Statement of Accounts
2021/22

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THE ROYAL BOROUGH OF
KENSINGTON
AND CHELSEA

Contents

Introduction

Last year I set out how 2020/21 had been a year like no other and in many respects 2021/22 was also unprecedented. The pandemic continued to create challenges for residents and businesses in Kensington and Chelsea with continued lockdowns and restrictions impacting the local economy. The Council has continued to play a vital role within the community in the fight against Covid-19 and provide support to residents and businesses as we start the recovery phase of the pandemic. The successful delivery of the vaccination programme allowed restrictions to start to ease at the beginning of the year and we are seeing signs of economic recovery with many income streams moving back towards pre-pandemic levels. I'm proud of the Council's response to these challenges but know there is much to do to continue to support recovery within the borough, especially with the rising cost of living and inflationary challenges in 2022/23.

Our priorities are set out in the Council Plan that was refreshed and published in June 2021. However, the ongoing impact of the Grenfell tragedy continues to be a key priority for the Council. We will continue to engage in an open and transparent way with the Public Inquiry and Module 4 and the recently commenced criminal investigation. The 14 June 2022 marked the five year anniversary and a chance for the Council to reflect on all that has changed, and also to acknowledge that more change is required. We are committed to working with the local communitiy to make Kensington and Chelsea the best Council.

In March 2021 the Council agreed its budget for 2021/22. The Council took the decision to implement a council tax increase of 0.99%, plus an additional precept of 1% for Adult Social Care. This kept us in the bottom quartile for council tax costs. We took this decision to keep the council tax as low as we could so that we could continue to fund local services but at the same time support through the potential impacts on our residents cost of living as we emerged from the pandemic. The Council itself will be facing significant financial pressures due to rising costs and will be doing all it can to control these and limit the impact on residents and businesses in the borough.

During the year, we spent £160m on services. This included supporting residents needing social care support and supporting timely discharge from hospital as our NHS colleagues faced unprecedented pressures and demands on their services. Families continued to receive our support and additional funding put into schools helped to support continued education through the second year of the pandemic. Ofsted's conclusion is that the borough has the best Special Educational Needs and Disabilities (SEND) services of any local authority in the country. The year, also saw the launch of the first Business Improvement District at Brompton Road, with Kings Road and High Street Kensington now operational and further distircts are in the pipeline over the next two years. Many of our own leisure and cultural facilities started to recover in the year and many of the borough's retail, hospitality and leisure facilities re-opened. We are starting to see a good recovery in these areas but the change in working behaviours and international visitors means that day time population is still below where we were. This continues to impact many of our vital income streams for funding services.

The Council set aside £8m during the year to deliver its Covid-19 recovery programme. The programme is looking at how we address the community, environmental, economic and health challenges that have arisen during the pandemic. I'm proud of the initial work done on this programme and am confident this will deliver improvements for residents and businesses. The budget we carry forward into 2022/23 will be used to continue to support this recovery which could take months if not years to fully recover.

Even before the pandemic the Council was facing significant budgetary pressures, the economic conditions post Brexit and Covid-19 and now the very high inflation levels will create significant additional financial challenges – the estimated budget gap is over £45m over the next four years from 2023/24. This is combined with the additional demand for services created by the pandemic that are likey to continue due to the cost of living pressures on our residents.

The Council's financial performance against the 2021/22 budget is set out in this Statement of Accounts and in the management accounts outturn report (available on the Council's website in Committee Meetings). The Council's overall revenue position is a small underspend of £1m but service budgets have an overspend of £1.2m, primarily due to additional costs and lower income levels arising from the Covid-19 pandemic. The receipt of Covid-19 Government support for the first part of the year and compensation for loss in fees and charges was welcomed and mitigated some of these pressures but some use of Council resources through contingency was required. The overall position on the General Fund Capital Programme was an underspend of £20m against the current approved budget - spend of £63m against a budget of £83m but against an original budget for the year of £273m set in March 2021.

Our budget for the future remains subject to a great deal of uncertainty. The future of local government funding has been subject to review since 2016 and still remains unclear. Any changes in local government funding resulting from the Fair Funding Review are likely to see Government funding moving away from inner London and the 2021 census is expected to show a reduction in our population which will reduce funding but may not necessarily reduce costs.

The budget gap on our General Fund is estimated to be £45m for the period 2023/24 to 2026/27. We also face significant financial pressures on the Dedicated School Grant and the Housing Revenue Account.

The Council's reserve balances are prudent. Many of these are ringfenced or committed - funding of the final two years of the Grenfell Recovery Strategy, to fund invest to save opportunities to deliver savings and to manage the fluctuations if Government funding is reduced over the next few years as expected. As such we cannot rely on reserves to ensure we have a sustainable financial position and must meet budgetary pressures by ensuring we deliver the right services for the best value. We must continue to meet our financial challenges by ensuring we deliver efficiently and effectively and increase our income generation. More details on our furture financial position are provided in our recent Financial Update.

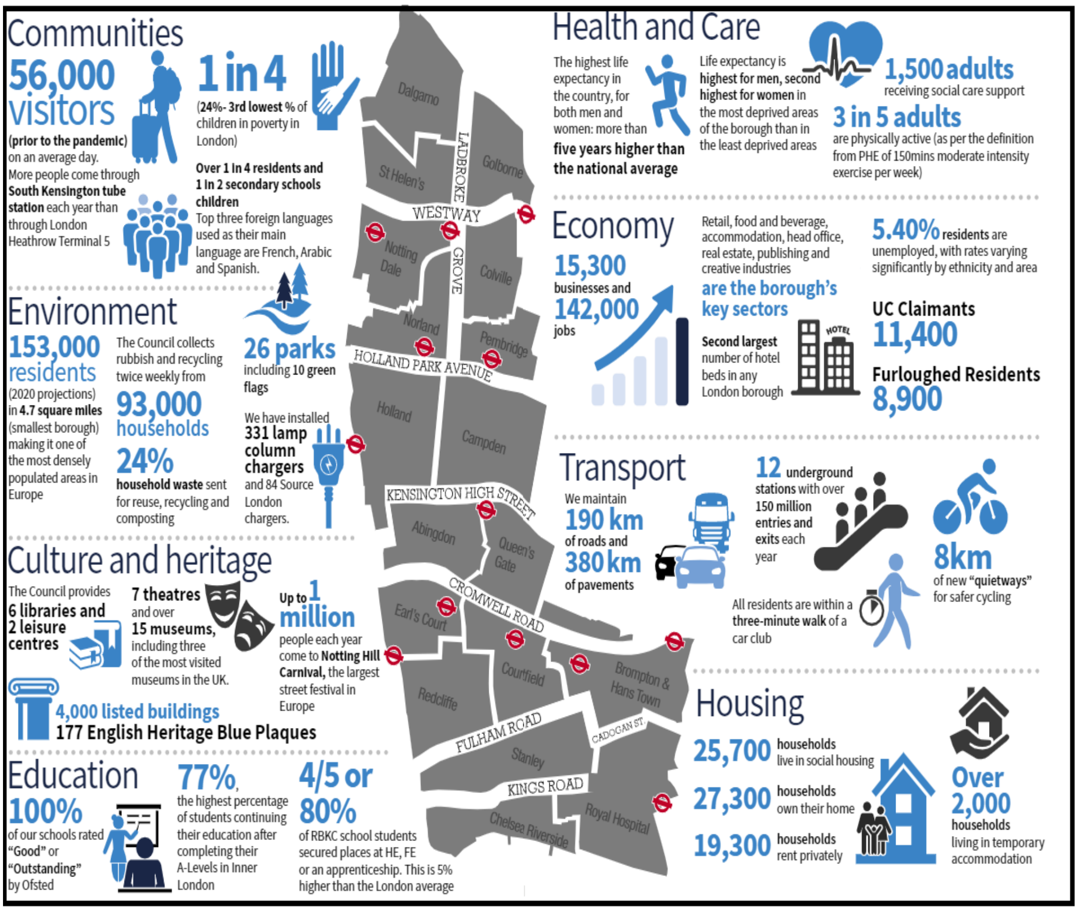
As a Council we are continuing to embed some of the learning we have taken from the pandemic. The Transitions Programme, which I am responsible for, brings together a range of cross-cutting activities that will support Kensington and Chelsea to deliver cost savings whilst protecting and improving outcomes for our residents and businesses. I'm confident that this programme will deliver improvements and savings and improve outcomes, but it will not be enough to meet the full range of challenges our residents and the Council are facing. We will be working on a new Council plan over the coming months which will ensure we align our spending with the priorities of our residents. More information on the refreshed Council plan will be provided soon and I encourage residents to engage with this to ensure we set the right priorities for the Borough for the next five years.

Mike Curtis
Executive Director of Resources

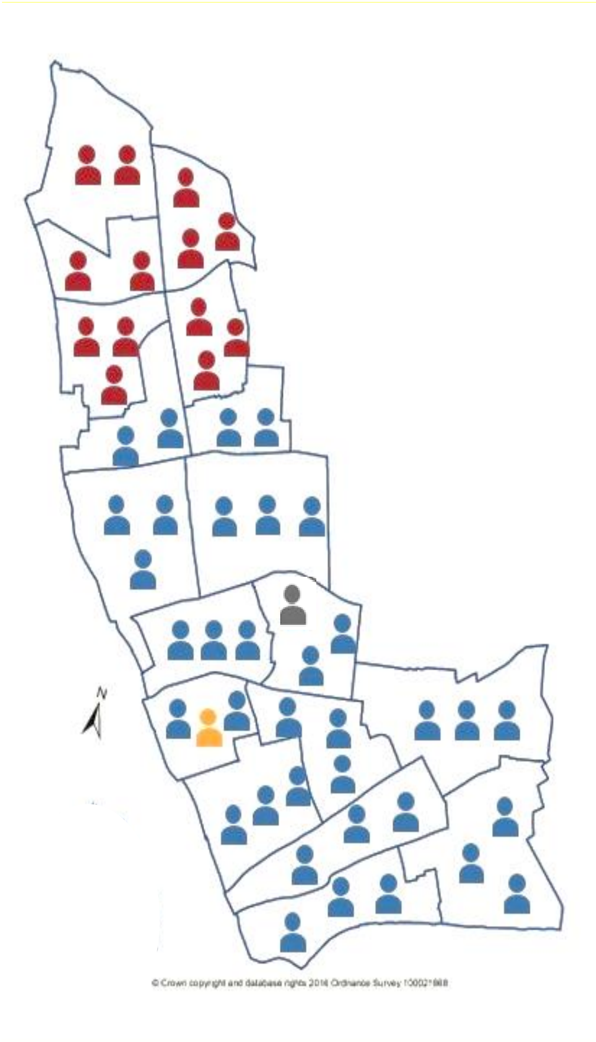
About the Borough

We are a central London borough. We have the smallest population of any London borough at 153,700. Forecasts suggest that London's population may be in decline for the first time in 35 years due to the impact of the Covid-19 pandemic and Brexit, with the Borough anticipated to follow the same trend.

Our communities come from all over the world and this diversity shapes the character of the area. Our residents value this diversity and so we will continue to foster inclusiveness in all that we do. The borough hosts many nationally and internationally recognised cultural attractions. North Kensington is an area known around the world for its vibrant cultural heritage, musical authenticity and proud history. Notting Hill Carnival, Kensington Palace, the Natural History, Science and Design Museums are just some of our landmark institutions, as well as world class retail stores and unique independent shops and markets, including the world-famous Portobello Market. As the country, London and the borough continue to recover from Covid-19, the Council will work closely with local businesses, institutions, and central London partners to maintain this unique cultural mix. More information on the borough can be found in our most recent Council Plan Update.



Political Structure



The Council consists of 50 councillors who are elected for four-year terms. The current political make-up is illustrated here with 35 Conservative Councillors making up a majority, 13 Labour Councillors making up the opposition, 2 Liberal Democrat Councillors.

Advised by officers, the Council sets the policy and budgetary framework, and the Leadership Team make executive key decisions within this framework.

The Leader annually chooses up to 8 councillors to act as Lead Members and take responsibility for a portfolio of services, and this is agreed at the Full Council Annual General Meeting. The Leader and Lead Members make up the Leadership Team.

The 8 Portfolios are:

- Adult Social Care and Public Health
- Communities
- Economy, Employment and Innovation
- Grenfell, Housing and Social Investment
- Planning, Place and Environment
- Finance and Customer Delivery
- Community Safety, Culture and Leisure
- Family and Children's Services

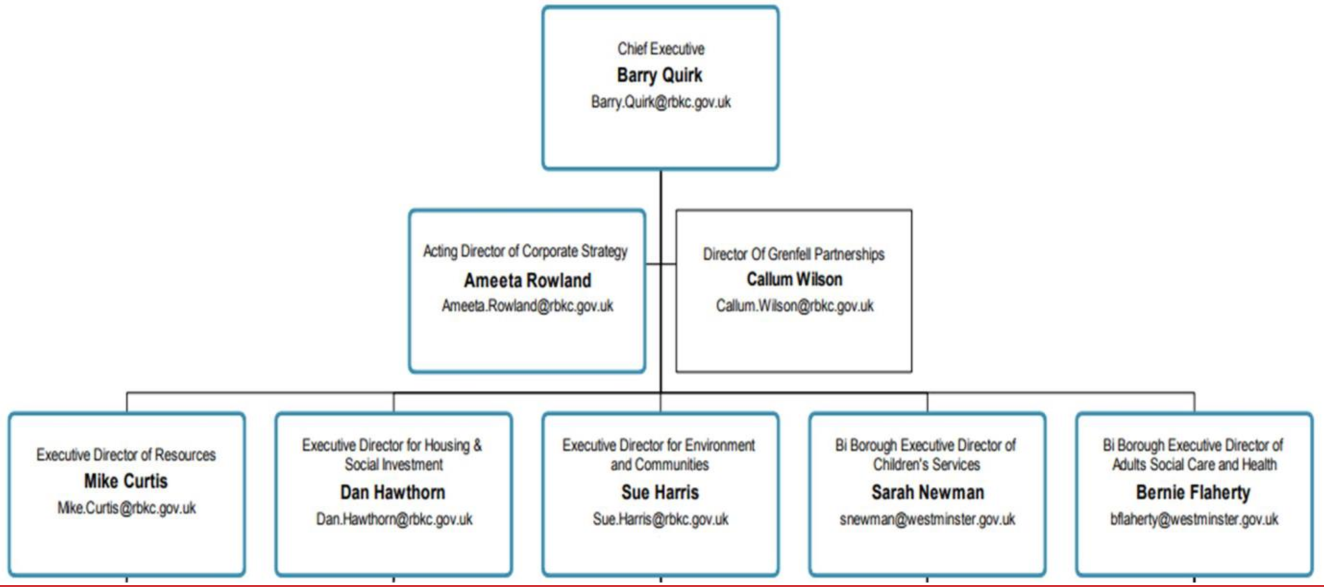
Within their defined portfolios Lead Members are responsible for:

- Setting the strategic direction of the Council, usually linked to a political document such as a manifesto.
- Being a leader within our communities, (promoting the Council's direction of travel as detailed in our Council Plan, developing partnerships, and consulting on policy proposals).
- Being the public face for the Council's policies and processes.
- Making certain decisions, as defined by the Constitution.

Operational Model

Supporting the work of the elected members is the Council's Executive Management Team (EMT), which is led by Barry Quirk, Chief Executive. Barry is standing down as Chief Executive and the new Chief Executive is expected to be appointed at full Council in July 2022.

This is the structure that is in effect at the time of writing, which consolidates all services into five operational directorates, as shown below:

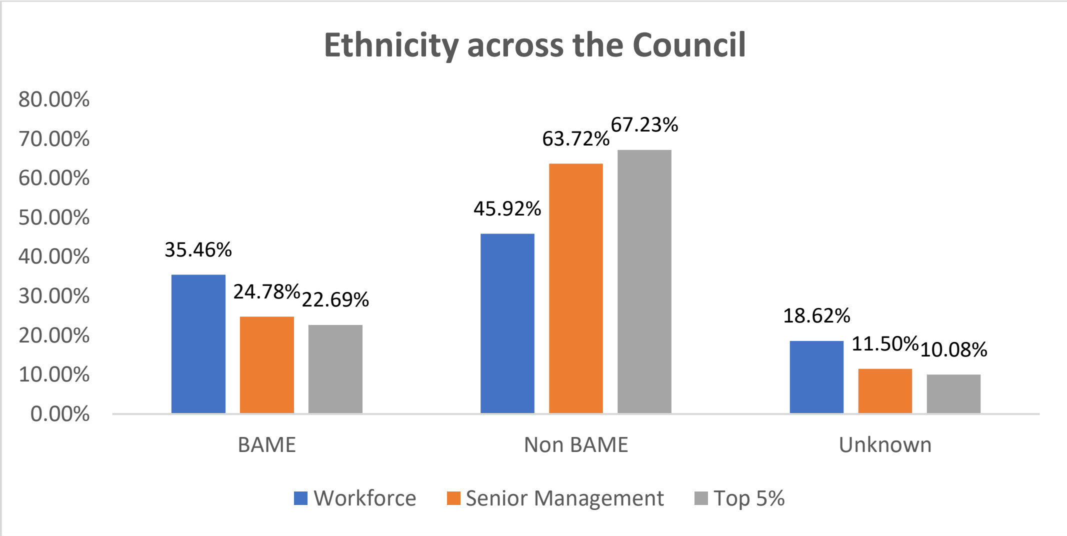


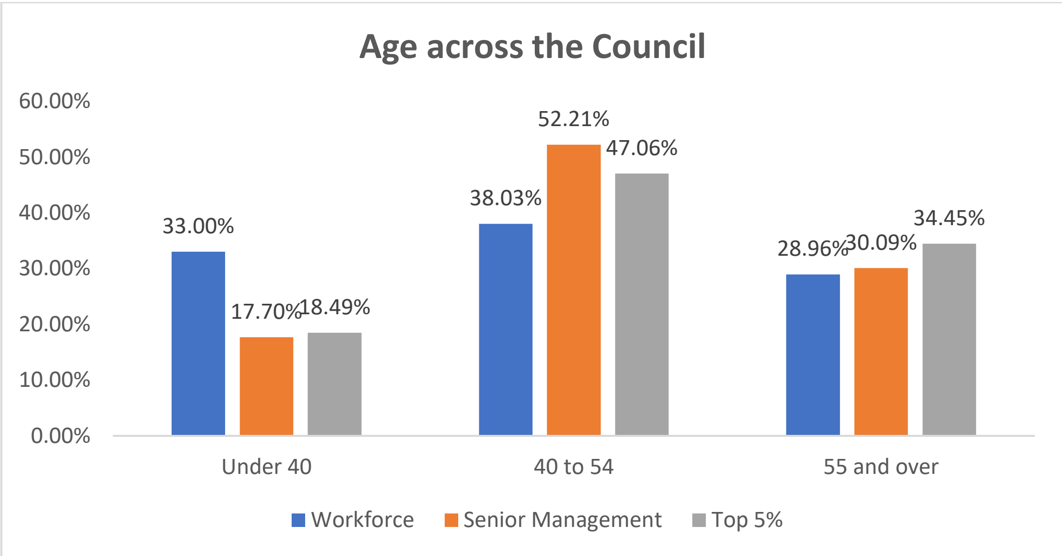
Across these five Directorates, the Council employs 2,524 staff (2401.75 FTE), including on shared services.

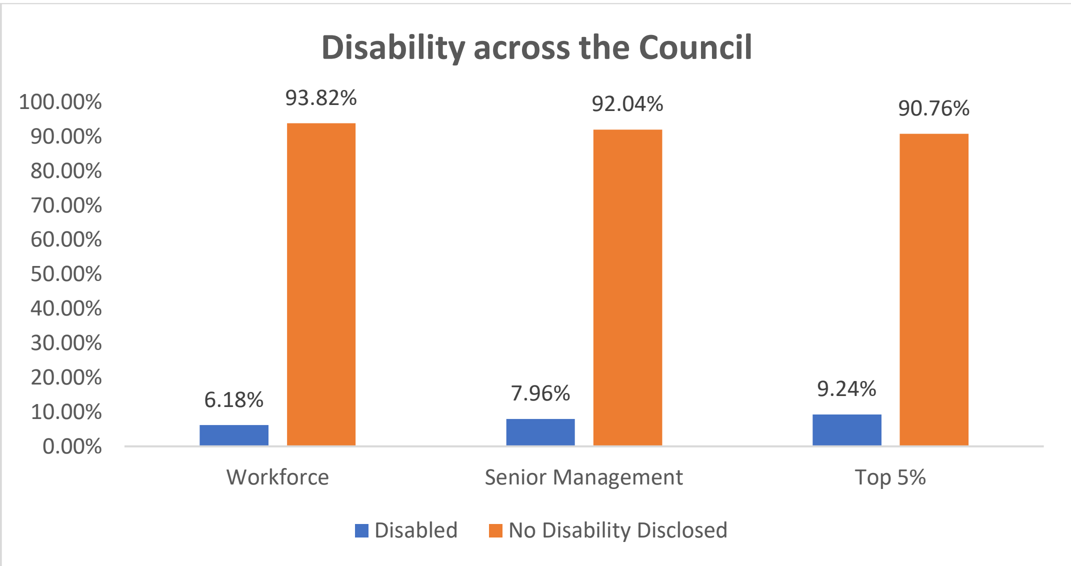
The Council operates several shared services with Westminster City Council in respect of Adult Social Care, Public Health, Children's Services and Libraries. Tri-Borough arrangements are still in place for some services such as Audit, Risk and Assurance, Fostering and Adoption, Pensions and Treasury.

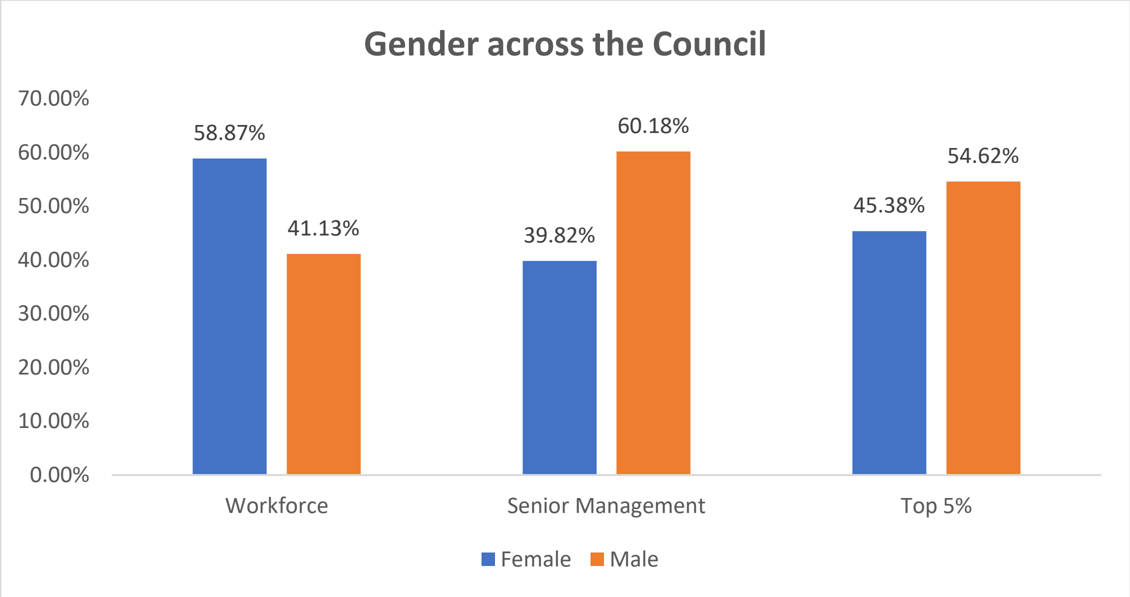
Who works for the Council?

The Council's policies ensure promotion of equality and respect for diversity, both through service delivery and as an employer. Our workforce reflects the diversity of the borough, and the Council is committed to increasing its diversity still further. We know that if we can develop an inclusive and empathetic culture in our workforce that this will influence how external organisations act too. The charts below show this broken down by ethnicity, age and disability.


