

**MERSEYSIDE WASTE DISPOSAL
AUTHORITY**

STATEMENT OF ACCOUNTS

2006-2007

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FOREWORD BY THE TREASURER TO THE AUTHORITY

INTRODUCTION

The statements of account which follow demonstrate the Authority's financial performance for the year ended 31 March 2007 and present its overall financial position at the end of that period. Each account contains an explanatory note covering the purpose of the account and more detailed notes explaining key items. The statements have been prepared in accordance with all relevant prescribed guidance, Codes of Practice and Reporting Standards.

The purpose of this Foreword is to provide a guide to the most significant matters reported in the accounts.

Expenditure falls into two broad areas, namely Revenue (concerning the provision of Authority services) and Capital (the acquisition or improvement of fixed assets).

RESERVES

The Authority's Reserves at 31 March 2007 stand at £10.3M.

The Pension Reserve introduced under FRS17 requirements is matched by a Pensions Liability equating to £1.7M. Statutory arrangements relating to the funding of the deficit are likely to result in increased contributions in future periods.

REVENUE SPENDING IN 2006-2007

Revenue expenditure in 2006-2007 exceeded that in the preceding year by £5.2M.

The main increases are as follows:-

| | £M |
|--|-------------|
| Increase in Waste Disposal Contract Payments | +2.4 |
| WEEE (Waste Electrical & Electronic Equipment) Grant Received | -0.5 |
| Increase in Landfill Tax paid | +1.6 |
| Increase in Recycling Credits paid to District Councils | +0.7 |
| Increase in Establishment Costs (Contract Procurement) | +0.4 |
| Other Net Increases (including LATS) | +0.6 |
| | <u>+5.2</u> |

The Authority's original budget for 2006-2007 amounted to £47.5M and the final outturn expenditure was £45.4M. The financial position is monitored on a quarterly cycle and savings were identified in the course of the year. Those recognised at the end of the third quarter were included in the Authority's Revised Estimate for 2006-2007 which was approved at the Budget meeting.

The changes to the financial position are shown below:-

| | 2006-2007 ORIGINAL BUDGET £M | 2006-2007 REVISED BUDGET £M | 2006-2007 ACTUAL EXPENDITURE £M |
|--|---------------------------------------|--------------------------------------|--|
| Net Spending on Services | 47.9 | 46.7 | 45.7 |
| Investment Income and Interest Received | (0.4) | (0.2) | (0.3) |
| Total | 47.5 | 46.5 | 45.4 |
| Levy Income | (47.5) | (47.5) | (47.5) |
| Net Deficit/(Surplus) for the Year | 0 | (1.0) | (2.1) |

The main reasons for variations were:-

| | |
|---|-------------|
| <u>Original to Revised Budgets</u> | £M |
| Reduction of waste tonnages (41k) dealt with in the Waste Collection Authority Contract and consequent savings on Contract Payments, Discounts and Landfill Tax | -1.9 |
| Increase in Contract Payments - WCA Contract | +0.6 |
| Legislative Claim - Bromborough Dock | +0.4 |
| Other minor net reductions | <u>-0.1</u> |
| | <u>-1.0</u> |
| <u>Revised Budget to Actual Expenditure</u> | |
| Hazardous WEEE (Waste Electrical & Electronic Equipment) Grant received (not budgeted for) | -0.5 |
| Reduced level of interest paid as a result of capital expenditure slippage | -0.3 |
| Reduction in recycling credits paid to District Councils | -0.1 |
| Other minor net reductions | <u>-0.2</u> |
| | <u>-1.1</u> |

The total underspend of £2.1M increased general balances by that amount but £1.2M of earmarked balances were used in support of the Contract Procurement Project, £1M of balances were transferred from General to Earmarked in the year.

The movement in balances is summarised as follows:-

| | General | Earmarked | Total |
|----------------------|------------|-------------|-------------|
| Opening Balance | 5.1 | 4.3 | 9.4 |
| Transfer of Balances | -1.0 | 1.0 | - |
| Movement in Year | <u>2.1</u> | <u>-1.2</u> | <u>0.9</u> |
| | <u>6.2</u> | <u>4.1</u> | <u>10.3</u> |

The following Table illustrates how the gross expenditure was incurred and how it was financed:-

| | £M |
|---------------------------|--------|
| Expenditure: | |
| Employee Costs | 1.2 |
| Waste Disposal Contracts | 38.7 |
| Capital Financing Costs | 1.4 |
| Recycling Credit Payments | 4.0 |
| Other Costs | 0.5 |
| Income: | |
| Levy | (47.5) |
| Investment Income | (0.4) |
| Contribution to Balances | (2.1) |

CAPITAL SPENDING IN 2006-2007

The Authority spent £4.6M on capital expenditure in 2006-2007 which included the following major items:-

| | £M |
|--|------------|
| Bidston Integrated Waste Management Facility | 1.8 |
| New Technology Demonstrator Project | 2.0 |
| Land Acquisition | 0.5 |
| Billinge Landfill Site Restoration | <u>0.3</u> |
| | <u>4.6</u> |

The above expenditure was financed as follows:-

| | £M |
|----------------------|------------|
| Government Grants | 0.7 |
| Prudential Borrowing | <u>3.9</u> |
| | <u>4.6</u> |

BORROWING FACILITIES

During previous periods all approved borrowing has been secured via the Public Works Loan Board (PWLB). The Authority took out an additional loan of £6M from PWLB in 2006-2007 to cover the prudential borrowing in that year and also further prudential borrowing required for 2007-2008.

The introduction of the Prudential Code from 1 April 2004 provides greater latitude for financial investment in capital projects with funding being undertaken by borrowing. The framework requires the Authority to set parameters through prudential indicators and to ensure itself on the affordability of its spending.

I certify that the Statement of Accounts presents fairly the financial position of the Authority at 31 March 2007



Ian Roberts,
Treasurer to the Authority

Date: 11 June 2007

I confirm that these accounts were approved by the Merseyside Waste Disposal Authority at the meeting held on

Signed on behalf of the Merseyside Waste Disposal Authority

.....
Chair of meeting approving the Accounts

Date

THE STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

The Authority's Responsibilities

The Authority is required to:-

- make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Authority, that officer is the Chief Finance Officer;
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;
- approve the statement of accounts.

The Chief Finance Officer's Responsibilities

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

In preparing this Statement of Accounts, the Chief Finance Officer has:-

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

The Chief Finance Officer has also:-

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

The Chief Finance Officer should sign and date the Statement of Accounts, stating that it presents fairly the financial position of the Authority at the accounting date and its income and expenditure for the year ended 31 March 2007.

STATEMENT ON INTERNAL CONTROL 2006/07

1. Scope of Responsibility

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

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

2. The Purpose of the System of Internal Control

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

The system of internal control has been in place at the Authority for the year ended 31 March 2007 and, subject to the changes as a result of the review process, up to the date of approval of the Statement of Internal Control.

3. The Internal Control Environment

The Authority has a Code of Corporate Governance which ensures the following are embedded within the Authority's governance arrangements:-

- **Decision Making Process:**

The current decision making process enables the Authority to concentrate on the key issues that it faces, with the less serious and important decisions dealt with in an expanded scheme of delegations.

- **Member Training:**

The Authority continues its programme of Member training and development which involves awareness and participation in the development of key strategies and policies.

- Specific Member roles and responsibilities:

The Authority has developed the roles of Lead Members, specifically in relation to procurement, risk management and audit. The remaining Portfolio areas are the responsibility of the Chairperson as Lead Member. All Members are responsible for scrutiny and public consultation.

- Procedural Rules:

The Authority continues to operate within and review its procedural rules.

The Authority prepared a Corporate Plan 2006/07 which identified the Authority's Aims and Objectives and the key projects which would be undertaken to deliver the plan. Projects are continuously managed and regularly monitored and the Corporate Plan is reviewed annually.

The compliance with established policies, procedures, laws and regulations has been ensured by a Chief Officer structure, consisting of the Director, Treasurer, Solicitor and Clerk, who vet reports presented to the Authority. A further monitoring function incorporates an independent view given by both external and internal audit.

The Authority has an approved Risk Management Policy and Strategy. The strategy ensures that risk management is embedded within the Authority's systems thereby identifying corporate risks which may have an impact on the achievement of the Authority's objectives.

An Annual Review and Best Value Performance Plan was prepared for 2006/2009. The plan identifies improvements planned and achieved in the previous three years, with details of plans for 2006/07 and the following two years.

The Authority has prepared a three year budget from 2006/2007 which was approved by the Authority and incorporates infrastructure developments and projected future Levy levels. The budget is monitored on a three monthly cycle with financial reports prepared for Member information. At year end, an outturn report is also prepared and presented to Members. All other reports presented to Members incorporate a Financial Implications section which is approved by the Treasurer to the Authority.

The Authority continued to develop its performance management framework drawing together its corporate planning, project management, risk management and corporate governance processes.

4. Review of Effectiveness

The Authority has responsibility for conducting, at least annually, a review of the effectiveness of the system of internal control. The review of the effectiveness of the system of internal control is informed by the work of the external and internal auditors and the Primary Assurance Group within the Authority who responsibility for the development and maintenance of the internal control environment, and other review agencies and inspectorates.

The main areas of review in 2006/07 were the continuing development of the performance management framework and strengthening links between the Authority's corporate objectives and those of its partners by the development of the Merseyside Waste Partnership. Other areas of improvement included a review of the Authority's Comments and Complaints procedures and the development of an Employee Handbook to disseminate governance and other information to staff.

5. Significant Internal Control Issues

We have been advised on the implications of the result of the review of the effectiveness of the system of internal control within the Authority. We are satisfied that a suitable system of internal control is operative and effective within the Authority to ensure the proper management of principal risks to the achievement of the Authority's objectives. On this basis we can report that there are no significant internal control issues that require addressing by the Authority.

However, the Authority is committed to a process of continuous improvement and will continue to review and strengthen the control environment wherever and whenever appropriate.

Signatures:

Date:

Clerk to the Authority

Director

Chairman

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MERSEYSIDE WASTE DISPOSAL AUTHORITY

Opinion on the Financial Statements

I have audited the financial statements of Merseyside Waste Disposal Authority [and its Group] for the year ended 31 March 2007 under the Audit Commission Act 1998, which comprise the Income and Expenditure Account, the Statement of Movement on the General Reserve Balance, the Statement of Reconciling Items for Statement of Movement on the General Reserve Balance, the Statement of Total Recognised Gains and Losses, the Cash Flow Statement, the Balance Sheet and the Group Accounts along with related Notes. These financial statements have been prepared under the accounting policies set out within them.

This report is made solely to Merseyside Waste Disposal Authority in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in Paragraph 36 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission.

Respective responsibilities of the Chief Finance Officer and Auditors

The Chief Finance Officer's responsibilities for preparing the financial statements in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2006 are set out in the Statement of Responsibilities.

My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements presents fairly the financial position of the Authority in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2006.

I review whether the statement on internal control reflects compliance with CIPFA's guidance 'The Statement on Internal Control in Local Government: Meeting the Requirements of the Accounts and Audit Regulations 2003' published on 2 April 2004. I report if it does not comply with proper practices specified by CIPFA or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered, whether the statement on internal control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the Authority's corporate governance procedures or its risk and control procedures

I read other information published with the financial statements, and consider whether it is consistent with the audited financial statements. This other information comprises only the Explanatory Foreword. I consider the implications for my report if I become aware of any apparent misstatements or material Inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of Audit Opinion

I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Authority's circumstances, consistently applied and adequately disclosed.

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

Opinion

In my opinion the financial statements present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2006, the financial position of the Authority [and its Group] as at 31 March 2007 and its income and expenditure for the year then ended.

