercise significant influence over the entity's operating and financial policies. It is presumed that significant influence exists when the Council holds more than 20% (but less than 50%) of the voting rights of an entity.

The City Council has one associate company, the Liverpool BID company; although for reasons of materiality it is not consolidated in the Group Accounts

***Joint Venture*** – an entity is a joint venture when the City Council has established a contractual arrangement with a third party to undertake an activity that is subject to joint control and where the strategic, financial and operating decisions relating to the activity require the unanimous consent of all parties.

The following entities are classed as joint ventures of Liverpool City Council:-

- Liverpool Direct Ltd
- Liverpool Partnership LLP
- Enterprise-Liverpool Ltd
- 2020 Liverpool Ltd
- Geraud Markets Liverpool Ltd
- Liverpool Vision
- Glendale-Liverpool Ltd

# GROUP MOVEMENT IN RESERVES STATEMENT

This statement shows the movement in the year on the different reserves held by the Group, analysed into "Usable Reserves" (those that can be applied to fund expenditure or reduce local taxation) and "Unusable Reserves" (which cannot be used to fund services).
The "(Surplus) or Deficit on the Provision of Services" line shows the true economic cost of providing the Group's services, more details of which are shown in the Group 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 line "adjustments between group accounts and City Council's accounts" takes account of movements in the City Council's reserves which arise due to consolidation adjustments.

| | General Fund | Earmarked Reserves | Housing Revenue Account | Capital Receipts Reserve | Major Repairs Reserve | Capital Grants Unapplied | Total Usable Reserves | Total Unusable Reserves | Total City Council Reserves | Reserves of group members | Total Reserves |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| **Balance at 31 March 2009** | (11,033) | (97,166) | (7,979) | (17,599) | (216) | (35,517) | (169,510) | (194,241) | (363,751) | (2,962) | (366,713) |
| **Movement in reserves during 2009/10** | | | | | | | | | | | |
| (Surplus) or deficit on the provision of services | 4,461 | 0 | 0 | 0 | 0 | 0 | 4,461 | 0 | 4,461 | (346) | 4,115 |
| Other Comprehensive Income and Expenditure | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 187,348 | 187,348 | (573) | 186,775 |
| **Total Comprehensive Income and Expenditure** | 4,461 | 0 | 0 | 0 | 0 | 0 | 4,461 | 187,348 | 191,809 | (919) | 190,890 |
| Adjustments between Group Accounts & City Council Accounts | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Net Increase/decrease before transfers** | 4,461 | 0 | 0 | 0 | 0 | 0 | 4,461 | 187,348 | 191,809 | (919) | 190,890 |
| Adjustment between accounting basis & funding under regulations | (30,022) | 0 | 7,979 | (1,101) | 0 | (21,451) | (44,595) | 44,595 | 0 | 0 | 0 |
| **Net Increase/Decrease before Transfers to Earmarked Reserves** | (25,561) | 0 | 7,979 | (1,101) | 0 | (21,451) | (40,134) | 231,943 | 191,809 | (919) | 190,890 |
| Transfers to/from Earmarked Reserves | 21,565 | (21,565) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Increase/Decrease in 2009/10** | (3,996) | (21,565) | 7,979 | (1,101) | 0 | (21,451) | (40,134) | 231,943 | 191,809 | (919) | 190,890 |
| **Balance at 31 March 2010 carried forward** | **(15,029)** | **(118,731)** | **0** | **(18,700)** | **(216)** | **(56,968)** | **(209,644)** | **37,702** | **(171,942)** | **(3,881)** | **(175,823)** |

| | General Fund | Earmarked Reserves | Housing Revenue Account | Capital Receipts Reserve | Major Repairs Reserve | Capital Grants Unapplied | Total Usable Reserves | Total Unusable Reserves | Total City Council Reserves | Reserves of group members | Total Reserves |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | **£000** | **£000** | **£000** | **£000** | **£000** | **£000** | **£000** | **£000** | **£000** | **£000** | **£000** |
| **Balance at 31 March 2010** | **(15,029)** | **(118,731)** | **0** | **(18,700)** | **(216)** | **(56,968)** | **(209,644)** | **37,702** | **(171,942)** | **(3,881)** | **(175,823)** |
| **Movement in Reserves during 2010/11** | | | | | | | | | | | |
| (Surplus) or deficit on provision of services | (21,477) | 0 | 0 | 0 | 0 | 0 | (21,477) | 0 | (21,477) | 3,811 | (17,666) |
| Other Comprehensive Income and Expenditure | 0 | 0 | 0 | 0 | 0 | 0 | 0 | (127,054) | (127,054) | 15,584 | (111,470) |
| **Total Comprehensive Income and Expenditure** | (21,477) | 0 | 0 | 0 | 0 | 0 | (21,477) | (127,054) | (148,531) | 19,395 | (129,136) |
| Adjustments between Group Accounts & City Council Accounts | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Net Increase/decrease before transfers** | (21,477) | 0 | 0 | 0 | 0 | 0 | (21,477) | (127,054) | (148,531) | 19,395 | (129,136) |
| Adjustments between accounting basis & funding basis under regulations | 11,971 | 0 | 0 | 126 | 0 | (28,414) | (16,317) | 16,317 | 0 | 0 | 0 |
| **Net Increase/Decrease before Transfers to Earmarked Reserves** | (9,506) | 0 | 0 | 126 | 0 | (28,414) | (37,794) | (110,737) | (148,531) | 19,395 | (129,136) |
| Transfer to/from Earmarked Reserves (note 8) | 8,551 | (8,551) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Increase/Decrease in Year** | (955) | (8,551) | 0 | 126 | 0 | (28,414) | (37,794) | (110,737) | (148,531) | 19,395 | (129,136) |
| **Balance at 31 March 2011 carried forward** | **(15,984)** | **(127,282)** | **0** | **(18,574)** | **(216)** | **(85,382)** | **(247,438)** | **(73,035)** | **(320,473)** | **15,514** | **(304,959)** |

## Analysis of Minority Interest Shares in the Group Movement in Reserves Statement

As the Group includes a subsidiary company with a minority interest (Liverpool Science Park), the total reserves column in the MIRS does not represent the total reserves attributable to the City Council as it includes the share of reserves attributable to the minority interest. The City Council owns 51% of Liverpool Science Park Ltd with the remaining interest split equally between Liverpool John Moores University and the University of Liverpool. The note below is provided to highlight the minority interest included within the total group reserves and the amount of reserves attributable to the City Council.

| **1 April 2010 £000** | **31 March 2010 £000** | | **31 March 2011 £'000** |
|---|---|---|---|
| (366,713) | (175,823) | Total reserves in the Movement in Reserves Statement | (304,959) |
| (77) | 52 | Less Minority Interests' share of reserves of subsidiaries | 92 |
| **(366,790)** | **(175,771)** | **Total Reserves attributable to the City Council** | **(304,867)** |