Ethnicity across the Council
80.00%
70.00%
60.00%
50.00%
40.00%
30.00%
20.00%
10.00%
0.00%
35.46%
24.78%
22.69%
45.92%
63.72%
67.23%
18.62%
11.50%
10.08%
BAME
Non BAME
Unknown
Workforce
Senior Management
Top 5%


Age across the Council
60.00%
50.00%
40.00%
30.00%
20.00%
10.00%
0.00%
33.00%
17.70%
18.49%
38.03%
52.21%
47.06%
28.96%
30.09%
34.45%
Under 40
40 to 54
55 and over
Workforce
Senior Management
Top 5%


Disability across the Council
100.00%
90.00%
80.00%
70.00%
60.00%
50.00%
40.00%
30.00%
20.00%
10.00%
0.00%
6.18%
93.82%
7.96%
92.04%
9.24%
90.76%
Workforce
Senior Management
Top 5%
Disabled
No Disability Disclosed



The mean average gender pay gap in March 2021 was 7.6%. This is 0.7% higher than the previous year's figure of 6.9%.

The median average gender pay gap in March 2021 was 7.9%. This is 0.5% higher than the previous year's figure of 7.4%.

Covid-19 Pandemic

Whilst the levels of unemployment in the borough have remained relatively low at 5%, young people and people aged 50 and over have been disproportionately affected by the pandemic in terms of jobs prospects. Unemployment and financial uncertainty, interruptions in education and life alongside the mental challenges of the last two years has been felt by everyone.

There have been expenditure and income pressures from the pandemic, many of these are within the services but there are also corporate costs that have been held centrally. The total impact is £14.2m additional spend and £6.5m of income losses. Funding from Government of £7.9m and £600,000 from the income compensation scheme will be used to offset some pressures with almost full use of the Council's corporate contingency.

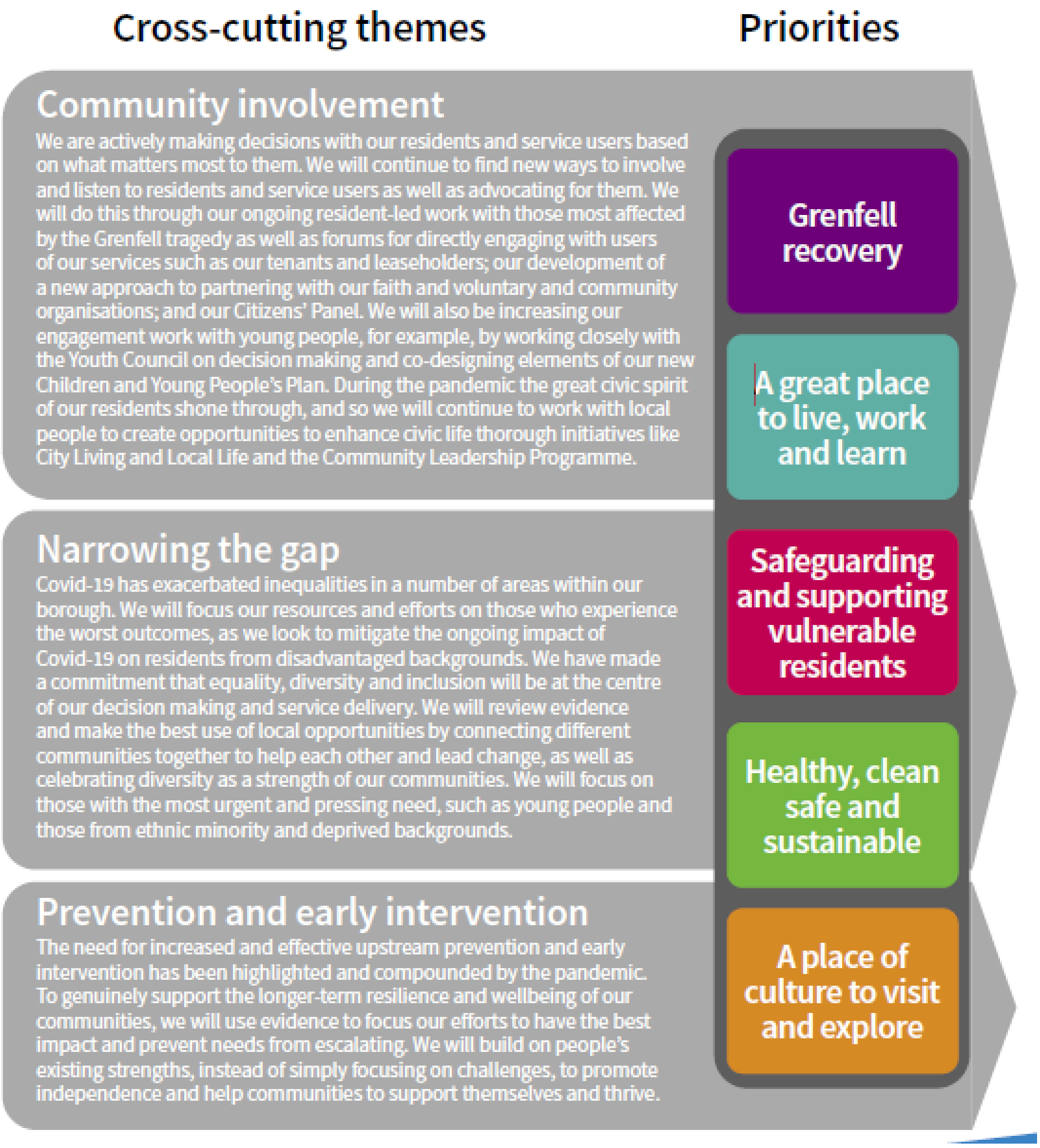
Learning to live with Covid-19, supporting businesses and residents with the economic impact and the effects of lockdown on people's mental and physical health, is a significant long-term challenge. The Council plan update (available on the Council's website in Committee Meetings) provides more information on our response to Covid.

Throughout the pandemic we have administered Central Government grants to businesses trading in the borough. Over the last 18 months we have received 3,340 applications and paid £7.5m to businesses in the Borough to compensate them for the restrictions and additional cost of operating with Covid.

Financially we have seen signs of recovering with improvements in business rate collections, parking demand and applications for planning returning but none of these are at pre-pandemic levels yet. The impact of inflation increases and the subsequent impact on the cost of living is a concern and will mean recovery from Covid will take time.

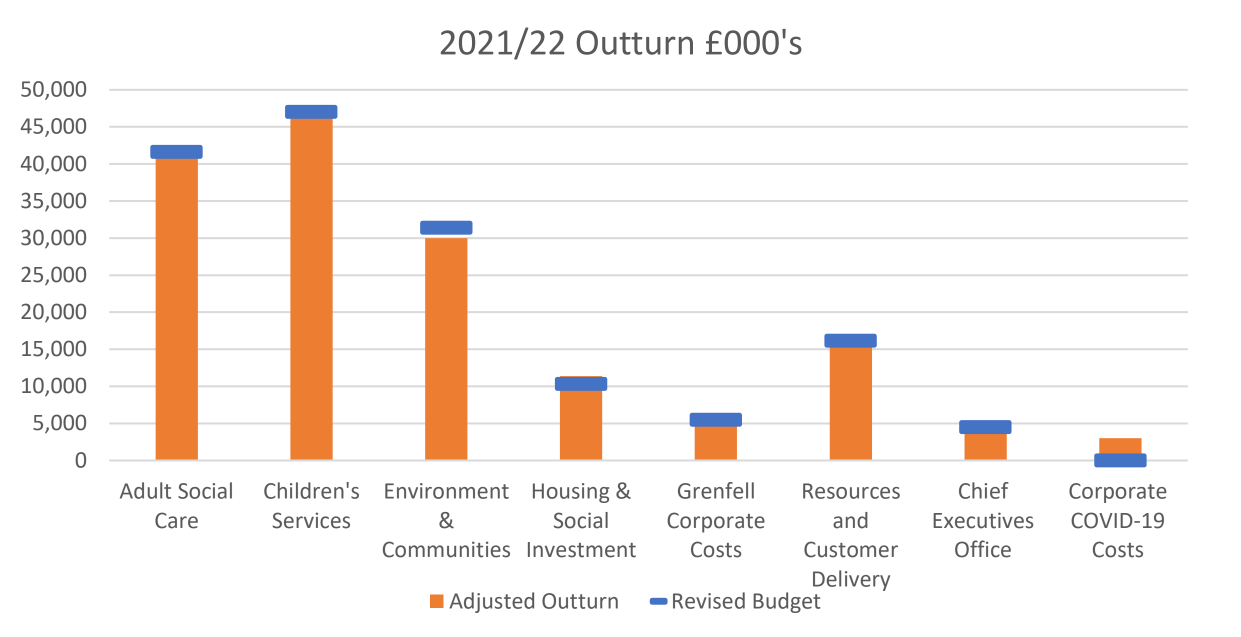
The Council's Priorities

The Council plan update published in June 2021 provides details on the Councils priorities. Our cross-cutting themes and five priority areas set out the key priorities for the Council, recognising what our residents have said is important to them and learning the lessons from the Grenfell tragedy. In summary, our priorities and cross cutting themes are:



Financial Performance 2021/22: Revenue

The Council's day-to-day spending on services is known as revenue expenditure. The end of year position on these budgets during 2021/22 was an underspend of £1 million. Service expenditure against budget is shown in the following graph and table below.



Directorate	Revised Budget £'000	Adjusted Outturn £'000	Variation £'000
Adult Social Care	41,653	41,354	(299)
Public Health	0	0	0
Children's Services	47,048	46,700	(348)
Environment & Communities	31,414	30,004	(1,410)
Housing & Social Investment	10,335	11,389	1,054
Grenfell Corporate Costs	5,504	4,934	(570)
Resources and Customer Delivery	16,163	15,869	(294)
Chief Executives Office	4,508	4,537	29
Corporate Covid-19 Costs	0	3,022	3,022
Service Budgets Total	**156,625**	**157,809**	**1,184**
Contingency	364	0	(364)
Centrally held budgets	(1,394)	0	1,394
Net Cost of Services	**155,595**	**157,809**	**2,214**
Grenfell Recovery	10,500	10,585	85
Interest	3,124	2,141	(983)
Grant income held corporately	(7,444)	(7,444)	0
Income Compensation Scheme for Lost Sales, Fees and Charges	0	(600)	(600)
Net Operating Expenditure	**161,775**	**162,491**	**716**
Levies	11,238	11,016	(222)
Other Corporate Budgets	(9,090)	(8,495)	595
Use of Reserves - Other	25,960	21,393	(4,567)
Use of Reserves - Collection Fund	(57,226)	(56,050)	1,176
Government Grant and collection fund resourcing	(132,657)	(132,862)	(205)
Parking surplus transferred to reserve	0	1,447	1,447
Total	**0**	**(1,060)**	**(1,060)**
Transfer to/(from) Budget Stabilisation reserve			1,060
General Fund Deficit/Surplus			**0**

Further details on the Council's Financial Outturn are available at RBKC Committees > Meetings.

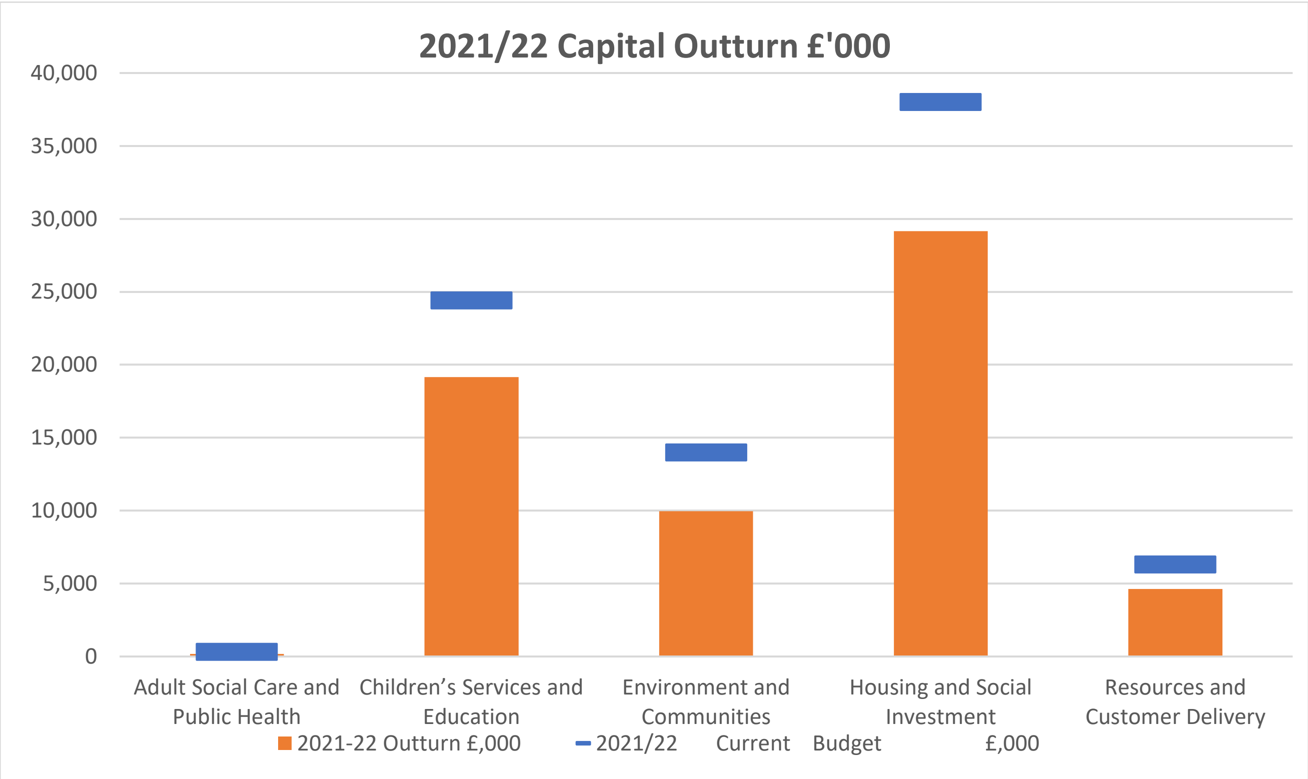
Financial Performance 2021/22: Capital

The Council's Capital Strategy was presented to Council for approval in conjunction with the 2022/23 Medium Term Financial Strategy reporting and provides a framework for the allocation of resources to fund capital projects. The total General Fund capital expenditure incurred for the 2021/22 financial year was £63 million against an original budget of £273m.

Work has continued on a wide range of projects including £9 million on Barlby School as well as a range of highway related improvements, essential repairs to operational assets, and progressing delivery of the New Homes Delivery Programme (NHDP) upon which there was £19 million spend in 2021/22.

The final position on the General Fund Capital programme was a variation of £20m from the latest approved budget. The majority of this relates to schemes that have been delayed and will now be incurred in 2022/23 or future years and in these cases, the project budget will be re-phased. Any remaining balances are held in capital contingency against future risks to the Capital Programme.

	Budget £'000	**Outturn** £'000	**Variation** £'000
Adult Social Care and Public Health	327	178	(149)
Children's Services and Education	24,418	19,163	(5,255)
Environment and Communities	14,003	9,967	(4,036)
Housing and Social Investment	38,013	29,158	(8,855)
Resources and Customer Delivery	6,320	4,632	(1,688)
Total	**83,081**	**63,098**	**(19,983)**



The Council's assumptions on capital funding includes borrowing in the long-term to finance capital expenditure and the principal source of long-term borrowing is the Public Works Loans Board (PWLB). A total of £18 million of PWLB debt was repaid in 2021/22 which reduced the Council's borrowing from £252 million to £234 million and the average total interest rate on remaining loans to 3.42% from 3.77%. Cash balances during 2021/22 are high as fewer capital resources were needed than anticipated at the start of the financial year, therefore, no additional external borrowing was undertaken during the year.

The Council's capital receipts in year totalled £3 million primarily arising from the renewal of leaseholder agreements and Right to Buy sales. There were no significant sales of council assets during the year.

The funding of the General Fund capital programme in 2021/22 is summarised below, showing that 81% (£51 million) was funded by existing external borrowing.

General Fund - Funding	**2021/22 Outturn Position £'000**
Capital Grants	2,389
Capital Grants & Contributions RIA	3,809
Section 106 Contributions	3,611
Earmarked Reserves	137
Capital Receipts	0
Revenue Contribution to Capital Outlay	1,904
Borrowing Requirement	51,248
Total	**63,098**

Financial Performance 2021/22: Housing Revenue Account (HRA)

The costs of managing and maintaining the Council's housing stock must be charged to a ring-fenced account – the HRA. The Council now directly manages approximately 10,000 dwellings, including leaseholders. HRA collects income in the region of £42 million.

The end of year position is an in-year surplus of £4.4m which when added to the working balance gives £12.8m. The Council's policy is to maintain a working balance of £5m and therefore £7.8m has been used to fund capital expenditure.

Further details are available in the Council's Financial Outturn Report.

Risks

A risk management strategy is in place to identify and evaluate risks. We highlighted the 2021/22 risks in the 2021 budget that was agreed in March 2021 and these were monitored throughout the year. Councillors then further considered a risk analysis of the Council's proposed budget for 2022/23 when setting the budget at Full Council in March 2022. This highlighted similar risks as but some new risks emerged:

- Worsening economic conditions in particular rising inflation
- Continued uncertainty over government funding and especially how much of the funding was labelled as one-off
- Speed of recovery from the Covid-19 pandemic

The Council's financial risks are published in the Medium Term Financial Strategy whilst the Council's other strategic risks, as well as its overall approach to risk and governance, is set out in full in the Annual Governance Statement.

More details on our future financial position, and the relevant risk, are provided in our recent Financial Update.

Introduction to the Statutory Accounts

The **Statutory Accounts** set out the Council's income and expenditure for the year, and its financial position at 31 March 2022. This covers the General Fund (GF), Housing Revenue Account (HRA), Pension Fund and all the other accounts for which the Council is responsible.

The format and content of the financial statements are prescribed by the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2021/22, which in turn is underpinned by International Financial Reporting Standards. The Statement of Accounts comprises core financial statements, explanatory notes and supplementary financial statements:

The **Movement in Reserves Statement** (MIRS) on page 20 shows the movement from the start to the end of the year on the different reserves held by the Council, analysed into 'usable' reserves (i.e. those that can currently be used to fund expenditure or reduce local taxation) and other 'unusable' reserves. The level of usable reserves, the Council's spending plans and other sources of funding will determine how much council tax needs to be raised.

The Statement shows how the in-year movements of the Council's reserves are broken down between gains and losses incurred in accordance with generally accepted accounting practices and the statutory adjustments required to return to the amounts chargeable to council tax (or rents) for the year. The Net Increase / Decrease line shows the statutory GF Balance and HRA Balance movements in the year following those adjustments.

Statutory adjustments are made to usable reserves to remove transactions that are required by accounting standards and add transactions required by statute. For example, accounting standards require depreciation to be charged to the general fund to represent the cost of assets used in the delivery of services. Statute requires that all capital transactions are removed from the general fund. Depreciation is therefore taken out of the general fund and replaced with the minimum revenue provision (MRP). The MRP represents the Council's estimate of how much it should contribute to capital expenditure each year and is approved by members at the start of every year.

The **Comprehensive Income and Expenditure Statement** (CIES) on page 21 records all Council income and expenditure for the year. The top part of the table presents an analysis by service area and includes expenditure on both statutory services and discretionary services. This means that it does not have the same headings you see in commercial financial statements. The bottom part deals with corporate accounting transactions and funding. The CIES shows the accounting position of the Council before statutory overrides are applied.

The CIES reports the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation (GF) or rents (HRA). The Council raises taxation (or rents) to cover expenditure in accordance with statutory requirements; this may be different from the accounting cost. The taxation position is shown in both the Expenditure and Funding Analysis (EFA) and the Movement in Reserves Statement.

The **Balance Sheet** on page 22 is a “snapshot” of the Council’s assets, liabilities, cash balances and reserves at the year-end date. It shows the value as at 31 March of the assets and liabilities recognised by the Council. The Council’s net assets are matched by its reserves. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those reserves that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use. For example, the Capital Receipts Reserve may only be used to fund capital expenditure or repay debt. The second category of reserves is those that the Council is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the MIRS line ‘Adjustments between accounting basis and funding basis under regulations’.

The **Cash Flow Statement** on page 23 shows the changes in cash and cash equivalents of the Council during the reporting period. The statement shows how the Council generates and uses cash and cash equivalents by classifying cash flows as operating activities, new investment and financing activities (such as the repayment of borrowing and long-term liabilities). The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Council are funded by way of taxation and grant income or through fees and charges from the recipients of services provided by the Council. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Council’s future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Council.

The Notes to the Accounts provide more detail about the items contained in the key financial statements, the Council’s accounting policies and other information that help with the interpretation and understanding of the key financial statements and accounts. Notes are only provided where the amounts involved are material. Materiality is determined by the magnitude of the disclosure and the potential for the user of the accounts being influenced by any omission.

The **Supplementary Financial Statements** on pages 84 to 113 provide details of the HRA, Collection Fund and Pension Fund. These are provided to aid interpretation and understanding of the key financial statements and notes, to provide additional statutory information and to disclose information of use to other parties.

The Supplementary Financial Statements are:

- The **Housing Revenue Account** (HRA) – this account separately identifies the Council's statutory landlord function as a provider of social housing under the Local Government and Housing Act 1989.
- The **Collection Fund Account** – this summarises the collection of council tax and business rates, and the redistribution of some of that money to the GLA and Central Government.
- The **Pension Fund Account** – this reports the contributions received, payments to pensioners and the value of net assets invested in the Local Government Pension Scheme on behalf of Council employees.

The **Annual Governance Statement** on pages 131 to 142 sets out the governance structures of the Council and its key internal controls. This statement is not formally part of the accounts but published alongside to provide details of the risk and control framework within which the Council operates.

Feedback

We are always seeking to improve our Statement of Accounts through engaging with residents and businesses who are amongst our key stakeholders. If you have any feedback on any items within the accounts or ideas on how we can improve the presentation, please contact us at FinalAccounts@rbkc.gov.uk. We welcome your comments.

If you need any part of this document in a different format or would like to discuss the content of any graphics or tables, please email Lubna.Nasir@rbkc.gov.uk. We will consider your request and get back to you within two working days.

Copies of these financial statements can be obtained by contacting:

Lubna Nasir CPFA ACMA(UK) CGMA
Head of Financial Reporting and Controls
Kensington Town Hall
Hornton Street
London W8 7NX

Statement of Responsibilities

The Council's Responsibilities

The Council is required to:

- make arrangements for the proper administration of its financial affairs and to secure that one of its officers (the Chief Financial Officer (CFO)) has the responsibility for administration of those affairs
- manage its affairs to secure economic, efficient, and effective use of resources and safeguard its assets
- approve the Statement of Accounts.

The Chief Financial Officer's Responsibilities

The CFO is responsible for the preparation of the Council's Statement of Accounts (which includes the financial statements) in accordance with proper practices as set out in the CIPFA Code of Practice on Local Authority Accounting in the UK (the Code).

In preparing this Statement of Accounts, the CFO has:

- selected suitable accounting policies and then applied them consistently
- made judgments and estimates that were reasonable and prudent
- complied with the Code
- kept proper accounting records that were up to date
- taken reasonable steps for the prevention and detection of fraud and other irregularities
- used the going concern basis of accounting on the assumption that the functions of the Council will continue in operational existence for the foreseeable future
- maintained such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

I certify that the Statement of Accounts for 2021/22 (set out on pages 20 to 130) gives a true and fair view of the financial position of the Council as at 31 March 2022 and its income and expenditure for the year ended 31 March 2022.