Signature:

Name: Ms. J. Tench
District Auditor

Date:

Address: Audit Commission,
The Heath Business & Technical Park,
Runcorn,
Cheshire,
WA7 4QF

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

Authority's Responsibilities

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

Under the Local Government Act 1999, the authority is required to prepare and publish a best value performance plan summarising the authority's assessment of its performance and position in relation to its statutory duty to make arrangements to ensure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

Auditor's Responsibilities

I am required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the authority for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion in relation to proper arrangements, having regard to relevant criteria specified by the Audit Commission for Waste Disposal Authorities. I report if significant matters have come to my attention which prevent me from concluding that the authority has made such proper arrangements. I am not required to consider, nor have I considered, whether all aspects of the authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

I am required by Section 7 of the Local Government Act 1999 to carry out an audit of the authority's best value performance plan and issue a report:-

- certifying that I have done so;
- stating whether I believe that the plan has been prepared and published in accordance with statutory requirements set out in Section 6 of the Local Government Act 1999 and statutory guidance; and
- where relevant, making any recommendations under section 7 of the Local Government Act 1999.

Conclusion

I have undertaken my audit in accordance with the Code of Audit Practice and I am satisfied that, having regard to the criteria for Waste Disposal Authorities specified by the Audit Commission and published in July/August 2005, in all significant respects, Merseyside Waste Disposal Authority made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2007.

Best Value Performance Plan

I issued my statutory report on the audit of the authority's best value performance plan for the financial year 2006/07 on 30 June 2006. I did not identify any matters to be reported to the authority and did not make any recommendations on procedures in relation to the plan.

Auditors' Responsibilities

Auditors have a duty under the Audit Commission Act 1998 to consider whether, in the public interest, to report on any matter that comes to their attention in the course of the audit in order for it to be considered by the body concerned or brought to the attention of the public. No such matter has arisen in 2006/2007.

Certificate

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

Name: Ms. J. Tench
District Auditor

Date:

Address: Audit Commission,
The Heath Business & Technical Park,
Runcorn,
Cheshire,
WA7 4QF

STATEMENT OF MAIN PRINCIPLES ACCOUNTING POLICIES AND ESTIMATING TECHNIQUES

GENERAL

The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom (2006) and guidance notes issued by the Chartered Institute of Public Finance and Accountancy. The Code of Practice specifies the principles and practices of accounting required to prepare a Statement of Accounts which 'presents fairly' the financial position and transactions of a local authority.

In accordance with the CIPFA Statement of Recommended Practice (SORP), the Authority has adopted a number of principles to be followed in selecting accounting policies to be used and the corresponding use of disclosures needed to help users to understand those adopted policies and how they have been implemented.

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

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

- the qualitative characteristics of financial information
 - relevance
 - reliability
 - comparability
 - understandability
- materiality
- pervasive accounting concepts
 - accruals
 - going concern
 - primacy of legislative requirements

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

ACCRUALS OF INCOME AND EXPENDITURE

Customer and Client Receipts

Any such receipts are accrued and accounted for in the period to which they relate.

Employee Costs

Full employee costs are charged to the accounts of that period in which the employee works. Accrual is made for wages earned but unpaid at year end.

Interest

Interest payable on external borrowings and interest income are accrued and accounted for in the accounts of the period in which it relates on a basis which reflects the overall economic effect of the borrowing.

Supplies and Services

The cost of supplies and services is accrued and accounted for in the period during which they were consumed or received. Accruals are made on all material sums unpaid at the year end for goods and services received or works completed.

BEST VALUE ACCOUNTING - CODE OF PRACTICE

The Authority has prepared its Accounts under the above Code of Practice. The Income and Expenditure Account shows expenditure under the three headings prescribed. These are:-

- Cultural, Environmental & Planning
- Corporate and Democratic Core
- Non-Distributed Costs.

CONTINGENT LIABILITIES

Contingent liabilities are not accrued in the accounting statements. They are disclosed by way of notes if there is a possible obligation which may require a payment or transfer of economic benefits.

COSTS ASSOCIATED WITH THE INTRODUCTION OF THE EURO

The Authority uses payment and income systems owned by St. Helens Council and therefore developments in dealing with the introduction of the Euro will be undertaken there. Longer term system changes are planned but at the moment there is only a contingency banking arrangement to receive and make payments in the Euro.

DEBTORS AND CREDITORS

Transactions are recorded on an income and expenditure basis. Provision has been made on an actual or estimated basis for all debtors and creditors at 31 March 2007. This accrual concept is in accordance with SSAP2 (Standard Statement of Accounting Practice) but there are, however, a few exceptions which merit comment:-

- electricity and similar periodic payments are charged at the date of the meter reading.

The policy relating to those payments is consistently applied each year, is not a significant sum and therefore has no material effect on the accounts.

DEBT REDEEMED

The Authority's outstanding debt comprises both repayment and interest only loans with PWLB (Public Works Loan Board), a Market Loan, and a balance of debt in respect of assets transferred to the Authority on 1 April 1986, which is administered by Wirral M.B.C. The Authority took out a new PWLB loan in 2006-2007.

The PWLB repayment loans are of equal payments of principal and interest whereas the Wirral M.B.C. loan repayments are made by the straight line method.

Provision for the redemption of debt is made in accordance with the Minimum Revenue Provision (MRP) requirements as contained in the Local Authorities (Capital Finance and Accounting) Regulations 2003. The minimum amount required to be repaid each year is calculated as a proportion of the Authority's Capital Financing Requirement, which under Statute equated to 4% during 2006-2007.

DEFERRED CHARGES

Deferred charges are amortised to revenue over an appropriate period consistent with the consumption of the economic benefits controlled by this Authority.

DEPRECIATION

Depreciation is provided for on all fixed assets with a finite useful life (which can be determined at the time of acquisition or revaluation) according to the following policy:-

- newly acquired assets are depreciated from the mid-point of the year, although assets in the course of construction are not depreciated until they are brought into use;
- depreciation is calculated using the straight line method;
- assets are depreciated over 25 years.

The Service Revenue Account is charged with depreciation and, where required, any related impairment loss (due to a clear consumption of economic benefit) for all fixed assets used in the service.

GOVERNMENT GRANTS AND CONTRIBUTIONS

Where the acquisition of a fixed asset is financed either wholly or in part by a Government grant or other contribution, the amount of the grant or contribution is credited initially to the Government Grants Deferred Account. Amounts are released to the Service Revenue Account over the useful life of the asset to match the depreciation charged on the asset to which it relates.

Government grants and other contributions are accounted for on an accruals basis and recognised in the accounting statements when the conditions for their receipt have been complied with and there is reasonable assurance that the grant or contribution will be received.

GROUP ACCOUNTS

The Authority prepares Group Accounts to provide an overall picture of the Group as a whole showing the totality of operations and available resources. The Accounts are not primary statements but they provide transparency which enables them to be capable of comparison with other entities which have different corporate structures.

INTEREST RECEIVABLE

The Authority shares the same bank account as St. Helens M.B.C. and it is necessary therefore to calculate the amount of interest payable to or from the Authority, dependent upon its bank balances throughout the year.

A cash flow exercise is undertaken to identify the monthly balance and interest is calculated based on the average rate earned on all investments calculated according to proper practice.

In 2006-2007 the position reflected interest paid to the Authority.

INVESTMENTS

The Authority has investments in Mersey Waste Holdings Ltd. and Bidston Methane Ltd. The value of those investments is the cost of the shares acquired in those Companies.

LANDFILL ALLOWANCES

The Waste and Emissions Trading Act 2003 places a duty on Waste Disposal Authorities in the United Kingdom to reduce the amount of biodegradable municipal waste disposed to landfill. It provides the legal framework for the Landfill Allowance Trading Scheme which applies to Waste Disposal Authorities in England commencing 1 April 2005.

The 2006 SORP does not cover LATS and LAAP Bulletin 64 provides guidance that the accounting treatment set out in the proposed Urgent Issues Taskforce Abstract Emission Rights should be used. This guidance has been applied.

LEASES

Rental payments under finance leases are apportioned between the finance charge and the principal element, i.e. the reduction of the liability to pay future rentals. The finance element of rentals is charged to the Service Revenue Account.

Rentals payable under operating leases are charged to revenue on an accruals basis.

PENSIONS

Employees, subject to certain criteria, are eligible to join the Local Government Superannuation Scheme. Contributions paid to the scheme are set by the Fund's Actuary in a triennial review, the last one undertaken at 31 March 2007. In 2006-2007 the Authority made contributions of £33k in the year.

The costs reported in the revenue accounts are the true costs of pensions earned in the year and not cash payment to the scheme or individual pensioners. This follows the concept that the Authority should account for pensions benefits at the time of commitment to

them. In doing this the guidance in FRS 17 which allows the Authority to follow UK GAAP is complied with.

The full introduction of FRS 17 *Retirement Benefits* for the 2004-2005 accounting period has necessitated the introduction of revised accounting policies in relation to the treatment of pensions.

Separate policies are in place for those Schemes accounted for on a defined benefit basis and those accounted for on a defined contribution basis.

Defined Benefit Schemes

Accounting policies set out as below shall apply in respect of pension costs arising from the Local Government Pension Scheme and unfunded discretionary benefits paid (irrespective of the scheme to which it relates):-

- (i) the attributable assets of each Scheme are measured at their fair value at the balance sheet date. Scheme assets include current assets as well as investments. Any liabilities such as accrued expenses are deducted. The attributable Scheme liabilities are measured on an actuarial basis using the projected unit method. The Scheme liabilities comprise:-
 - (a) any benefits promised under the formal terms of the Scheme; and
 - (b) any constructive obligations for further benefits where a public statement or past practice by the Authority has created a valid expectation in the employees that such benefits will be granted;
- (ii) the surplus/deficit in a Scheme is the excess/shortfall of the value of the assets in the Scheme over/below the present value of the Scheme liabilities. The Authority recognises assets to the extent that it is able to recover a surplus either through reduced contributions in the future or through refunds from the Scheme. The Authority recognises a liability to the extent that it reflects its legal or constructive obligation;
- (iii) any unpaid contributions to the Scheme are presented in the balance sheet as a creditor due within one year;
- (iv) the change in the defined benefit asset or liability (other than that arising from contributions to the Scheme) is analysed into the following components:-
 - (a) periodic costs:-
 - (1) current service cost;
 - (2) interest cost;
 - (3) expected return on assets; and
 - (4) actuarial gains and losses; and
 - (b) non-periodic costs:-
 - (1) past service costs; and

- (2) gains and losses on settlements and curtailments;
- (v) the current service cost is included within Net Cost of Services. Both the interest cost and the expected return on assets are included within Net Operating Expenditure. Actuarial gains and losses arising from any new valuation and from updating the latest actuarial valuation to reflect conditions at the balance sheet date are recognised in the Statement of Recognised Gains and Losses for the period;
- (vi) past service costs are recognised in Net Cost of Services on a straight-line basis over the period in which the increases in benefit vest. To the extent that the benefits vest immediately, the past service cost is recognised immediately;
- (vii) losses arising on a settlement or curtailment not allowed for in the actuarial assumptions are measured at the date on which the Authority becomes demonstrably committed to the transaction and recognised in Net Cost of Services at that date. Gains arising on a settlement or curtailment not allowed for in the actuarial assumptions are measured at the date on which all parties whose consent is required are irrevocably committed to the transaction and recognised in Net Cost of Services at that date.

PROVISION FOR BAD AND DOUBTFUL DEBTS

The carrying amount of debtors is adjusted for doubtful debts, which are provided for, and known uncollectable debts should be written off.

PROVISIONS

The Authority sets aside provisions in order to meet likely future losses or liabilities.

Provisions are recognised when

- (i) the Authority has a present obligation as a result of a past event;
- (ii) it is probable that a transfer of economic benefits will be required to settle the obligation; and
- (iii) a reliable estimate can be made of the amount of the obligation.

Provisions are reviewed at each balance sheet date to reflect the current best estimate.

PRUDENTIAL FRAMEWORK

The introduction of the Prudential Framework following repeal of Part IV of the Local Government and Housing Act 1989 and introduction of the Local Government Act 2003, has resulted in differing controls around Local Authorities capital activity. The statements are revised from those contained in previous years, where necessary, to reflect the new regime.

RESERVES

Amounts set aside for purposes falling outside the definitions of Provisions are considered as Reserves, and transfers to and from them are distinguished from service expenditure disclosed in the Statement of Accounts. Expenditure is not charged direct to any Reserve.