# 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.

| 2009/10 Gross Expend. £'000 | 2009/10 Gross Income £'000 | 2009/10 Net Expend £'000 | | 2010/11 Gross Expend. £'000 | 2010/11 Gross Income £'000 | 2010/11 Net Expend £'000 |
|---|---|---|---|---|---|---|
| 83,958 | (69,646) | 14,312 | Central Services to the Public | 89,274 | (70,271) | 19,003 |
| 208,440 | (66,067) | 142,373 | Cultural, Environmental, Regulatory and Planning Services | 234,203 | (66,232) | 167,971 |
| 603,207 | (472,994) | 130,213 | Education and Children's Services | 645,854 | (491,321) | 154,533 |
| 51,452 | (20,731) | 30,721 | Highways and Transport Services | 50,354 | (20,057) | 30,297 |
| 361,824 | (322,213) | 39,611 | Other Housing Services | 352,961 | (285,569) | 67,392 |
| 186,446 | (44,506) | 141,940 | Adult Social Care | 186,399 | (48,069) | 138,330 |
| 14,199 | (3,587) | 10,612 | Corporate and Democratic Core | 13,269 | (202) | 13,067 |
| 50,103 | (41,389) | 8,714 | Non Distributed Costs | 53,412 | (41,152) | 12,260 |
| | | | *Exceptional Item: Reduction in past service pension costs* | (119,872) | - | (119,872) |
| | | | *Exceptional Item: Reduction in provision for Equal Pay Back Pay settlements* | (5,513) | - | (5,513) |
| **1,559,629** | **(1,041,133)** | **518,496** | **Cost of Services** | **1,500,341** | **(1,022,873)** | **477,468** |
| | | 62,452 | Other Operating Expenditure | | | 188,130 |
| | | 119,832 | Financing and Investment Income and Expenditure | | | 52,904 |
| | | (696,592) | Taxation and Non-Specific Grant Income | | | (736,127) |
| | | **4,188** | **(Surplus) or Deficit on Provision of Services** | | | **(17,625)** |
| | | (119) | Share of the surplus or deficit on the provision of services by joint ventures | | | (81) |
| | | 36 | Tax expense of subsidiaries | | | 13 |
| | | 10 | Tax expense of joint ventures | | | 27 |
| | | **4,115** | **Group (Surplus)/Deficit** | | | **(17,666)** |
| | | (36,397) | Surplus or deficit on revaluation of Property, Plant and Equipment assets | | | (15,819) |
| | | (138) | Surplus or deficit on revaluation of available for sale financial assets | | | 138 |
| | | 218,388 | Actuarial gains/losses on pension assets/liabilities | | | (111,432) |
| | | - | Restriction on Pension Surplus | | | 16 |
| | | 5,161 | Exceptional item: Asset amendment 2009/10 | | | - |

| | | |
|---|---|---|
| - | Exceptional item: Deficit on the acquisition of subsidiary | 15,805 |
| (239) | Share of other comprehensive income and expenditure of joint ventures | (178) |
| **186,775** | **Other Comprehensive Income and Expenditure** | **(111,470)** |
| **190,890** | **Total Comprehensive Income and Expenditure** | **(129,136)** |

**Analysis of Minority Interest Shares in the Group Comprehensive Income and Expenditure Statement**

In consolidating subsidiaries, 100% of their transactions are included in the Comprehensive Income and Expenditure Statement even if ownership is less than 100%. The note below discloses the attributable amounts of the group surplus or deficit and other comprehensive income and expenditure to the minority interest in subsidiaries.

| | 2009/10 | | | | 2010/11 | |
|---|---|---|---|---|---|---|
| **Authority £000** | **Minority Interests £000** | **Total £000** | | **Authority £000** | **Minority Interests £000** | **Total £000** |
| 4,244 | (129) | **4,115** | Group (Surplus) or Deficit | (17,626) | (40) | **(17,666)** |
| 186,775 | 0 | **186,775** | Other Comprehensive Income and Expenditure | (111,470) | 0 | **(111,470)** |
| **191,019** | **(129)** | **190,890** | **Total Comprehensive Income and Expenditure** | **(129,096)** | **(40)** | **(129,136)** |

# GROUP BALANCE SHEET

The Group Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Group. The net assets (assets less liabilities) are matched by the reserves held by the Group.

| 1 April 2009 £'000 | 31 March 2010 £'000 | | Note Ref. | 31 March 2011 £'000 |
|---|---|---|---|---|
| 1,185,410 | 1,254,949 | Property, Plant & Equipment | 2f | 1,180,695 |
| 127,475 | 69,741 | Investment Property | | 68,873 |
| 2,402 | 1,706 | Intangible Assets | | 1,069 |
| 45,024 | 45,165 | Long Term Investments | | 24 |
| 337 | 696 | Investments in Joint Ventures | | 935 |
| 1,379 | 1,235 | Long Term Debtors | | 1,191 |
| 1,362,027 | 1,373,492 | **Long Term Assets** | | 1,252,787 |
| | | | | |
| 37,145 | 41,095 | Short Term Investments | | 45,648 |
| 0 | 0 | Assets Held for Sale | | 552 |
| 528 | 563 | Inventories | | 469 |
| 149,559 | 123,955 | Short Term Debtors | 2g | 99,587 |
| 56,119 | 127,839 | Cash and Cash Equivalents | 2h | 190,529 |
| 243,351 | 293,452 | **Current Assets** | | 336,785 |
| | | | | |
| (60,481) | (13,530) | Short Term Borrowing | | (13,523) |
| (136,398) | (156,386) | Short Term Creditors | 2i | (146,440) |
| (17,146) | (54,379) | Provisions | | (35,775) |
| (214,025) | (224,295) | **Current Liabilities** | | (195,738) |
| | | | | |
| (60,891) | (11,968) | Provisions | 2l | (12,514) |
| (14,667) | (15,073) | Long Term Creditors | | (12,181) |
| (281,041) | (327,964) | Long Term Borrowing | | (316,978) |
| (609,101) | (853,386) | Liability related to Defined Benefit Pension Scheme | 2k | (649,281) |
| (58,879) | (58,307) | Other Long Term Liabilities | 2j | (97,921) |
| (61) | (128) | Capital Grants Receipts in Advance | | 0 |
| (1,024,640) | (1,266,826) | **Long Term Liabilities** | | (1,088,875) |
| | | | | |
| **366,713** | **175,823** | **Net Assets** | | **304,959** |
| | | | | |
| (172,549) | (213,473) | Usable Reserves | | (231,832) |
| (194,164) | 37,650 | Unusable Reserves | | (73,127) |
| | | | | |
| **(366,713)** | **(175,823)** | **Total Reserves** | | **(304,959)** |

# GROUP CASH FLOW STATEMENT

This statement summarises the cash flow of the City Council and its subsidiaries and joint ventures during the year.

| 2009/10 | | 2010/11 |
|---|---|---|
| **£'000** | | **£'000** |
| **4,188** | **Net (surplus) or deficit on the provision of service** | **(17,625)** |
| (208,633) | Adjustments to net surplus or deficit on the provision of service for non-cash movements | (145,811) |
| 146,559 | Adjustments for items included in the net surplus or deficit on the provision of service that are investing and financing activities | 147,789 |
| **(57,886)** | **Net Cash flows from Operating Activities** | **(15,647)** |
| (27,674) | Investing Activities | (65,183) |
| 13,840 | Financing Activities | 18,140 |
| **(71,720)** | **Net (increase) or decrease in cash and cash equivalents** | **(62,690)** |
| **56,119** | Cash and cash equivalents at the beginning of the reporting period | **127,839** |
| **127,839** | **Cash and cash equivalents at the end of the reporting period** | **190,529** |

# Notes to the Group Accounts

## 1) Accounting Policies used in Preparing the Group Financial Statements

### a) Alignment of Accounting Policies

There is a requirement when preparing Group Accounts to have consistent accounting policies across the Group. This does not mean that individual group entities have to use the same accounting policies as the City Council and therefore consolidation adjustments may be required to align group accounting policies. The only entity for which alignment adjustments have been made is the Liverpool Science Park to value property, plant and equipment in line with the City Council's policy on asset revaluation.

### b) Accounting Policies adopted by the Group

In general the accounting policies adopted by the City Council are in most instances those adopted by the other group entities. However, there are a number of policies adopted by the City Council that are not applicable to other group entities, such as those that relate to statutory adjustments.

It is not the intention here to set out all the accounting policies adopted by the Group as most of these can be found within note 1 to the single entity accounts. However, where the policies adopted by individual group members differ to those used by the City Council then a note of the variation is provided.

### *Departures from City Council Policy*

#### i) Short term Employment benefits

Short-term employee benefits are those due to be settled within 12 months of the year-end. On the grounds of materiality no accrual has been made by group entities for the cost of holiday entitlements earned by employees but not taken before the year-end.

#### ii) Post employment benefits

Whilst most group entities and their employees contribute to defined benefit pension schemes (they have admitted body status to the Local Government Pension Scheme); with the exception of the Arena and Convention Centre Liverpool Ltd and Liverpool Vision Ltd, they account for pension costs on the basis of defined contribution arrangements, i.e. on the basis of contributions to the pension fund. This is due to the fact that for the other group entities it is not possible to separate out with sufficient reliability their relevant shares of assets and liabilities. These organisations mainly consist of employees transferred from former Council undertakings and therefore the actuarial valuation of pensions for these entities relates to periods of employment prior to their formation. This accounting treatment is acceptable under IAS19.