Mike Curtis
Executive Director of Resources (CFO)

28 June 2022

Report on the Audit of the Financial Statements

Opinion on financial statements

[TO BE INSERTED AT END OF AUDIT]

Primary Financial Statements

Movement in Reserves Statement	General Fund	Housing Revenue Account	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves	Total Reserves
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 31 March 2021	**(228,530)**	**(9,424)**	**(61,691)**	**0**	**(32,226)**	**(331,871)**	**(1,093,972)**	**(1,425,843)**
Movement in reserves during 2021/22								
Total Comprehensive Income and Expenditure	46,259	33,951	0	0	0	**80,210**	(370,893)	**(290,683)**
Adjustments between accounting basis and funding basis under regulations (Note 6)	(14,232)	(30,514)	12,075	0	(6,752)	**(39,423)**	39,423	**0**
Net (increase) / decrease in 2021/22	32,027	3,437	12,075	0	(6,752)	**40,787**	**(331,470)**	**(290,683)**
Balance at 31 March 2022	**(196,503)**	**(5,987)**	**(49,616)**	**0**	**(38,978)**	**(291,084)**	**(1,425,442)**	**(1,716,526)**
Balance at 31 March 2020	**(141,289)**	**(8,523)**	**(106,207)**	**0**	**(32,659)**	**(288,678)**	**(1,271,877)**	**(1,560,555)**
Movement in reserves during 2020/21								
Total Comprehensive Income and Expenditure	98,720	29,516	0	0	0	**128,236**	6,476	**134,712**
Adjustments between accounting basis and funding basis under regulations (Note 6)	(185,961)	(30,417)	44,516	0	433	**(171,429)**	171,429	**0**
Net (increase) / decrease in 2020/21	(87,241)	(901)	44,516	0	433	**(43,193)**	**177,905**	**134,712**
Balance at 31 March 2021	**(228,530)**	**(9,424)**	**(61,691)**	**0**	**(32,226)**	**(331,871)**	**(1,093,972)**	**(1,425,843)**

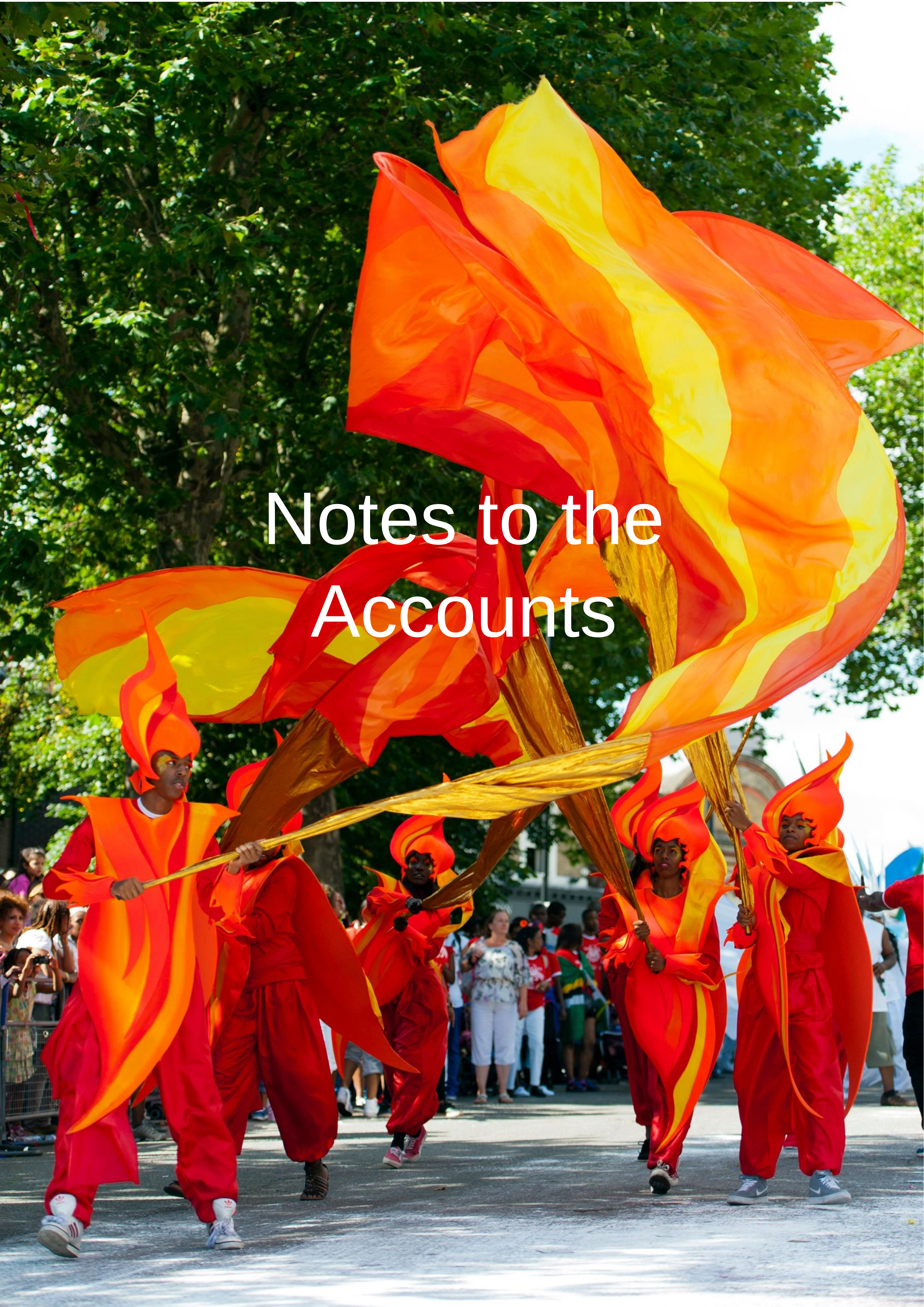
Comprehensive Income and Expenditure Statement

Comprehensive Income and Expenditure Statement	2021/22 Gross Expenditure	Gross Income	Net Expenditure	2020/21 Gross Expenditure	Gross Income	Net Expenditure
	£'000	£'000	£'000	£'000	£'000	£'000
Adult Social Care and Public Health	88,518	(56,555)	31,963	87,221	(53,414)	33,807
Children's Services and Education	166,125	(111,838)	54,287	157,268	(108,457)	48,811
Environment and Communities	90,498	(73,720)	16,778	90,767	(55,059)	35,708
Housing and Social Investment	62,361	(42,932)	19,429	61,088	(40,523)	20,565
Resources and Customer Delivery	239,635	(147,827)	91,808	262,570	(151,941)	110,629
Grenfell - Recovery	16,089	(1,623)	14,466	13,265	(2,750)	10,515
Grenfell - Corporate	7,955	(6,224)	1,731	9,354	(7,228)	2,126
Housing Revenue Account	88,430	(54,868)	33,562	76,641	(55,200)	21,441
Cost of Services	**759,611**	**(495,587)**	**264,024**	**758,174**	**(474,572)**	**283,602**
Other operating income and expenditure (Note 12)			2,134			1,111
Financing and investment income and expenditure (Note 13)			15,447			41,525
Taxation and non-specific grant income and expenditure (Note 14)			(201,395)			(198,002)
(Surplus) or Deficit on Provision of Services			**80,210**			**128,236**
(Surplus) / deficit on revaluation of non current assets (Note 8)			(55,154)			2,275
Remeasurement of net defined benefit liability (Note 36)			(315,739)			4,201
Other Comprehensive Income and Expenditure			**(370,893)**			**6,476**
Total Comprehensive Income and Expenditure			**(290,683)**			**134,712**

Balance Sheet	Note	31 March 2022	31 March 2021
		£'000	£'000
Property, Plant and Equipment	24	1,524,827	1,438,576
Intangible Assets	26	7,650	6,840
Heritage Assets	27	46,360	46,321
Investment Property	25	234,970	250,575
Long Term Investments	33	24,086	0
Long Term Debtors	29	5,101	32,112
Other Long Term Assets	36	162,888	0
Long Term Assets		**2,005,882**	**1,774,424**
Short Term Investments	33	45,020	82,616
Inventories		22	22
Debtors	29	151,726	224,509
Cash and Cash Equivalents	41	66,718	79,759
Current Assets		**263,486**	**386,906**
Short Term Borrowing	33	(7,520)	(20,711)
Creditors	30	(217,465)	(280,075)
Capital Grants Receipts in Advance	15	(27,449)	(19,741)
Revenue Grants Receipts in Advance	15	(7,854)	(6,247)
Provisions	31	(18,419)	(24,061)
Current Liabilities		**(278,707)**	**(350,835)**
Provisions	31	(3,065)	(2,319)
Long Term Borrowing	33	(229,228)	(234,237)
Long Term Creditors	30	(1,711)	(1,200)
Other Long Term Liabilities	33	0	(110,122)
Capital Grants Receipts in Advance	15	(40,131)	(36,774)
Long Term Liabilities		**(274,135)**	**(384,652)**
Net Assets		**1,716,526**	**1,425,843**
Usable Reserves	7	(291,084)	(331,871)
Unusable Reserves	8	(1,425,442)	(1,093,972)
Total Reserves		**(1,716,526)**	**(1,425,843)**

Cash Flow Statement	Note	2021/22	2020/21
		£'000	£'000
Net Surplus or (Deficit) on Provision of Services		**(80,210)**	**(128,236)**
Adjustments to net surplus or deficit on the provision of services for non-cash movements	38	49,088	286,606
Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	38	(21,764)	(16,613)
Net cash flows from Operating Activities		**(52,886)**	**141,757**
Investing Activities	39	(34,875)	51,007
Financing Activities	40	74,720	(173,066)
Net increase or (decrease) in cash and cash equivalents		**(13,041)**	**19,698**
Cash and cash equivalents at the beginning of the reporting period		79,759	60,061
Cash and cash equivalents at the end of the reporting period	41	**66,718**	**79,759**

Notes to the Accounts



1. Critical judgements in applying accounting policies

The Council made two critical judgements that may have a significant effect on the amounts recognised in the accounts, (apart from those involving estimations which are shown in note 2), in applying its accounting policies.

Valuation of pension liability

To assess the value of the Council's liabilities at 31 March 2022, we have rolled forward the value calculated for the funding valuation as at 31 March 2019, using financial assumptions that comply with IAS 19. The full actuarial valuation involved projecting future cashflows to be paid from the Pensions Fund (the 'Fund') and placing a value on them. These cashflows include pensions currently being paid to members of the Fund as well as pensions (and lump sums) that may be payable in future to members of the Fund or their dependants. These pensions are linked to inflation and will normally be payable on retirement for the life of the member or a dependant following a member's death.

It is not possible to assess the accuracy of the estimated value of the net pension liability as at 31 March 2022 without completing a full valuation. However, the Council is satisfied that the approach used by its actuaries of rolling forward the previous valuation data to 31 March 2022 should not introduce any material distortions in the results given that the actual experience of the Council and the Fund has been broadly in line with the underlying assumptions, and that the structure of the liabilities is substantially the same as at the latest formal valuation.

The defined benefit liability as at 31 March 2022 is negative i.e. an asset. The Council has reviewed IAS 19 paragraph 64 and IFRIC 14 *IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirement and their Interaction* to determine that no restrictions apply to the amount disclosed in the Balance Sheet.

Further information on the valuation basis, risks and assumptions made is shown in the Employee Benefits accounting policy and note 36.

Grenfell Tower contingent liability

The Council's accounting policy on contingent liabilities is to disclose, where practicable, an estimated value for any liabilities falling within the scope of the disclosure note. In the case of the tragic fire at Grenfell Tower, although the potential liability may be significant, the Council has judged that it is unable to make a reliable estimate at this time as the various investigations and inquiries which would inform this estimate are yet to be concluded. See note 32 for further details.

2. Assumptions made about the future and other major sources of estimation uncertainty

The accounts contain estimated figures that are based on assumptions made by the Council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results in 2022/23 could be materially different from these estimates.

Whilst COVID-19 may have impacted on the value of these estimates, there have been no significant changes to the basis of these estimates compared to the previous year. The items in the Council’s Balance Sheet at 31 March 2022 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows.

Pensions Liability

The value of the Council’s net pension liability is estimated by professional actuaries based on complex and interdependent assumptions, such as life expectancy, long-term salary and pension inflation, and the discount rate used. Any variation in these assumptions will lead to a change in the value of the net pension liability.

The liability is discounted at a rate set by reference to market yields at the end of the reporting period on high quality corporate bonds, using the Single Equivalent Discount Rate (SEDR) methodology. Significant judgement is required when setting the criteria for bonds to be included in the population from which the yield curve is derived. The assumptions selected and associated sensitivity analysis are disclosed in note 36.

Investment Property

On 24 February 2022, Russian forces entered Ukraine and conflict ensued. The extent of the conflict and its longer-term impact are unknown. The conflict caused immediate volatility in global stock markets and consequences are anticipated in relation to the cost and availability of energy and natural resources, particularly within Europe.

The impact on the property market outside of the immediate area affected by the conflict is as yet unknown and, at this stage, there is no evidence that transaction activity and the sentiment of buyers or sellers has changed. The market can therefore still be described as functioning, albeit still in the aftermath of the COVID-19 crisis.

Significant changes in any of the unobservable inputs would result in a significant change in the fair value measurement for the properties. It is estimated that a 1% change in the Fair Values of Investment property would result in a change of approximately £2.349 million in asset values. Hence a change in valuation of the order of 4.8% would be likely to be considered material to the Council's accounts. Further information about the valuation techniques and inputs used in determining the fair value of the Council's investment property, and the impact of changes on the fair value are included in note 25.

3. Material items of income and expenditure

The Council received various income streams from Central Government, including income to ‘passport’ to local taxpayers, in an agent capacity. This agency income is not reflected in the Council’s CIES as it does not belong to the Council and the balance held on behalf of Central Government departments is included in note 30.

4. Events after the reporting period

There were no significant events affecting the 2021/22 accounts that occurred between 1 April and 28 June 2022, when these draft financial statements were approved for audit.

5. Accounting standards issued but not yet adopted

As at the Balance Sheet date, the following new accounting standards and amendments had not yet been adopted by the Code of Practice on Local Authority Accounting in the United Kingdom. These are not expected to have any significant impact for the Council.

- Annual Improvements to IFRS Standards 2018–2020. The annual IFRS improvement programme notes four changed standards
- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16).

Notes to the Movement in Reserves Statement

6. Adjustments between accounting basis and funding basis under statutory provisions

This note details the adjustments that are made to the total comprehensive income and expenditure recognised in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to meet future capital and revenue expenditure. The following paragraphs describe each of the reserves that the adjustments are made against.

<u>GF Balance</u>

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

<u>HRA Balance</u>

The HRA Balance reflects the statutory obligation to maintain a revenue account for local authority Council housing provision in accordance with Part VI of the Local Government and Housing Act 1989. It contains the balance of income and expenditure that is available to fund future expenditure in connection with the Council's landlord function or, where in deficit, that is required to be recovered from tenants in future years.

<u>Capital Receipts Reserve (CRR)</u>

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

<u>Major Repairs Reserve (MRR)</u>

The Council is required to maintain the MRR, which controls the application of the resource arising from depreciation on HRA assets or the financing of historical capital expenditure. The balance shows the resource that has yet to be applied at the year-end.

<u>Capital Grants Unapplied Reserve (CGUR)</u>

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

Movement on Usable Reserves (with contra to Unusable Reserves) during 2021/22	GF	HRA	CRR	MRR	CGUR	Unusable
	£'000	£'000	£'000	£'000	£'000	
Adjustments to Revenue Resources						
Amounts by which income and expenditure included in the CIES are different from revenue for the year calculated in accordance with statutory requirements						
- Pensions costs (transferred to / from the Pensions Reserve)	(37,181)	(5,548)	0	0	0	42,729
- Financial instruments (transferred to the Financial Instruments Adjustments Account)	119	0	0	0	0	(119)
- Gain/losses on pooled investments (transferred to Pooled Investment Fund Adjustment Account)	(914)	0	0	0	0	914
- Council Tax and NDR (transfers to or from the Collection Fund)	37,169	0	0	0	0	(37,169)
- Holiday pay (transferred to the Accumulated Absence Reserve)	1,933	266	0	0	0	(2,199)
- Transfer in-year Dedicated Schools Grant deficit (to DSG Deficit Reserve)	(2,215)	0	0	0		2,215
- Reversal of entries included in the (Surplus) or Deficit on Provision of Services in relation to capital expenditure (charged to the Capital Adjustment Account)	(15,823)	(40,544)	0	0	(23,728)	80,095
Total Adjustments to Revenue Resources	(16,912)	(45,826)	0	0	(23,728)	86,466
Adjustments between Revenue and Capital Resources						
- Transfer of non-current asset sale proceeds from revenue to the CRR	130	3,901	(4,032)	0	0	1
- Payments to the government housing receipts pool (funded by a transfer from the CRR)	(1,161)	0	1,161	0	0	0
- Posting of HRA resources from revenue to the MRR	0	11,410	0	(11,410)	0	0
- Statutory provision for the repayment of debt (transfer from the CAA)	1,857	0	0	0	0	(1,857)
- Capital expenditure financed from revenue balances (transfer to the CAA)	1,855	0	0	0	0	(1,855)
Total Adjustments between Revenue and Capital Resources	2,681	15,311	(2,871)	(11,410)	0	(3,711)
Adjustments to Capital Resources						
- Use of the CRR to finance capital expenditure	0	0	14,947	0	0	(14,947)
- Use of the MRR to finance capital expenditure	0	0	0	11,410	0	(11,410)
- Application of capital grants to finance capital expenditure	0	0	0	0	16,976	(16,976)
- Cash payments in relation to deferred capital receipts	0	0	(1)	0	0	1
Total Adjustments between Revenue and Capital Resources	0	0	14,946	11,410	16,976	(43,332)
Total Adjustments during 2021/22	**(14,231)**	**(30,515)**	**12,075**	**0**	**(6,752)**	**39,423**

Movement on Usable Reserves (with contra to Unusable Reserves) during 2020/21	GF	HRA	CRR	MRR	CGUR	Unusable
	£'000	£'000	£'000	£'000	£'000	
Adjustments to Revenue Resources						
Amounts by which income and expenditure included in the CIES are different from revenue for the year calculated in accordance with statutory requirements						
- Pensions costs (transferred to / from the Pensions Reserve)	(20,112)	(2,213)	0	0	0	22,325
- Financial instruments (transferred to the Financial Instruments Adjustments Account)	(17)	0	0	0	0	17
- Council Tax and NDR (transfers to or from the Collection Fund)	(98,263)	0	0	0	0	98,263
- Holiday pay (transferred to the Accumulated Absence Reserve)	(1,675)	(304)	0	0	0	1,979
- Transfer in-year Dedicated Schools Grant deficit (to DSG Deficit Reserve)	(490)	0	0	0	0	490
- Reversal of entries included in the (Surplus) or Deficit on Provision of Services in relation to capital expenditure (charged to the Capital Adjustment Account)	(67,493)	(34,966)	0	0	(25,414)	127,873
Total Adjustments to Revenue Resources	(188,050)	(37,483)	0	0	(25,414)	250,947
Adjustments between Revenue and Capital Resources						
- Transfer of non-current asset sale proceeds from revenue to the CRR	10	3,645	(3,655)	0	0	0
- Payments to the government housing receipts pool (funded by a transfer from the CRR)	(1,161)	0	1,161	0	0	0
- Posting of HRA resources from revenue to the MRR	0	3,421	0	(3,421)	0	0
- Statutory provision for the repayment of debt (transfer from the CAA)	1,542	0	0	0	0	(1,542)
- Capital expenditure financed from revenue balances (transfer to the CAA)	1,698	0	0	0	0	(1,698)
Total Adjustments between Revenue and Capital Resources	2,089	7,066	(2,494)	(3,421)	0	(3,240)
Adjustments to Capital Resources						
- Use of the CRR to finance capital expenditure	0	0	47,011	0	0	(47,011)
- Use of the MRR to finance capital expenditure	0	0	0	3,421	0	(3,421)
- Application of capital grants to finance capital expenditure	0	0	0	0	25,847	(25,847)
- Cash payments in relation to deferred capital receipts	0	0	(1)	0	0	1
Total Adjustments between Revenue and Capital Resources	0	0	47,010	3,421	25,847	(76,278)
Total Adjustments during 2020/21	**(185,961)**	**(30,417)**	**44,516**	**0**	**433**	**171,429**

7. Movements in earmarked reserves

This note shows the amounts set aside from the GF and HRA balances in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet GF and HRA expenditure so that there is no net charge against council tax for the expenditure.

	Note	Balance at 31 March 2020	Transfer Out 2020/21	Transfer In 2020/21	Balance at 31 March 2021	Transfer Out 2021/22	Transfer In 2021/22	Balance at 31 March 2022
General Fund:		£'000	£'000	£'000	**£'000**	£'000	£'000	**£'000**
Grenfell	i	(30,110)	10,734	(3,769)	**(23,145)**	8,536	(4,230)	**(18,839)**
Special Projects	ii	(15,714)	5,271	(7,194)	**(17,637)**	2,960	(84)	**(14,761)**
Car Parking	iii	(23,521)	4,109	0	**(19,412)**	2,147	(1,447)	**(18,712)**
Budget Carry Forward	iv	(3,005)	1,246	(2,323)	**(4,082)**	3,454	(14,237)	**(14,865)**
Budget Stabilisation	v	(21,199)	450	(18,534)	**(39,283)**	13,048	(7,457)	**(33,692)**
Reorganisation	vi	(8,674)	1,489	(341)	**(7,526)**	3,026	0	**(4,500)**
Schools Reserves	vii	(5,070)	726	(1,411)	**(5,755)**	916	(2,005)	**(6,844)**
Insurance	viii	(3,779)	612	0	**(3,167)**	1,087	0	**(2,080)**
Public Health	ix	(4,466)	134	0	**(4,332)**	0	(1,913)	**(6,245)**
London Residuary Body	x	(4,039)	4,039	0	**0**	0	0	**0**
Notting Hill Carnival	xi	(375)	0	0	**(375)**	0	0	**(375)**
Street Trading	xii	(272)	30	0	**(242)**	161	(11)	**(92)**
Affordable Housing	xiii	(9,900)	0	0	**(9,900)**	0	0	**(9,900)**
Staff Healthcare	xiv	(341)	341	0	**0**	0	0	**0**
Local Projects	xv	(175)	0	(171)	**(346)**	0	(189)	**(535)**
Troubled Families	xvi	(539)	0	(114)	**(653)**	240	0	**(413)**
Proceeds of Crime Act	xvii	(110)	0	0	**(110)**	0	0	**(110)**
Dedicated Schools Grant (restatement)	xviii	4,901	(4,901)	0	**0**	0	0	**0**
Sub-total of Usable earmarked reserves		**(126,388)**	**24,280**	**(33,857)**	**(135,965)**	**35,575**	**(31,573)**	**(131,963)**

The Council also holds £54.540 million in a Collection Fund related reserve. This is fully committed to fund a change in accounting since 2020/21 for expanded business rate relief.