Reserves include earmarked reserves set aside for specific policy purposes and balances which represent resources set aside for purposes such as general contingencies.

Capital reserves are not available for revenue purposes and certain of them can only be used for specific statutory purposes. Two of these (the Fixed Asset Restatement Account and Capital Financing Account) are non-distributable reserves and therefore referred to as 'Accounts'.

TANGIBLE FIXED ASSETS

All expenditure on the acquisition, creation or enhancement of fixed assets is capitalised on an accruals basis. Expenditure on the acquisition of a tangible asset, or expenditure which adds to, and not merely maintains, the value of an existing asset, is capitalised and classified as a tangible fixed asset, provided that it yields benefit to the Authority and the services it provides are for a period of more than one year.

Fixed assets are valued on the basis recommended by CIPFA and in accordance with the Statements of Asset Valuation Principles and Guidance Notes issued by The Royal Institution of Chartered Surveyors (RICS). Fixed assets are classified into the groupings required by the 1996 Code of Practice on Local Authority Accounting and are valued on the following basis:-

- land, operational properties and other operational assets are included in the balance sheet at the lower of net current replacement cost and net realisable value in existing use;
- non-operational assets are included in the balance sheet at the lower of net current replacement cost and net realisable value.

All of the Authority's complete assets were revalued on the above basis at 1 April 2005. The Bidston Integrated Waste Facility has now been completed and this has been revalued as at 1 April 2006. An impairment review of the remaining was completed at 31 March 2007 but expenditure incurred during 2006-2007 did not affect property valuations.

Subsequent revaluations of fixed assets are planned at five-yearly intervals, although material changes to asset valuations will be adjusted in the interim period, as they occur. Any surpluses or deficits arising on the revaluation of assets are credited to the Fixed Asset Restatement Account.

It should be noted that the environmental condition of closed landfill sites makes them unmarketable and a nominal value of £1 is attributed to them.

VAT

VAT is included in income and expenditure accounts, whether of a capital or revenue nature, only to the extent that it is irrecoverable.

INCOME AND EXPENDITURE ACCOUNT

This Account summarises the resources that have been generated and consumed in providing services and managing the Authority during the last year. It includes all day-to-day expenses and related income on an accrual basis, as well as transactions measuring the value of fixed assets actually consumed and the real projected value of retirement benefits carried by employees in the year.

| 2005-2006 Net Expenditure £000 | | Gross Expenditure £000 | Gross Income £000 | 2006-2007 Net Expenditure £000 |
|---|---|------------------------------|-------------------------|---|
| | <u>Continuing Operations</u> | | | |
| | <u>Cultural, Environmental & Planning Services</u> | | | |
| 34,323 | Waste Disposal Contracts | 38,744 | (1,009) | 37,735 |
| 3,301 | Recycling Credit Payments | 4,003 | - | 4,003 |
| 1,037 | Client Function | 1,094 | (51) | 1,043 |
| 373 | Other Services | 1,853 | (2) | 1,851 |
| | Rents, Depreciation & Grants | <u>381</u> | <u>(311)</u> | <u>70</u> |
| <u>111</u> | | 46,075 | (1,373) | 44,702 |
| 39,145 | <u>Corporate & Democratic</u> | | | |
| | <u>Core Costs</u> | 981 | - | 981 |
| <u>-</u> | <u>Non-Distributed Costs</u> | <u>21</u> | <u>-</u> | <u>21</u> |
| 39,590 | Net Cost of Services | 47,077 | (1,373) | 45,704 |
| 1,180 | Interest Payable | | | 1,229 |
| (421) | Interest & Investment Income | | | (324) |
| | Pensions Interest Cost and Expected Return on Pensions Assets | | | <u>33</u> |
| <u>65</u> | | | | |
| 40,414 | Net Operating Expenditure | | | 46,642 |
| <u>(45,225)</u> | Levy | | | <u>(47,516)</u> |
| <u>(4,811)</u> | Surplus for the Year | | | <u>(874)</u> |

STATEMENT OF MOVEMENT ON THE GENERAL RESERVE BALANCE

The Income and Expenditure shows the Authority's actual financial performance for the year, measured in terms of the resources consumed and generated over the last twelve months. However, the Authority is required to set its Levy on a different accounting basis, the main differences being:-

- capital investment is accounted for as it is financed, rather than when the fixed assets are consumed;
- retirement benefits are charged as amounts become payable to Pension Fund and pensioners, rather than as future benefits are earned.

The General Reserve Balance compares the Authority's spending against the Levy that it raised for the year, taking into account the use of reserves built up in the past and contributions to reserves earmarked for future expenditure.

This reconciliation statement summarises the differences between the outturn on the Income and Expenditure Account and the General Reserve Balance.

| 2005-2006 £000 | | 2006-2007 £000 |
|-------------------|--|-------------------|
| (4,811) | Surplus for the year on the Income & Expenditure Account | (874) |
| | Net additional amount required by Statute and Non-Statutory Proper Practices to be Debited or Credited to the General Reserve Balance for the Year | <u>(239)</u> |
| <u>4,529</u> | Increase in General Reserve Balance for the Year | (1,113) |
| (282) | | |
| (4,842) | General Reserve Balance Brought Forward | <u>(5,124)</u> |
| <u>(5,124)</u> | General Reserve Balance Carried Forward | <u>(6,237)</u> |

**RECONCILING ITEMS FOR STATEMENT OF MOVEMENT ON THE
GENERAL RESERVE BALANCE**

| 2005-2006 £000 | | 2006-2007 £000 | £000 |
|-------------------|---|-------------------|--------------|
| | Amounts included in the Income & Expenditure Account but required by Statute to be excluded when determining the Movement on the General Reserve Balance for the Year | | |
| - | Amortisation of Intangible Fixed Assets | - | |
| (126) | Depreciation and Impairment of Fixed Assets | (367) | |
| 33 | Government Grants Deferred Amortisation | 311 | |
| - | Write-downs of Deferred Charges to be financed from Capital Resources | - | |
| - | Net Loss on Sale of Fixed Assets | - | |
| (11) | Net Charges made for Retirement Benefits in accordance with FRS17 | (179) | (235) |
| (104) | | | |
| | Amounts not included in the Income & Expenditure Account but required to be included by Statute when determining the Movement on the General Reserve Balance for the Year | | |
| 373 | Minimum Revenue Provision for Capital Financing | 539 | |
| - | Capital Expenditure charged in-year to General Reserve Balance | - | |
| (87) | Employer's Contributions payable to the Merseyside Pension Fund and Retirement Benefits payable direct to Pensioners | (151) | 388 |
| 286 | | | |
| | Transfers to or from the General Reserve Balance that are required to be taken into account when determining the Movement on the General Reserve Balance for the Year | | |
| - | Voluntary Revenue Provision for Capital Financing | - | |
| 4,347 | Net transfer to or from Earmarked Reserves | (392) | (392) |
| 4,347 | | | |
| <u>4,529</u> | Net additional amount to be credited/ debited to the General Reserve Balance for the Year | | <u>(239)</u> |

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

This Statement brings together all the gains and losses of the Authority for the year and shows the aggregate increase in its net worth. In addition to the surplus/deficit generated on the Income & Expenditure Account, it includes gains and losses relating to the revaluation of fixed assets and re-measurement of the net liability to cover the cost of retirement benefits.

| 2005-2006 £000 | | 2006-2007 £000 |
|-------------------|--|-------------------|
| (4,811) | Surplus/Deficit for the year on the Income & Expenditure Account | (874) |
| 228 | Surplus/Deficit arising on Revaluation of Fixed Assets | 5,955 |
| (167) | Actuarial (gains)/losses on Pension Fund Assets and Liabilities | (398) |
| <u>-</u> | Other (gains)/losses required to be included | <u>-</u> |
| <u>(4,750)</u> | Total recognised (gains)/losses for the year | <u>4,683</u> |

THE CASH FLOW STATEMENT

This consolidated Statement summarises the inflows and outflows of cash arising from transactions with third parties for revenue and capital purposes. Cash is defined for the purpose of this Statement, as cash in hand and deposits repayable on demand less overdrafts repayable on demand.

| 2005-2006 | | 2006-2007 |
|-----------|--|-----------|
| £000 | | £000 |
| | <u>Revenue Activities</u> | |
| | Cash Outflows: | |
| 1,087 | Cash paid to and on behalf of Employees | 1,163 |
| 52,753 | Other operating cash payments | 45,823 |
| | Cash Inflows: | |
| (802) | Cash received for goods and services | (990) |
| (45,225) | Levy Income | (47,516) |
| (11,231) | Other operating cash receipts | (5,343) |
| | <u>Dividends from Joint Ventures & Associates</u> | |
| | Cash Inflow: | |
| (300) | Dividends received | (300) |
| | <u>Returns on Investments and Servicing of Finance</u> | |
| | Cash Outflows: | |
| 1,087 | Interest Paid | 1,229 |
| | Cash Inflow: | |
| (22) | Interest received | (74) |
| | <u>Capital Activities</u> | |
| | Cash Outflows: | |
| 8,289 | Purchase of Fixed Assets | 3,309 |
| 2,200 | Purchase of Landfill Allowances | - |
| | Cash Inflows: | |
| (4,140) | Capital Grants received | (699) |
| 3,696 | Net Cash (Inflow)/Outflow before Financing | (3,398) |

| 2005-2006 £000 | | 2006-2007 £000 |
|-------------------|---------------------------------|-------------------|
| | <u>Financing</u> | |
| | Cash Outflows: | |
| 143 | Repayments of Amounts Borrowed | 143 |
| | Cash Inflows: | |
| (7,000) | New Loans Raised | (6,000) |
| (3,161) | Net (Increase)/Decrease in Cash | (9,255) |

BALANCE SHEET AS AT 31 MARCH 2007

The Balance Sheet is fundamental to the understanding of the Authority's financial position at the year end. It shows its balances and reserves and its long term indebtedness, and the fixed and net current assets employed in its operations, together with summarised information on the fixed assets held.

| 31 March 2006 £000 | | 31 March 2007 £000 |
|-----------------------|--|-----------------------|
| | <u>Fixed Assets</u> | |
| | <u>Tangible Fixed Assets</u> | |
| | Operational Assets | |
| 7,573 | - Land & Buildings | 2,846 |
| 3,448 | - Vehicles, Plant, Furniture & Equipment | 3,448 |
| | Non-Operational Assets | |
| <u>25</u> | - Assets under Construction | <u>2,181</u> |
| 11,046 | Total Fixed Assets | 8,475 |
| 5,138 | Long Term Investments | 5,138 |
| <u>3,237</u> | Long Term Debtors | <u>7,030</u> |
| 19,421 | Total Long Term Assets | 20,643 |
| | <u>Current Assets</u> | |
| 8,534 | Debtors | 2,194 |
| 11,990 | Landfill Allowances | 19,901 |
| <u>1,494</u> | Cash and Bank | <u>10,749</u> |
| <u>41,439</u> | Total Assets | <u>53,487</u> |
| | <u>Current Liabilities</u> | |
| (143) | Short Term Borrowing | (143) |
| (9,242) | Landfill Usage | (17,188) |
| (7,226) | Creditors | (11,091) |
| - | Bank Overdraft | - |
| 24,828 | Total Assets less Current Liabilities | 25,065 |
| - | Long Term Liabilities | |
| (15,330) | Long Term Borrowing | (21,187) |
| - | Provisions | - |
| (6,129) | Government Grants Deferred | (6,517) |
| (4,301) | Deferred Liabilities | (4,086) |
| (2,115) | Liability related to Defined Benefits Pension Scheme | (1,745) |
| <u>(3,047)</u> | Total Assets less Liabilities | <u>(8,470)</u> |

31 March 2006
£000

31 March 2007
£000

Financed by:

| | | |
|----------------|---------------------------------|----------------|
| (19,229) | Fixed Asset Restatement Account | (26,077) |
| 8,880 | Capital Financing Account | 9,053 |
| (2,115) | Pensions Reserve | (1,745) |
| 9,417 | General Reserve Balance | 6,238 |
| <u> -</u> | Earmarked Reserves | <u>4,061</u> |
| <u>(3,047)</u> | Total Net Worth | <u>(8,470)</u> |