#### iii) Leases

As most group entities account under UK GAAP there is no requirement for them to identify contractual relationships that involve the use of assets that have leasing characteristics (IFRIC4). This is an issue for the City Council's own financial statements and an issue to be considered when aligning accounting policies to produce group statements. However, departure from this policy is considered not to be material in the context of the overall group financial position.

**iv) Revaluation of property, plant and equipment**

Two group entities hold material property, plant and equipment assets these being the Liverpool Science Park Ltd and Solus Treasury Services Ltd. Both entities account for property, plant and equipment using the historic cost convention unlike the Council which has adopted fair value accounting. In order to align accounting policies across the Group, the Council has commissioned a revaluation of the Liverpool Science Park Ltd asset. Qualified valuers contracted to the City Council have undertaken the valuation. There is no requirement to revalue the assets of Solus Treasury Services Ltd as the Council has adopted the same depreciated historic cost accounting policy as Solus for plant vehicles and equipment.

## *Non-applicable accounting policies*

**i) Post employment benefits**

For those group entities that have adopted full defined benefit pension fund accounting under IAS19 / FRS17 there is no accounting or statutory provision to reverse the actuarial calculations charged to the CIES and replace them with the contributions paid to the pension fund in the year. This adjustment relates solely to the City Council single entity accounts.

**ii) Financial Instruments**

Group entities have no statutory provision to limit the impact in the CIES of charges arising from the premature repayment of debt or the recognition of loans at less than market rates (soft loans). However, at the reporting date, no group entities are carrying such amounts on their Balance Sheets.

**iii) Property plant and equipment - *Depreciation and impairment***

Group entities have no accounting or statutory provision to reverse the impact of depreciation, impairment charges or revaluation losses in the CIES. This adjustment relates solely to the City Council. Equally the requirement to calculate an MRP charge as a replacement for depreciation is not applicable to Group entities (see accounting policies note 1 to the single entity accounts).

**iv) Capital Grants**

The Code requires the City Council to recognise all capital grants immediately in the CIES unless there is an outstanding condition that will result in the grant having to be repaid. The grant will then be transferred to the capital adjustment account and factored into the calculations for MRP. Group members are not required to calculate MRP and as such where they have received a capital grant will continue to recognise the income over the period necessary to match with the associated cost as prescribed by IAS 20 Accounting for Grants.

## *New accounting policies*

**i) Goodwill**

Where the City Council has acquired material interests in subsidiaries or associates during the year then goodwill is calculated in accordance with IFRS 3 (Business Combinations). Goodwill is calculated with reference to the difference between the acquisition cost and the fair value of the net assets. Goodwill is amortised to the Income and Expenditure Account on a systematic basis over its useful life. However, when acquired goodwill is considered not to be material then it is written-off to the CIES in the year of acquisition.

### c) Basis of Consolidation

- Subsidiaries have been consolidated on a line by line basis with adjustments for intra-group transactions and balances.

- Joint Ventures have been consolidated using the equity method whereby the initial investment is initially recognised as cost and adjusted thereafter for the post-acquisition change in the investor's share of net assets of the investee.

- At the time of preparing the Group Statements, the accounts of the various subsidiary and joint venture companies were only available in draft format. No significant variations to the statements are anticipated and therefore the use of pre-audited draft statements is considered not to have a material impact on the Group Accounts for 2010/11. Where there are material changes then these will be disclosed as a prior year adjustment in the following year.

### d) Controlled Funds

Adjustments have been made for assets and liabilities of trusts considered to be material and which are directly controlled by and yield benefits for the City Council. Croxteth Hall Trust fund is identified as a controlled fund for 2010/11. The income and expenditure of the fund has been disclosed gross in the Group Comprehensive Income and Expenditure Statement.

## 2. Transition to IFRS / Prior Year Adjustments

As previously mentioned, 2010/11 saw the introduction of IFRS and the requirement to restate the opening and closing Group Balance Sheet and the Group Comprehensive Income and Expenditure Statement for 2009/10. This note will not attempt to explain every adjustment made to the previously reported position for the group accounts arising from the adoption of IFRS, as most of these relate to changes in the single entity statements and a separate note has already been provided. However where changes have arisen that relate to changes in group companies then a note is provided.

In addition the 2009/10 Group Statements were based on the pre-audited accounts of the various companies that the City Council is involved with. Where the transactions contained in the audited accounts are different from those included in the published statements for 2009/10, then the comparatives for 2009/10 have been restated to reflect the revised position. Additionally there has been a prior year adjustment to the accounts for the Arena and Convention Centre as the company has adopted FRS 17 (IAS 19) and now accounts for its pension scheme as a defined benefit scheme.

The introduction of IFRS has not only brought new accounting policies but also a change in the presentation of the accounts, readers should be aware, therefore, that the surplus or deficit as reported in the Group Comprehensive Income and Expenditure Statement was previously reported as the surplus or deficit in the Income and Expenditure Account. Additionally, the total comprehensive income and expenditure shown in the CIES was previously reported as the total recognised gains or losses for the year in the Statement of Total Recognised Gains and Losses. With respect to the Balance sheet, readers should be aware that property, plant & equipment was previously reported within tangible fixed assets, which is now disclosed as a separate category.

The effect of the changes on the group statements, are set out in the table below.

| | Figures Appearing in 2009/10 Group Statement of Accounts £'000 | Amendments to Single Entity Accounts as a result of IFRS transition £'000 | Amendments to Group Companies for P.Y.A's £'000 | 2009/10 Restated Comparatives £'000 |
|---|---|---|---|---|
| ***Extract from the Group Comprehensive Income & Expenditure Statement*** | | | | |
| **Continuing Operations** | | | | |
| Cultural, Environmental and Planning Services | 139,775 | 2,412 | 186 | 142,373 |
| Share of Surplus or deficit on the provision of services by Joint ventures | | | | |
| - turnover | (41,896) | | (31) | (41,927) |
| - cost of sales | 41,842 | | (34) | 41,808 |
| - Surplus | (54) | | (65) | (119) |
| Financing and Investment Income | 92,282 | 27,542 | 8 | 119,832 |
| Tax expense of Subsidiaries | - | | 36 | 36 |
| Tax expense of Joint Ventures | 12 | | (2) | 10 |
| Minority Interest | 182 | | (182) | - |
| **Group (Surplus) / Deficit** | **115,707** | **(111,573)** | **(19)** | **4,115** |
| Actuarial gains/losses on pension assets/liabilities | 218,722 | 0 | (334) | 218,388 |
| Share of other comprehensive income and expenditure of joint ventures | (385) | | 146 | (239) |
| **Total Comprehensive Income and Expenditure** | **297,486** | **(106,389)** | **(207)** | **190,890** |
| ***Extract from the Group Balance Sheet*** | | | | |
| Property, Plant & Equipment | 1,254,854 | 175 | (80) | 1,254,949 |
| Creditors | (132,149) | (25,002) | 765 | (156,386) |
| Share of gross assets in joint ventures | 11,416 | | (69) | 11,347 |
| Share of gross liabilities in joint ventures | (10,823) | | 172 | (10,651) |
| Long Term Creditors | (14,272) | 0 | (801) | (15,073) |
| Liability relating to defined benefit Pension scheme | (853,356) | 0 | (30) | (853,386) |
| **Total fixed assets less liabilities** | **(446,981)** | **622,847** | **(43)** | **175,823** |
| **Usable reserves:** | | | | |
| Group Income & Expenditure Reserve | 162 | | (9) | 153 |
| **Unusable reserves**: | | | | |
| Minority Interest | (104) | | 52 | (52) |
| **Group Net Worth** | **446,981** | **(622,847)** | **43** | **(175,823)** |

The amendment to the single entity accounts has been provided so that readers can see how the position previously reported in the 2009/10 Group accounts has changed.