	Note	Balance at 31 March 2020	Transfer Out 2020/21	Transfer In 2020/21	Balance at 31 March 2021	Transfer Out 2021/22	Transfer In 2021/22	Balance at 31 March 2022
General Fund:		£'000	£'000	£'000	**£'000**	£'000	£'000	**£'000**
Sub-total of Usable earmarked reserves		**(126,388)**	**24,280**	**(33,857)**	**(135,965)**	**35,575**	**(31,573)**	**(131,963)**
Collection Fund (timing difference)	xix	0	0	(82,565)	**(82,565)**	68,244	(40,219)	**(54,540)**
Total GF Earmarked Reserves		**(126,388)**	**24,280**	**(116,422)**	**(218,530)**	**103,819**	**(71,792)**	**(186,503)**
GF Working Balance		(10,000)			(10,000)			(10,000)
Total GF Reserves per MIRS		**(136,388)**			**(228,530)**			**(196,503)**

	Note	Balance at 31 March 2020	Transfer Out 2020/21	Transfer In 2020/21	Balance at 31 March 2021	Transfer Out 2021/22	Transfer In 2021/22	Balance at 31 March 2022
		£'000	£'000	£'000	**£'000**	£'000	£'000	**£'000**
HRA:								
HRA Controlled Repairs	xx	(988)	0	0	**(988)**	0	0	**(988)**
HRA Working Balance		(7,535)	0	(901)	**(8,436)**	3,436	0	**(5,000)**
Total HRA Reserves per MIRS		**(8,523)**	**0**	**(901)**	**(9,424)**	**3,436**	**0**	**(5,988)**

i. This reserve is held to support the Grenfell Recovery Strategy.
ii. The funds are primarily available for one-off costs associated with service and re-design and supporting the delivery of long-term savings or unexpected spending needs.
iii. This reserve holds the surpluses from on-street parking places and contraventions and is controlled by the provisions of Section 55 of the Road Traffic Regulation Act 1984 (as amended) including the application of any surplus income held in such an account.
iv. This reserve contains earmarked funds for budgets carried forward from prior years to meet committed spend in the following year and for specific named projects. Most balances are carried forward for a maximum of two years.
v. The Budget Stabilisation Reserve was established to provide a buffer with which to deal with the uncertainties in the forward financial planning process arising from changes in the funding for local authorities. The balance is from prior year underspends.
vi. This reserve has been established to support one-off costs associated with workforce planning.

vii. Schools' balances are held on behalf of maintained schools across the Borough.

viii. The Insurance Fund is held to cover future insurance liabilities.

ix. This reserve holds unspent Public Health grant income and is earmarked for use in future years. £2m of the balance has been earmarked towards the COVID-19 Recovery Framework which was created to support residents and businesses to recover from the impacts of the pandemic which meet public health outcomes.

x. The LRB reserve was held to fund residual liabilities relating to the former LRB. The Council assessed the need for earmarking funds for claims and determined based on historical evidence that this reserve is no longer required.

xi. This reserve holds funding that will be used to support the annual Notting Hill Carnival.

xii. Street Trading operates as a ring-fenced account and this reserve is maintained to offset any losses on that account.

xiii. This reserve contains funding ring-fenced for investment into affordable housing in the borough.

xiv. This reserve was used for staff healthcare costs to speed up return to work following sickness. A separate reserve is no longer required and the balance has been moved to the Reorganisation reserve.

xv. An annual sum equivalent to council tax receivable from the bereaved and survivors of the Grenfell Tower fire will be ringfenced to support opportunities for disadvantaged young people or those who need help with employment and skills.

xvi. This reserve has been created to carry forward unspent Troubled Families grant balances to allow the initiatives to continue into future years.

xvii. This reserve has been created for fraud recoveries arising from the Proceeds of Crime Act. The money will be ringfenced to fund asset recovery work and local crime-fighting initiatives.

xviii. The DSG earmarked reserve was reclassified as an unusable reserve balance from 1 April 2020. Further details can be found in notes 8 and 16.

xix. The government granted business rates relief to retail, hospitality, and leisure services during 2020/21 and 2021/22, and compensated Councils for these reliefs with a Section 31 grant. These reliefs must be shown as a deficit on the Council's share of income within the Collection Fund Adjustment Account reserve (see note 8), while the grant income must be shown within the Council's General Fund. In 2022/23, £37.619 million is expected to be transferred from the Collection Fund Adjustment Account to the General Fund and this will be funded from the Section 31 grant in this reserve. As this is an exceptional circumstance related to COVID-19, this is shown below the sub-total of what are 'true' usable earmarked reserves.

xx. This reserve is used to fund housing repair projects in the HRA.

8. Movements in unusable reserves

The following is a summary of reserves held to manage accounting processes. These do not represent usable resources for the Council.

	31 March 2022	31 March 2021
	£'000	£'000
Revaluation Reserve	(726,737)	(677,918)
Capital Adjustment Account	(600,380)	(627,096)
Collection Fund Adjustment Account	52,922	90,091
Pensions Reserve	(162,888)	110,122
Dedicated Schools Grant Adjustment Account	7,606	5,390
Deferred Capital Receipts	(3)	(4)
Financial Instruments Adjustment Account	362	481
Pooled Investment Fund Adjustment Account	914	0
Accumulated Absences Adjustment Account	2,763	4,962
Total unusable reserves	**(1,425,441)**	**(1,093,972)**

Revaluation Reserve

The Revaluation Reserve contains the gains made by the Council arising from increases in the value of its PPE since 1 April 2007 when the reserve was created. The balance is reduced when assets with accumulated gains are:

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

	2021/22		2020/21	
	£'000	£'000	£'000	£'000
Balance at 1 April		(677,918)		(686,255)
Upward revaluations of assets	(68,501)		(40,210)	
Downward revaluation of assets	13,347		42,485	
Revaluation not posted to the (Surplus) or Deficit on Provision of Services		**(55,154)**		**2,275**
Difference between current and historic cost depreciation		6,181		5,995
Accumulated depreciation on assets sold or scrapped		154		67
Balance at 31 March		**(726,737)**		**(677,918)**

Capital Adjustment Account (CAA)

The CAA absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions.

	2021/22	2020/21
	£'000	£'000
Balance at 1 April	**(627,096)**	**(669,388)**
Reversal of items debited or credited to the CIES:		
Impairment / Revaluation charged to the CIES	48,307	67,748
Charges for depreciation	10,436	10,418
Reversal of depreciation charged in respect of dwellings	3,565	3,422
Amortisation of intangible assets	1,837	1,449
Revenue expenditure funded from capital under statute	6,194	6,330
Amounts written off on disposal or sale as part of the gain / loss on disposal to the CIES	332	211
Adjusting amounts written out of the Revaluation Reserve:		
Accumulated revaluation gains on assets sold or scrapped	(154)	(67)
Difference between fair value depreciation and historic cost depreciation	(6,181)	(5,995)
Capital financing applied in the year:		
Use of the Capital Receipts Reserve to finance new capital expenditure	(14,947)	(47,011)
Use of the MRR to finance new capital expenditure	(11,410)	(3,421)
Capital grants and contributions credited to the CIES that have been applied to capital financing	(13,441)	(16,295)
Application of grants to capital financing from the Capital Grants Unapplied Account	(5,092)	(9,552)
Statutory provision for the repayment of debt - MRP	(1,856)	(1,542)
Capital expenditure charged against the General Fund and HRA balances	(1,856)	(1,698)
Other Movements:		
Movements in the market value of investment properties	10,982	38,295
Movement in year	**26,716**	**42,292**
Closing balance at 31 March	**(600,380)**	**(627,096)**

Collection Fund Adjustment Account

The Collection Fund Adjustment Account manages the differences arising from the recognition of council tax income in the CIES as it falls due from council taxpayers compared with the statutory arrangements for transferring amounts to the GF from the Collection Fund.

	2021/22	2020/21
	£'000	£'000
Balance at 1 April	90,091	(8,173)
Amount by which council tax and non domestic rates income credited to the CIES is different from council tax and non domestic rates income calculated for the year in accordance with statutory requirements	(37,169)	98,264
Balance at 31 March	**52,922**	**90,091**

Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post-employment benefits and for funding benefits in accordance with statutory provisions. The amounts shown below bring together adjustments for the Local Government Pension Scheme and unfunded teachers' discretionary benefits (LPFA Scheme) disclosed in note 36.

	2021/22	2020/21
	£'000	£'000
Balance at 1 April	110,122	83,596
Remeasurements recognised in Other Comprehensive Income and Expenditure	(315,739)	4,201
Reversal of items relating to retirement benefits debited or credited to (Surplus) or Deficit on the Provision of Services	60,948	38,769
Employers contributions payable to scheme	(18,219)	(16,444)
Balance at 31 March	**(162,888)**	**110,122**

Dedicated Schools Grant (DSG)

New provisions have been put into the School and Early Years Finance (England) Regulations 2020 so that for the financial years beginning on 1 April 2020, 2021 and 2022, the Council must carry forward its overall DSG deficit in an account established, charged and used solely for the purpose of recognising deficits in respect of its schools budget. This means that the Council can no longer hold a negative earmarked DSG reserve as in previous years and the deficit balance is now held in an unusable reserve.

Financial Instruments Adjustment Account

The balance on this adjustment account relates to timing differences arising from the accounting for income and expenses on premiums paid on the early redemptions of loans and the discounted effect of soft loans.

Pooled Investment Fund Adjustment Account

The balance on this unusable reserve represents an unrealised loss on a long-term investment grade bond fund that the Council invested into in November 2021. The bond underperformed due to an unexpected rise in the two year yield which had not been priced in. The Council continues to receive income from the fund.

Accumulated Absences Account

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

	2021/22	2020/21
	£'000	£'000
Balance at 1 April	4,962	2,983
Amounts accrued at the end of the current year	(2,199)	1,979
Amount by which officer remuneration charged to the CIES on an accrual basis is different from remuneration chargeable in the year in accordance with statutory requirements	2,763	4,962
Balance at 31 March	**2,763**	**4,962**

The Council's standard annual leave policy allows employees to take 5 days leave forward into the following financial year. Due to the COVID pandemic and restrictions during lockdown periods, the Council increased the maximum number of untaken leave days that employees could take forward to 13 days at 31 March 2021. This was reduced to a maximum of 10 days to be taken forward at 31 March 2022, causing a reduction on the Accumulated Absences Account.

Notes to the Comprehensive Income and Expenditure Statement

9. Expenditure and Funding Analysis (EFA)

The EFA shows how annual expenditure incurred is funded from resources (including government grants, rents, council tax and business rates) by the Council in comparison with those resources consumed or earned in accordance with generally accepted accounting practices. It also shows how this expenditure is allocated for decision making purposes between the Council's services.

Two additional columns have been added to the EFA table to show adjustments between the revenue outturn reported in the Narrative Report and the net expenditure chargeable to GF and HRA balances. These adjustments mainly reflect the fact that:

- revenue outturn includes movements to earmarked reserves within individual services, while the EFA shows the surplus or deficit on services prior to any movements to earmarked reserves
- revenue outturn includes charges for depreciation and amortisation within individual services with a reversing adjustment within Resourcing, whilst the EFA excludes these charges.

Resources and Customer Delivery includes the following services:

Audit, Risk, Fraud and Insurance is responsible for the Council's internal audit, fraud, insurance and strategic procurement services.

The Chief Executive service supports the Chief Executive's Office and democratic representation.

The Chief Information Officer is responsible for the Council's ICT function.

Communications covers the Council's internal and external communications and is the first contact point for all media enquiries.

Corporate Strategy and Economic Development is responsible for delivering the Council's Corporate strategy programme, economic development and Adult and Family Learning services.

The main 'front door' access point for a wide range of council services is provided by Customer Delivery. These include the Customer Contact Centre, Revenues and Benefits, residential parking permits, housing needs and planning.

Financial Management is responsible for meeting the Council's statutory financial requirements and embedding a culture of good financial management across the organisation.

The Human Resources function supports more than 2,600 staff.

Legal and Governance Services provides a wide range of legal services to the Council, Members and Officers and is responsible for the Council's governance arrangements.

Expenditure and Funding Analysis	As reported in the Narrative Report	Adjustments to arrive at exp charged to GF and HRA balances	2021/22 Expenditure charged to GF and HRA balances	2021/22 Adjustments between accounting and funding (note 10)	2021/22 Net Expenditure in the CIES	2020/21 Expenditure charged to GF and HRA balances	2020/21 Adjustments between accounting and funding (note 10)	2020/21 Net Expenditure in the CIES
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Adult Social Care and Public Health	41,354	(3,677)	37,677	(5,714)	31,963	38,942	(5,135)	33,807
Children's Services and Education	46,700	(1,598)	45,102	9,185	54,287	43,857	4,954	48,811
Environment and Communities	30,004	(5,975)	24,029	(7,251)	16,778	41,677	(5,969)	35,708
Housing and Social Investment	11,389	181	11,570	7,859	19,429	14,525	6,040	20,565
Resources and Customer Delivery	23,428	3,658	27,506	64,302	91,808	25,377	85,251	110,628
Grenfell - Recovery	10,585	(2,329)	8,256	1,232	9,488	8,464	2,052	10,516
Grenfell - Corporate	4,934	(246)	4,688	2,021	6,709	2,376	(250)	2,126
Housing Revenue Account	0	3,437	3,437	30,125	33,562	(900)	22,341	21,441
Net Costs of Services	**168,394**	**(6,549)**	**162,265**	**101,759**	**264,024**	**174,318**	**109,284**	**283,602**
Other GF income and expenditure	(168,394)	42,013	(126,801)	(56,555)	(183,356)	(261,153)	97,711	(163,442)
Other HRA income and expenditure	0	0	0	(458)	(458)	(916)	8,076	7,160
(Surplus) / Deficit on Services	**0**	**35,464**	**35,464**	**44,746**	**80,210**	**(87,751)**	**215,071**	**127,320**

Movement on GF and HRA balances	2021/22 GF	2021/22 HRA	2021/22 Total	2020/21 GF	2020/21 HRA	2020/21 Total
	£'000	£'000	£'000	£'000	£'000	£'000
Opening Balance:	**(228,530)**	**(9,424)**	**(237,954)**	**(141,289)**	**(8,523)**	**(149,812)**
(Surplus) / Deficit on Balance in Year	32,027	3,436	35,463	(87,241)	(901)	(88,142)
Closing Balance:	**(196,503)**	**(5,988)**	**(202,491)**	**(228,530)**	**(9,424)**	**(237,954)**

10. Adjustments between accounting and funding bases – EFA

The following note accompanies the EFA and details the adjustments made between funding and accounting basis across three headings.

Adjustments for capital purposes - This column adds in depreciation and impairment and revaluation gains and losses in the services line, and for:

- Other operating expenditure – adjusts for capital disposals with a transfer of income on disposal of assets and the amounts written off for those assets;
- Financing and investment income and expenditure – the statutory charges for capital financing i.e. MRP and other revenue contributions are deducted from other income and expenditure as these are not chargeable under generally accepted accounting practices;
- Taxation and non-specific grant income and expenditure – capital grants are adjusted for income not chargeable under generally accepted accounting practices. Revenue grants are adjusted from those receivable in the year to those receivable without conditions or for which conditions were satisfied throughout the year. The Taxation and Non Specific Grant Income and Expenditure line is credited with capital grants receivable in the year without conditions or for which conditions were satisfied in the year.

Net change for pension adjustments - Net change for the removal of pension contributions and the addition of IAS 19 Employee Benefits pension related expenditure and income:

- For services this represents the removal of the employer pension contributions made by the Council as allowed by statute and the replacement with current service costs and past service costs;
- For Financing and investment income and expenditure – the net interest on the defined benefit liability is charged to the CIES.

Other differences - Other differences between amounts debited/credited to the CIES and amounts payable/receivable to be recognised under statute:

- For Financing and investment income and expenditure the other differences column recognises adjustments to the GF / HRA for the timing differences for premiums and discounts;
- Taxation and non-specific grant income and expenditure – the charge represents the difference between what is chargeable under statutory regulations for council tax and NDR that was projected to be received at the start of the year and the income recognised under generally accepted accounting practices in the Code. This is a timing difference as any difference will be brought forward in future Surpluses or Deficits on the Collection Fund.

The following adjustments were made to arrive at the CIES amounts:

	2021/22				2020/21			
	Capital	Pension	Other	Total	Capital	Pension	Other	Total
	£'000	£'000	£'000	**£'000**	£'000	£'000	£'000	**£'000**
Adult Social Care and Public Health	807	2,493	(9,014)	**(5,714)**	170	1,211	(6,516)	**(5,135)**
Children's Services and Education	7,316	12,187	(10,318)	**9,185**	9,084	6,255	(10,385)	**4,954**
Environment and Communities	5,800	6,382	(19,433)	**(7,251)**	5,617	3,335	(14,921)	**(5,969)**
Housing and Social Investment	(681)	1,874	6,666	**7,859**	182	1,011	4,847	**6,040**
Resources and Customer Delivery	17,704	10,820	35,778	**64,302**	42,901	6,067	36,283	**85,251**
Grenfell - Recovery	0	1,063	169	**1,232**	210	611	1,231	**2,052**
Grenfell - Corporate	2,867	100	(946)	**2,021**	1,514	18	(1,782)	**(250)**
Housing Revenue Account	25,232	5,549	(656)	**30,125**	27,900	2,213	(7,772)	**22,341**
Net Cost of Services	**59,045**	**40,468**	**2,246**	**101,759**	**87,578**	**20,721**	**985**	**109,284**
Other income and expenditure (GF)	(20,670)	2,262	(38,147)	**(56,555)**	5,726	1,604	90,381	**97,711**
Other income and expenditure (HRA)	0	0	(458)	**(458)**	0	0	8,076	**8,076**
Total Adjustments	**38,375**	**42,730**	**(36,359)**	**44,746**	**93,304**	**22,325**	**99,442**	**215,071**

11. Expenditure and income analysed by nature - EFA

The following is an analysis of the Council’s expenditure and income by the nature of transactions undertaken.

	2021/22	2020/21
	£'000	£'000
Expenditure		
Employee benefits expenses	239,860	219,787
Other service expenses	463,394	462,755
Depreciation, amortisation and impairment	64,145	83,035
Interest Payments	8,943	10,531
Net interest on net defined benefit liability	2,596	1,778
Payments to the Government Housing Capital Receipts Pool	1,161	1,162
Precepts and Levies	4,672	4,649
Total expenditure	**784,771**	**783,697**
Income		
Fees, charges and other service income	(224,099)	(205,666)
Loss / (Gain) on disposal of non-current assets	(3,699)	(3,444)
Government grants & contributions	(377,055)	(431,058)
Interest Income	(307)	(930)
Net income from Council Tax and Business Rates	(110,382)	(52,658)
Change in Fair Value of Investment Properties	10,981	38,295
Total income	**(704,561)**	**(655,461)**
(Surplus) or Deficit on Provision of Services	**80,210**	**128,236**

12. Other operating income and expenditure

	2021/22	2020/21
	£'000	£'000
Levies	4,672	3,393
Payments to the government Housing Capital Receipts Pool	1,161	1,162
(Gains) / losses on the disposal of non-current assets	(3,699)	(3,444)
Total other operating expenditure	**2,134**	**1,111**

13. Financing and investment income and expenditure

	2021/22	2020/21
	£'000	£'000
Interest payable and similar charges	8,943	10,531
Net interest on the net defined benefit liability	2,596	1,778
Interest receivable and similar income	(307)	(930)
Income and expenditure in relation to investment properties	(12,234)	(13,314)
Changes in fair values of investment properties	10,981	38,295
Changes in fair values of financial instruments	914	0
Expected Credit Loss - impairment allowance	4,554	5,165
Total financing and investment income and expenditure	**15,447**	**41,525**

14. Taxation and non-specific grant income and expenditure

	2021/22	2020/21
	£'000	£'000
Council tax income	(96,464)	(83,499)
Non domestic rates	(67,591)	(22,831)
Business rates tariff	53,672	53,672
COVID-19 Non-ringfenced government grants		
- COVID-19 Business Rate Retail/Nursery Discount	(37,619)	(68,449)
- COVID-19 LA Support Grant	(5,564)	(10,373)
- COVID-19 Income Loss Compensation	(601)	(11,288)
- COVID-19 75% Tax Income Guarantee Compensation	0	(8,697)
- COVID-19 Other Grants	(1,056)	(1,030)
Other Non-ringfenced government grants		
- Revenue Support Grant	(10,164)	(10,108)
- Social Care Support Grant	(6,225)	(5,093)
- S31 Business Rate Relief	(3,875)	(4,850)
- Other general grants / contributions	(2,180)	(1,853)
Capital grants and contributions		
- Community Infrastructure Levy	(13,310)	(5,172)
- Social Housing Decarbonisation Fund	(5,929)	(1,015)
- Building Council Houses for Londoners	0	(5,836)
- MHCLG S31 Grenfell Grant	0	(5,000)
- Other capital grants and contributions	(4,489)	(6,580)
Total taxation and non-specific grants	**(201,395)**	**(198,002)**

15. Grant income

The following revenue grants, contributions and donations were credited to Net Cost of Services in the CIES during 2021/22.

Net Cost of Services	**2021/22**	**2020/21**
	£'000	£'000
Housing Benefit Subsidy	(116,118)	(120,961)
Dedicated Schools Grant	(76,300)	(73,996)
Public Health Grant	(21,561)	(21,123)
Improved Better Care Fund	(7,437)	(7,437)
Preventing Homelessness Grant	(5,660)	(4,242)
Pupil Premium Grant	(3,385)	(3,320)
UASC and Leaving Care Fund	(3,147)	(2,792)
Afghan Citizens Resettlement Scheme	(820)	0
Other Grants (under £1 million each)	(17,952)	(16,814)
Revenue contributions	(19,873)	(18,566)
COVID-19 Grants		
- Additional Restrictions Grant	(3,026)	(4,509)
- Local Authority Discretionary Grant	0	(2,228)
- Contain Outbreak Management Fund	(3,331)	(1,874)
- Local Restrictions Support Grant (Open)	(117)	(418)
- Other Covid-19 Grants (under £2 million each)	(7,315)	(7,435)
Total	**(286,042)**	**(285,715)**

The Council also received a number of grants and contributions that have yet to be recognised as income as they have unmet conditions attached to them. The balances at year end are as follows:

Capital	**2021/22**	**2020/21**
	£'000	£'000
Current Liabilities		
Social Housing Decarbonisation Fund	(17,253)	(18,430)
GLA Building Council Homes Programme	(4,465)	(696)
DFE High Needs Provision	(2,125)	0
Other Grants (under £500k)	(3,606)	(615)
	(27,449)	(19,741)
Long Term Liabilities		
Section 106 and private contributions	(37,669)	(34,692)
Section 278 contributions	(2,462)	(2,082)
	(40,131)	(36,774)
Balance as at 31 March	**(67,580)**	**(56,515)**

Revenue	**2021/22**	**2020/21**
	£'000	£'000
Current Liabilities		
COVID-19 grants		
- Contain Outbreak Management Fund	0	(1,895)
- Local Restrictions Support Grant (Open)	0	(1,692)
- Test and Trace Support Grant	(397)	(1,203)
- Other Grants (under £500k)	(311)	(494)
Other Grants		
- Afghan Citizens Resettlement Scheme	(3,122)	
- Energy Bills Discretionary Fund 2022-23	(2,019)	0
- Other Grants (under £500k)	(2,005)	(963)
Balance as at 31 March	**(7,854)**	**(6,247)**

16. Dedicated Schools Grant (DSG)

The Council's expenditure on schools is funded primarily by Dedicated Schools Grant (DSG) received from the Education Funding Agency. DSG is ring-fenced and can only be applied to meet expenditure properly included in the Schools Budget, as defined in the School and Early Years Finance (England) Regulations 2020. The Schools Budget includes elements for a range of educational services provided on a Council-wide basis and for the Individual Schools Budget (ISB), which is divided into a budget share for each maintained school.

Details of the deployment of DSG receivable for 2021/22 are below.

2021/22	**Central Expenditure**	**ISB**	**Total**
	£'000	£'000	**£'000**
Final DSG for 2021/22 before academy and high needs recoupment			**(108,822)**
Less academy and high needs figure recouped for 2021/22			**32,763**
DSG after academy and high needs recoupment			**(76,059)**
Plus brought forward from 2020/21			**0**
Less carry forward to 2022/23 agreed in advance			**0**
Agreed initial budget distribution in 2021/22	(16,750)	(59,309)	**(76,059)**
In year adjustments	0	0	**0**
Final budget distribution for 2021/22	**(16,750)**	**(59,309)**	**(76,059)**
Less actual central expenditure	18,488		**18,488**
Less actual ISB deployed to schools		59,787	**59,787**
Carried forward to 2022/23	**1,738**	**478**	**2,216**
Balance on DSG unusable reserve brought forward at 1 April			5,390
Addition to DSG unusable reseserve at the end of 2021/22			2,216
Balance on DSG unusable reserve carried forward at 31 March			**7,606**

2020/21	Central Expenditure	ISB	Total
	£'000	£'000	£'000
Balance on reserve brought forward at 1 April			**4,901**
Final DSG for 2020/21 before academy and high needs recoupment			**(103,118)**
Less academy and high needs figure recouped for 2020/21			**29,843**
DSG after academy and high needs recoupment			**(73,275)**
Plus brought forward from 2019/20			**(4,901)**
Less carry forward to 2021/22 agreed in advance			**4,901**
Agreed initial budget distribution in 2020/21	(15,202)	(58,073)	**(73,275)**
In year adjustments	0	0	**0**
Final budget distribution for 2020/21	**(15,202)**	**(58,073)**	**(73,275)**
Less actual central expenditure	16,689		**16,689**
Less actual ISB deployed to schools		57,075	**57,075**
Net appropriation / (drawdown) carried forward to 2021/22	**1,487**	**(998)**	**489**
Balance on reserve carried forward at 31 March			**5,390**

The deficit on DSG has increased in 2021/22 by £2.216 million to £7.606 million at 31 March 2022 due to the significant and increased spend pressures in the High Needs Block, which relates to children with Special Educational Needs and Disabilities (SEND). Despite additional funding from central government, the increasing number of children and young people with SEND requiring specialist placements means that it will be difficult to eliminate the cumulative deficit.