NOTES TO THE CORE FINANCIAL STATEMENTS

1. EXPENDITURE ON PUBLICITY

Section 5 of the Local Government Act 1986 requires Authorities to keep a separate account of expenditure on publicity subject to certain exceptions. The Authority spent the following on all forms of publicity:-

| | 2006-2007 £000 | 2005-2006 £000 |
|-------------------------|-------------------|-------------------|
| Recruitment Advertising | 1 | 15 |
| Other Advertising | <u>1</u> | <u>30</u> |
| | 2 | 45 |

2. OFFICERS' EMOLUMENTS

| | 2006-2007 No. | 2005-2006 No. |
|---------------------|------------------|------------------|
| <u>Remuneration</u> | | |
| £50,000 - £60,000 | - | - |
| £60,000 - £70,000 | - | - |
| £70,000 - £80,000 | 1 | 1 |

3. RELATED PARTIES

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

| | | |
|--------------------------|---|--|
| Central Government | - | has effective control over the general operation of the Authority. Details of transactions with Government Departments are set out in Notes relating to the Cash Flow Statement. |
| Members of the Authority | - | No Disclosures |
| Officers | - | No Disclosures |
| Pension Fund | - | No Disclosures |

The following disclosures are made:-

| | <u>Receipts</u> | | <u>Payments</u> | |
|--|-----------------|---------------|-----------------|-----------|
| | 2006-2007 | 2005-2006 | 2006-2007 | 2005-2006 |
| | £000 | £000 | £000 | £000 |
| <u>Local Authorities</u> | | | | |
| Levies | | | | |
| Knowsley | 4,994 | 4,506 | | |
| Liverpool | 14,801 | 13,723 | | |
| St. Helens | 6,161 | 5,818 | | |
| Sefton | 10,131 | 9,988 | | |
| Wirral | <u>11,429</u> | <u>11,190</u> | | |
| | 47,516 | 45,225 | | |
| <u>Disposal of Commercial Waste</u> | | | | |
| Knowsley | 182 | 157 | | |
| Liverpool | 330 | 270 | | |
| St. Helens | 220 | 190 | | |
| Sefton | 276 | 238 | | |
| <u>Recycling Credit Payments</u> | | | | |
| Knowsley | | | 469 | 358 |
| Liverpool | | | 949 | 822 |
| St. Helens | | | 742 | 576 |
| Sefton | | | 1,142 | 879 |
| Wirral | | | 701 | 671 |
| <u>Residuary Debt</u> | | | | |
| Wirral | | | 546 | 546 |
| <u>Subsidiaries & Associate Companies</u> | | | | |
| Payments for the Disposal of Waste (inclusive of Landfill Tax) | | | | |
| - Mersey Waste Holdings Ltd. | | | 39,140 | 35,036 |
| Dividends | | | | |
| - Mersey Waste Holdings Ltd. | 300 | 300 | | |
| Gas Rights - The Authority's share out of profits generated by | | | | |
| - Bidston Methane Ltd. | | 100 | 50 | |

4. **AUDIT FEES**

The analysis of fees payable to the Audit Commission is shown below:-

| | 2006-2007 | 2005-2006 |
|--------|-----------|-----------|
| | £000 | £000 |
| Audit | 45 | 34 |
| Grants | <u>4</u> | <u>1</u> |
| | 49 | 35 |

5. SUMMARY OF CAPITAL EXPENDITURE AND FIXED ASSET DISPOSALS

Operational Assets

The movement in Operational Assets is shown below:-

| | Land & Buildings | | Vehicles, Plant & Equipment | | Total | |
|---------------------------------------|-------------------|-------------------|-----------------------------|-------------------|-------------------|-------------------|
| | 2006-2007 £000 | 2005-2006 £000 | 2006-2007 £000 | 2005-2006 £000 | 2006-2007 £000 | 2005-2006 £000 |
| Gross Book Value at 1 April | 7,801 | 1,716 | 3,448 | - | 11,249 | 1,716 |
| Accumulated Depreciation & Impairment | <u>(228)</u> | <u>(102)</u> | <u>-</u> | <u>-</u> | <u>(228)</u> | <u>(102)</u> |
| Net Book Value at 31 March | 7,573 | 1,614 | 3,448 | - | 11,021 | 1,614 |
| <u>Movement in Year</u> | | | | | | |
| Additions | 1,348 | 6,313 | 246 | 3,448 | 1,594 | 9,761 |
| Disposals | - | - | - | - | - | - |
| Revaluations | (5,955) | (228) | - | - | (5,955) | (228) |
| Depreciation | (121) | (126) | (246) | - | (367) | (126) |
| Impairment | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Net Book Value at 31 March | <u>2,845</u> | <u>7,573</u> | <u>3,448</u> | <u>3,448</u> | <u>6,293</u> | <u>11,021</u> |

Financing Capital Expenditure

| | 2006-2007 £000 | 2005-2006 £000 |
|---------------------------------------|-------------------|-------------------|
| Opening Capital Financing Requirement | 15,265 | 11,118 |
| Capital Investment | | |
| - Operational | 3,750 | 8,310 |
| - Non-Operational | 893 | 350 |
| Sources of Finance | | |
| - Government Grants | (388) | (4,140) |
| - Sums set aside from Revenue | <u>(539)</u> | <u>(373)</u> |
| Closing Capital Financing Requirement | <u>18,981</u> | <u>15,265</u> |

Explanations of Movements in Year

| | 2006-2007 £000 | 2005-2006 £000 |
|------------------------------------|-------------------|-------------------|
| Prudential Borrowing (unsupported) | 3,943 | 4,147 |

6. COMMITMENTS UNDER CAPITAL CONTRACTS

The Authority has the following commitments:-

| | £M |
|---------------------------------|------------|
| Huyton (New Technology Project) | 8.2 |
| Sefton Meadows HWRC Conversion | <u>0.4</u> |
| | <u>8.6</u> |

7. INFORMATION ON ASSETS HELD

The Authority has use of the following assets:-

Bidston Integrated Waste Management Facility
9 Household Waste Recycling Centres
The Leasehold at 3 Household Waste Recycling Centres
The Leasehold at 4 Closed Landfill Sites

8. VALUATION INFORMATION

The Authority's completed assets were all revalued at 1 April 2005 by the in-house valuer. It has a policy of revaluation within five years. The newly completed Bidston Integrated Waste Management Facility was revalued at £5.4M as at 1 April 2006. The current in-house valuer is:-

S. Littler, M.R.I.C.S.

The properties have been valued on bases in accordance with the Statement of Asset Valuation, Practice and Guidance Notes of the Royal Institution of Chartered Surveyors except that not every property has been inspected.

An impairment review in the year did not affect property valuations.

9. DEPRECIATION

Assets are written-down by the straight line method over their determined life:-

| | | |
|---------------------|---|----------|
| Land and Buildings | - | 25 years |
| Plant and Equipment | - | 15 years |

10. INTEREST IN COMPANIES

The Authority holds the following investments:-

Mersey Waste Holdings Ltd.

This Company was formed as the Authority's Disposal Company and as such receives waste from the five Districts of Merseyside and from other customers at its Transfer Stations and Landfill Sites. It disposes that waste and also manages the disposal of other household wastes through Waste Reception Centres.

The Authority owns the total shareholding in its 'arms length' company.

5,138,002 Ordinary Shares @ £1 5,138

Bidston Methane Ltd.

This Company was formed as a joint venture with Coal Products Ltd. (subsequently acquired by Novera Energy Generation No. 1 Ltd.) to collect methane gas from the Landfill Sites at Billinge and at Bidston. It uses methane gas to generate electricity which is sold to the Regional Electricity Companies.

The Authority holds 299,000 Ordinary 'B' Shares out of a total of 600,000 Shares. The called up value is £0.001 per Share.

The setting up of the Company incorporated the capital financing of the engines through a non-voting share issue to the Finance Company user ('C' Shares). This removed the need to generate finance through the 'A' Shares owned by Coal Products or 'B' Shares owned by the Authority and hence a nominal called up proportion. The uncalled share elements provide the necessary guarantees for the 'C' shareholder.

299,000 Ordinary 'B' Shares @ £0.001 -
5,138

Mersey Waste Holdings Limited are a subsidiary company and the results for the fourth year of trading ending on 30 September 2006 are summarised as follows:-

| | Year to 30.9.2006 | Year to 30.9.2005 As Restated |
|--|----------------------|-------------------------------------|
| | £000 | £000 |
| <u>Balance Sheet</u> | | |
| Fixed Assets | 18,317 | 6,404 |
| Add Net Assets/Deduct Net Liabilities | (12,424) | (495) |
| | <u>5,893</u> | <u>5,909</u> |
| Called-up Share Capital | 5,138 | 5,138 |
| Retained Profit less Minority Interest | <u>755</u> | <u>771</u> |
| | <u>5,893</u> | <u>5,909</u> |

| | 30.9.2006 | As Restated 30.9.2005 |
|------------------------------------|--------------|--------------------------|
| | £000 | £000 |
| Turnover | 46,750 | 39,838 |
| Less: Operating Expenditure | (45,124) | (39,088) |
| Profit before Tax and Distribution | 1,626 | 750 |
| Tax and Distribution | (541) | (333) |
| Retained Profit for the Year | <u>1,085</u> | <u>417</u> |

The Balance Sheet now includes Mersey Waste Associates which it controls.

The Company have prepared a set of accounts as at 31 March 2007 for purposes of inclusion in the Group Accounts.

Bidston Methane Limited's results for 2006-2007 can be summarised as follows:-

| | 2006-2007 | 2005-2006 |
|-------------------------------------|------------|-------------|
| | £000 | £000 |
| <u>Balance Sheet</u> | | |
| Fixed Assets | 784 | 901 |
| Less: Net Liabilities | (252) | (418) |
| | <u>532</u> | <u>483</u> |
| Called-up Share Capital | 3 | 3 |
| Retained Profit | <u>529</u> | <u>480</u> |
| | <u>532</u> | <u>483</u> |
| <u>Profit and Loss Account</u> | | |
| Turnover | 439 | 527 |
| Less: Operating Expenditure | (393) | (598) |
| Retained Profit/(Loss) for the Year | <u>46</u> | <u>(71)</u> |

The published accounts for both companies are available from the Treasurer to the Authority, Chief Executive's Finance Division, Town Hall, St. Helens, WA10 1HP. The Authority is not committed to meeting losses arising from either Mersey Waste Holdings Limited or Bidston Methane Limited.

11. LONG TERM DEBTOR

In 2003-2004 the Authority agreed to defer the payment of discounts by Merseyside Waste Holdings Limited in order that the Company could build up cash reserves and acquire a new landfill site. This decision was taken to restore the landfill capacity which would be lost by the closure of the Bromborough Dock Landfill site in August 2005. A report to the Authority in January 2003 included a schedule of intended payment dates for the deferred discounts. A revised schedule of repayments has now been prepared.

The Debtor to date is made up of:-

| | |
|------------------------------|--------------|
| | £000 |
| Deferred Discounts 2004-2005 | 265 |
| Deferred Discounts 2005-2006 | 3,366 |
| Deferred Discounts 2006-2007 | <u>3,399</u> |
| | <u>7,030</u> |

Payments of these discounts commenced in October 2006 and will amount to £6.6M in 2007-2008.