## 2. Adjustments to the Single Entity Accounts

### a) Movement in Reserves Statement

The summary below shows how the Group Reserves (not including the City Council's Reserves) have changed during the year:

| | Subsidiary Reserves £000 | Joint Venture Reserves £000 | Controlled Fund Reserves £000 | Total Group Reserves £000 | Less Minority Interest share of Subsidiary Reserves £000 | City Council Share of Group Reserves £000 |
|---|---|---|---|---|---|---|
| **Balance at 1 April 2009** | **1,375** | **(337)** | **(4,000)** | **(2,962)** | **(77)** | **(3,039)** |
| (Surplus) or deficit on the provision of service | (244) | (120) | 18 | (346) | 129 | (217) |
| Other Comprehensive income and expenditure | (334) | (239) | 0 | (573) | 0 | (573) |
| **Balance at 31 March 2010** | **797** | **(696)** | **(3,982)** | **(3,881)** | **52** | **(3,829)** |
| (Surplus) or deficit on the provision of service | 3,913 | (61) | (41) | 3,811 | 40 | 3,851 |
| Other Comprehensive income and expenditure | 15,762 | (178) | 0 | 15,584 | 0 | 15,584 |
| **Balance at 31 March 2011** | **20,472** | **(935)** | **(4,023)** | **15,514** | **92** | **15,606** |

### b) Net cost of services

Income and expenditure relating to cultural, environmental, regulatory & planning services has been adjusted for the consolidation of the three subsidiary companies in addition to Croxteth Hall trust fund.

| Net Expenditure 2009/10 £'000 | | Expenditure 2010/11 £'000 | Income 2010/11 £'000 | Net Expenditure 2010/11 £'000 |
|---|---|---|---|---|
| 142,602 | LCC single entity | 214,484 | (50,618) | **163,866** |
| 131 | Liverpool Arena | 14,324 | (14,499) | **(175)** |
| (378) | Liverpool Science Park | 858 | (964) | **(106)** |
| 0 | SOLUS | 4,427 | 0 | **4,427** |
| 18 | Croxteth Hall | 110 | (151) | **(41)** |
| **142,373** | **Total** | **234,203** | **(66,232)** | **167,971** |

Other adjustments that are not disclosed on the face of the statements include the following:

**c) Financing and Investment Income and Expenditure**

| 2009/10 £'000 | | 2010/11 £'000 |
|---|---|---|
| 119,876 | LCC single entity | 53,157 |
| (42) | Interest Receivable by Subsidiaries | (267) |
| (12) | Interest Receivable by Joint Ventures | (7) |
| 9 | Interest Payable by Subsidiaries | 21 |
| 1 | Interest Payable by Joint Ventures | 0 |
| **119,832** | **Total Financing & Investment Income** | **52,904** |

**d) Actuarial Gains & Losses on Pension Assets and Liabilities**

| 2009/10 £'000 | | 2010/11 £'000 |
|---|---|---|
| 218,722 | LCC single entity | (111,373) |
| (334) | Subsidiary Actuarial gains/losses on pension assets/liabilities | (59) |
| **218,388** | **Total Actuarial gains/losses** | **(111,432)** |

**e) Exceptional Item – Deficit on the Acquisition of Subsidiary**

During 2010/11 the City Council acquired the entire share capital of SOLUS Treasury Services Ltd for consideration of £1. After eliminating the effects of inter-group transactions the company had a deficiency brought forward of £15.805m, which has been disclosed within Other Comprehensive Income and Expenditure of the Group Comprehensive Income and Expenditure Statement to show the total gains and losses for the group during the year.

## f) Movements in Plant, Property & equipment during 2010/11

| | Liverpool City Council £'000 | Liverpool Arena £'000 | Liverpool Science Park £'000 | SOLUS £'000 | **Group Total £'000** |
|---|---|---|---|---|---|
| **Cost or Valuation** | | | | | |
| **At 1 April 2010 (Restated)** | **1,558,881** | **153** | **15,553** | **0** | **1,574,587** |
| Additions | 110,413 | 362 | 248 | 39,842 | 150,865 |
| Revaluations in the Revaluation Reserve | 10,067 | 0 | 0 | 0 | 10,067 |
| De-recognition - disposals | (82,669) | 0 | 0 | 0 | (82,669) |
| De-recognition - other | (78,878) | 0 | 0 | 0 | (78,878) |
| Assets reclassified (to)/ from Held for Sale | (5,193) | 0 | 0 | 0 | (5,193) |
| Other Transfers | 119 | 0 | 0 | 0 | 119 |
| Other Movements | (2,459) | 0 | 0 | 0 | (2,459) |
| **At 31 March 2011** | **1,510,281** | **515** | **15,801** | **39,842** | **1,566,439** |
| **Depreciation and Impairment** | | | | | |
| **At 1 April 2010 (Restated)** | **318,402** | **50** | **1,186** | **0** | **319,638** |
| Depreciation charge for 2010/11 | 49,242 | 110 | 406 | 4,427 | 54,185 |
| Depreciation to the Revaluation Reserve – on revaluation | (10,317) | 0 | 0 | 0 | (10,317) |
| Impairment losses/(reversals) recognised in the Revaluation Reserve | 4,565 | 0 | 0 | 0 | 4,565 |
| Impairment losses/(reversals) in the Surplus/Deficit on the Provision of Service | 51,270 | 0 | 5,984 | 0 | 57,254 |
| De-recognition – disposals | (6,673) | 0 | 0 | 0 | (6,673) |
| De-recognition – other | (26,502) | 0 | 0 | 0 | (26,502) |
| Assets reclassified (to)/ from Held for Sale | (2,784) | 0 | 0 | 0 | (2,784) |
| Other Transfers | (1,163) | 0 | 0 | 0 | (1,163) |
| Other Movements | (2,459) | 0 | 0 | 0 | (2,459) |
| **At 31 March 2011** | **373,581** | **160** | **7,576** | **4,427** | **385,744** |
| **Net Book Value** | | | | | |
| **At 31 March 2011** | **1,136,700** | **355** | **8,225** | **35,415** | **1,180,695** |
| **At 31 March 2010 (Restated)** | **1,240,479** | **103** | **14,367** | **0** | **1,254,949** |

Comparative movements in 2009/10 were as follows:

| | Liverpool City Council £'000 | Liverpool Arena £'000 | Liverpool Science Park £'000 | SOLUS £'000 | **Group Total £'000** |
|---|---|---|---|---|---|
| **Cost or Valuation** | | | | | |
| **At 1 April 2009 (Restated)** | **1,408,407** | **227** | **15,470** | **0** | **1,424,104** |
| Additions | 124,579 | 271 | 83 | 0 | 124,933 |
| Revaluations in the Revaluation Reserve | 32,475 | 0 | 0 | 0 | 32,475 |
| De-recognition - disposals | 0 | (345) | 0 | 0 | (345) |
| De-recognition - other | 0 | 0 | 0 | 0 | 0 |
| Assets reclassified (to)/ from Held for Sale | (1,760) | 0 | 0 | 0 | (1,760) |
| Other Transfers | (3,029) | 0 | 0 | 0 | (3,029) |
| Other Movements | (1,791) | 0 | 0 | 0 | (1,791) |
| **At 31 March 2010** | **1,558,881** | **153** | **15,553** | **0** | **1,574,587** |
| **Depreciation and Impairment** | | | | | |
| **At 1 April 2009 (Restated)** | **237,939** | **20** | **735** | **0** | **238,694** |
| Depreciation charge for 2009/10 | 53,522 | 30 | 451 | 0 | 54,003 |
| Depreciation to the Revaluation Reserve – on revaluation | (7,817) | 0 | 0 | 0 | (7,817) |
| Impairment losses/(reversals) recognised in the Revaluation Reserve | 3,895 | 0 | 0 | 0 | 3,895 |
| Impairment losses/(reversals) in the Surplus/Deficit on the Provision of Service | 33,577 | 0 | 0 | 0 | 33,577 |
| De-recognition – disposals | 0 | 0 | 0 | 0 | 0 |
| De-recognition – other | 0 | 0 | 0 | 0 | 0 |
| Assets reclassified (to)/ from Held for Sale | 0 | 0 | 0 | 0 | 0 |
| Other Transfers | (923) | 0 | 0 | 0 | (923) |
| Other Movements | (1,791) | 0 | 0 | 0 | (1,791) |
| **At 31 March 2010** | **318,402** | **50** | **1,186** | **0** | **319,638** |
| **Net Book Value** | | | | | |
| **At 31 March 2010** | **1,240,479** | **103** | **14,367** | **0** | **1,254,949** |
| **At 31 March 2009 (Restated)** | **1,170,468** | **207** | **14,735** | **0** | **1,185,410** |