The Council was not eligible for safety valve funding but has been selected for the DfE's Delivering Better Value (DBV) in SEND programme. DBV is a new programme that is part of the DfE’s support package to help Local Authorities maintain effective SEND services while functioning sustainably. The programme will run in 3 tranches with Kensington and Chelsea in tranche 1.

The accumulated DSG deficit has been disclosed as a statutory unusable reserve in note 8. The Council has not sought permission from the Secretary of State for Education to fund the deficit from general resources. The accumulated DSG deficit will be carried forward and recovered from future years DSG settlements, rather than from wider General Fund reserves. The Council’s last Deficit Management Plan was agreed in March 2021 and an updated version will be presented at the June 2022 Schools Forum.

17. Revenue from contracts with service recipients

The income from Fees, Charges and Other Services shown in note 11 includes the following revenue from contracts with service recipients.

	2021/22	2020/21
	£'000	£'000
Social Housing Rentals	(50,533)	(49,373)
Temporary Accommodation Rentals	(33,925)	(33,681)
Shared Services Income	(18,999)	(19,554)
On Street Parking	(22,732)	(17,622)
Commercial Property	(14,555)	(16,809)
Parking Suspensions	(9,497)	(8,481)
Commercial Waste	(5,587)	(3,931)
Residents' Parking	(6,122)	(5,808)
Other (below £5m)	(38,334)	(28,613)
Total income	**(200,284)**	**(183,872)**

The Council typically satisfies its performance obligations as services are rendered, or upon completion of a service. No significant contract assets or liabilities have therefore been recognised.

18. Member allowances

The total of Members' Allowances paid in 2021/22 was £1.155 million (£1.179 million in 2020/21). For full details of individual Members' payments, please access the Council's website and search for Councillor allowances and training.

19. Officer remuneration

Senior officers

The following table sets out the remuneration for senior officers who report directly to the Chief Executive, have statutory posts or who have responsibility for directing or controlling major activities of the Council, as well as any other officer whose salary is more than £150,000.

2021/22	Note	Salary, Fees and Allowances	Expenses	Total Remuneration (excluding employer pension contribution)	Employer Pension Contribution	Total Remuneration (including employer pension contribution)
Job Title		£	£	£	£	£
Chief Executive (Barry Quirk)		219,318	0	**219,318**	0	219,318
Executive Director of Resources (Mike Curtis)	1	183,084	0	**183,084**	29,477	212,561
Executive Director for Environment and Communities (Sue Harris)		172,521	0	**172,521**	27,232	199,753
Executive Director for Housing and Social Investment (Dan Hawthorn)		169,140	0	**169,140**	27,776	196,916
Director of Grenfell Partnerships		119,187	0	**119,187**	19,189	138,376
Director of Financial Management		122,550	99	**122,649**	19,730	142,379
Director of Corporate Strategy	2	60,782	0	**60,782**	13,690	74,472

Notes

1. The Council received £12,218 as a 5% contribution from the Pension Fund for the work carried out in this area by the Executive Director of Resources.
2. An interim director was appointed whilst the permanent post-holder was on maternity leave. This amount is not disclosed in the note as it was part of a contract with PricewaterhouseCoopers (PwC) for general corporate support services.

2020/21	Note	Salary, Fees and Allowances	*PRP	Expenses	Compensation for loss of office	Total Remuneration (excluding employer pension contribution)	Employer Pension Contribution	Total Remuneration (including employer pension contribution)
Job Title		£	£	£	£	£	£	£
Chief Executive (Barry Quirk)		209,800	0	0	0	**209,800**	0	209,800
Deputy Chief Executive (Robyn Fairman)	1	82,312	0	0	109,222	**191,534**	255,942	447,476
Executive Director of Resources (Mike Curtis)	2	177,000	6,815	273	0	**184,088**	28,498	212,586
Executive Director for Environment and Communities (Sue Harris)		164,200	6,322	468	0	**170,990**	26,437	197,427
Executive Director for Housing and Social Investment (Dan Hawthorn)		153,261	6,116	0	0	**159,377**	24,675	184,052
Director of Grenfell Partnerships		114,700	6,423	1,444	0	**122,567**	18,467	141,034
Director of Financial Management		107,400	4,887	0	0	**112,287**	17,291	129,578
Director of Corporate Strategy		85,543	0	0	0	**85,543**	16,278	101,821

*The Council's PRP scheme ended during 2020/21 and the amounts shown above include a final compensatory payment.

Notes

1. The Deputy Chief Executive was an interim role covered by a permanent member of staff who was made redundant with effect from 18 September 2020. The compensation for loss of office is the contractual redundancy payment and pay in lieu of notice.
2. The Council received £24,257 as a 10% contribution from the Pension Fund for the work carried out in this area by the Executive Director of Resources.

In some years the Chief and Deputy Returning Officers and other senior officers receive payments for election duties. Payments in respect of Parliamentary and European election expenses are not considered as remuneration for employment by the Council and are funded by other sources. Payments made in respect of local elections are considered to be remuneration for employment by the Council.

Senior Officer shared posts employed by other local authorities

The following officers are formally employed by WCC but provide services for both councils. The Council paid £113,022 (£125,902 in 2020/21) for the Bi-Borough Executive Director of Adults Social Care and Health and £104,416 (£107,454 in 2020/21) for the Bi-Borough Executive Director of Childrens Services, being 50% of their total remuneration. The Council paid £78,002 (£175,499 for three officers covering the post in 2020/21) for the Bi-Borough Director of Public Health, being 44% of their total remuneration.

Remuneration details for these officers can be found within WCC's Statement of Accounts, available on their Council website.

Salary bandings

The number of employees in each salary band is based on all sums paid to or receivable by an employee and sums due by way of taxable expenses, allowances and the monetary value of any other benefits received other than in cash, excluding employer pension contributions. The numbers below cover all Council activities, including schools based staff, receiving more than £50,000 remuneration for the year. Senior officers are excluded from this table as their remuneration is disclosed separately above.

	2021/22 No. of employees	2020/21 No. of employees
£50,000 - £54,999	218	175
£55,000 - £59,999	120	133
£60,000 - £64,999	130	94
£65,000 - £69,999	64	52
£70,000 - £74,999	40	32
£75,000 - £79,999	28	23
£80,000 - £84,999	22	23
£85,000 - £89,999	26	20
£90,000 - £94,999	9	5
£95,000 - £99,999	5	5
£100,000 - £104,999	9	10
£105,000 - £109,999	6	9
£110,000 - £114,999	4	8
£115,000 - £119,999	3	1
£120,000 - £124,999	1	4
£125,000 - £129,999	6	0
£130,000 - £134,999	2	0
£135,000 - £139,999	2	2
£140,000 - £144,999	1	2
£145,000 - £149,999	2	0
£150,000 - £154,999	1	0
£155,000 - £159,999	0	0
£160,000 - £164,999	0	0
£165,000 - £169,999	1	0
Total	**700**	**598**

The number of officers within the disclosure threshold has increased as a the result of the 1.75% national wage increase for all Council officers and school workers.

20. Termination benefits

The numbers of exit packages with total cost per band are set out in the table below.

The cost disclosed under the £251k to £300k bracket includes £227k of capitalised employer pension costs (‘pension strain’). If an active member of the Local Government Pension Scheme (LGPS) is made redundant or leaves on grounds of efficiency and they are aged 55 or over but below their normal pension age, and meet the relevant vesting period, they have an entitlement under LGPS regulations to the early payment of their LGPS pension and the Council has to set aside the capitalised cost of paying this to the Pension Scheme.

Pension strain and redundancy are the main costs incurred. Other less significant costs include Pay In Lieu of Notice and payment for unused holiday entitlement.

		2021/22		
Exit Package Cost Band	**Redundancies (all compulsory)**	**Other agreed departures**	**Total departures**	**Total cost of exit packages**
£'000	Number	Number	**Number**	**£**
0 - 20	29	9	**38**	**353,647**
21 - 40	7	3	**10**	**311,742**
41 - 60	1	4	**5**	**245,301**
61 - 80	2	1	**3**	**208,711**
81 - 100	1	1	**2**	**182,305**
101 - 150	2	0	**2**	**218,280**
151 - 200	1	1	**2**	**364,334**
251 - 300	1	0	**1**	**291,945**
Total	**44**	**19**	**63**	**2,176,265**

		2020/21		
Exit Package Cost Band	**Redundancies (all compulsory)**	**Other agreed departures**	**Total departures**	**Total cost of exit packages**
£'000	Number	Number	**Number**	**£**
0 - 20	11	6	**17**	**144,773**
21 - 40	1	0	**1**	**30,727**
41 - 60	1	1	**2**	**89,129**
61 - 80	0	2	**2**	**139,849**
151 - 200	1	1	**2**	**331,506**
201 - 250	1	0	**1**	**246,175**
351-400	1	0	**1**	**351,912**
Total	**16**	**10**	**26**	**1,334,071**

21. External audit costs

	2021/22	**2020/21**
	£'000	£'000
Fees payable with regard to external audit services carried out by the appointed auditor for the year	174	173
Fees payable for the certification of grant claims and returns for the year	48	33
Fees payable in respect of other services provided during the year	6	18
Total audit costs	**228**	**224**

22. Joint Funding Arrangements

The Council has entered into a pooled budget arrangement with the North West London Clinical Commissioning Group (NWLCCG) for the provision of Adult Social Care services to older people, people with physical or learning disabilities, people with mental health problems and services to safeguard adults.

The aim is to meet the needs of people living in RBKC. Expenditure funded from this budget includes the provision of care in residential settings, community services enabling people to remain in their own homes and a community independence service which supports the enablement of residents. This arrangement is made in accordance with Section 75 of the National Health Service Act 2006 and is funded primarily by the Better Care Fund (BCF). Any surplus or deficit generated will be the responsibility of the respective partner to whom it is attributed.

The pooled budget includes all income and expenditure relating to the BCF, whether funded by the Council or the health service. It is hosted by RBKC although some activities are not pooled and therefore not all transactions pass through the Council's accounting system.

	2021/22	2020/21
	£'000	£'000
RBKC contributions to the pooled budget	(16,797)	(8,396)
NWLCCG contributions to the pooled budget	(5,648)	(13,575)
Total contributions into the pooled budget	**(22,445)**	**(21,971)**
Costs relating to care provided in residential or community settings	14,369	15,461
Support Services and programme management relating to the BCF	894	738
iBCF Programme	7,436	6,570
Total expenditure met by the pooled budget	**22,699**	**22,769**
Net in-year (surplus) / deficit	**254**	**798**
Comprising shares due to:		
RBKC	22	(222)
NWLCCG	232	1,020

Net in-year deficit on the pooled budget

There is a surplus due to RBKC relating to the Disabled Facilities Grant (DFG) of £0.066 million and a deficit share of £0.088 million relating to occupational therapy equipment. The unused DFG grant has been carried forward into 2022/23 as part of usable reserves.

Over the last few years there has been increased spend on costs commissioned by NWLCCG due to increased cases and complexity. The deficit due to NWLCCG comprises £0.232 million relating to occupational therapy equipment.

23. Related party transactions

The Council is required to disclose material transactions with related parties i.e. bodies or individuals that have the potential to control or influence the Council or to be controlled or influenced by the Council.

Central Government

The Government has effective control of all local authorities. It is responsible for the statutory framework in which the Council operates, provides some of the Council's funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties e.g. council tax and housing benefits. Grants received from the Government are set out in notes 14 and 15.

Members and Officers

Elected Members have direct control of the Council's policies and strategies. The total of Members allowances paid during 2021/22 is shown in note 18.

Day-to-day responsibility lies with the Council's Leadership Team which in 2021/22 comprised nine Members with authority within their respective portfolios to approve decisions of a value less than £500,000. Decisions with a value greater than £500,000 are taken by Leadership Team collectively or by full Council, as appropriate.

No Member has declared a relationship or position held with a company that has a material commercial relationship with the Council. Some Members have relationships or hold positions with other public bodies, schools, charities, voluntary organisations and development trusts with which the Council interacts but does not have a financially material relationship.

Several Members and one officer held positions of control or significant influence in related parties to the Council during 2021/22. These include charitable organisations which received funds from the Council; where greater than £10k these are detailed below.

	£'000	Charity No.	Board Trustees
Action Disability Kensington and Chelsea	130	1045769	Adrian Berrill-Cox
Kensington and Chelsea Citizens Advice Bureau	999	1057195	Dori Schmetterling, Portia Thaxter
Muslim Cultural Heritage Centre Trust	95	1059085	Gerard Hargreaves, Kasim Ali
Pepper Pot Day Centre	123	297952	Julie Mills
Kensington and Chelsea Forum for Older Residents	68	1158108	Marie Therese Rossi
Westway Trust	448	1123127	Marwan Elnaghi, Marie Therese Rossi
North Kensington Law Centre	92	279699	Pat Healy
Exhibition Road Cultural Group	13	1123758	Emma Will
Young Kensington and Chelsea Foundation	473	1185156	Emma Will
St Giles Trust	78	801355	Ameeta Rowland (Director of Corporate Strategy)
Total	**2,519**		

Further details about these registered charities can be found on the Charity Commission website.

At the time of publication, 19 Members and eight officers had not returned their declarations; one Member passed away suddenly in March 2022 and seven of the officers are no longer Council employees.

Entities Controlled or Significantly Influenced

The Council undertakes an annual assessment of joint arrangements and interests in other companies. The Council has three wholly owned subsidiaries; Kensington and Chelsea Estates Limited, Kensington and Chelsea TMO Repairs Direct and Notting Dale Heat Network Limited, all of which were effectively dormant during 2021/22. Group accounts are not prepared for any of these entities as the consolidated position would not be materially different to the single entity accounts.

Kensington and Chelsea Estates Ltd (Company ref 05740666 incorporated 19 August 2015) was established to facilitate investment in existing housing stock. As at 31 March 2022, the company had not started trading and an application has been made by the Council to remove the company from the register at Companies House.

Kensington and Chelsea TMO Repairs Direct Ltd (Company reference 08375353 incorporated on 25 January 2013) was purchased by the Council for a nominal sum on 1 March 2018. On 1 April 2019 the Council took direct control of housing repairs and maintenance and the company ceased trading. There are four Directors of the limited company, being the Council's Director of Financial Management and three independent people.

Notting Dale Heat Network Ltd (Company ref 13882225 incorporated 31 January 2022) was established for the provision of heating, energy and hot water services. As at 31 March 2022, the company had not started trading.

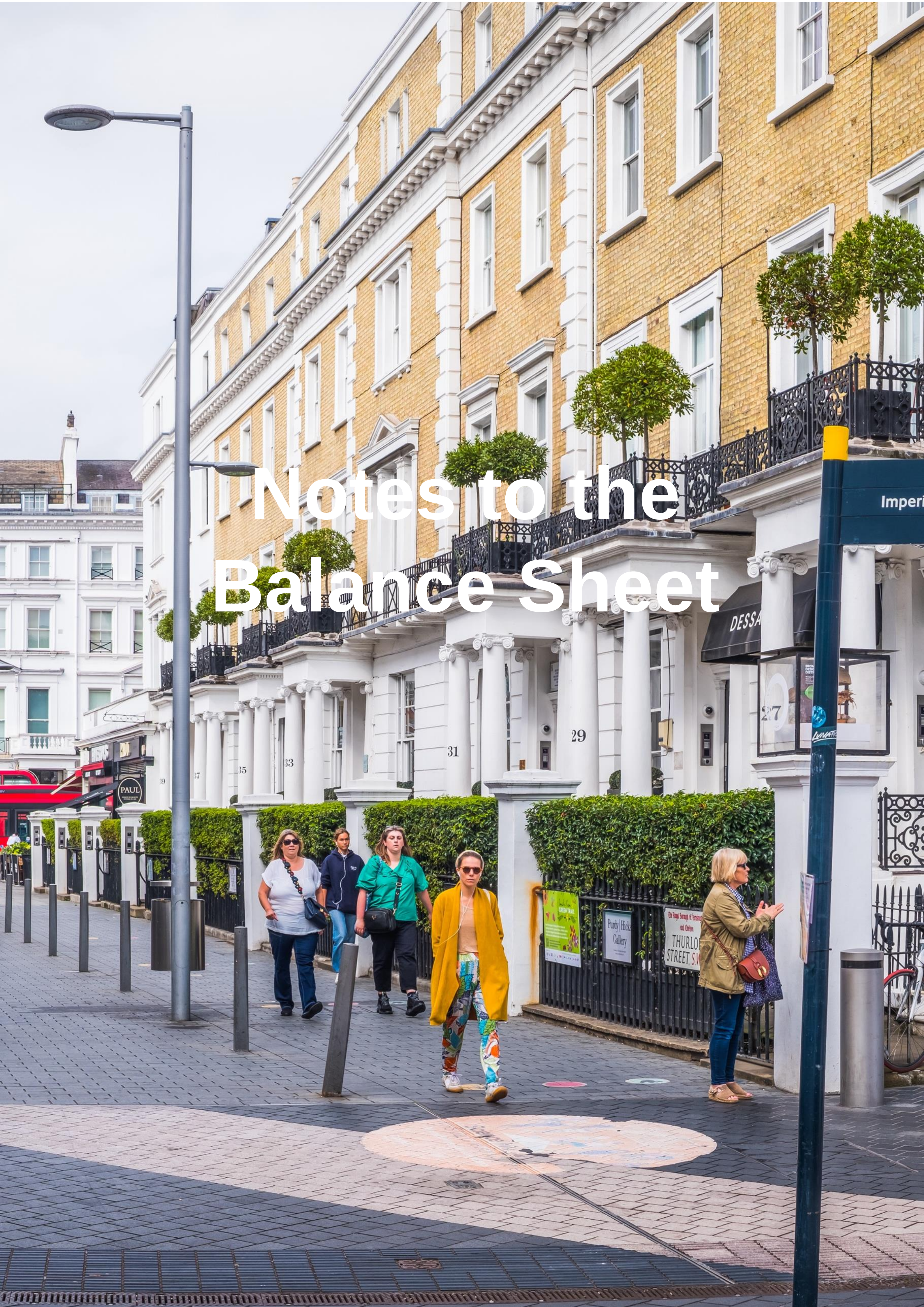
<u>Other Public Bodies</u>

The Council delivers services in close co-operation with other public bodies such as the Greater London Authority, Transport for London, the Kensington and Chelsea Partnership, Metropolitan Police Service, National Health Service Trusts and commissioning groups, the London Fire and Civil Defence Authority and other local authorities. At times, the Council will influence and be influenced by these bodies. Where the Council receives significant grant funding from another public body, this is disclosed in notes 14 and 15.

The Council entered into a Tri-Borough shared services joint working arrangement Westminster City Council (WCC) and the London Borough of Hammersmith and Fulham (LBHF) from 1 April 2012. During 2019/20, LBHF formally withdrew from the Tri-Borough arrangement. The Council and WCC continue to work together to deliver some Bi-Borough services for the benefit of local people. The nature of these arrangements means that each borough influences the others whilst maintaining its sovereignty. The net payments between the councils are not material.

During 2018/19, the Council entered a partnership arrangement with Hampshire County Council (HCC), Hampshire Constabulary, Hampshire Fire and Rescue Service, Oxfordshire County Council, WCC and LBHF. These working agreements are hosted by HCC and involve joint use of the assets and resources of each organisation, collectively delivering greater efficiency, better value, sharing costs, risks and benefits. The Council recognises the assets that it controls and the liabilities that it incurs on its Balance Sheet, and the expenditure it incurs and the share of income it earns from the activity of the operation in its CIES.

Notes to the Balance Sheet



24. Property, plant and equipment

Movement in balances	Council Dwellings*	Other Land and Buildings	Plant, Furniture and Equipment	Infrastructure Assets	Community Assets	Assets Under Construction	Total
	£'000	£'000	£'000	£'000	£'000	£'000	**£'000**
Movements in cost or values							
Gross Book Value at 1 April 2020	**784,303**	**550,664**	**15,723**	**76,140**	**16,727**	**26,735**	**1,470,292**
Additions and enhancement	27,676	19,967	4,605	2,752	2,420	24,073	**81,493**
Revaluation increases / (decreases) recognised in Revaluation Reserve	21,178	(29,259)	0	0	0	0	**(8,081)**
Revaluation increases / (decreases) recognised in (Surplus) or Deficit on Provision of Services	(46,706)	(20,874)	0	0	0	0	**(67,580)**
Derecognition - disposals	(214)	0	(516)	0	0	0	**(730)**
Reclassifications and transfers	31,652	0	0	0	0	(4,868)	**26,784**
Gross Book Value 31 March 2021	**817,889**	**520,498**	**19,812**	**78,892**	**19,147**	**45,940**	**1,502,178**
Additions and enhancement	37,010	11,076	4,599	1,295	1,412	30,092	**85,484**
Revaluation increases / (decreases) recognised in Revaluation Reserve	38,642	10,901	0	0	0	0	**49,543**
Revaluation increases / (decreases) recognised in (Surplus) or Deficit on Provision of Services	(38,781)	(9,621)	0	0	0	0	**(48,402)**
Derecognition - disposals	(336)	0	0	0	0	0	**(336)**
Reclassifications and transfers	(496)	5,935	0	0	0	(162)	**5,277**
Gross Book Value 31 March 2022	**853,928**	**538,789**	**24,411**	**80,187**	**20,559**	**75,870**	**1,593,744**
Movements in depreciation and impairment							
Accumulated Depreciation at 1 April 2020	0	0	(11,052)	(48,056)	**0**	**0**	**(59,108)**
Depreciation charge	(3,327)	(5,332)	(690)	(4,321)	0	0	**(13,670)**
Depreciation / Impairment written out to the Revaluation Reserve	3,050	2,756	0	0	0	0	**5,806**
Depreciation / Impairment written out to (Surplus) or Deficit on Provision of Services	273	2,577	0	0	0	0	**2,850**
Derecognition - disposals	3	0	516	0	0	0	**519**
Accumulated Depreciation at 31 March 2021	**(1)**	**1**	**(11,226)**	**(52,377)**	**0**	**0**	**(63,603)**
Depreciation charge	(3,527)	(4,990)	(1,491)	(3,823)	0	0	**(13,831)**
Depreciation / Impairment written out to the Revaluation Reserve	3,233	2,342	0	0	0	0	**5,575**
Depreciation / Impairment written out to (Surplus) or Deficit on Provision of Services	279	2,659	0	0	0	0	**2,938**
Derecognition - disposals	4	0	0	0	0	0	**4**
Reclassification and transfers	12	(12)	0	0	0	0	**0**
Accumulated Depreciation at 31 March 2022	**0**	**0**	**(12,717)**	**(56,200)**	**0**	**0**	**(68,917)**
Net Book Value (NBV):							
- At 31 March 2021	817,888	520,499	8,586	26,515	19,147	45,940	**1,438,575**
- At 31 March 2022	853,928	538,789	11,694	23,987	20,559	75,870	**1,524,827**

*Council dwellings at 31 March 2022 include 246 properties held within the GF with a NBV of £44.740 million (296 properties held within the GF with a NBV of £51.296 million at 31 March 2021).

The Council currently carries out annual valuations on a rolling programme that ensures all operational assets required to be measured at market value are revalued at least every five years and reviewed as appropriate. The latest valuation was during 2021/22 with an effective valuation date of 31 March 2022. All valuations of dwellings and other land and buildings have been undertaken by external surveyors (Jones, Laing, LaSalle IP) who are fully qualified with the Royal Institute of Chartered Surveyors (RICS) and agreed by the Council's Property Services department.