12. LANDFILL ALLOWANCES ASSET

The Authority has received its allocation of Landfill Allowances from DEFRA in 2006-2007:-

| | 2006-2007 £000 | 2005-2006 £000 |
|------------------------------------|-------------------|-------------------|
| Balance b/f | 11,990 | - |
| Acquired without charge from DEFRA | 8,252 | 9,869 |
| Purchased in Year | <u>-</u> | <u>2,200</u> |
| | 20,242 | 12,069 |
| Written down to realisable value | <u>(341)</u> | <u>(79)</u> |
| Balance c/f | <u>19,901</u> | <u>11,990</u> |

13. DEBTORS

| | 2007 £000 | 31st March | 2006 £000 |
|-------------------------------------|--------------|------------|--------------|
| Subsidiaries & Associated Companies | 6,937 | | 6,020 |
| Government Departments | 2,143 | | 2,222 |
| Other Local Authorities | 299 | | 252 |
| Employees | 7 | | 11 |
| Sundry | <u>16</u> | | <u>48</u> |
| | 9,402 | | 8,553 |
| Less Provision for Doubtful Debts | <u>(178)</u> | | <u>(19)</u> |
| | <u>9,224</u> | | <u>8,534</u> |

14. LIABILITY FOR LANDFILL USAGE

The Authority needs to recognise its use of Landfill Allowances in the landfill disposal of biodegradable municipal waste. The following allowances were used:-

| | 2006-2007 £000 | 2005-2006 £000 |
|-----------------|-------------------|-------------------|
| Allowances Used | <u>7,847</u> | <u>9,242</u> |

15. CREDITORS

| | 2007 | 31st March | 2006 |
|-------------------------------------|---------------|------------|--------------|
| | £000 | | £000 |
| Subsidiaries & Associated Companies | 8,899 | | 4,620 |
| Government Departments | 353 | | 240 |
| Other Local Authorities | 807 | | 838 |
| Employees | 40 | | 39 |
| Sundry | <u>992</u> | | <u>1,489</u> |
| | <u>11,091</u> | | <u>7,226</u> |

16. LONG TERM BORROWING

| Analysis by Type | Range of Interest Rates Payable % | Amounts Outstanding | |
|-------------------------|-----------------------------------|---------------------|---------------|
| | | 2007 | 2006 |
| | | 31st March | |
| | | £000 | £000 |
| Public Works Loan Board | 5.008 - 9.500 | 19,187 | 13,330 |
| Market Loan | 4.01 | <u>2,000</u> | <u>2,000</u> |
| | | <u>21,187</u> | <u>15,330</u> |
| Analysis by Maturity | | | |
| 1-2 Years | | 143 | 143 |
| 2-5 Years | | 429 | 429 |
| 5-10 Years | | 3,714 | 3,714 |
| Over 10 Years | | <u>16,901</u> | <u>11,044</u> |
| | | <u>21,187</u> | <u>15,330</u> |

17. DEFERRED LIABILITIES

| Analysis | 2007 | 31st March | 2006 |
|--------------------------------|--------------|------------|--------------|
| | £000 | | £000 |
| Loans Outstanding - Wirral MBC | <u>4,086</u> | | <u>4,301</u> |
| | <u>4,086</u> | | <u>4,301</u> |

18. CAPITAL FINANCING ACCOUNT

| | 2006-2007 | 2005-2006 |
|--|--------------|--------------|
| | £000 | £000 |
| Balance at 1 April | 8,880 | 8,633 |
| Add: | | |
| External contribution written down | - | - |
| Revenue Contributions in the year | - | - |
| Additional MRP charge | 172 | 247 |
| Expenditure financed by capital receipts | - | - |
| Balance at 31 March | <u>9,052</u> | <u>8,880</u> |

19. FIXED ASSET RESTATEMENT ACCOUNT

| | 2006-2007 | 2005-2006 |
|---|---------------|---------------|
| | £000 | £000 |
| Balance at 1 April | 19,229 | 18,650 |
| Add: | | |
| Expenditure on operational assets or those with nil value | 893 | 351 |
| Adjustments on Revaluation | 5,955 | 228 |
| Net Book Value of Assets disposed | - | - |
| Balance at 31 March | <u>26,077</u> | <u>19,229</u> |

20. GOVERNMENT GRANTS DEFERRED ACCOUNT

This account represents grants and contributions received to finance (wholly or partly) the acquisition of fixed assets. These amounts are released to the Service Revenue Account over the useful life of the asset to match the depreciation charged on the asset to which it relates.

| | 2006-2007 | 2005-2006 |
|----------------------------------|--------------|--------------|
| | £000 | £000 |
| Balance at 1 April | 6,129 | 1,989 |
| Financing of Capital Expenditure | | |
| - Grants | 699 | 4,173 |
| Amortised during the year | <u>(311)</u> | <u>(33)</u> |
| Balance at 31 March | <u>6,517</u> | <u>6,129</u> |

21. GENERAL RESERVE

This Reserve represents the accumulated balances available to the Authority:-

| | 2006-2007 £000 | 2005-2006 £000 |
|-------------------------------------|-------------------|-------------------|
| Balance at 1 April | 7,872 | 4,842 |
| Transfer to Earmarked (LATS) | (2,748) | - |
| Transfer to Earmarked (Procurement) | (1,000) | - |
| In Year Surplus/(Deficit) | <u>2,113</u> | <u>3,030</u> |
| Balance at 31 March | <u>6,237</u> | <u>7,872</u> |

22. EARMARKED RESERVE - LATS

This Reserve was established to make allowance for expenditure on Landfill Allowances:-

| | 2006-2007 £000 | 2005-2006 £000 |
|-------------------------------|-------------------|-------------------|
| Balance at 1 April | - | - |
| Transfer from General Reserve | 2,748 | - |
| In Year Surplus/(Deficit) | <u>(35)</u> | <u>-</u> |
| Balance at 31 March | <u>2,713</u> | <u>-</u> |

23. EARMARKED RESERVE - PROCUREMENT

This Reserve was established to make allowance for the expenditure on professional advisors for the Procurement Contract:-

| | 2006-2007 £000 | 2005-2006 £000 |
|-------------------------------|-------------------|-------------------|
| Balance at 1 April | 1,545 | - |
| Transfer from General Reserve | 1,000 | - |
| In Year Surplus/(Deficit) | <u>(1,197)</u> | <u>1,545</u> |
| Balance at 31 March | <u>1,348</u> | <u>1,545</u> |

24. CONTINGENT LIABILITIES

Mersey Waste Holdings Limited has acquired a new landfill site by short term borrowing by the Company. In financing by this method, payment of discounts would be deferred and a long term debtor established (see Note 11 above).

The investment was undertaken after considering a sound business case for the acquisition which should add to the profit making capability of the Company. It should therefore generate additional benefits to the Authority by way of increased dividends and discounts.

The contingent liability scenario with this proposal is the event of failure as an operational entity whereby there would be a possibility that if short term borrowing were to be selected as the financing option, future repayments could ultimately fall on the Authority if the Company failed.

It is not appropriate to give an estimated value of any potential liability due to uncertainties and timing of such events.

There is a potential legislation claim on Mersey Waste Holdings Limited in respect of a contract for the disposal of waste at a Landfill Site. The claim is being resisted but if it becomes payable could cost the Company around £2M per year. The follow-on from that is that either a second claim may be made by the Company on the Authority or the profitability of the Company would be effected with a reduction in annual discounts. The Authority has sufficient balances to cover any likely costs arising for 2004-2005 (a part year claim) and up to 2006-2007. It would be aware of subsequent liability and therefore would include it in the Budget and the Levy for future years.

As stated at Note 10, the called-up value of the 299,000 ordinary £1 shareholding in Bidston Methane Limited is £299 (£0.001 each), the contingent liability therefore is £298,701 (£0.999 each).

The Company has a good trading record and has invested in generating equipment taken on medium term leases. Any over estimation of gas quantities available would make trading difficult and the shares may be called up in full to meet the liabilities of the Company. Future capital spending could also require the shares to be called-up but only by joint agreement with the Authority. In the case of the liability being realised, there is no other party involved to provide reimbursements.

25. NET PENSIONS ASSET/LIABILITY

As part of the terms and conditions of employment of its qualifying officers and other employees the Authority offers entrance into the Local Government Pension Scheme (LGPS) administered by Wirral Metropolitan Borough Council. Although retirement benefits will not actually be payable until employees retire the Authority has a commitment to make the payments that need to be disclosed at the time that employees earn their future entitlement.

The LGPS is a funded scheme, meaning that the Authority and employees pay contributions into a Fund, calculated at a level estimated to balance the pensions liabilities with investment assets. The scheme rules define the benefits (this is a defined benefits scheme) payable quite independently of the contributions payable i.e. the benefits are not directly related to the investments of the scheme.

In 2006-2007 pension costs amounting to £179k were charged to the Income and Expenditure Account at the opted rate of 15.9%. The relevant elements of pensions paid to retired officers have also been charged. The following disclosures are required in accordance with FRS 17 "Retirement Benefits" and although attributable to the Authority they do not form part of the Accounting Statements.

| <u>Assets & Liabilities Attributable to the Authority</u> | £M |
|---|--------------|
| Estimated liabilities in the scheme | (8.7) |
| Estimated assets in the scheme | <u>7.0</u> |
| Net liability in the scheme | <u>(1.7)</u> |

Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in future years dependent upon assumptions about mortality rates, salary levels, etc. Assumptions have been made that the average age of membership has not risen significantly since the latest actuarial valuation.

The valuation has been prepared on a market related basis by Mercer Human Resource Consulting, the Fund actuaries.

The main assumptions used in the calculations are:-

| | 31/3/2007 | 31/3/2006 |
|--|-----------|-----------|
| Rate of inflation | 3.1% | 2.9% |
| Rate of increase in salaries | 4.4% | 4.2% |
| Rate of increase in pensions | 3.1% | 2.9% |
| Rate of discounting scheme liabilities | 5.4% | 4.9% |

The expected rate of return on assets are as follows:-

| | 31/3/2007 | 31/3/2006 |
|--|-----------|-----------|
| Rate of return on equities | 7.5% | 7.0% |
| Rate of return on Government Bonds | 4.7% | 4.3% |
| Rate of return on other Bonds | 5.4% | 4.9% |
| Rate of return on Property Investments | 6.5% | 6.0% |
| Rate of return on Cash/Liquidity | 5.3% | 4.5% |
| Rate of return on Other Assets | 7.5% | 7.0% |

Assets in the Fund are valued at fair price, principally market value for investments and consist of the following categories by value and proportion:-

| | 31/3/2007 | | 31/3/2006 | |
|------------------|-----------|-------|-----------|------|
| | £000 | % | £000 | % |
| Equities | 4,055 | 58.3% | 4,075 | 61.0 |
| Government Bonds | 1,169 | 16.8% | 1,122 | 16.8 |
| Other Bonds | 410 | 5.9% | 321 | 4.8 |
| Property | 682 | 9.8% | 334 | 5.0 |
| Cash/Liquidity | 376 | 5.4% | 568 | 8.5 |
| Other Assets | 264 | 3.8% | 261 | 3.9 |

The movement in the net pension liability for the year to 31 March 2007 was as follows:-

| | £000 | £000 |
|--|------------|------------|
| Net Pension Liability at 1 April 2006 | | (2,115) |
| <u>Movements in the Year</u> | | |
| - Current Service Cost | (146) | |
| - Employer Contributions | 151 | |
| - Past Service/Curtailment Costs | 0 | |
| - Net Interest/Return on Assets | (33) | |
| - Actuarial Gain/(Loss) | <u>398</u> | <u>370</u> |
| Net Pension Liability at 31 March 2007 | | (1,745) |

The actuarial loss can be analysed into the following categories measured as absolute amounts and as a percentage of assets and liabilities at 31 March 2007:-

| | £000 | % |
|-----------------------|------------|---------------------|
| Asset Gain/(Loss) | (1) | 0% of Assets |
| Liability Gain/(Loss) | 0 | 0% of Liabilities |
| Change in Assumptions | <u>399</u> | 4.6% of Liabilities |
| Net Gain | <u>398</u> | |

26. NOTES TO THE CASHFLOW STATEMENT

1. RECONCILIATION OF THE NET SURPLUS/DEFICIT ON THE CONSOLIDATED REVENUE ACCOUNT TO THE MOVEMENT IN CASH

| | £000 | £000 |
|---------------------------------|------------|----------------|
| NET SURPLUS FOR THE YEAR | | (874) |
| Adjustments for:- | | |
| (i) Dividends | | 300 |
| (ii) Servicing of Finance Items | | |
| - Interest Paid | (1,229) | |
| - Interest Receivable | <u>74</u> | (1,155) |
| (iii) Non-Cash Items | | |
| - Landfill Allowances | (35) | |
| - Depreciation | (367) | |
| - FRS 17 | (179) | |
| - Grants Amortised | <u>311</u> | (270) |
| (iv) Movement in:- | | |
| - Debtors | (1,603) | |
| - Creditors | (3,476) | |
| - Deferred Liabilities | <u>215</u> | (4,864) |
| REVENUE ACTIVITIES NET CASHFLOW | | <u>(6,863)</u> |

2. RECONCILIATION OF THE MOVEMENT IN CASH TO MOVEMENT IN NET DEBT

| <u>Balance Sheet Movements</u> | Balance 31.3.2007 £000 | Balance 31.3.2006 £000 | Movement in Year £000 |
|--|------------------------------|------------------------------|------------------------------|
| Borrowing - Long Term | (21,187) | (15,330) | (5,857) |
| - Short Term | (143) | (143) | - |
| Cash in Hand/(Overdrawn) | <u>10,749</u> | <u>1,494</u> | <u>9,255</u> |
| | <u>(10,581)</u> | <u>(13,979)</u> | <u>3,398</u> |
| <u>CASHFLOW STATEMENT</u> | | | |
| <u>BALANCES</u> | | | |
| Financing | | | (5,857) |
| Increase in Cash and Cash Equivalents | | | <u>9,255</u> <u>3,398</u> |

GROUP ACCOUNTS

The purpose of the Group Accounts is to provide an overall picture of the Group as a whole showing the totality of operations and available resources. While the Group Accounts are not primary statements, they afford transparency and are therefore capable of comparison with other entities which have different corporate structures.