Other adjustments included in the Group Balance sheet:

**g) Debtors**

| 1 April 2010 £'000 | 31 March 2010 £'000 | | 31 March 2011 £'000 |
|---|---|---|---|
| 155,758 | 122,903 | LCC debtors total (refer to note 26) | 99,777 |
| (6,663) | (1,831) | Inter – group consolidation adjustment | (2,014) |
| 464 | 2,883 | Debtors of Subsidiaries | 1,824 |
| **149,559** | **123,955** | **Total Group Debtors** | **99,587** |

**h) Cash and Cash Equivalents**

| 1 April 2010 £'000 | 31 March 2010 £'000 | | 31 March 2011 £'000 |
|---|---|---|---|
| 43,455 | 114,906 | LCC Cash & Cash Equivalents total (refer to note 27) | 136,724 |
| 4,000 | 3,982 | Trust fund Cash & Cash Equivalents | 4,023 |
| 8,664 | 8,951 | Subsidiary Cash & Cash Equivalents | 49,782 |
| **56,119** | **127,839** | **Total Group Cash & Cash Equivalents** | **190,529** |

**i) Creditors (short term)**

| 1 April 2010 £'000 | 31 March 2010 £'000 | | 31 March 2011 £'000 |
|---|---|---|---|
| (132,495) | (146,219) | LCC creditors total (refer to note 28) | (132,369) |
| 2,195 | 486 | Inter – group consolidation adjustment | 880 |
| (6,098) | (10,653) | Creditors of Subsidiaries | (14,951) |
| **(136,398)** | **(156,386)** | **Total Group Creditors** | **(146,440)** |

**j) Other long term liabilities**

| 1 April 2010 £'000 | 31 March 2010 £'000 | | 31 March 2011 £'000 |
|---|---|---|---|
| (58,879) | (58,307) | LCC lease liability due after 1 year | (55,601) |
| | - | Subsidiary lease liability due after 1 year | (42,320) |
| **(58,879)** | **(58,307)** | **Total Group Other Long Term Liabilities** | **(97,921)** |

The Subsidiary lease liability relates to the finance lease entered into by Solus Treasury Services Ltd. The asset acquired under the terms of the finance lease has also been consolidated into the Group Accounts.

**k) Liability related to defined benefit pension scheme**

| 1 April 2010 £'000 | 31 March 2010 £'000 | | 31 March 2011 £'000 |
|---|---|---|---|
| (608,851) | (853,356) | LCC Pension liability (refer to note 45) | (649,371) |
| (250) | (30) | Subsidiary Pension (liability) / asset | 90 |
| **(609,101)** | **(853,386)** | **Total Group Pension Liabilities** | **(649,281)** |

The adjustment of £0.090m relates to the surplus on the Pension scheme for the Arena and Convention centre.

**l) Provisions (long term)**

| 1 April 2010 £'000 | 31 March 2010 £'000 | | 31 March 2011 £'000 |
|---|---|---|---|
| (60,891) | (11,968) | LCC Provision (refer to note 29) | (11,925) |
| - | - | Subsidiary Provisions | (589) |
| **(60,891)** | **(11,968)** | **Total Group Provisions** | **(12,514)** |

**m) Cash Flow Statement**

The Group Cash Flow Statement shows cash movements during the year for both the City Council and its subsidiaries. A reconciliation of the City Council's single entity cash movement with the Group cash movement is given below.

| 2009/10 £'000 | | 2010/11 £'000 |
|---|---|---|
| (71,451) | Single entity net (increase)/decrease in cash | (21,818) |
| 18 | Net (increase)/decrease in Trust Fund cash | (41) |
| (287) | Net (increase)/decrease in subsidiary cash | (40,831) |
| **(71,720)** | **Group net (increase)/decrease in cash** | **(62,690)** |

During 2010/11 the City Council acquired the entire share capital of SOLUS Treasury Services Limited for consideration of £1. The amount of cash and cash equivalents over which control was obtained was £40.2m and as per the Code has been classified as an investing activity within the Cash Flow Statement.

## 3. Business Combinations

On 2 July 2010 Solus Treasury Services Ltd was acquired by the City Council from Arlingclose Ltd for consideration of £1, so becoming a wholly owned subsidiary of the City Council. As a subsidiary, Solus has been consolidated within the City Council's group accounts on a line-by-line basis.

The acquisition of Solus as a subsidiary is classed as a business combination and so falls to be considered under IFRS3 Business Combinations, which states that combinations shall be accounted for under the acquisition method; the main aim being to measure the value of the investment acquired by the Council and the measurement of any goodwill.

Solus Treasury Services Ltd is a special purpose entity created on 11 December 2003 to assist Liverpool City Council in the redevelopment of the King's Waterfront. The company was designed in conjunction with Arlingclose Ltd as a tax efficient vehicle for elements of the construction costs associated with the arena and convention centre facility that was built on the site. The arrangement contains a multi-layered series of lease agreements designed so that assets eligible for taxable allowances are in the financial statements of Solus Treasury Services Ltd on the basis of a finance lease and then sub-leased to the City Council under the terms of an operating lease. The finance lease was entered into with Lloyds TSB General Leasing Ltd. The City Council has invested £45m in Solus Treasury Services Ltd and this provides the funding by which the entity is able to meet its expenses relating to its leasing obligation. The City Council leases the assets from Solus at a purely nominal amount.

**Consideration and Fair value**

The City Council acquired its interest in Solus Treasury Services Ltd, for a purely nominal amount after previously investing £45m in the company. The fair value of the net assets acquired has been assumed to be the Balance Sheet valuations at 31 March 2010 (per the published accounts). Purchased goodwill is taken to be the difference between the amount given as consideration for the entity and the fair value of the assets acquired. The table below shows the composition and the assumed fair value of the net assets acquired.

| | **Fair Value 02/07/2010 £'000** |
|---|---|
| Fixed Assets (gross value) | 48,696 |
| Cash | 41,320 |
| Creditors | (131) |
| Lease liability | (44,388) |
| **Net Assets Acquired** | **45,497** |
| LCC Consideration (nominally £1) | 0 |
| LCC Investment in Company | 45,000 |
| **Purchased Goodwill** | **497** |

The City Council has acquired overall assets in the entity with an assumed fair value of approximately £45m, which equates to the City Council's initial investment. No material goodwill is therefore considered to have arisen on acquisition and this is reflected in the Group financial statements.

## 4. Results of Subsidiary and Joint Venture Companies

The following notes provide additional details of the City Council's involvement in the companies consolidated to form the Group Accounts:

### a) Liverpool Science Park Ltd (Registered Company No. 04798049)

**Nature of the business and relationship to the City Council:**
Liverpool Science Park Limited is a company limited by guarantee and has no share capital. The members of the company and their interests are Liverpool John Moores University (24.5%), the University of Liverpool (24.5%) and Liverpool City Council (51%). The principal objectives of the company are to promote, deliver, sponsor, co-ordinate and where appropriate, fund the establishment and continued operation and management of science parks. It is also to encourage and support the development of new and growing businesses in the fields of science and knowledge based technologies. The City Council has no shareholding in this Company but appoints two directors to the company's Board. Company profits and losses will be distributed according to interests although current financial positions are being underwritten by a Regional Development Agency grant.

**Financial performance:**
For 2010/11 the company's turnover was £1.769m (2009/10 £2.121m), profits were £0.083m (2009/10 £0.264m) and net assets amounted to £0.189m (2009/10 £0.106m). The City Council received no dividends during the year.

**Accounts**
A full copy of the company's accounts can be obtained from, Liverpool Science Park Limited, Egerton Court, 2 Rodney Street, Liverpool, L3 5UX.

### b) Arena and Convention Centre Liverpool Ltd (Registered Company No. 05204033)

**Nature of the business and relationship to the City Council:**
The Arena and Convention Centre Liverpool Limited is a private limited company with share capital of £1. The company was created 31 August 2005 to manage the operation of the Arena and Convention Centre Liverpool and began trading in 2007/08. The City Council is the only shareholder in this company and appoints all four directors to the Company's Board.