Similarly, Investment Property assets and any Assets Held for Sale are subject to a revaluation review on an annual basis to ensure that their carrying values are reflective of the latest market value conditions. The basis of the Council's valuations are set out in the Accounting Policies.

Disposals

The Council sold nine Right-To-Buy (RTB) properties with a NBV of £0.332 million.

Capital Commitments

As at 31 March 2022 the Council has outstanding capital commitments of £24.718 million GF (£19.520 million at 31 March 2021) and £12.504 million HRA (£3.163 million at 31 March 2021) in respect of contracted schemes.

The major commitments as at 31 March 2022 were:

- New Homes Delivery Programme, Kensal Road - £8.0 million
- New Homes Delivery Programme, Hewer Street - £4.2 million
- New Home Delivery Programme, St Helens Gardens - £3.4 million
- New Home Delivery Programme, Edenham - £1.1 million (£5.4 million as at 31 March 2021 in total for all New Homes Delivery Programmes)
- Pembroke Road Office - £7.9 million (£0.0 million as at 31 March 2021)
- HRA Lift Replacement - £1.4 million (£0.0 million as at 31 March 2021)
- Lancaster West Estate - £2.9 million (£1.3 million as at 31 March 2021).
- Envelope Works – £8.2 million (£1.0 million as at 31 March 2021)

25. Investment properties

The fair value of investment properties has been based on the market approach using current market conditions and recent sales prices and other relevant information for similar assets in the local authority area. Market conditions for these asset types are such that the levels of observable inputs are significant leading to the properties being categorised at Level 2 in the fair value hierarchy.

The values at 31 March are analysed as follows:

	2021/22	2020/21
	£'000	£'000
Office units	9,001	9,001
Commercial units	207,150	222,551
Land	18,470	18,675
Other investment property	349	349
Total fair value	**234,970**	**250,576**

There were no transfers between any of the three levels of the fair value hierarchy during 2019/20 or the preceding year. During 2021/22, six investment sites transferred from investment properties to Operational Other Land and Building assets.

In estimating the fair value of the Council's investment properties, the highest and best use of the properties is their current use. There has been no change in the valuation techniques used during the year for investment properties.

The following items of income and expenditure have been accounted for in the Financing and Investment Income and Expenditure line in the CIES:

	2021/22	2020/21
	£'000	£'000
Rental income from investment property	(14,555)	(16,810)
Direct operating expenses arising from investment property	2,321	3,495
Net (gain) / loss	**(12,234)**	**(13,315)**

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

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

	2021/22	2020/21
	£'000	£'000
Balance at 1 April	**250,576**	**315,112**
Additions		
- Subsequent expenditure	814	543
Net gains / (losses) from fair value adjustments	(10,981)	(38,295)
Transfers (to) / from Property, Plant and Equipment	(5,439)	(26,784)
Balance at 31 March	**234,970**	**250,576**

26. Intangible assets

Software Licences	2021/22	2020/21
	£'000	£'000
Gross carrying amount at 1 April	16,731	14,759
- Purchases	2,647	2,070
- Disposals	0	(98)
Gross carrying amount at 31 March	**19,378**	**16,731**
Accumulated amortisation at 1 April	(9,891)	(8,540)
- Amortisation for the period	(1,837)	(1,449)
- Disposals	0	98
Accumulated amortisation at 31 March	**(11,728)**	**(9,891)**
Net carrying amount at 1 April	**6,840**	**6,219**
Net carrying amount at 31 March	**7,650**	**6,840**

27. Heritage assets

Heritage Properties

Heritage property assets are valued and accounted for in accordance with the Council's accounting policies on property. Valuations have been undertaken by external surveyors (Jones, Laing, LaSalle IP) who are fully qualified with the Royal Institute of Chartered Surveyors (RICS) and agreed by the Council's Property Services department.

The Council operates two museums;

- Leighton House was the former home and studio of the leading Victorian artist, Frederic, Lord Leighton (1830-1896). Built to designs by George Aitchison, it was extended and embellished over a period of thirty years to create a private palace of art.
- 18 Stafford Terrace, once the residence of Punch cartoonist Edward Linley Sambourne, is recognised as the best surviving example of a late Victorian middle-class home in the UK. It is remarkably well preserved and complete with its original interior decoration and contents.

Museum Collections and Art in Parks

Within the two museums are the related collections of art works and other relevant artefacts. The Council also displays artworks in a range of settings around the Borough, mainly in Holland Park. Details of these items can be found on the Council's website.

The museum collections and the art in parks are reported in the Balance Sheet at insurance valuation (based on market values) and historical information from curators. These valuations are reviewed periodically as deemed appropriate for insurance purposes. The Council self-insures assets valued below £250,000 and it therefore does not have valuation certificates for all items worth less than this amount. Acquisitions are recognised at cost. The museum collections and art are deemed to have indeterminate lives and high residual value. Hence the Council does not deem it appropriate to charge depreciation for these assets.

The local regalia and the local studies and archive collection are not disclosed on the Balance Sheet because the collections are of low Balance Sheet value due to individual items either having nil or low market value, being worth less than the Council's de minimis threshold of £10,000 or having no up-to-date valuation that is reliable.

The table below shows the annual changes to the net book values of the museums within Heritage Assets that are held at current cost.

	2021/22				2020/21			
	Heritage Properties	Museum Collections	Art in Parks	Total	Heritage Properties	Museum Collections	Art in Parks	Total
	£'000	£'000	£'000	**£'000**	£'000	£'000	£'000	**£'000**
Cost/Valuation at 1 April	**19,993**	**24,322**	**2,006**	**46,321**	**19,993**	**24,296**	**1,963**	**46,252**
Additions	2,977	39	0	**3,016**	3,189	26	43	**3,258**
Revaluations	(2,977)	0	0	**(2,977)**	(3,189)	0	0	**(3,189)**
Cost/Valuation at 31 March	**19,993**	**24,361**	**2,006**	**46,360**	**19,993**	**24,322**	**2,006**	**46,321**

The figures above include the following net nil depreciation movement on heritage properties.

	2021/22	2020/21
	£'000	£'000
Depreciation and impairment charge	169	169
Depreciation written out on revaluations recognised in the Revaluation Reserve	(90)	(90)
Depreciation written out on revaluations recognised in the Surplus / Deficit on Provision of Services	(79)	(79)
Total	**0**	**0**

28. Capital expenditure and capital financing

The total amount of capital expenditure incurred in the year is shown in the table below, together with the resources that have been used to finance it. The net movement in the Capital Financing Requirement illustrates the change in the underlying need for the Council to borrow during the year to fund capital investment which has not been funded immediately from resources such as grants, capital receipts and direct funding from revenue.

	2021/22	2020/21
	£'000	£'000
Opening Capital Financing Requirement	**437,729**	**423,554**
Adjustment to Historic MRP*	(431)	0
Capital investment		
Property, Plant and Equipment	85,484	81,493
Heritage Assets	3,016	3,258
Investment Properties	814	543
Intangible Assets	2,647	2,070
Revenue Expenditure Funded from Capital Under Statute	6,194	6,330
Sources of finance		
Capital receipts	(14,947)	(47,011)
Government grants and other contributions	(18,611)	(25,847)
Sums set aside from revenue:		
- Direct revenue contributions	(1,939)	(1,698)
- Direct Revenue Funding (Major Repairs Reserve)	(11,410)	(3,421)
- MRP / loans fund principal	(1,857)	(1,542)
Closing Capital Financing Requirement	**486,689**	**437,729**

	2021/22	2020/21
	£'000	£'000
Provision to reduce the underlying need to borrow (MRP)		
- Supported borrowing	(738)	(769)
- Unsupported borrowing	(1,119)	(773)
Increase in underlying need to borrow (supported by capital receipts)	51,248	15,717
Adjustment to historic MRP	(431)	0
Increase / (decrease) in the Capital Financing Requirement	**48,960**	**14,175**

* The opening balance adjustment relates to historic internal borrowing balances from prior years that cannot be traced on the Council's previous financial accounting system.

29. Debtors

The table below provides a breakdown of current and long term debtors with respective ECL.

Category of debt (all at amortised cost)	31 March 2022 Gross Debtor	31 March 2022 ECL	31 March 2022 Net Debtor	31 March 2021 Gross Debtor	31 March 2021 ECL	31 March 2021 Net Debtor
	£000	£000	£000	£000	£000	£000
Current Debtors						
Trade receivables	15,267	(6,239)	9,028	27,088	(6,397)	20,691
Other receivables	3,190	(2,100)	1,090	2,026	(1,669)	357
Central government - Grenfell	11,768	0	11,768	8,435	0	8,435
Central government - Other	43,803	0	43,803	77,868	0	77,868
Health Authorities	1,465	0	1,465	10,455	0	10,455
Other Local Authorities	65,708	0	65,708	88,780	0	88,780
Temporary Accommodation	3,667	(2,054)	1,613	3,098	(1,897)	1,201
Commercial Waste	86	(18)	68	182	(28)	154
Housing Benefit Overpayments	7,439	(6,345)	1,094	7,895	(6,647)	1,248
Local Taxation	29,779	(21,065)	8,714	28,205	(23,506)	4,699
HRA Rent Payers	4,080	(3,168)	912	4,305	(2,326)	1,979
HRA Service Charge	4,659	(1,267)	3,392	5,015	(820)	4,195
Parking	19,037	(17,614)	1,423	19,381	(18,184)	1,197
Service loans	0	0	0	54	0	54
Payments in advance and deposits	1,648	0	1,648	3,196	0	3,196
Total Current Debtors	**211,596**	**(59,870)**	**151,726**	**285,983**	**(61,474)**	**224,509**
Long Term Debtors						
Trade receivables	0	0	0	150	0	150
Service loans	380	(210)	170	560	(359)	201
HRA Service Charge	0	0	0	293	(147)	146
Advances and deposits	525	(215)	310	550	(215)	335
Central government - Other	2,040	0	2,040	14,746	0	14,746
Other Local Authorities	2,277	0	2,277	16,534	0	16,534
Payments in advance and deposits	304	0	304	0	0	0
Total Long Term Debtors	**5,526**	**(425)**	**5,101**	**32,833**	**(721)**	**32,112**
Total Debtors	**217,122**	**(60,295)**	**156,827**	**318,816**	**(62,195)**	**256,621**

Due to the COVID-19 pandemic, the government extended the 100% business rates relief available during 2020/21 to retail, hospitality and leisure services. The government granted 100% relief during April 2021 to June 2021, and 66% relief from July 2021 until March 2022. However, the Collection Fund was still required to pay the original business rate shares for the year to preceptors. This means that in 2021/22 the Collection Fund paid out far more income than it received, which is reflected in the debtors position for the Collection Fund shown to DLUHC (£36 million) and GLA (£43 million). This money will be recovered from the preceptors in 2022/23.

The Council has assessed the impact of COVID-19 on credit losses using the limited information available about forecasts of future economic conditions. The categories deemed potentially to be most affected include local taxation, parking services and commercial rents. Any adjustments required to the level of impairment provisions are included in the above table.

A lifetime expected credit loss approach has been applied and the credit loss rates used in calculating the ECL vary widely due to the different type of debts that were reviewed by each service. For local taxation arrears the loss rates applied range from 70% to 100%; the average loss rate for parking is 93%; trade receivables include ECL for commercial rents with a loss rate ranging from 10% to 100%.

30. Creditors

The following table provides a breakdown of current and long term creditors.

	31 March 2022		31 March 2021	
	Current	**Long Term**	**Current**	**Long Term**
	£'000	£'000	£'000	£'000
Trade payables	(42,216)	(770)	(34,116)	(683)
Receipts in advance	(23,405)	0	(19,566)	0
Central government bodies*	(115,895)	0	(191,194)	0
Other local authorities	(13,380)	(387)	(9,947)	0
NHS bodies	(11,025)	0	(11,757)	0
Other payables	(11,544)	(554)	(13,495)	(517)
Total creditors	**(217,465)**	**(1,711)**	**(280,075)**	**(1,200)**

*Included in this total is £31.063 million for Department for Business, Energy and Industrial Strategy (BEIS) passported grants (£28.304 million as at 31 March 2021).

In order for the Council to facilitate cash payments to the Collection Fund preceptors, where reliefs had been granted to businesses, DLUHC paid the Council a Section 31 grant. This grant is repayable to DLUHC in 2022/23 and is included within the 'Central government bodies' figure above (£77 million at 31 March 2022). This liability relates to the preceptor share of the 2021/22 Collection Fund deficit.

31. Provisions

Provisions are amounts set aside by the Council for an obligation which are likely to lead to a payment, but where the exact amount and timing of the payment is uncertain.

2021/22	**Insurance**	**NNDR Appeals**	**Thames Water**	**Disputed Invoices**	**Other**	**Total**
	£'000	£'000	£'000	£'000	£'000	**£'000**
Balance at 1 April	(3,784)	(19,352)	(2,430)	(611)	(203)	**(26,380)**
Additional provisions made	(2,576)	(5,961)	0	(7)	(53)	**(8,597)**
Amounts used	1,509	3,532	2,094	283	28	**7,446**
Unused amounts reversed	0	6,047	0	0	0	**6,047**
Balance at 31 March	(4,851)	(15,734)	(336)	(335)	(228)	**(21,484)**
Of which:						
Long Term	(2,956)	0	0	0	(109)	**(3,065)**

<u>Insurance</u>

The insurance provision provides for self-insurance in respect of motor, fire and other liabilities. The balance represents the amount of self-insurance held to cover known claims arising.

NNDR Appeals

Following the introduction of the new Business Rates Retention Scheme on 1 April 2013, the Council must account for its estimated share of Non-Domestic Rates assets and liabilities. Under the scheme, the Council is exposed to the outcome of outstanding ratings appeals.

The Valuation Office Agency continues to process appeals to the 2010 and 2017 lists. Further to a new agreement between the London Pool and central government, the Council's share of NDR assets and liabilities decreased to 30% in 2020/21 and this share remains the same in 2021/22.

Thames Water charges

The Council received commission from Thames Water for collecting water charges from tenants along with their rent. Following a Court of Appeal decision involving another local authority, all councils who had this arrangement were deemed to be 'water resellers' and as a result of this the commission received must be repaid to tenants.

Disputed Invoices

These relate to HRA contractor payments that the Council is disputing.

Other Provisions

Other provisions include the Looked After Children savings and a legal tribunal.

32. Contingent liabilities

Contingent liabilities are not recognised in the Balance Sheet but disclosed in notes to the accounts when an outflow is possible. At 31 March 2022, the Council's one contingent liability was in respect of the tragic fire at Grenfell Tower on the 14th June 2017. The Metropolitan Police continues to investigate the Council, Kensington and Chelsea Tenant Management Organisation (KCTMO) and other parties for corporate manslaughter and the public inquiry continues to look into the causes of the fire. It is therefore not possible to quantify any liability resulting from this investigation, which is yet to conclude, or any financial liability for civil claims, as financial quantum is yet to be presented in the civil claims process and liability apportioned between various defendants.

33. Financial instruments

Financial instruments are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of the financial instrument.

Money Market Funds have been reclassified as Fair Value through Profit and Loss (previously classified as amortised cost) in 2021/22. No financial instruments have been reclassified in the preceding year. There has been no change in the valuation technique used during the year for financial instruments.

Financial Assets

The financial assets disclosed in the Council's Balance Sheet are made up of the following:

Financial Assets	31 March 2022 Long-term	31 March 2022 Current	31 March 2021 Long-term	31 March 2021 Current
	£'000	£'000	£'000	£'000
Investments				
At Fair Value through Profit and Loss - principal amount	24,086	0	0	0
At amortised cost - principal amount	0	45,000	0	82,500
At amortised cost - accrued interest	0	20	0	116
Total investments	**24,086**	**45,020**	**0**	**82,616**
Debtors				
Loans at amortised cost	170	364	202	405
Other receivables at amortised cost	310	15,132	631	28,618
Total included in debtors	**480**	**15,496**	**833**	**29,023**
Cash and Cash Equivalents (CCE)				
At amortised cost - principal amount	0	0	0	78,070
At Fair Value through Profit and Loss - principal amount*	0	55,860	0	0
At Fair Value through Profit and Loss - accrued interest	0	28	0	0
Total included in CCE	**0**	**55,888**	**0**	**78,070**
Total financial assets	**24,566**	**116,404**	**833**	**189,709**
Other Assets**	1,981,316	147,082	1,773,591	197,197
Total Assets per Balance Sheet	**2,005,882**	**263,486**	**1,774,424**	**386,906**

*Money Market Funds were held at amortised cost in 2020/21 (now classified at Fair Value through Profit and Loss).

Financial Liabilities

The financial liabilities disclosed in the Balance Sheet are made up of the following:

Financial Liabilities	31 March 2022 Long-term	31 March 2022 Current	31 March 2021 Long-term	31 March 2021 Current
	£'000	£'000	£'000	£'000
Borrowings				
Amortised cost - principal amount	(229,228)	(5,009)	(234,237)	(18,009)
Amortised cost - accrued interest	0	(2,511)	0	(2,702)
Total borrowings	**(229,228)**	**(7,520)**	**(234,237)**	**(20,711)**
Creditors				
Financial liabilities carried at contract amounts	(770)	(42,216)	(683)	(34,115)
Total included in creditors	**(770)**	**(42,216)**	**(683)**	**(34,115)**
Total financial liabilities	**(229,998)**	**(49,736)**	**(234,920)**	**(54,826)**
Other liabilities**	(44,137)	(228,971)	(149,732)	(296,009)
Total Liabilities per Balance Sheet	**(274,135)**	**(278,707)**	**(384,652)**	**(350,835)**

**Included in this figure is the Council's obligation in respect of its defined benefit pension plans, which do not meet the definition of a financial asset or liability. The net pension asset is shown on the Balance Sheet under Other Long-Term Liabilities (at 31 March 2021) and Other Long Term Assets (at 31 March 2022). Further information can be found in note 36.

Income, Expenses, Gains and Losses

The income, expenditure, gains and losses recognised in the CIES in relation to financial instruments at amortised cost comprises the following:

	2021/22			2020/21		
	Assets	Liabilities	Total	Assets	Liabilities	Total
	£'000	£'000	**£'000**	£'000	£'000	**£'000**
Interest expense in CIES	8,943	0	**8,943**	0	10,531	**10,531**
Interest and investment income in CIES	(240)	(67)	**(307)**	(930)	0	**(930)**
Losses on revaluation	0	914	**914**	0	0	**0**
Net (gain) / loss for the year	**8,703**	**847**	**9,550**	**(930)**	**10,531**	**9,601**

Fair values

Financial assets classified as loans and receivables and all non-derivative financial liabilities are carried on the Balance Sheet at amortised cost, with the exception of Money Market Funds (financial assets) which are carried at Fair Value through Profit and Loss.

Where assets and liabilities are held at amortised cost, their fair values have been estimated by calculating the net present value of the remaining contractual cash flows as at 31 March 2022, using the following methods and assumptions:

- Loans taken by the Council have been valued by discounting the contractual cash flows over the whole life of the instrument at the appropriate market rate for local authority loans
- No early repayment or impairment is recognised for any financial instrument
- The fair value of short-term instruments, including trade payables and receivables, is deemed to be not materially different to the carrying amount.

The fair values are calculated as follows:

	Level	31 March 2022		31 March 2021	
		Fair Value	Carrying Amount	Fair Value	Carrying Amount
		£'000	£'000	£'000	£'000
PWLB loans	2	(245,831)	(235,974)	(294,452)	(254,949)
Liabilities where fair value is not disclosed			(316,868)		(480,336)
		(245,831)	(552,842)	(294,452)	(735,285)

34. Nature and extent of risks arising from financial instruments

The Council's treasury management activities expose it to a number of risks. The key risks are:

- credit risk – the possibility that other parties might fail to pay amounts due to the Council
- liquidity risk – the possibility that the Council might not have funds available to meet its commitments to make payments
- re-financing risk – the possibility that the Council might be required to renew a financial instrument on maturity at disadvantageous interest rates or terms

- market risk – the possibility that financial loss might arise for the Council as a result of changes in such measures as interest rates or stock market movements.

The Council's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise the potentially adverse effects on the resources available to fund services.

The procedures for risk management are set out through a legal framework based on the Local Government Act 2003 and the associated regulations. These require the Council to comply with CIPFA's Prudential Code and Code of Practice on Treasury Management in the Public Services together with investment guidance issued through the Act. Overall these procedures require the Council to manage risk in the following ways:

- By formally adopting the requirements of the Code of Practice on Treasury Management in the Public Services
- By the adoption of a Treasury Policy Statement and treasury management clauses within its constitution
- By approving annually in advance prudential and treasury indicators for the following three years limiting the Council's
    - Overall borrowing
    - Maximum and minimum exposures to fixed and variable rates
    - Maximum and minimum exposures for the maturity structure of its debt
    - Maximum annual exposures to investments maturing beyond a year
- By approving an investment strategy for the forthcoming year that sets criteria for both investing and selecting investment counterparties in compliance with Central Government guidance.

These are required to be reported and approved at the meeting which sets the Council's budget for the forthcoming year. These items are reported with the Annual Treasury Management Strategy, which outlines the detailed approach to managing risk in relation to the Council's financial instrument exposure. Actual Treasury Management performance is also reported in the outturn report after each year end and in the mid-year performance report.

These policies are implemented by the treasury management team, in line with the policies and principles to manage overall risk. Treasury management policies and procedures are reviewed annually.

The Council's Annual Treasury Management Strategy Statement 2021/22 can be found on the Council's website. See Full Council committee meeting documents for 3 March 2021.

<u>Credit risk</u>

Credit risk is the possibility that other parties might fail to pay amounts due to the Council. It arises from deposits with banks and financial institutions, as well as credit exposure to the Council's customers.

Credit risk is minimised through the Annual Investment Strategy, which requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria. The Annual Investment Strategy also considers maximum amounts in respect of each financial institution, in order to spread risk. Outside of the UK, the Sovereign credit rating of individual countries is taken into account prior to considering the ratings of individual institutions. Only institutions from countries with a minimum sovereign rating of AA+ or equivalent will be considered. When lending to other local authorities, the treasury management team independently assess the financial health of that authority before investing.

No credit limits were exceeded during the reporting period.

The table below summaries the credit rating of the Council's investments as at 31 March:

	Fitch Rating	2021/22	2020/21
		£'000	£'000
Other local authorities	UNRATED	0	27,500
Money Market Funds	AAA	55,860	78,070
Banks	A+ or above	45,000	55,000
Investment Grade Bond Fund	AAA	24,086	0
Total		**124,946**	**160,570**

Approximately 80% of all investments as at 31 March 2022 are with UK domiciliary institutions.

Loss allowances are calculated on the Council's investments based on externally assessed risk of default by individual counterparties. In 2021/22 and the preceding year, the risk of loss on the Council's investments was considered immaterial.

The Council does not generally allow extended credit for its customers. Risk of default by customers is assessed based on historic collection rates and forward-looking assessments and, where appropriate, expected credit loss impairments are charged to the CIES. Receivables are written off to the Surplus or Deficit on Provision of Services where recovery action indicates there is no realistic chance of recovery. Details of expected credit losses for receivables can be found in note 29.

The Council has made loans to the National Army Museum (NAM) (now repaid) and Greenwich Lesiure Limited (GLL), both in furtherance of its service objectives. The Council has also made a commitment to provide additional loans to GLL if requested.

The loans are recognised on the Balance Sheet at amortised cost. The Council's ECL and its total exposure to credit risk in respect of these loans is shown in the following table.

		Loan	ECL	Risk	Loan	ECL	Risk
Borrower	**Exposure Type**		**2021/22**			**2020/21**	
		£'000	£'000	£'000	£'000	£'000	£'000
NAM	Loan at market rate	0	0	0	149	0	0
GLL	Loan at zero rate	366	(210)	0	395	(234)	0
GLL	Loan Commitment	0	0	0	0	(125)	250
Total		**366**	**(210)**	**0**	**544**	**(359)**	**250**

Liquidity risk

Liquidity risk is the possibility that the Council might not have sufficient funds available to meet its contractual commitments. The Council manages its liquidity position through the risk management procedures detailed above and through cash flow management procedures, which ensures that cash is available when required.