THE GROUP INCOME AND EXPENDITURE ACCOUNT

| 2005-2006 Net Expenditure £000 | Gross Expenditure £000 | Gross Income £000 | 2006-2007 Net Expenditure £000 |
|---|---|-------------------------|---|
| | <u>Continuing Operations</u> | | |
| (8,381) | 56,997 | (59,240) | (2,243) |
| | Cultural, Environmental & Planning Services Corporate & Democratic | | |
| 445 | 981 | - | 981 |
| - | 21 | - | 21 |
| | Core Cost Non-Distributed Costs | | |
| 38 | 194 | (219) | (25) |
| - | - | - | - |
| | Share of Associates & Joint Venture Operating Results | | |
| - | - | - | - |
| | Other Operating Income | | |
| - | - | - | - |
| | Exceptional Items | | |
| - | - | - | - |
| | Share of Associates & Joint Venture Exceptional Items | | |
| <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| (7,898) | 58,193 | (59,459) | (1,266) |
| | Net Cost of Services | | |
| - | | | - |
| | Gain/Loss on Disposal of Fixed Assets | | |
| 1,179 | | | 1,229 |
| | Interest Payable | | |
| - | | | 2 |
| | Share of Associates & Joint Venture Interest Payable | | |
| (651) | | | (899) |
| | Interest & Investment Income | | |
| (3) | | | - |
| | Share of Associates & Joint Venture Interest & Investment Income | | |
| 23 | | | (76) |
| | Pensions Interest Cost and Expected Return on Pensions Assets | | |
| - | | | - |
| | Share of Associates & Joint Venture Pensions Interest Cost and Expected Return on Pensions Assets | | |
| 596 | | | 563 |
| | Taxation | | |
| - | | | - |
| | Share of Associates & Joint Ventures Taxation | | |
| - | | | - |
| | Minority Interest Share of Profit of Subsidiaries | | |
| <u>-</u> | | | <u>-</u> |
| (6,754) | | | (447) |
| | Extraordinary Items | | |
| | (Surplus)/Deficit for Year | | |

RECONCILIATION OF THE SINGLE ENTITY SURPLUS/DEFICIT TO THE GROUP SURPLUS/DEFICIT

| 2005-2006 £000 | | 2006-2007 £000 |
|-------------------|--|-------------------|
| (4,811) | (Surplus)/deficit for the year on the Authority Income & Expenditure Account | (874) |
| <u>(34,794)</u> | Adjustment for transactions with other group entities | <u>(38,367)</u> |
| (39,605) | (Surplus)/Deficit in the Group Income & Expenditure Account attributable to the Authority | (39,241) |
| | (Surplus)/Deficit in the Group Income & Expenditure Account attributable to group entities (adjusted for intra-group transactions) | |
| - | - Subsidiaries | - |
| 32,816 | - Associates | 38,817 |
| <u>35</u> | - Joint Ventures | <u>(23)</u> |
| (6,754) | (Surplus)/Deficit for the year on the Group Income & Expenditure Account | (447) |

GROUP STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

| 2005-2006 £000 | | 2006-2007 £000 |
|-------------------|--|-------------------|
| (6,754) | Surplus/Deficit for the Year on the Group Income & Expenditure Account | (447) |
| (537) | Surplus/Deficit arising on Revaluation of Fixed Assets | 5,955 |
| (512) | Actuarial (gains)/losses on Pension Fund Assets and Liabilities | (1,811) |
| — | Other (gains)/losses required to be included | — |
| (7,803) | Total Group Recognised (gains)/losses for the Year | 3,697 |

GROUP BALANCE SHEET AS AT 31 MARCH 2007

| 2005-2006 | | 2006-2007 | |
|-----------|--|------------------|-----------|
| £000 | | £000 | £000 |
| | <u>Fixed Assets</u> | | |
| 0 | Intangible Assets | 257 | |
| | Tangible Assets | | |
| | Operational Assets | | |
| 14,897 | Land & Buildings | 20,164 | |
| 3,898 | Vehicles, Plant & Equipment | 3,844 | |
| | Non-Operational Assets | | |
| 25 | Work in Progress | <u>2,181</u> | 26,446 |
| 0 | Long Term Investments | | 0 |
| 0 | Long Term Debtors | | 0 |
| | <u>Current Assets</u> | | |
| 11,990 | Landfill Allowances | 19,901 | |
| 20,070 | Debtors | 9,083 | |
| 84,009 | Cash at Bank | <u>118,381</u> | 147,365 |
| | <u>Current Liabilities</u> | | |
| (143) | Short Term Borrowing | (143) | |
| (9,242) | Landfill Allowance Usage | (17,188) | |
| (12,993) | Creditors | (17,929) | |
| (75,520) | Bank Overdraft | <u>(100,517)</u> | (135,777) |
| (15,330) | Long Term Borrowing | | (21,187) |
| (4,668) | Deferred Liabilities | | (4,459) |
| (6,129) | Deferred Grants | | (6,517) |
| (3,580) | Assets & Liabilities relating to Defined Benefit Pension Schemes | | (1,601) |
| 18,464 | Fixed Asset Restatement Account | | 25,312 |
| (8,880) | Capital Financing Account | | (9,053) |
| 3,580 | Pensions Reserve | | 1,601 |
| | Reserves | | |
| 18,464 | Revaluation Reserve | 25,312 | |
| 1,984 | P & L Reserves | <u>(3,182)</u> | |
| 20,448 | GROUP BALANCES & RESERVES | | 22,130 |
| 0 | MINORITY INTEREST | | 0 |
| 20,448 | TOTAL BALANCES & RESERVES | | 22,130 |

THE GROUP CASH FLOW STATEMENT

| 2005-2006 | | 2006-2007 | |
|-----------|---|-----------|---------|
| £000 | | £000 | £000 |
| 3,864 | NET CASH INFLOW FROM REVENUE ACTIVITIES | | (3,761) |
| | DIVIDENDS FROM ASSOCIATES & JV's | | |
| | Cash Inflows | | |
| 0 | Dividends Received | | 0 |
| | RETURNS ON INVESTMENTS AND SERVICING OF FINANCE | | |
| | Cash Outflows | | |
| 1,176 | Interest Paid | | 1,231 |
| | Cash Inflows | | |
| (555) | Interest Received | (637) | |
| 0 | Dividends received from Investments | <u>0</u> | (637) |
| 367 | TAXATION | | 336 |
| | CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT | | |
| | Cash Outflows | | |
| 8,686 | Purchase of Fixed Assets | 15,954 | |
| 2,200 | Purchase of Landfill Allowances | <u>0</u> | 15,954 |
| | Cash Inflows | | |
| (4,140) | Capital Grants Received | | (699) |
| 0 | EQUITY DIVIDENDS PAID | | 0 |
| | ACQUISITION AND DISPOSALS | | |
| 0 | Cash Outflows | | 0 |
| 0 | Cash Inflows | | 0 |
| 11,598 | NET CASH (INFLOW)/OUTFLOW BEFORE FINANCING | | 12,424 |
| 0 | MANAGEMENT OF LIQUID RESERVES | | 0 |
| | FINANCING | | |
| | Cash Outflows | | |
| 143 | Repayment of Borrowing | | 643 |
| | Cash Inflows | | |
| (7,000) | New Loans Raised | | (8,000) |
| 4,741 | NET (INCREASE)/DECREASE IN CASH | | 5,067 |

DISCLOSURES TO THE GROUP ACCOUNTS

1. STATEMENT OF ACCOUNTING POLICIES

The following changes to the Statement of Accounting Policies shown in Pages 13-19 have been made for compliance with the preparation of the Group Accounts:-

- profits or losses on disposal of assets are shown as a separate line before Net Cost of Services;
- the total of all profits or losses on disposal of assets are reversed out as an appropriation and are transferred to the appropriate capital reserves;
- capital charges have been removed and replaced with the depreciation charge which is charged to services;
- Government grants amortised in the year are included in the gross income of services;
- adjustments are made to include any assets or liabilities (and any associated income and expenditure) that are directly controlled by and generate benefits for Merseyside Waste Disposal Authority.

2. DETAILS OF COMBINING ENTITIES

2.1 The Authority (MWDA) has a subsidiary which is its own wholly owned group of companies set up originally as a single company under the Environmental Protection Act 1990. Subsequent restructuring has resulted in the following:-

- Mersey Waste Holdings Limited (the holding company) (MWHL)
- Mersey Waste Limited
- Mersey Waste Consultancy Limited
- Mersey Waste Recycling Limited
- Mersey Waste Holdings Developments Limited
- Mersey Waste Holdings Associates Limited
- Mersey Waste Holdings Energy Limited

The Authority's transactions are all with the holding company. The combination has been accounted for by the acquisition method on the 31 March 2007. The financial year for Mersey Waste Holdings Limited ends on 30 September but a second 'year end' has been produced to provide the statutory accounts as at 31 March 2007. The Company's main operational activity is in the disposal of waste.

2.2 The Authority is involved in a joint venture operation with Novera Energy Generation No.1 Limited. A company, Bidston Methane Limited (BML) was set up in 1985 with the purpose of extracting gas from closed landfill sites and then generating electricity. The Authority and Novera each have a 50% shareholding in Bidston Methane Limited.

The joint venture has been accounted for by the gross equity method as at 31 March 2007. Bidston Methane Limited has 31 December for its year end but has also prepared a second 'year end' at 31 March 2007.

3. NOTES TO THE GROUP INCOME AND EXPENDITURE ACCOUNT

3.1 Pensions

The Authority offers entrance to the Local Government Occupational Pension Scheme which is administered in the Merseyside area by Wirral MBC. It is registered with the Occupational Pension Board and is subject to Regulations issued by the Department of the Environment, Transport and the Regions. Mersey Waste Holdings Limited use the same Pension Scheme for the major part of its staff but it also has offered in the past the LAWDC (Local Authority Waste Disposal Companies) Scheme. Both Schemes are Defined Benefit Pension Schemes.

| | MWDA Merseyside Scheme £000 | MWHL Merseyside Scheme £000 | MWHL LAWDC Scheme £000 |
|--|--------------------------------------|--------------------------------------|---------------------------------|
| Current Service Cost* | (146) | (336) | (276) |
| Past Service/Curtailment/ Settlement Gain | 0 | 0 | 0 |
| Interest Cost on Pension Liabilities | (428) | (755) | (155) |
| Expected Return on Assets | 395 | 861 | 158 |
| Actual Amount Charged to Income & Expenditure Account in the Period | 151 | 185 | 226 |
| Actuarial Gain in the Year | 398 | 725 | 688 |

*This cost should not increase substantially as the age profile shows on significant increase.