**Financial performance:**
For 2010/11 the Company's turnover was £14.499m (2009/10 £13.063m), profit after tax was £0.254m (2009/10 losses of £0.019m) and net liabilities amounted to £0.606m (2009/10 £0.903m). The City Council received no dividends during the year.

**Accounts**
A full copy of the Company's accounts can be obtained from, Arena and Convention Centre Liverpool Limited, c/o Municipal Buildings, Dale Street, Liverpool, L2 2DH.

### c) SOLUS Treasury Service Ltd (Registered Company No. 4992715)

**Nature of the business and relationship to the City Council:**
SOLUS Treasury Services Ltd is a special purpose entity created on 11 December 2003 to assist Liverpool City Council in the redevelopment of the King's Waterfront. On 2 July 2010 the City Council purchased the entire share capital of SOLUS Treasury Services Ltd from Arlingclose Ltd for consideration of £1. The entity is now classed as a wholly owned subsidiary of the City Council although it continues as a separate legal entity.

The City Council appoints both directors to the Company's Board.

**Financial performance:**
For 2010/11 the Company's turnover was nil and the loss for the year was £7.100m. Net liabilities at 31 March 2011 amounted to £21.160m. The company does not trade and will continue to make losses until such time as its leasing obligations have expired. There are no comparatives for previous years as the company was not owned by the City Council. No dividend was received during the year.

**Accounts**
A full copy of the Company's accounts can be obtained from, SOLUS Treasury Services Ltd, Municipal Buildings, Dale St, Liverpool, L2 2DH.

**d) Liverpool Direct Ltd (Registered Company No. 04243845)**

**Nature of the business and relationship to the City Council:**
In July 2001 the City Council entered into an arrangement for the provision of call centre services, ICT, local tax collection, human resources and payroll services for the City Council. A subsidiary company of BT was created to undertake the work. The City Council has a 19.9% shareholding in this Company valued at £1,999.00 and appoints one director to the Company's Board. Any profits would be distributed on a 50:50 basis.

**Financial performance:**
For 2010/11 the Company's turnover was £75.487m (2009/10 £71.784m), profit after tax was nil (2009/10 nil) and net assets amounted to £0.010m (2009/10 £0.010m). The City Council received no dividends during the year.

**Accounts**
A full copy of the Company's accounts can be obtained from, Liverpool Direct Ltd, Room 102, Municipal Buildings, Dale St, Liverpool L69 2DH.

**e) Liverpool Partnership LLP (Registered Company No. OC326504)**

**Nature of the business and relationship to the City Council:**
Liverpool Partnership LLP was incorporated as a limited liability partnership on 2 March 2007 and is classified as a joint venture given the contractual need that each party has to agree all policy decisions. Its primary role was to deliver housing regeneration schemes initially within Alt Valley neighbourhood area. The City Council has 99.99% of the shareholding in this company and appoints two out of the four directors. Profits are to be distributed according to shareholding.

**Financial performance:**
For 2010/11 the Company's turnover was £0.417m (2009/10 nil), losses were £0.004m (2009/10 £0.006m), and net assets amounted to £1.114m (2009/10 £0.972m). The City Council received no dividends during the year.

**Accounts**
A full copy of the accounts can be obtained from Inpartnership Group, 35 St Paul's Square, Birmingham B3 1QX.

**f) Enterprise-Liverpool Ltd (Registered Company No. 4161448)**

**Nature of the business and relationship to the City Council:**
On 1 April 2002 the City Council entered into an arrangement with Enterprise PLC for the provision of highways maintenance and street lighting services. A subsidiary company of Enterprise PLC (Enterprise-Liverpool Ltd.) was created to carry out the contract. In June 2003 the City Council, via a further Official Journal of European Union (OJEU) procedure added the street cleansing service to the contract. In 2005/06 the housing repairs contract was novated from Interserve to Enterprise-Liverpool. This contract terminated twelve months after the transfer of Housing stock to Liverpool Mutual Homes on 31 March 2008. In October 2006 the company was successful in the OJEU process to secure the 'Neighbourhood' Grounds Maintenance Package for a period of twelve years. In November 2008 the company was successful in the OJEU process to secure the combined waste and recycling collection contract for a period of fourteen years, with a break clause after seven years. The City Council has a 19.9% shareholding in this company valued at £19,999.99 and appoints two directors to the Company's Board. Any profits would be distributed equally to each partner.

**Financial performance:**
For 2010/11 the Company's turnover was £58.013m (2009/10 £48.316m), loss after tax was £0.060m (2009/10 a loss of £0.013m) and net liabilities amounted to £0.001m (2009/10 net assets of £0.059m). The City Council received no dividends during the year.

**Accounts:**
A full copy of the Company's accounts can be obtained from Enterprise-Liverpool Limited, Newton Rd, Liverpool, L13 3HS.

**g) 2020 Liverpool Ltd (Registered Company No.4782302)**

**Nature of the business and relationship to the City Council:**
In 2003/04 the City Council entered into an arrangement with Mouchel Parkman Ltd for the provision of building and landscape architectural design, highways design and implementation, traffic control and some elements of the property management service. A subsidiary company of Mouchel Parkman Ltd was created to undertake the work. The City Council has a 19.9% shareholding in this Company valued at £199.50 and appoints one director to the Company's Board. Any profits would be distributed on a 50:50 basis.

**Financial performance:**
For 2010/11 the Company's turnover was £17.199m (2009/10 £18.674m), profit after tax was £0.268m (2009/10 £0.068m); net assets were £0.856m (2009/10 £0.587m). The City Council received no dividends during the year.

**Accounts**
A full copy of the Company's accounts can be obtained from, 2020 Liverpool, c/o Mouchel Parkman Ltd, Cunard Building, Liverpool, L3 1ES.

**h) Geraud Markets Liverpool Ltd (Registered Company No. 4633666)**

**Nature of the business and relationship to the City Council:**
On 7 April 2003 the City Council entered into an arrangement with Group Geraud for the provision of market services. This involves the management and operation of the Council's market facilities for a period of ten years. A subsidiary company of Group Geraud PLC was created to undertake the work. The City Council has a 19.9% shareholding in this Company

valued at £19.99 and appoints one director to the company's Board. Surpluses are allocated on a 50:50 basis subject to reserve contributions.

**Financial performance:**
For 2010/11 the Company's turnover was £2.841m (2009/10 £2.741m), loss after tax was £0.001m (2009/10 profits were £0.001m) and net assets were £0.111m (2009/10 £0.112m). The City Council received no dividends during the year.

**Accounts:**
A full copy of the Company's accounts can be obtained from, Geraud Markets Ltd, The Geraud Centre, Wholesale Fruit & Vegetable Market, Edge Lane, Liverpool, L13 2EP.

**i) Liverpool Vision (Registered Company No. OC326504)**

**Nature of the business and relationship to the City Council:**
Liverpool Vision was incorporated in May 2008 as a company limited by guarantee with no share capital. This new company was a merger of Liverpool Vision (1999) (Registered Company No. 03794290) and Liverpool Land Development Company (Registered Company No. 04710666) with a further TUPE transfer of staff from Business Liverpool, a service of the City Council.
Liverpool Land Development Company still has outstanding contractual commitments and is a wholly owned subsidiary of the new Liverpool Vision.
The Company's primary role is to deliver comprehensive physical and economic regeneration, creating new development sites and premises and attracting investment and jobs. The City Council has no shareholding in this company but appoints three directors to the Company's Board. Profits are carried forward to fund future year's expenditure which the City Council has agreed to underwrite for an initial three year period.

**Financial performance:**
For 2010/11 the Company's turnover was £9.719m (2009/10 £11.601m), profits were £0.201m (2009/10 £0.564m) and net assets amounted to £0.985m (2009/10 £0.265m). The City Council received no dividends during the year.

**Accounts**
A full copy of the Company's accounts can be obtained from Liverpool Vision, 5th Floor, The Capital, 39 Old Hall Street, Liverpool, L3 9PP

**j) Glendale - Liverpool Ltd (Registered Company No. 05765738)**

**Nature of the business and relationship to the City Council:**
In October 2006 the City Council entered into new arrangements for the provision of grounds maintenance services for the City Council. Glendale Managed Services (GMS) was successful in the OJEU process for the "Parks" Package. A subsidiary company of GMS was created to undertake the work. The City Council has a 19.9% shareholding in this Company valued at £1,999.00 and appoints one director to the company's Board. Surpluses are allocated on a 50:50 basis subject to reserve contributions.