The Council has ready access to borrowings from the money market to cover any day to day cash flow needs, while the Public Works Loans Board (PWLB) provides access to long term funding to finance its capital programme. In order to meet current and future revenue expenditure commitments, the Council is required to set an annual balanced budget (Local Government Act 1992) and to maintain a sufficient level of revenue reserves.

The Council's cash reserves are either invested externally, or used to fund its capital programme in place of external borrowing. Since the Council is financing some of its capital programme from cash reserves, this means there is additional headroom in how much funding it can borrow from the PWLB.

At 31 March 2022, the Council had £124.946 million (£160.570 million in 2020/21) invested externally which was due to be paid back in less than a year, and could borrow a further £252.452 million (£185.483 million in 2020/21) from the PWLB to finance its capital programme.

There is no perceived risk that the Council will be unable to raise finance to meet its commitments. It is however exposed to the risk that it may need to refinance a significant proportion of its borrowing at a time of unfavourably high interest rates. This risk is managed by maintaining a spread of fixed rate loans and maturities and ensuring that no more than 30% of the Council's borrowing matures in any one financial year. .

The following table shows the maturity analysis of the Council's financial liabilities:.

Maturity Period	**2021/22**		**2020/21**	
	Principal	**Interest**	**Principal**	**Interest**
	£'000	£'000	£'000	£'000
Maturing in under one year	5,009	8,001	18,009	9,132
Maturing between one and two years	9	7,613	5,009	8,001
Maturing between two and five years	22,728	20,898	22,728	21,991
Maturing between five and ten years	25,527	30,220	20,532	31,340
Maturing between ten and 20 years	30,047	48,877	35,047	49,886
Maturing between 20 and 30 years	90,047	29,408	90,047	30,137
Maturing after 30 years	60,870	4,090	60,875	7,754
Total	**234,237**	**149,107**	**252,247**	**158,241**

<u>Market Risk</u>

Market risk is the possibility that financial loss might arise for the Council as a result of change in such measures as interest, price and foreign exchange rates.

The Council is exposed to interest rate risk on both its borrowings and investments. Movement in interest rates have a complex impact on the Council, depending on how variable or fixed the interest rates are over the Council's financial assets and liabilities. For example, a rise in interest rates would have the following effect for the Council:

- Borrowing at variable rates of interest – the interest cost charged to the CIES will increase;
- Borrowing at fixed rates of interest – the fair value of the liability will fall and there will be no impact on the CIES;
- Investments at variable rates – interest income credited to the CIES will rise;
- Investments at fixed rates of interest – the fair value of the Investment will rise, with no impact on the CIES.

None of the Council's investments or borrowings are carried at fair value in the Council's Balance Sheet, with the exception of Money Market Funds, so nominal gains and losses on these do not impact on the Surplus or Deficit on Provision of Services in the CIES.

The Council has several strategies for managing interest rate risk. The Council forecasts its expected interest rate movements within the Treasury Management Strategy. The Prudential indicators include a maximum and minimum indicator for fixed and variable interest rate exposure and monitors the actual levels periodically.

If all interest rates had been 1% higher with all other variables held constant, the financial effect would be:

	£'000
Increase in interest receivable on variable rate investments	(1,897)
Impact on CIES	(1,897)
Share of overall impact debited to the HRA	584
Decrease in fair value of fixed rate borrowing liabilities	(32,660)

The approximate impact of a 1% fall in interest rates would be as above, but with the movements being reversed. These assumptions are based on the same methodology as used in the Financial Instruments disclosure note.

35. Pension schemes accounted for as defined contribution schemes

Although the Teachers Pension Scheme is a defined benefit scheme, the Department for Education (DfE) uses a notional fund as the basis for calculating the employer's contributions rate paid by the education authorities. It is not possible for the Council to identify a share of the underlying liabilities in the scheme attributable to its own employees. The scheme is therefore accounted for on the same basis as a defined contributions scheme.

In 2021/22, the Council paid £5.392 million (£5.331 million in 2020/21) to Teachers' Pensions in respect of teachers' retirement benefits, representing 23.68% of pensionable pay. There were no contributions remaining payable at the year-end.

The Children's Services and Education line in the CIES is charged with the employer's contributions payable to the Teachers' Pension Scheme for the year.

The Council is responsible for the costs of any additional benefits awarded upon early retirement outside the terms of the teachers' scheme.

36. Defined benefit pension schemes

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

Most employees of the Council are members of the Local Government Pension Scheme (LGPS), which for most staff is administered by the Council and for a relatively small number, by the Local Pensions Partnership (previously London Pension Fund Authority). This is a funded defined benefit final salary scheme meaning that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets.

The following transactions have been made in the CIES and the GF Balance via the MIRS during the year.

Transactions made in the CIES	2021/22 RBKC Pension Scheme	2020/21 RBKC Pension Scheme	2021/22 LPFA Pension Scheme	2020/21 LPFA Pension Scheme
	£'000	£'000	£'000	£'000
Service cost comprising:				
- Current service cost	56,787	35,012	10	85
- Past service costs	644	1,458	0	0
- (Gain) / loss on settlements	0	(734)	0	0
Financing and Investment Income and Expenditure:				
- Net interest expense	2,573	1,738	23	40
- Administration expenses	871	1,134	40	36
Post Employment Benefits charged to the (Surplus)/Deficit on Services in the CIES	**60,875**	**38,608**	**73**	**161**
Remeasurement of the net defined benefit liability / asset comprising:				
- Return on plan assets	(208,995)	(302,231)	(3,954)	(4,202)
- Actuarial gains and losses arising on changes in demographic assumptions	1,130	(13,055)	0	(312)
- Actuarial gains and losses arising on change in financial assumptions	(109,238)	335,799	(764)	4,432
- Experience (gain) / loss	6,250	(15,783)	71	(447)
- Changes in effect of asset ceiling / Other (gains) / losses	(239)	0	0	0
Total Post Employment Benefits charged to Other Income and Expenditure in the CIES	**(311,092)**	**4,730**	**(4,647)**	**(529)**
Total Post Employment Benefits charged to the CIES	**(250,217)**	**43,338**	**(4,574)**	**(368)**

Transactions made in the MIRS	2021/22 RBKC Pension Scheme	2020/21 RBKC Pension Scheme	2021/22 LPFA Pension Scheme	2020/21 LPFA Pension Scheme
	£'000	£'000	£'000	£'000
Reversal of net IAS 19 charges	(60,875)	(38,608)	(73)	(161)
Actual amount charged to GF/HRA	18,084	16,265	135	179

The total net liability included in the Balance Sheet in respect of its defined benefit schemes is as follows:

Pension Assets and Liabilities recognised in the Balance Sheet	31 March 2022 RBKC Pension Scheme	31 March 2021 RBKC Pension Scheme	31 March 2022 LPFA Pension Scheme	31 March 2021 LPFA Pension Scheme
	£'000	£'000	£'000	£'000
Present value of the defined benefit obligation	(1,466,547)	(1,508,875)	(29,388)	(30,955)
Fair value of plan assets	1,628,884	1,400,044	34,091	31,080
Sub-total	**162,337**	**(108,831)**	**4,703**	**125**
Present value of unfunded obligation	(2,867)	0	(1,285)	(1,416)
Impact of asset ceiling	0	0	0	0
Net (liability)/asset arising from defined benefit obligation	**159,470**	**(108,831)**	**3,418**	**(1,291)**

As LGPS Funds are usually invested in a range of asset classes, the performance of the assets may be quite different from that of the accounting liabilities (which are linked to corporate bonds) and so the results can be very volatile from year to year.

The defined benefit liability as at 31 March 2022 is negative i.e. an asset. The Council has reviewed IAS 19 paragraph 64 and IFRIC 14 *IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirement and their Interaction* to determine that no restrictions apply to the amount disclosed in the Balance Sheet.

Reconciliation of Present Value of Scheme Liabilities	**31 March 2022**	**31 March 2021**	**31 March 2022**	**31 March 2021**
	RBKC Pension Scheme		**LPFA Pension Scheme**	
	£'000	£'000	£'000	£'000
Opening balance at 1 April	**(1,508,875)**	**(1,154,427)**	**(32,371)**	**(29,609)**
Current service cost	(56,787)	(35,012)	(10)	(85)
Administration expenses*	(871)			
Interest cost	(30,474)	(27,020)	(600)	(662)
Change in financial assumptions	109,238	(335,799)	764	(4,432)
Change in demographic assumptions	(1,130)	13,055	0	312
Experience (loss) / gain	(6,250)	15,783	(71)	447
Liabilities assumed / (extinguished) on	0	(4,543)	0	0
Estimated benefits paid net of transfers	34,191	28,026	1,488	1,544
Past service costs and curtailments	(644)	(1,458)	0	0
Contributions - scheme participants	(8,051)	(7,480)	(1)	(14)
Unfunded pension payments	239	0	128	128
Closing balance at 31 March	**(1,469,414)**	**(1,508,875)**	**(30,673)**	**(32,371)**

Reconciliation of Movement in the Fair Value of Scheme Assets	**31 March 2022**	**31 March 2021**	**31 March 2022**	**31 March 2021**
	RBKC Pension Scheme		**LPFA Pension Scheme**	
	£'000	£'000	£'000	£'000
Opening balance at 1 April	**1,400,044**	**1,072,669**	**31,080**	**27,771**
Interest on assets	27,901	25,282	577	622
Return on assets less interest	208,995	302,231	3,954	4,202
Administration expenses*		(1,134)	(40)	(36)
Contributions - employer	18,084	16,265	135	179
Contributions - scheme participants	8,051	7,480	1	14
Estimated benefits paid plus unfunded net of transfers in	(34,191)	(28,026)	(1,616)	(1,672)
Other actuarial gains / (losses)	0	0	0	0
Settlement prices received / (paid)	0	5,277	0	0
Closing balance at 31 March	**1,628,884**	**1,400,044**	**34,091**	**31,080**

*The approach used to recognise administration expenses differs between actuaries. The current actuaries have included this within the scheme liabilities alongside current service costs whereas previously administration expenses were included in the reconciliation of scheme assets. There is no impact of the different appraoches on the net liability.

The below table shows the fair value of scheme assets. The LGPS scheme includes UK equities and property assets of £213.311 million (£150.682 million at 31 March 2021) that do not have a quoted market price in an active market.

	31 March 2022		31 March 2021		31 March 2022		31 March 2021	
	RBKC Pension Scheme				LPFA Pension Scheme			
	£'000	%	£'000	%	£'000	%	£'000	%
Equities	1,219,182	75	1,117,426	80	18,928	56	16,887	54
Property	98,475	6	71,485	5	3,053	9	2,828	9
Cash and equivalents	311,227	19	211,133	15	1,135	3	1,416	5
Target return portfolio	0	0	0	0	7,490	22	7,315	24
Infrastructure	0	0	0	0	3,485	10	2,634	8
Total	**1,628,884**	100	**1,400,044**	100	**34,091**	100	**31,080**	100

Basis for estimating assets and liabilities

The Council changed actuaries for 2021/22 and the Local Government Pension Scheme assets and liabilities as at 31 March 2022 have been assessed by Hymans Robertson LLP (previously Barnett Waddingham LLP), an independent firm of actuaries. The LPFA Pension Scheme continues to use Barnett Waddingham LLP.

Contributions are set every three years as a result of the actuarial valuation of the Fund required by Regulations. The next actuarial valuation of the Fund will be carried out as at 31 March 2022 and will set contributions for the period from 1 April 2023 to 31 March 2026.

The aim of the funding valuation which determines employer contribution rates is to ensure sufficiency to meet future benefit payments from the Pension Fund. The purpose of the annual accounting valuation under IAS 19 is to facilitate consistent comparison of pension positions between employers and uses different methods and assumptions. This can result in significantly different results from the funding valuations.

The liabilities are included in the Balance Sheet on an actuarial basis using the projected unit method i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on actuarial assumptions about mortality rates, employee turnover rates and projected earnings of current employees etc.

The liabilities are discounted to their value at current prices, using a discount rate determined by the actuary that is based on the indicative rate of return on high quality corporate bonds at the reporting date. The net discount rate used as at 31 March 2022 has increased and this has contributed to the negative net pension liability (i.e. asset) recognised in the Balance Sheet.

There are no minimum funding requirements in the Local Government Pension Scheme but the contributions are generally set to target a funding level of 100% using the actuarial valuation assumptions.

Demographic / statistical assumptions

The post retirement mortality tables were updated last year to use the latest version of the Continuous Mortality Investigation's model, CMI 2021. This update was made in light of the coronavirus pandemic and reflected the latest information available from the CMI. The new CMI Model introduced a "2020 weight parameter" for the mortality data in 2020 so that the exceptional mortality experienced due to the coronavirus pandemic could be incorporated without having a disproportionate impact on results.

The assumed life expectations from age 65 for LGPS are:

Life expectancy in years	31 March 2022 (after CMI_2020 update)	31 March 2021 (after CMI_2020 update)	31 March 2021 (before CMI_2020 update)
Retiring today			
- Males	21.4	21.6	21.9
- Females	24.1	24.3	24.5
Retiring in 20 years			
- Males	22.9	22.9	23.3
- Females	26.1	25.7	25.9

The assumed life expectations from age 65 for LPFA are:

Life expectancy in years	31 March 2022 (after CMI_2020 update)	31 March 2021 (after CMI_2020 update)	31 March 2021 (before CMI_2020 update)
Retiring today			
- Males	21.8	21.7	22.1
- Females	24.0	24.0	24.1
Retiring in 20 years			
- Males	23.2	23.1	23.6
- Females	26.0	25.9	26.1

Financial assumptions

The financial assumptions used are set with reference to market conditions at 31 March 2022.

	31 March 2022	31 March 2021	31 March 2022	31 March 2021
	RBKC		LPFA	
Discount rate (% p.a.)	2.70	2.00	2.60	1.90
Pension increases (% p.a.)	3.20	2.85	3.40	2.85
Salary increases (% p.a.)	4.20	3.85	4.40	3.85

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the tables above. The sensitivity analysis below has been based on realistic changes of the major assumptions occurring at 31 March 2022 and assumes for each change that the assumption varied while all the other assumptions remain constant.

RBKC Pension Scheme	Approximate % increase in liability	Approximate monetary amount
	%	£'000
0.1% decrease in real discount rate	2	29,886
1 year increase in member life expectancy	4	58,777
0.1% increase in the salary increase rate	0	4,732
0.1% increase in the pension increase rate (CPI)	2	24,876

LPFA Pension Scheme	Increase	No change	Decrease
	£'000	£'000	£'000
Life expectancy (increase or decrease of 1 year):			
- Present value of total obligation	32,861	30,673	28,641
- Projected service cost	11	10	10
Long term increase in salaries (increase or decrease of 0.1%)			
- Present value of total obligation	30,680	30,673	30,665
- Projected service cost	10	10	10
Increase in pensions (increase or decrease of 0.1%)			
- Present value of total obligation	31,051	30,673	30,299
- Projected service cost	10	10	10
Adjustment to discount rate (increase or decrease of 0.1%)			
- Present value of total obligation	30,289	30,673	31,062
- Projected service cost	10	10	10

The last triennial actuarial valuation, as at 31 March 2019, indicated that the RBKC Pension Fund was 125% funded, with a minimum employer contribution rate of 16.1%. The funding level was estimated to be 135% at 31 March 2022 (128% at 31 March 2021).

One of the objectives of the scheme is to keep employers' contributions at a reasonably constant rate and the improvement in funding means that contributions have remained stable as there is no longer a deficit to fund.

The following table shows the projected pension expenses at each reporting date, anticipated to be payable in the following year.

Projected as at:	31 March 2022	31 March 2021	31 March 2022	31 March 2021
	RBKC Pension Scheme		LPFA Pension Scheme	
	£'000	£'000	£'000	£'000
Projected current service cost	50,451	53,500	10	104
Net interest (gain)/cost	(3,855)	2,015	(90)	22
Administration expenses	871	1,481	44	40
Total loss / (profit)	**47,467**	**56,996**	**(36)**	**166**
Projected employer contributions	**17,526**	**16,262**	**6**	**58**

The average age of active members, based on the March 2019 valuation, is 46 years for the Council's Pension Fund and 61 years for the London Pension Fund Authority. The same based on the March 2016 valuation was 45 years and 59 years respectively.

Impact of the McCloud and Sargeant transitional protection pensions ruling

The above disclosures include an allowance to reflect the Court of Appeal judgement in respect of the McCloud and Sargeant cases which relate to age discrimination within the Judicial and Fire Pension schemes, respectively. This allowance was incorporated into the accounting results as at 31 March 2019. These results, including the allowance, have been rolled forward since to obtain the accounting results as at 31 March 2022. No explicit additional adjustment for McCloud has been added to the current service cost for 2021/22 (or the projected service cost for 2022/23).

On 16 July 2020, the Government published a consultation on the proposed remedy to be applied to LGPS benefits in response to the McCloud and Sargeant cases. The consultation closed on 8 October 2020 and the final remedy will only be known after the consultation responses have been reviewed and a final set of remedial Regulations are published. We do not believe there are any material differences between the approach underlying our estimated allowance and the proposed remedy.

Guaranteed Minimum Pension (GMP) Equalisation

As a result of the High Court's recent Lloyds ruling on the equalisation of GMP between genders, a number of pension schemes have made adjustments to accounting disclosures to reflect the effect this ruling has on the value of pension liabilities.

On 23 March 2021, the Government published the outcome to its Guaranteed Minimum Pension Indexation consultation, concluding that all public service pension schemes, including the LGPS, will be directed to provide full indexation to members with a GMP reaching State Pension Age (SPA) beyond 5 April 2021. This is a permanent extension of the existing 'interim solution' that has applied to members with a GMP reaching SPA on or after 6 April 2016.

The valuation assumption for GMP is that the Fund will pay limited increases for members that have reached SPA by 6 April 2016, with the Government providing the remainder of the inflationary increase. For members that reach SPA after this date, we have assumed that the Fund will be required to pay the entire inflationary increase. Therefore we have not made any adjustments to the value placed on the liabilities as a result of the above outcome.

Goodwin case

Following a case involving the Teachers' Pension scheme, differences between survivor benefits payable to members with same-sex or opposite-sex survivors have been identified within some public sector pension schemes. As a result, the Government has confirmed that a remedy is required in all affected public sector pension schemes, which includes the LGPS. The remedy is still uncertain but the estimated potential impact of this is very small. No allowance has therefore been made for this decision in the above disclosures.

Risks

Participating in a defined benefit pension scheme means that the Council is exposed to the following risks.

- Investment risk: The Fund holds investment in asset classes, such as equities, which have volatile market values and while these assets are expected to provide real returns over the long-term, the short-term volatility can cause additional funding to be required if a deficit emerges
- Interest rate risk: The Fund's liabilities are assessed using market yields on high quality corporate bonds to discount future liability cashflows. As the Fund holds assets such as equities the value of the assets and liabilities may not move in the same way
- Inflation risk: All the benefits under the Fund are linked to inflation and so deficits may emerge to the extent that the assets are not linked to inflation
- Longevity risk: If the members live longer than assumed a deficit will emerge in the Fund. There are also other demographic risks.

In addition, as many unrelated employers participate in the Council's Pension Fund, there is an orphan liability risk where employers leave the Fund but with insufficient assets to cover their pension obligations so that the difference may fall on the remaining employers. All the risks above may also benefit the Council e.g. higher than expected investment returns or employers leaving the Fund with excess assets which eventually get inherited by the remaining employers.

37. Leases

The Council as Lessee

Assets acquired under finance leases were held as PPE (Other Land and Buildings) in the Balance Sheet at £0.825 million as at 31 March 2022 and 31 March 2021.

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

	31 March 2022	31 March 2021
	£'000	£'000
Not later than one year	73	75
Later than one year and not later than five years	98	103
Later than five years	62	68
Total minimum lease payments	**233**	**246**

Minimum lease payments of £0.075 million were charged to the CIES in 2021/22 (£0.077 million in 2020/21).

The Council as Lessor

The Council has let a number of properties, mostly land, on very long leases that are judged to be finance leases. Ten assets have been let on leases of 999 years and four other properties have been let on terms of either 125 or 150 years. In each case, the Council receives a peppercorn rent (if demanded) and there is no guaranteed residual value of the property. This means that the gross investment in each lease is zero and thus no financial disclosures to be made.

Properties let by the Council include five storage units leased to private individuals and companies, the land occupied by the Muslim Cultural Heritage Centre, the Tesco store in Fenelon Place, the Great Western Studios, the Manor House Estate anda property on Notting Hill Gate. A parcel of land at Henry Dickens Court and a small parcel of land at Redcliffe Square have been judged to be finance leases on the basis of substance over form. In some cases, a premium has been paid to secure a long tenancy at a peppercorn rate and in others, the Council has granted favourable terms to deliver social benefit.

Operating Leases

The Council leases out property and equipment under operating leases to generate additional income and to provide smaller premises for small businesses and charitable organisations in the Council that may otherwise not be available. The Council charges economic rents for its properties.

Some assets are leased to companies delivering services on behalf of the Council. Such assets are recorded as operational properties and the relevant service contracts normally take account of the lease rentals. Therefore, the cost of operating the properties are recorded under the relevant service line of the CIES with any lease income recorded in line with proper practices. To report such rents as income under operating leases could potentially present a misleading view of the Council's operating lease income and therefore such arrangements are not included in the table below.

The future minimum operating lease payments receivable under non-cancellable leases for non-operational assets in future years are as follows.

	31 March 2022	31 March 2021
	£'000	£'000
Not later than one year	13,775	13,997
Later than one year and not later than five years	42,386	42,848
Later than five years	135,736	135,083
Total future minimum lease payments	**191,897**	**191,928**

The information in the table above reflects current leases (a number of which expire in the coming years), tenancies at will, leases that have been held over and leases without a finite expiry date. The Council anticipates that expiring leases will be re-let to new or existing tenants, but income from these and vacant properties is not included in the table.

Changes to accounting standards: IFRS 16 Leases

The implementation of IFRS 16 Leases in the Code has been deferred until the 2024/25 financial year. This aligns with the decision at the Government's Financial Reporting Advisory Board to establish a new effective date of 1 April 2024 for the implementation of IFRS 16.

The main change introduced by IFRS 16 that is likely to impact the Council is accounting as a lessee for what are currently referred to as operating leases. These are where the Council enters into contracts for services with asset implications and / or where it has benefits and use of those assets. Under IFRS 16 the Council will be required to recognise a right of use asset and a lease liability on the Balance Sheet (subject to certain exemptions); currently the Council includes these costs as operating lease payments in the CIES. The Council will update its accounting policy on leases for 2024/25 to reflect the changes, including a threshold for exempt low-value leases.

Notes to the Cash Flow Statement

38. Cash Flow Statement - Operating Activities

	2021/22	2020/21
	£'000	£'000
Net Surplus / (Deficit) on the Provision of Services	**(80,210)**	**(128,236)**
Remove non-cash movements		
Depreciation and amortisation	15,837	15,288
Impairment and downward revaluations	48,307	67,749
Increase / (decrease) in creditors	(80,467)	141,600
(Increase) / decrease in debtors	15,187	(911)
Movement in pension liability	42,729	22,249
Carrying amount of non-current assets and assets held for sale, sold or derecognised	334	211
Other non-cash items	7,161	40,420
Sub-total	**49,088**	**286,606**
Adjust for items that are investing and financing activities		
Proceeds from the sale of non-current assets	(4,032)	(3,655)
Grants for the financing of capital expenditure	(17,732)	(12,958)
Sub-total	**(21,764)**	**(16,613)**
Net cash flows from revenue activities	**(52,886)**	**141,757**

39. Cash Flow Statement - Investing Activities

	2021/22	2020/21
	£'000	£'000
Purchase of non-current assets	(93,140)	(87,818)
(Purchase) / disposal of short-term and long-term investments	12,500	104,000
Other (payments) / receipts for investing activities	0	(8)
Proceeds from the sale of non-current assets	4,032	3,655
Capital grants and contributions received	41,733	31,178
Net cash flows from investing activities	**(34,875)**	**51,007**

40. Cash Flow Statement - Financing Activities

	2021/22	2020/21
	£'000	£'000
Cash receipts / (repayments) of borrowing	(18,009)	(11,588)
Cash receipts / (repayments) of other liabilities	4,657	28,000
Collection Fund adjustments	88,072	(189,478)
Net cash flows from financing activities	**74,720**	**(173,066)**

41. Cash and cash equivalents

The Council held the following cash and cash equivalent balances at 31 March 2022.