The Merseyside Pension Fund's Annual Report is made available from P.O. Box 120, Castle Chambers, 4/6 Cook Street, Liverpool, L69 2NW. The LAWDC Scheme is administered by Hartshead Capita, the actuarial valuation being done by Hymans Robertson LLP and the accounts are available for review at their offices at 221 West George Street, Glasgow, G22 3ND.

4. EMPLOYEE REMUNERATION OVER £50,000

| | 2006-2007 | | 2005-2006 | |
|---------------------|-------------|-------------|-------------|-------------|
| | MWDA No. | MWHL No. | MWDA No. | MWHL No. |
| Remuneration | | | | |
| £50,000 - £60,000 | - | - | - | 2 |
| £60,000 - £70,000 | - | 1 | - | 2 |
| £70,000 - £80,000 | 1 | 1 | 1 | 1 |
| £80,000 - £90,000 | - | 2 | - | - |
| £140,000 - £150,000 | - | 1 | - | 1 |

NOTES TO THE GROUP BALANCE SHEET

FIXED ASSETS

1. ASSET VALUES - OPERATIONAL ASSETS

| | Land & Buildings | | | | Vehicles, Plant & Equipment | | | | Total | | | 2006-2007 | 2005-2006 |
|----------------------------------|------------------|--------------|-------------|---------------|-----------------------------|--------------|-------------|---------------|--------------|--------------|-------------|---------------|---------------|
| | MWDA £000 | MWHL £000 | BML £000 | Total £000 | MWDA £000 | MWHL £000 | BML £000 | Total £000 | MWDA £000 | MWHL £000 | BML £000 | Total £000 | Total £000 |
| Net Book Value at 1 April | 7,573 | 7,324 | 0 | 14,897 | 3,448 | 0 | 450 | 3,898 | 11,021 | 7,324 | 450 | 18,795 | 8,701 |
| Movement in Year | | | | | | | | | | | | | |
| Additions | 1,348 | 12,252 | 0 | 13,600 | 246 | 6 | 5 | 257 | 1,594 | 12,258 | 5 | 13,857 | 10,157 |
| Disposals | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Revaluations | (5,955) | 0 | 0 | (5,955) | 0 | 0 | 0 | 0 | (5,955) | 0 | 0 | (5,955) | (228) |
| Accounting Policy Adjustments | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 765 |
| Impairments | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Depreciation | (121) | (2,257) | 0 | (2,378) | (246) | (2) | (63) | (311) | (367) | (2,259) | (63) | (2,689) | (600) |
| Net Book Value at 31 March | 2,845 | 17,319 | 0 | 20,164 | 3,448 | 4 | 392 | 3,844 | 6,293 | 17,323 | 392 | 24,008 | 18,795 |

2. INFORMATION ON ASSETS HELD

MWDA

- 1 Bidston Integrated Waste Management Facility
- 9 Household Waste Recycling Centres
- 3 Household Waste Recycling Centres (Leasehold)
- 4 Closed Landfill Sites (Leasehold)

MWHL

- 3 Waste Transfer Stations
- 2 Household Waste Recycling Centres
- Land at Bidston

BML

- 3 Generators

3. DEBTORS

| | | | | 2007 | 31 | | | | 2006 |
|------------------------------|-------|-------|------|-------|-------|-------|--------|------|--------|
| | MWDA | MWHL | BML | Total | March | MWDA | MWHL | BML | Total |
| | £000 | £000 | £000 | £000 | | £000 | £000 | £000 | £000 |
| Government Departments | 2,143 | - | - | 2,143 | | 2,222 | - | - | 2,222 |
| Other LA's | 299 | 867 | - | 1,166 | | 252 | 173 | - | 425 |
| Employees | 7 | - | - | 7 | | 11 | - | - | 11 |
| Sundry | 16 | 5,707 | 48 | 5,771 | | 176 | 17,224 | 75 | 17,475 |
| | 2,465 | 6,574 | 48 | 9,087 | | 2,661 | 17,397 | 75 | 20,133 |
| Less Provision for Bad Debts | 4 | - | - | 4 | | 19 | 44 | - | 63 |
| | 2,461 | 6,574 | 48 | 9,083 | | 2,642 | 17,353 | 75 | 20,070 |

4. CREDITORS

| | | | | 2007 | 31 | | | | 2006 |
|------------------------|-------|--------|------|--------|-------|-------|--------|------|--------|
| | MWDA | MWHL | BML | Total | March | MWDA | MWHL | BML | Total |
| | £000 | £000 | £000 | £000 | | £000 | £000 | £000 | £000 |
| Government Departments | 353 | 781 | - | 1,134 | | 240 | 534 | - | 774 |
| Other LA's | 807 | 45 | - | 852 | | 838 | 17 | - | 855 |
| Employees | 40 | - | - | 40 | | 39 | 0 | - | 39 |
| Sundry | 992 | 14,844 | 67 | 15,903 | | 1,489 | 9,564 | 273 | 11,326 |
| | 2,192 | 15,670 | 67 | 17,929 | | 2,606 | 10,115 | 273 | 12,994 |

5. FIXED ASSET RESTATEMENT ACCOUNT

| | 2006-2007 | | | 2005-2006 | | |
|---|--------------|--------------|---------------|--------------|--------------|---------------|
| | MWDA £000 | MWHL £000 | Total £000 | MWDA £000 | MWHL £000 | Total £000 |
| Balance at 1 April | 19,229 | (765) | 18,464 | 18,650 | 0 | 18,650 |
| <u>Add</u> | | | | | | |
| Expenditure on Operational Assets or those with Nil Value | 893 | 0 | 893 | 351 | 0 | 351 |
| Adjustments on Revaluations | 5,955 | 0 | 5,955 | 228 | 0 | 228 |
| Accounting Policy Adjustments | 0 | 0 | 0 | 0 | (765) | (765) |
| Net Book Value of Assets Disposed | 0 | 0 | 0 | 0 | 0 | 0 |
| Balance at 31 March | 26,077 | (765) | 25,312 | 19,229 | (765) | 18,464 |

6(A) MERSEYSIDE PENSION SCHEME

NET PENSIONS ASSET/LIABILITY

As part of the terms and conditions of employment of its qualifying officers and other employees the Authority and Mersey Waste Holdings Limited offer entrance into the Local Government Pension Scheme (LGPS) administered by Wirral Metropolitan Borough Council. Although retirement benefits will not actually be payable until employees retire the Authority has a commitment to make the payments that need to be disclosed at the time that employees earn their future entitlement.

The LGPS is a funded scheme, meaning that the Authority and employees pay contributions into a Fund, calculated at a level estimated to balance the pensions liabilities with investment assets. The scheme rules define the benefits (this is a defined benefits scheme) payable quite independently of the contributions payable i.e. the benefits are not directly related to the investments of the scheme.

In 2006-2007 the following payments were made to the Fund comprising pension costs charged in accordance with the former triennial valuation and amounts paid to retired officers:-

| | |
|------|-----|
| | £M |
| MWDA | 151 |
| MWHL | 185 |

The following disclosures are required in accordance with FRS 17 "Retirement Benefits" and although attributable to the Authority and Company they do not form part of the Consolidated Accounting Statements.

| <u>Assets & Liabilities Attributable to</u> | MWHL £M | MWDA £M |
|---|--------------|--------------|
| Estimated liabilities in the scheme | (15.5) | (8.7) |
| Estimated assets in the scheme | <u>15.3</u> | <u>7.0</u> |
| Net liability in the scheme | <u>(0.2)</u> | <u>(1.7)</u> |

Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in future years dependent upon assumptions about mortality rates, salary levels, etc. Assumptions have been made that the average age of membership has not risen significantly since the latest actuarial valuation.

The valuation has been prepared on a market related basis by Mercer Human Resource Consulting, the Fund actuaries.

The main assumptions used in the calculations are:-

| | 31/3/2007 | 31/3/2006 |
|--|-----------|-----------|
| Rate of inflation | 3.1% | 2.9% |
| Rate of increase in salaries | 4.4% | 4.2% |
| Rate of increase in pensions | 3.1% | 2.9% |
| Rate of discounting scheme liabilities | 5.4% | 4.9% |

The expected rate of return on assets are as follows:-

| | 31/3/2007 | 31/3/2006 |
|--|-----------|-----------|
| Rate of return on equities | 7.5% | 7.0% |
| Rate of return on Government Bonds | 4.7% | 4.3% |
| Rate of return on other Bonds | 5.4% | 4.9% |
| Rate of return on Property Investments | 6.5% | 6.0% |
| Rate of return on Cash/Liquidity | 5.3% | 4.5% |
| Rate of return on Other Assets | 7.5% | 7.0% |

Assets in the Fund are valued at fair price, principally market value for investments and consist of the following categories by value and proportion:-

| | 31/3/2007 | | | 31/3/2006 | | |
|------------------|--------------|--------------|------|--------------|--------------|------|
| | MWDA £000 | MWHL £000 | % | MWDA £000 | MWHL £000 | % |
| Equities | 4,055 | 8,896 | 58.3 | 4,075 | 8,807 | 61.0 |
| Government Bonds | 1,169 | 2,563 | 16.8 | 1,122 | 2,426 | 16.8 |
| Other Bonds | 410 | 900 | 5.9 | 321 | 693 | 4.8 |
| Property | 682 | 1,495 | 9.8 | 334 | 722 | 5.0 |
| Cash/Liquidity | 376 | 824 | 5.4 | 568 | 1,227 | 8.5 |
| Other Assets | 264 | 580 | 3.8 | 261 | 563 | 3.9 |

The movement in the net pension liability for the year to 31 March 2007 was as follows:-

| | MWHL | | MWDA | |
|--|-------|--------------|------------|----------------|
| | £000 | £000 | £000 | £000 |
| Net Pension Liability at 1 April 2006 | | (916) | | (2,115) |
| <u>Movements in the Year</u> | | | | |
| - Current Service Cost | (336) | | (146) | |
| - Employer Contributions | 185 | | 151 | |
| - Past Service/Curtailment Costs | 0 | | 0 | |
| - Net Interest/Return on Assets | 106 | | (33) | |
| - Actuarial Gain/(Loss) | 725 | <u>680</u> | <u>398</u> | <u>370</u> |
| Net Pension Liability at 31 March 2007 | | <u>(236)</u> | | <u>(1,745)</u> |

The actuarial loss can be analysed into the following categories measured as absolute amounts and as a percentage of assets and liabilities at 31 March 2007:-

| | MWHL | | MWDA | |
|-----------------------|------------|---------------------|------------|---------------------|
| | £000 | | £000 | |
| Asset Gain/(Loss) | (5) | 0% of Assts | (1) | 0% of Assets |
| Liability Gain/(Loss) | 0 | 0% of Liabilities | 0 | 0% of Liabilities |
| Change in Assumptions | <u>730</u> | 4.7% of Liabilities | <u>399</u> | 4.6% of Liabilities |
| Net Gain | <u>725</u> | | <u>398</u> | |

6(B) LAWDC PENSION SCHEME

NET PENSION/ASSET LIABILITY

The employees of Mersey West Holdings Limited originally had the option of entrance to the LAWDC Pension Scheme instead of entrance to the Merseyside Pension Fund. That option is no longer available as entrance is closed to new employees.

The LAWDC Scheme is similar in nature to the Merseyside Pension Scheme as a defined benefit scheme. In 2006-2007 MWHL paid into the Scheme the sum of £226k.

The following disclosures are required in accordance with FRS 17 "Retirement Benefits" and although attributable to MWHL, they do not form part of the Consolidated Accounting Statements.

Assets & Liabilities Attributable to MWHL

| | £M |
|-------------------------------------|------------|
| Estimated liabilities in the scheme | (2.8) |
| Estimated assets in the scheme | <u>2.9</u> |
| Net assets in the scheme | <u>0.1</u> |

Liabilities have been assessed on an actuarial basis.