**Financial performance:**
For 2010/11 the Company's turnover was £8.659m (2009/10 £8.702m), loss after tax was £0.088m (2009/10 profits were nil) and net liabilities amounted to £0.078m (2009/10 net assets of £0.010m). The City Council received no dividends during the year.

**Accounts**
A full copy of the Company's accounts can be obtained from, Glendale - Liverpool Ltd, c/o The Coach House, Duxbury Hall Road, Duxbury Park, Chorley, PR7 4AT.

# GLOSSARY OF FINANCIAL TERMS

## Abbreviations

The following are some of the abbreviations that have been commonly used in this document:

MIRS – Movement in Reserves Statement
CIES – Comprehensive Income and Expenditure Statement
IFRS – International Financial Reporting Standards

## Accounting Policies

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

## Accruals

The concept that income and expenditure are recognised as they are earned or incurred, not as money is received or paid.

## Acquired Operations

Operations comprise services and divisions of services as defined in CIPFA's standard classification of income and expenditure. Acquired operations are those operations that are acquired in the period.

## Actuarial Gains & Losses

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

a) Events have not coincided with the actuarial assumptions made for the last valuation (experience gains and losses); or
b) The actuarial assumptions have changed.

## Agent Transactions

Agent transactions are where the authority is acting as an intermediary for another body, rather than acting on its own behalf**.**

## Amortisation

The reduction in an amount carried on the Balance Sheet by the regular debiting or crediting to an Income and Expenditure Account. Examples include loan discounts which are credited to revenue over the life of the replacement loan.

**Amortised Costs (using effective interest rate method)**

The amortised cost using the effective interest rate method applies to both financial liabilities and assets carried at amortised cost. It is a method of determining the Balance Sheet carrying amount and periodic charges or credits to the Income and Expenditure Account of a financial instrument from the expected cash flows.

**Capital Expenditure**

This is expenditure on the acquisition of a fixed asset, or expenditure which adds to, and not merely maintains, the value of an existing fixed asset. This includes the initial costs of acquisition and construction, and costs incurred subsequently to enhance or replace part of the asset.

**Carrying amount**

Carrying amount is the amount at which an asset is recognised after deducting any accumulated depreciation and impairment losses.

**Cash**

Cash comprise cash on hand and demand deposits.

**Cash Equivalents**

Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

**Components**

An asset may consist of several different and significant physical components, with substantially different useful lives. The Code requires that if an item of property, plant or equipment comprises two or more significant components, then each component is treated separately for depreciation purposes and depreciated over its individual useful life. In addition if a component is replaced or restored, to avoid double counting the old component is de-recognised and the new component is capitalised.

**Conditions on transferred Assets**

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset are required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

**Consistency**

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

**Contingent Liability**

A contingent liability is either:

a) A possible obligation arising from a past event which will be confirmed only by the occurrence of one or more uncertain future events. An example may be possible legal action against the City Council, where an event has happened but it is unclear as to whether the matter will come before the courts; or

b) A present obligation arising from past events where it is unclear that a transfer of economic benefits will be required or the amount of the obligation cannot be measured with sufficient reliability.

Where liabilities can be measured, they are included as provisions within the accounts.

**Contingent Rental**

A contingent rental is that part of a lease rental which is not fixed but is based on the future amount of a factor that changes other than just the passage of time. For example, a rental is contingent when the lessee must pay an extra amount based on sales or profitability.

**Corporate and Democratic Core**

This comprises all those activities that the City Council engages in specifically because it is an elected multi-purpose authority. The costs of these activities are thus over and above those that are 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.

**Current Service Cost (Pensions)**

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

**Curtailment**

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

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

**Defined Benefit Scheme**

A pension or other retirement benefit scheme where 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. The Local Government Pension Scheme is a defined benefit scheme.

**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 employee gross pay and will have no legal or constructive obligation to pay further contributions if the scheme does not have sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

**Depreciation**

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

**De-recognition**

De-recognition is the term used for the removal of an asset or liability from the Balance Sheet. A financial liability should be removed from the Balance Sheet when it is extinguished – i.e. when the obligation specified in the contract is discharged or cancelled or expires. The normal way a financial liability is extinguished is when the liability is settled by paying the creditor. Sometimes the liability is extinguished when the debtor is released from primary responsibility for the liability either by process of law or by the creditor.

**Discontinued Operations**

Operations comprise services and divisions of service as defined in CIPFA's Standard Classification of Income and Expenditure. An operation would be classified as discontinued if all of the following conditions were met:

a) The termination of the operation is completed either in the period or before the earlier of the three months after the commencement of the subsequent period and the date on which the financial statements are approved; and
b) The activities related to the operation have ceased permanently; and
c) The termination of the operation has a material effect on the nature and focus of the City Council's operations and represents a material reduction in its provision of services resulting either from its withdrawal from a particular activity (whether a service or division of service or its provision in a specific geographical area) or from a material reduction in net expenditure in the City Council's continuing operations; and
d) The assets, liabilities, income and expenditure of operations and activities are clearly distinguishable physically, operationally and for financial reporting purposes.

Operations not satisfying all these conditions are classified as continuing.

**Discretionary Benefits**

Retirement benefits which the employer (the City Council) has no legal, contractual or constructive obligation to award and which are awarded under the City Council's discretionary powers, such as the Local Government (Discretionary Payments) Regulations 1996.

**Donated Assets**

Donated assets are assets transferred at nil value or acquired at less than fair value.

**Employee Benefits**

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees.

**Estimation Techniques**

The methods adopted by an entity to arrive at estimated monetary amounts, corresponding to the measurement bases selected for assets, gains, losses and changes to reserves.

Estimation techniques implement the measurement aspects of accounting policies. An accounting policy will specify the basis on which an item is to be measured. Where there is uncertainty over the monetary amount corresponding to that basis, the amount will be arrived at by using an estimation technique. Estimation techniques include, for example:

a) Methods of depreciation such as straight-line and reducing balance applied in the context of a particular measurement basis, used to estimate the proportion of the economic benefits of a tangible fixed asset consumed in a period;
b) Different methods used to estimate the proportion of debts that will not be recovered particularly where such methods consider a population as a whole, rather than individual balances.

**Exceptional Items**

Material items that derive from events or transactions which fall within the ordinary activities of the City Council and that need to be disclosed separately by virtue of their size or incidence to give fair presentation of the accounts.

**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 schemes expenses, expected over the remaining life of the related obligation on the actual assets held by the scheme.

**Extraordinary Items**

Material items, possessing a high degree of abnormality, that derive from events or transactions that fall outside the ordinary activities of the City Council and which are not expected to recur. An example of an extraordinary item could be where the City Council has undertaken transactions that are ruled to be outside of its statutory powers and the financial implications of amending the transaction are unclear. They do not include exceptional items nor do they include prior period items merely because they relate to a prior period.

**Fair Value**

In IFRS there is not a consistent definition of fair value, different definitions apply in different circumstances. The fair value for Property, Plant and Equipment is generally interpreted as the amount that would be paid for the asset in its existing use. The fair value of other assets is likely to be the amount for which an asset could be exchanged between knowledgeable, willing parties in an arms length transaction; for example in the case of investment properties this could be interpreted as Market Value.

**Finance Lease**

A lease that transfers substantially all of the risks and rewards of ownership of a fixed asset to the lessee. Such a transfer of risks and rewards may be presumed to occur if at the inception of the lease the present value of the minimum lease payments, including any initial payment, amounts to substantially all of the fair value of the leased asset.

**Financial Guarantee Contracts**

A contract that requires the guarantor to reimburse the holder of a debt instrument should the debtor fail to make payment when due and in accordance with the terms of the loan. Commercial organisations may charge a fee for accepting the risk involved in giving such financial guarantees but local authorities enter into such arrangements for policy rather than commercial reasons and do not usually receive a fee.

**Financial Instruments**

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another. Typical financial instruments include: trade and other payables; borrowings; financial guarantees; bank deposits; trade receivables; loans receivable; other receivables and advances and investments. More complex financial instruments include derivatives (financial instruments which have options to do certain things at a future point in time, e.g. to vary the rate of interest paid on a loan).

**Fixed Assets**

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

**Going Concern**

The concept that the City Council will remain in operational existence for the foreseeable future, in particular that the Income and Expenditure Account and Balance Sheet assume no intention to curtail significantly the scale of operations.

**Grants and Contributions**

Grants and contributions are assistance in the form of transfers of resources to an authority in return for past or future compliance with certain conditions relating to the operation of activities. They exclude those forms of assistance which cannot reasonably have a value placed upon them and transactions with organisations which cannot be distinguished from the normal service transactions of the authority.

**Group Accounts**

Group accounts are the financial statements of a group, plus the investments in associates and interests in joint ventures (jointly controlled entities), presented as a single economic entity**.**

**Impairment**

A reduction in the value of a fixed asset due to a decline in market value during the period, obsolescence or physical damage, or a change in the statutory environment in which the City Council operates. Reductions in value that are the result of physical damage or obsolescence are in the first instance charged against any previous revaluation gains for the relevant asset recognised in the Revaluation Reserves, impairment losses in excess of the Revaluation Reserve balance are then charged against the relevant service line in the Comprehensive Income and Expenditure Statement.

**Infrastructure Assets**

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

**Interest 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.

**Inventories**

Inventories are assets:
a) in the form of materials or supplies to be consumed in the production process
b) in the form of materials or supplies to be consumed or distributed in the rendering of services
c) held for sale or distribution in the ordinary course of operations, or
d) in the process of production for sale or distribution.
They were previously referred to as “stocks”.

**Investments (Non Pensions Fund)**

A long term investment is an investment that is intended to be held for use on a continuing basis in the activities of the City Council. Investments should be so classified only where an intention to hold the investment for the long term can clearly be demonstrated or where there are restrictions as to the investor’s ability to dispose of the investment.

**Investments (Pensions Fund)**

The investments of the Pensions Fund will be accounted for in the statements of that Fund. However, the City Council is also required to disclose, as part of the disclosures relating to retirement benefits, the attributable share of pension scheme assets associated with its underlying obligations.

**Investment Properties**

Investment property is property (land or a building, or part of a building, or both) held solely to earn rentals or for capital appreciation or both, rather than for:

a) use in the production or supply of goods or services or for administrative purposes, or
b) sale in the ordinary course of operations.

If earning rentals were an outcome of a regeneration policy, for example, the properties concerned would be accounted for as property, plant and equipment rather than investment property.

**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.

**Loan and Receivables - assets**

A financial instrument which represents an asset to the authority and includes loans and investments made by the council to third parties. They are characterised by fixed or determinable payments and are not quoted in an active market. They do not include investments by way of shares and equity.

**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 that 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 on long term contracts if they are sufficiently material to the activity of the period.

**Material**

Omissions or misstatements of items are material if they could, individually or collectively, influence the decisions or assessments of users made on the basis of the financial statements. Materiality depends on the nature or size of the omission or misstatement judged in the surrounding circumstances. The nature or size of the item, or a combination of both, could be the determining factor.

**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 amounts 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 that of the nearest equivalent asset adjusted to reflect the current condition of the existing asset.

**Net Realisable Value**

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

**Operating Lease**

A lease other than a finance lease, examples of which are the hire of computers, equipment and vehicles.

**Operational Assets**

Fixed assets held and occupied, used or consumed by the City Council in the direct delivery of those services for which it has either a statutory or discretionary responsibility.

**Past Service Cost**

For a defined benefit scheme, the increase in the present value of the scheme liabilities relating to employee service in prior periods arising in the current period as a result of the introduction of, or improvement to, retirement benefits.

**Post Balance Sheet Events**

Those events both favourable and unfavourable occurring between the Balance Sheet date and the date on which the Statement of Accounts is signed by the responsible financial officer.

**Prior Year Adjustments**

Those material adjustments applicable to prior years arising from changes in accounting policies or from the correction of fundamental errors. They do not include normal recurring corrections or adjustments of accounting estimates made in prior years. A prior year adjustment may arise through the identification in the current financial year of a significant item of expense that should have been accounted for in the previous financial year and the omission has a fundamental bearing on the overall financial position for the previous year.

**Principal Transactions**

Principal transactions are where the authority is acting on its own behalf.

**Projected Unit Method**

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

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

The accrued benefits are the benefits for service up to a given point in time, whether vested rights or not. Guidance on the projected unit method is given in the Guidance Note GN26, issued by the Faculty and Institute of Actuaries.

**Related Parties**

Two or more parties are related parties when at any time during the financial period:

a) One party has the ability to the other party;
b) The parties are subject to common control from the same source;
c) One party has influence over the financial and operational policies of the other party to an extent that the other party might be inhibited from pursuing its own separate interests;
d) The parties, in entering into a transaction, are subject to influence from the same source to such an extent that one of the parties to the transaction has subordinated its own separate interests.

Related parties transactions for the City Council can include those transactions with the Government, other public bodies, subsidiary and associated companies, joint venture partners, members and chief officers.

For individuals identified as related parties, the following are also presumed to be related parties - members of close family, partnerships, companies, trusts or other entities in which the individual has a controlling influence.

**Remuneration**

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

**Residual Value**

Residual value of an asset is the estimated amount that an entity would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.

**Restrictions on transferred Assets**

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential are required to be returned to the transferor if not deployed as specified.

**Retirement Benefits**

All forms of consideration given by the City Council 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:

a) The City Council's decision to terminate an employee's employment before the normal retirement date; or
b) An employee's decision to accept voluntary redundancy in exchange for those benefits, because these are not given in exchange for services rendered by employees.

**Revenue Expenditure funded from Capital under Statute**

Expenditure that does not result in creation of a fixed asset but can be classified as capital for funding purposes. Such expenditure is charged to the Income and Expenditure account and an adjustment made in the Movement in Reserves statement to enable the expenditure to be funded from capital resources rather than impact on the council tax. An example is expenditure on improvement grants.

**Scheme Liabilities**

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

**Settlement**

An irrevocable action that relieves the City Council (or the defined benefit scheme) of the primary responsibility for a pension obligation and eliminates significant risks relating to the obligation and the assets used to effect the settlement. Settlements include:

a) A lump sum cash payment to scheme members in exchange for their rights to receive specified pension benefits;
b) The purchase of an irrevocable annuity contract sufficient to cover vested benefits; and
c) The transfer of scheme assets and liabilities relating to a group of employees leaving the scheme.

**Soft Loans**

A loan made to a third party or received from a third party where the interest rate is less than the prevailing market interest rate. Local authorities sometimes make such loans for policy reasons, i.e. to assist local charities or voluntary organisations that undertake activities that the authority considers benefits the local population.

**Useful Life**

The period over which the City Council will derive benefits from the use of a fixed asset.

**Vested Rights**

In relation to a defined benefit pension scheme, these are:

a) For active members, benefits to which they would unconditionally be entitled on leaving the scheme;
b) For deferred pensioners, their preserved benefits;
c) For pensioners, pensions to which they are entitled.

Vested Rights include where appropriate the related benefits for spouses or other dependants.

# OTHER INFORMATION AVAILABLE

Further information about Liverpool City Council is available via the following:

## Corporate Plan

This key City Council document sets out the City Council's Visions and Values, reports upon performance for 2008/09 and sets targets for performance for the years 2009/10 – 2011/12. It is available on the City Council's website www.liverpool.gov.uk.

## Council Tax Information Leaflet

This is issued annually with Council Tax bills. It gives more information on Council Tax, Non-Domestic Rates and the finances of the City Council.

## City Council Minutes

Reference copies of Council minutes are available on the City Council's website www.liverpool.gov.uk.

## Public Inspection of Accounts

There is a specific time (1 – 28 July 2011) when the public may inspect the accounts. A public notice appears three weeks beforehand in the local press giving details of dates and times.

## Contacting the City Council

You can contact the City Council in a number of ways, either:

a) By telephoning ***Liverpool Direct* on 0151 233 3000** where staff will either deal with your queries or put you in touch with the right person; or
b) You can log onto the City Council's website at ***www.liverpool.gov.uk*** where you will find information about City Council services and other events happening in the City.

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