CONTRIBUTIONS DISCLOSURES OUTSTANDING

The full actuarial valuations of the defined benefit schemes were updated to 31 March 2007 by a qualified Independent Actuary on a FRS 17 basis. The major assumptions at 31 March 2007 used by the Actuary were:-

| | | |
|---|------|------|
| | 2007 | 2006 |
| Rate of increase in salaries | 4.2% | 4.1% |
| Rate of increase in pensions in payment | 3.2% | 3.1% |
| Discount rate | 5.4% | 4.9% |
| Inflation assumption | 3.2% | 3.1% |

The LAWDC Scheme is a multi-employer and as a result it has not been possible to extract all relevant information for 30 September 2002 and 2004. The details for 31 March 2007 have been obtained and disclosed where necessary.

The assets in the schemes and the expected rates of return at 31 March 2006 were:-

| | Long Term Rate of Return expected at 31 March 2007 % | Value at 31 March 2007 £000 | Long Term Rate of Return expected at 31 March 2006 % | Value at 31 March 2006 £000 |
|--|--|-----------------------------------|--|-----------------------------------|
| Equities | 7.0 | 2,515 | 6.6 | 2,235 |
| Government Bonds | 4.5 | 152 | 4.1 | 111 |
| Corporate Bonds | 5.4 | 97 | 4.8 | 75 |
| Cash | 5.3 | <u>107</u> | 4.4 | <u>17</u> |
| Total Market Value of Assets | | 2,871 | | 2,438 |
| Present Value of Scheme Liabilities | | 2,779 | | 2,987 |
| Surplus/(Deficit) in the Scheme | | 92 | | (549) |
| Related Deferred Tax Asset | | 0 | | 165 |
| Net Pension Liability on a FRS 17 basis | | 92 | | (384) |

Due to significant deficit in the schemes, the Directors are due to hold discussions with the Group's Actuaries to determine the best course of action. It is likely that contributions will have to increase over the next few years to make good this deficit.

| | 31 March 2007 £000 | 31 March 2006 £000 |
|--|-----------------------|-----------------------|
| <i>Movement in deficit during the period</i> | | |
| Deficit in scheme at 1 October 2005 | (549) | (480) |
| Operating Cost | (276) | (160) |
| Other Finance Costs | 3 | (2) |
| Actuarial Gains and Losses | 688 | (15) |
| Contributions Paid | <u>226</u> | <u>108</u> |
| Deficit in scheme at end of year | <u>92</u> | <u>(549)</u> |

| | 31 March 2007 £000 | 31 March 2006 £000 |
|---|-----------------------|-----------------------|
| <i>Analysis of the amount charged to Operating Profit</i> | | |
| Current service cost | 276 | 160 |

| | 31 March 2007 £000 | 31 March 2006 £000 |
|--|-----------------------|-----------------------|
| <i>Analysis of the amount credited to other Finance Income</i> | | |
| Expected return on pension scheme assets | 158 | 64 |
| Interest on pension scheme liabilities | (155) | (66) |
| Total other finance (costs)/gains | <u>3</u> | <u>(2)</u> |

| | 31 March 2007 £000 | 31 March 2006 £000 |
|---|-----------------------|-----------------------|
| <i>Analysis of amounts recognised in Statement of Total Recognised Gains and Losses</i> | | |
| Actual return less expected return on pension scheme asset | 26 | 201 |
| Experience losses arising on the scheme liabilities | 305 | 13 |
| Changes in assumptions underlying the present value of the scheme liabilities | 357 | (229) |
| Actuarial loss recognised in statement of total recognised gains and losses | 688 | (15) |

| | 31 March 2007 £000 | 31 March 2006 £000 |
|---|-----------------------|-----------------------|
| <i>History of experience gains and losses</i> | | |
| Difference between the expected and actual return on scheme assets amount £000 | 26 | 201 |
| Percentage of scheme assets | 0.91% | 8.23% |
| Total amount recognised in statement of total recognised gains and losses : amount £000 | 688 | (15) |
| Percentage of the present value of the scheme liabilities | 24.76% | (0.51%) |

7. RECONCILIATION BETWEEN NET(SURPLUS)/DEFICIT ON GROUP INCOME AND EXPENDITURE ACCOUNT TO THE REVENUE ACTIVITIES NET CASH FLOW

| | 2006-2007 £000 | 2005-2006 £000 |
|----------------------------------|-------------------|-------------------|
| Net (Surplus)/Deficit for Year | (447) | (4,890) |
| Adjustments for:- | | |
| (i) Discounts | 3,399 | 0 |
| (ii) Taxation | (336) | (596) |
| (iii) Servicing of Finance Items | | |
| - Interest Paid | (1,231) | (1,176) |
| - Interest Received | <u>637</u> | 555 |
| (iv) Landfill Allowances | (35) | 548 |
| (v) Non-Cash | | |
| - Depreciation | (2,815) | (600) |
| - Government Grants Amortised | 311 | (247) |
| - FRS 17 | <u>(682)</u> | (3,186) |
| (vi) Movement in | | |
| - Tfr to Earmarked Reserves | 0 | 4,991 |
| - Debtors | (466) | 6,609 |
| - Creditors | (2,311) | <u>215</u> |
| - Deferred Liabilities | <u>215</u> | (2,562) |
| Revenue Activities Net Cash Flow | <u>(3,761)</u> | <u>3,864</u> |

GLOSSARY OF FINANCIAL TERMS

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 its financial statements through:

- (i) recognising;
- (ii) selecting measurement bases for; and
- (iii) presenting assets, liabilities, gains, losses and changes to reserves.

ACCRUALS

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

ACTUARIAL GAINS AND LOSSES

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

- (i) events have not coincided with the actuarial assumptions made for the last valuation (experience gains and losses) ; or
- (ii) the actuarial assumptions have changed.

BALANCES AND RESERVES

These represent the accumulated 'free' monies of the Authority. Reserves are often earmarked for specific purposes, but generally may be raised to finance future capital expenditure, replacement or renewals, or a major event to be sponsored by the Authority.

CAPITAL EXPENDITURE

Expenditure on the acquisition of a fixed asset or expenditure which adds to and not merely maintains the value of an existing fixed asset.

CAPITAL FINANCING ACCOUNT

The introduction of a new system of capital accounting from 1 April 1994 required the establishment of this new reserve account, which represents amounts set aside from revenue resources or capital receipts to finance expenditure on fixed assets or for the repayment of external loans and certain other capital financing transactions.

CAPITAL RECEIPTS

The proceeds from the sale of capital assets which, subject to various limitations can be used to finance Capital Expenditure or to repay leasing charges or outstanding debt on assets originally financed through loan.

CONTINGENT LIABILITY

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

CORPORATE AND DEMOCRATIC CORE

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

CURRENT SERVICE COST (PENSIONS)

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

CURTAILMENT

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

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

DEFERRED CHARGES

These represent capitalizable items of expenditure where no tangible asset exists but where the cost is to be amortised to revenue over an appropriate period.

DEFINED BENEFIT SCHEME

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

DEFINED CONTRIBUTION SCHEME

A pension or other retirement benefit scheme into which an employer pays regular contributions fixed as an amount or as a percentage of pay and will have no legal or constructive obligation to pay further contributions if the scheme does not have sufficient assets to pay all employee benefits relating to employee service in the current 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, effluxion of time or obsolescence through technological or other changes.

DISCONTINUED OPERATIONS

Operations comprise services and divisions of service as defined in CIPFA's Standard Classification of Income and Expenditure. An operation should be classified as discontinued when the activities related to the operation have ceased permanently and the termination has a material effect on the nature and focus of the Authority's operations and represents a material reduction in its provision of services.

DISCRETIONARY BENEFITS

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

EMOLUMENTS

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

ESTIMATION TECHNIQUES

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

EXPECTED RATE OF RETURN ON PENSIONS ASSETS

For a funded defined benefit scheme, the average rate of return, including both income and changes in fair value but net of scheme expenses, expected over the remaining life of the related obligation on the actual assets held by the scheme.

EXTRAORDINARY ITEMS

Material items, possessing a high degree of abnormality, which derive from events or transactions that fall outside the ordinary activities of the Authority and which are not expected to recur. They do not include exceptional items nor do they include prior period items merely because they relate to a prior period.

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.

FIXED ASSETS

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

FIXED ASSET RESTATEMENT ACCOUNT

A reserve required following the introduction of a new capital accounting regime from 1 April 1994, which represents principally the balance of the surpluses or deficits arising on the periodic revaluation of fixed assets.

GOVERNMENT GRANTS

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

IMPAIRMENT

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

INFRASTRUCTURE ASSETS

Fixed assets that are inalienable, expenditure on which is recoverable only by 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.

INVESTMENTS (PENSIONS FUND)

The investments of the Pensions Fund will be accounted for in the statements of that Fund. However, Authorities (other than Town, Parish and Community Councils and District Councils in Northern Ireland) are also required to disclose, as part of the transitional disclosures relating to retirement benefits, the attributable share of pension scheme assets associated with their underlying obligations.

NET BOOK VALUE

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

NET CURRENT REPLACEMENT COST

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

NET REALISABLE VALUE

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

NON-DISTRIBUTED COSTS

Overheads for which no user now benefits and that are not apportioned to services.

NON-OPERATIONAL ASSETS

Fixed assets held by an Authority but not directly occupied, used or consumed in the delivery of services. Examples of non-operational assets are investment properties and assets that are surplus to requirements, pending sale or redevelopment.

OPERATING LEASES

A lease other than a finance lease. This is a method of financing assets which allows the Authority to use, but not own an asset. A third party purchases the asset on behalf of the Authority, who then pay the lessor an annual rental over the life of the asset. Expenditure financed by operating leasing does not count against capital allocations.

OPERATIONAL ASSETS

Fixed assets held and occupied, used or consumed by the Authority 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 related to employee service in prior periods arising in the current period as a result of the introduction of, or improvements to, retirement benefits.

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.

PROJECTED UNIT METHOD

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

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

PROVISIONS

These are monies set aside for liabilities or losses which are likely or certain to be incurred but the exact amount and dates are not currently known.

RELATED PARTIES

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

- (i) one party has direct or indirect control of the other party; or
- (ii) the parties are subject to common control from the same source; or
- (iii) 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 at all times its own separate interests; or
- (iv) the parties, in entering 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.

Examples of related parties of an Authority include:-

- (i) central government;
- (ii) local authorities and other bodies precepting or levying demands on the Council Tax;
- (iii) its subsidiary and associated companies;
- (iv) its joint ventures and joint venture partners;
- (v) its members;
- (vi) its chief officers; and
- (vii) its pension fund.

Examples of related parties of a pension fund include its:-

- (i) administering authority and its related parties;
- (ii) scheduled bodies and their related parties; and
- (iii) trustees and advisers.

For individuals identified as related parties, the following are also presumed to be related parties:-

- (i) members of the close family, or the same household; and
- (ii) partnerships, companies, trusts or other entities in which the individual, or a member of their close family or the same household, has a controlling interest.

RELATED PARTY TRANSACTION

A related party transaction is the transfer of assets or liabilities or the performance of services by, to or for a related party irrespective of whether a charge is made. Examples of related party transactions include:-

- (i) the purchase, sale, lease, rental or hire of assets between related parties;
- (ii) the provision by a pension fund to a related party of assets of loans, irrespective of any direct economic benefit to the pension fund;
- (iii) the provision of a guarantee to a third party in relation to a liability or obligation of a related party;
- (iv) the provision of services to a related party, including the provision of pension fund administration services;
- (v) transactions with individuals who are related parties of an authority or a pension fund, except those applicable to other members of the community or the pension fund

The materiality of related party transactions should be judged not only in terms of their significance to the authority, but also in relation to its related party.

RETIREMENT BENEFITS

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

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

REVENUE EXPENDITURE

This is money spent on the day to day running costs of providing services. It is usually of a constantly recurring nature and produces no permanent asset.

SCHEME LIABILITIES

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

USEFUL LIFE

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