	31 March 2022	31 March 2021
	£'000	£'000
Cash held by the Council	334	575
Bank current accounts	10,496	1,114
Short-term deposits	55,888	78,070
Total cash and cash equivalents	**66,718**	**79,759**

Supplementary Financial Statements

The HRA Income and Expenditure Statement shows the economic cost of providing housing services in accordance with generally accepted accounting practices, rather than the amount to be funded from rents and Government grants. The Council charges rents to cover expenditure in accordance with the legislative framework; this may be different from the accounting cost. The increase or decrease in the year, on the basis on which rents are raised, is shown in the Movement on the HRA Statement.

HRA Income & Expenditure Statement	**31 March 2022**	**31 March 2021**
	£'000	£'000
Expenditure		
Repairs and maintenance	14,590	14,961
Supervision and management	33,638	33,547
Rents, rates, taxes and other charges	383	204
Dwellings Depreciation	3,268	3,117
Depreciation of other non current assets	323	305
(Gains) / Losses as a result of revaluation or impairment	38,090	24,455
Debt Management Costs	52	52
Total Expenditure	**90,344**	**76,641**
Income		
Dwelling rents	(42,630)	(42,038)
Non-dwelling rents	(642)	(685)
Charges for services and facilities	(12,496)	(12,385)
Contributions towards expenditure	(7)	(92)
Total Income	**(55,775)**	**(55,200)**
Net Cost of HRA Services as included in the CIES	**34,569**	**21,441**
HRA service share of Corporate and Democratic Core	0	0
Net (Income) / Cost for HRA Services	**34,569**	**21,441**
HRA share of operating income and expenditure included in the CIES		
(Gain) or loss on sale of HRA non-current assets	(3,569)	(3,433)
Interest payable and similar charges	6,903	8,023
Movement in Expected Credit Loss (ECL) impairment provision	1,229	845
Interest and net investment income	(62)	(44)
Changes to fair value of investment properties	4,269	10,132
Income and expenditure relating to investment properties	(3,649)	(4,193)
Capital grants and contributions receivable	(5,739)	(3,255)
HRA share of operating income and expenditure	**(618)**	**8,075**
(Surplus) or deficit for the year on HRA services	**33,951**	**29,516**

Movement on the HRA Statement	31 March 2022	31 March 2021
HRA balance at the end of the previous year	**(8,436)**	**(7,535)**
(Surplus) or deficit for the year on the HRA Income and Expenditure Statement	33,951	29,516
Adjustments between accounting basis and funding basis under statute		
Reversal of gain or (loss) on sale of HRA non-current assets	3,569	3,433
Reversal of revaluation losses	(38,090)	(24,455)
Difference between any other item of income and expenditure determined in accordance with the Code and determined in accordance with statutory HR requirements	(7,403)	(12,816)
Transfer to / (from) Major Repairs Reserve	11,410	3,421
Net (increase) or decrease before transfers to or from earmarked reserves	**3,437**	**(901)**
Transfers to / (from) reserves		
HRA Controlled Repairs Reserve	0	0
(Increase) or decrease in year on the HRA	**3,437**	**(901)**
HRA balance at the end of the year	**(4,999)**	**(8,436)**
HRA general balance	(4,999)	(8,436)
HRA earmarked reserves	(988)	(988)
Total HRA reserves at the end of the year	**(5,987)**	**(9,424)**

1. Value of assets held on the Balance Sheet

	31 March 2022	31 March 2021
	£'000	£'000
Council dwellings	809,189	766,595
Other land and buildings	13,894	12,491
Assets under construction	523	523
Investment properties	46,545	52,901
Total	**870,151**	**832,510**

2. Number and types of dwelling

Archetype description	1 April 2022	1 April 2021	Movement
Houses Semi Detached <1945	1	1	0
Houses Other <1945	54	54	0
Houses SD/Large Terraced 1945-1964	7	7	0
Houses 1965-1974	10	10	0
Houses >1974	65	65	0
Bungalows	11	11	0
Low-Rise Flats <1945	212	208	4
Low-Rise Flats >1945	187	187	0
Medium	3,608	3,595	13
High Rise	2,511	2,506	5
Multi-Occupancy	47	47	0
Total	**6,713**	**6,691**	**22**

3. Depreciation

HRA non-current assets are depreciated in line with the estimated useful lives disclosed in the note on accounting policies.

4. Vacant Possession Value and Valuation Basis

Council dwellings are valued in accordance with Government guidance: Stock Valuation for Resource Accounting: Guidance for Valuers - 2016, using the “beacon principle” to reach a valuation known as the “Existing Use Value-Social Housing” (EUV-SH).

As at 31 March 2022 the vacant possession value of dwellings within the HRA was £3,236.756 million (£3,062.388 million as at 31 March 2021). The difference of £2,427.567 million between vacant possession value and the Balance Sheet value of dwellings within the HRA shows the economic cost to Government of providing Council housing at less than open market rents, net of the impairment to the value of the Housing Stock.

5. Capital Expenditure

	2021/22	2020/21
	£'000	£'000
Capital expenditure		
- dwellings	35,058	26,093
- assets under construction	0	0
	35,058	**26,093**
Funded by:		
Usable capital receipts	(14,981)	(16,856)
Capital grants and contributions	(8,667)	(5,816)
Major Repairs Reserve	(11,410)	(3,421)
Borrowing	0	0
	(35,058)	**(26,093)**

6. Capital Receipts in Year

The following is a summary of capital receipts from disposals within the HRA during the financial year.

	2021/22	2020/21
	£'000	£'000
Dwellings (net of sale expenses)	(2,573)	(1,932)
Other property	(1,328)	(1,713)
Total	**(3,901)**	**(3,645)**

7. Cost of Borrowing

The HRA paid interest on borrowing of £6.569 million during 2021/22 (£7.849 million in 2020/21).

8. Rent Arrears and Provision for ECL

Tenant arrears include rent, service charges, heating and hot water charges and arrears from garage and car park rentals.

Tenant Arrears	2021/22	2020/21
	£'000	£'000
Gross arrears	**4,080**	**4,306**
Net arrears (including credit balances)		
- Former tenants	1,163	1,099
- Current tenants	(248)	605
Net arrears at 31 March	**915**	**1,704**

Other arrears include service charges, heating and hot water charges, and major works bills payable by leaseholders and rent arrears payable by HRA commercial property tenants.

Other Arrears	2021/22	2020/21
	£'000	£'000
Gross arrears	**6,046**	**6,987**
Net arrears (including credit balances)		
- Leaseholder charges	4,036	4,772
- Commercial properties	1,387	1,628
Net arrears at 31 March	**5,423**	**6,400**

The total provision included in the Balance Sheet in respect of all HRA ECL is £4.823 million (£3.850 million at 31 March 2021).

The Collection Fund reflects the Council's statutory responsibility as a billing authority to maintain a separate fund account, which shows the transactions in relation to council tax and business rates and illustrates how these have been distributed to preceptors and the General Fund.

	2021/22				2020/21			
	BRS	**NNDR**	**Council Tax**	**Total**	**BRS**	**NNDR**	**Council Tax**	**Total**
Income	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Council Tax Receivable	0	0	(131,130)	(131,130)	0	0	(123,436)	(123,436)
Business Rates Receivable	0	(214,419)	0	(214,419)	0	(111,969)	0	(111,969)
Business Rates Supplement	(5,142)	0	0	(5,142)	(2,781)	0	0	(2,781)
Transactional Protection Payments	0	1,820	0	1,820	0	(1,155)	0	(1,155)
	(5,142)	**(212,599)**	**(131,130)**	**(348,871)**	**(2,781)**	**(113,124)**	**(123,436)**	**(239,341)**
Expenditure								
Precepts, Demands and Shares								
Central Government	0	115,766	0	115,766	0	113,721	0	113,721
Greater London Authority	0	129,798	35,275	165,073	0	127,505	32,379	159,884
Billing Authority	0	105,241	93,831	199,072	0	103,383	89,895	193,278
	0	**350,805**	**129,106**	**479,911**	**0**	**344,609**	**122,274**	**466,883**
Apportionment of PY Surplus / (Deficit)								
Central Government	0	(78,286)	0	(78,286)	0	2,696	0	2,696
Greater London Authority	0	(87,836)	(879)	(88,715)	0	1,914	921	2,835
Billing Authority	0	(69,682)	(2,440)	(72,122)	0	3,404	2,551	5,955
	0	**(235,804)**	**(3,319)**	**(239,123)**	**0**	**8,014**	**3,472**	**11,486**
BRS - Payment to Levying authorities	**5,329**	**0**	**0**	**5,329**	**2,480**	**0**	**0**	**2,480**
Charges to Collection Fund								
Increase / (Decrease) in Impairment	(206)	(1,489)	(1,664)	(3,359)	281	29,456	9,876	39,613
Increase / (Decrease) in Provision for Appeals	0	(12,061)	0	(12,061)	0	24,802	0	24,802
Cost of Collection	19	632	0	651	20	634	0	654
	(187)	**(12,918)**	**(1,664)**	**(14,769)**	**301**	**54,892**	**9,876**	**65,069**
(Surplus) / Deficit arising during the year	**0**	**(110,516)**	**(7,007)**	**(117,523)**	**0**	**294,391**	**12,186**	**306,577**
(Surplus) / Deficit at start of year	**0**	**280,490**	**9,540**	**290,030**	**0**	**(13,901)**	**(2,646)**	**(16,547)**
(Surplus) / Deficit at end of year	**0**	**169,974**	**2,533**	**172,507**	**0**	**280,490**	**9,540**	**290,030**

1. Council Tax

In 2021/22, the tax base for the Council was 97,001 properties (97,506 in 2020/21) which was used to calculate the Band D council tax of £1,330.98 (£1,236.83 in 2020/21), excluding Garden Squares. This includes the GLA Band D precept of £363.66 (£332.07 in 2020/21).

The table below shows the number of properties in each band and the number of Band D equivalent properties after allowing for non-collection (the tax base).

Band	Ranges from/to		No. Of Chargeable		Band Ratio	Band D	
	£	£	**2021/22**	**2020/21**		**2021/22**	**2020/21**
A	up to	40,000	606	793	0.67	404	529
B	40,001	52,000	1,142	1,739	0.78	888	1,353
C	52,001	68,000	4,865	5,560	0.89	4,324	4,942
D	68,001	88,000	8,701	9,050	1.00	8,701	9,050
E	88,001	120,000	10,091	9,996	1.22	12,333	12,217
F	120,001	160,000	9,918	9,700	1.44	14,326	14,011
G	160,001	320,000	17,486	17,274	1.67	29,143	28,790
H	320,001	and above	14,556	14,429	2.00	29,112	28,857
			67,365	**68,541**		**99,232**	**99,749**
	Collection rate after allowance for non-collection					97.75%	97.75%
	Council Tax base used to calculate Band D					**97,001**	**97,506**

2. Non-Domestic Rates (NDR)

The Council collects business rates for the local authority area that are based on commercial property rateable values set by the Valuation Office Agency multiplied by rate poundage set nationally by government. The pooling arrangement with all other London Councils ceased in 2021/22 and the Council did not enter into any other pooling arrangements. The total amount collected, less reliefs and deductions, is divided between the Council (30%), the Greater London Authority (37%) and the government (33%).

Following the 2017 Revaluation, the Non-Domestic Rateable Value was £777 million at 31 March 2022 (£783 million at 31 March 2021). The standard NDR multiplier for 2021/22 and 2020/21 was 51.2 pence. The Small Business Rate Relief multiplier for 2021/22 and 2020/21 was 49.9 pence.

The Government continued its Expanded Retail Discount for retail properties, providing 100% relief for the first three months and 66% for the remainder of the year. The scheme was confirmed in March 2021 after the budget was prepared in January 2021. The scheme therefore created a budget deficit in the Collection Fund, similar to the position in 2020/21. This will be repaid by the preceptors to the Collection Fund in 2022/23 as all preceptors (including the Council as a billing authority) were compensated by the Government through a S31 grant.

3. Business Rate Supplement (BRS)

Under the arrangements for the Business Rate Supplement, the Council collects a supplement for its area based on local rateable values in excess of £70,000 multiplied by the designated rate poundage. The total amount, less reliefs and deductions, is paid to the Greater London Authority on whose behalf it is collected.

The Business Rate Supplement Rateable Value at 31 March 2022 was £629 million (£635 million at 31 March 2021). The standard BRS multiplier for 2021/22 was 2 pence, unchanged from previous years.

4. Debtors for Local Taxation

The following table analyses the age of council tax and business rate debtors and shows the impairment allowance in respect of those debts. The figures shown represent the Council's shares only.

	Long Term		Current	
	2021/22	**2020/21**	**2021/22**	**2020/21**
	£'000	£'000	£'000	£'000
Council tax arrears	7,296	5,995	5,308	7,466
Business rates arrears	8,860	6,548	8,312	8,196
Gross tax payers arrears at 31 March	**16,156**	**12,543**	**13,620**	**15,662**
Council tax arrears	(5,597)	(5,033)	(5,813)	(5,734)
Business rates arrears	(3,312)	(2,993)	(2,576)	(1,159)
Gross tax payers prepayments at 31 March	**(8,909)**	**(8,026)**	**(8,389)**	**(6,893)**
Net taxpayers arrears at 31 March	**7,247**	**4,517**	**5,231**	**8,769**
Allowance for bad debts				
Council tax	(6,133)	(5,995)	(3,085)	(5,226)
Business rates	(8,098)	(6,548)	(3,749)	(5,737)
Total taxpayers bad debt allowance	**(14,231)**	**(12,543)**	**(6,834)**	**(10,963)**

5. Apportionment of Balance Sheet items

	2021/22				2020/21			
	RBKC	**GLA**	**Govt.**	**Total**	**RBKC**	**GLA**	**Govt.**	**Total**
	£'000	£'000	£'000	**£'000**	£'000	£'000	£'000	**£'000**
Council Tax								
Debtors	12,064	5,054	0	**17,118**	13,461	5,061	0	**18,522**
Bad debt allowance	(9,218)	(3,696)	0	**(12,914)**	(11,221)	(4,219)	0	**(15,440)**
Prepayments and overpayments	(11,410)	(4,575)	0	**(15,985)**	(10,767)	(4,048)	0	**(14,815)**
(Surplus) / Deficit at 31 March	1,930	602	0	**2,532**	7,003	2,537	0	**9,540**
Business Rates								
Debtors	17,172	21,179	18,889	**57,240**	14,744	18,184	16,219	**49,147**
Bad debt allowance	(11,846)	(14,611)	(13,031)	**(39,488)**	(12,285)	(15,152)	(13,514)	**(40,951)**
Prepayments and overpayments	(5,889)	(7,263)	(6,477)	**(19,629)**	(4,152)	(5,121)	(4,568)	**(13,841)**
Provision for appeals	(15,733)	(19,404)	(17,307)	**(52,444)**	(19,351)	(23,867)	(21,287)	**(64,505)**
(Surplus) / Deficit at 31 March	50,992	62,892	56,090	**169,974**	83,088	104,371	93,031	**280,490**

Independent auditor's report to the members of the Royal Borough of Kensington and Chelsea on the pension fund financial statements of Kensington and Chelsea Pension Fund

[TO BE INSERTED AT END OF AUDIT]

Fund Account	Note	2021/22	2020/21
		£000	£000
Dealings with members, employers and others directly involved in the fund			
Contributions	7	(29,103)	(27,189)
Individual transfer in from other pension funds		(6,532)	(8,703)
		(35,635)	**(35,892)**
Benefits	8	34,775	33,847
Payments to and on account of leavers			
- Refunds to members leaving service		107	46
- Individual transfers out to other pension funds		6,809	3,806
- Payments in respect of tax		0	91
Other expenditure		163	135
		41,854	**37,925**
Net (additions)/withdrawals from dealing with members		**6,219**	**2,033**
Management expenses	9	6,010	6,690
Net (additions) / withdrawals including fund management expenses		**12,229**	**8,722**
Returns on Investments:			
Investment income	10	(4,433)	(5,226)
Other income		(238)	(10)
Profit and losses on disposal of investments and changes in market value of investments	11	(157,151)	(346,506)
Taxes on income	10	0	96
Net return on investments		**(161,822)**	**(351,646)**
Net (increase) / decrease in the net assets available for benefits during the year		**(149,593)**	**(342,923)**
Opening net assets of the scheme		(1,481,251)	(1,138,328)
Closing net assets of the scheme		**(1,630,844)**	**(1,481,251)**

Net Assets Statement	Note	31 March 2022	31 March 2021
		£'000	£'000
Investment assets	12	1,626,949	1,476,866
Current assets	21	6,290	6,182
Current liabilities	22	(2,325)	(1,797)
Long-term liabilities		(70)	0
		1,630,844	**1,481,251**

1. Description of the Fund

The Royal Borough of Kensington and Chelsea (RBKC) Pension Fund (“the fund”) is part of the Local Government Pension Scheme (LGPS) and is administered by RBKC. The Council is the reporting entity for this pension fund.

(a) General

The Pension Fund (the Fund) is part of the Local Government Pension Scheme (LGPS) and is administered by RBKC. It is a contributory defined benefits scheme established in accordance with statute, which provides for the payment of benefits to employees and former employees of the Council and the admitted and scheduled bodies in the Fund.

The Fund is governed by the Public Service Pensions Act 2013 and the following secondary legislation:

- The LGPS Regulations 2013 (as amended)
- The LGPS (transitional Provisions, Savings and Amendment) Regulations 2014 (as amended) and
- The LGPS (Management and Investment of Funds) Regulations 2016.

(b) Membership

Membership of the LGPS is subject to auto-enrolment but remains voluntary and employees are free to choose whether to join the scheme, remain in the scheme or make their own personal arrangements outside the scheme. Organisations participating in the Fund include:

- Scheduled bodies, these are statutorily defined bodies listed within the LGPS Regulations, which are local authorities and similar bodies whose staff are automatically entitled to be members of the fund.
- Admitted bodies, these are other organisations that participate in the Fund under an admission agreement between the Fund and the relevant organisation. Admitted bodies include voluntary, charitable, and similar bodies or private contractors undertaking a local authority function following outsourcing to the private sector.

The following table summarises the membership numbers of the scheme:

	2021/22	2020/21
Active members	4,030	3,980
Pensioners receiving benefits	3,481	3,283
Deferred pensioners*	5,345	4,728
Total	**12,856**	**11,991**

*In 2021/22, there were an additional 58 leavers (781 in 2020/21) who had not yet decided whether to defer their pension or to obtain a refund.

(c) Funding

The Fund is financed by employee and employer contributions and from interest and dividends on the Fund’s investments. Contributions are made by active members of the Fund in accordance with the Local Government Pension Scheme Regulations 2013 and range from 5.5% to 12.5% of pensionable pay. Employer contributions are set based on the triennial actuarial funding valuation (see note 20) and the current contribution rates range from 16.1% to 25.2% of pensionable pay.

(d) Benefits

These benefits include retirement pensions, early payment of benefits on medical grounds and payment of death benefits where death occurs either in service or in retirement. The benefits payable in respect of service from 1 April 2014 are based on career average revalued earnings (CARE) and the number of years of eligible service. The benefits payable in respect of service prior to 1 April 2014 are based on an employee's final pensionable pay and the number of years of eligible service. Pensions are increased each year in line with the Consumer Price Index.

(e) Governance

Investment Committee

The Council has delegated the investment arrangements of the scheme to the Committee, which decides on the investment policy most suitable to meet the liabilities of the Fund and has ultimate responsibility for the investment policy.

The Committee is made up of six elected representatives of the Council, including two opposition party representatives, each of whom has voting rights. In addition, there are up to six co-opted members who may attend committee meetings but have no voting rights.

The Committee reports to the full Council and has full delegated authority to make investment decisions. The Committee obtains and considers advice from the Tri-Borough Director of Treasury and Pensions, the Executive Director of Resources, and as necessary, from the Fund's appointed investment advisers, managers and actuary.

Local Pension Board

In line with the provisions of the Public Service Pensions Act 2013, the Council has set up a Pension Board to oversee the governance arrangements of the Pension Fund. The Board meets four times a year and has its own Terms of Reference. Board members are independent of the Committee.

(f) Investment Policy

In accordance with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 the Committee approved an Investment Strategy on 5th July 2021 (available on the Council's website). The Statement shows the Council's compliance with the Myner's principles of investment management.

The Committee has delegated the management of the Fund's investments to seven professional investment managers (see note 13) appointed in accordance with the regulations, and whose activities are specified in detailed investment management agreements and monitored on a quarterly basis.

Northern Trust act as the Fund's global custodian. They are responsible for safe custody and settlement of all investment transactions, collection of income and the administration of corporate actions.

2. Basis of preparation

The Statement of Accounts summarises the Fund's transactions for 2021/22 and its position at the year-end as at 31 March 2022. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 (the Code) issued by CIPFA which is based upon International Financial Reporting Standards (IFRS) as amended for the UK public sector.

The accounts have been prepared on an accruals basis, apart from transfer values which have been accounted for on a cash basis.

The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year, nor do they take into account the actuarial present value of promised retirement benefits. The Code gives administering authorities the option to disclose this information in the Net Assets Statement, in the notes to the accounts or by appending an actuarial report prepared for this purpose. The Council has opted to disclose this information in a note to the accounts (note 20).

It is recognised that the current environment gives rise to a risk of uncertainty and volatility in investment markets and the Fund has reviewed fund managers assessments and no material uncertainty has been identified. The Fund continues to monitor cashflows and invests in a diverse range of investment vehicles including availability to liquid assets.

<u>Going Concern</u>

The LGPS is a statutory, state back scheme that is 135% funded on a conservative basis and backed by an administering authority with tax raising powers. As such, the Pension Fund Accounts have been prepared on a going concern basis, with the assumption that the functions of the Council will continue in operational existence for the foreseeable future.

The Royal Borough of Kensington and Chelsea Pension Fund remains a statutory open scheme, with a strong covenant from the active employers and is therefore able to take a long-term outlook when considering the general investment and funding implications of external events

3. Summary of significant accounting policies

<u>Fund Account – revenue recognition</u>

(a) Contribution Income

Normal contributions, both from the members and from the employer, are accounted for on an accruals basis at the percentage rate recommended by the actuary in the payroll period to which they relate.

Employer deficit funding contributions are accounted for on the due dates on which they are due under the schedule of contributions set by the actuary or on receipt if earlier than the due date.

Employer's augmentation and pension strain contributions are accounted for in the period in which the liability arises. Any amount due in year but unpaid is classed as a current financial asset.

(b) Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the Fund during the financial year and are calculated in accordance with the LGPS Regulations. Individual transfers in and out are accounted for when received or paid, which is normally when the member liability is accepted or discharged. Bulk (group) transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement.

Transfers in from members wishing to use the proceeds of their additional voluntary contributions to purchase Scheme benefits are accounted for on a receipts basis.

(c) Investment Income

Dividends from quoted securities are accounted for when the security is declared ex-dividend.

Investment income is reported gross of withholding taxes which are accrued in line with the associated investment income. Investment income arising from the underlying investments of the Pooled Investment Vehicles is reinvested within the Pooled Investment Vehicles and reflected in the unit price.

Interest income is recognised in the fund account as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination.

Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is recognised as a current financial asset.

Changes in the net market value of investments are recognised as income and comprise all realised and unrealised profits and losses during the year.

<u>Fund Account – expense items</u>

(d) Benefits Payable

Pensions and lump-sum benefits payable include all amounts known to be due as at the end of the financial year. Lump sums are accounted for in the period in which the member becomes a pensioner. Any amounts due, but unpaid, are disclosed in the net assets statement as current liabilities.

(e) Taxation

The Fund is an exempt approved fund under Section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. As the Council is the administering authority for the Fund, VAT input tax is recoverable on all Fund activities, including investment expenses. Where tax can be reclaimed, investment income in the accounts is shown gross of UK tax. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a Fund expense as it arises.

(f) Management Expenses

Pension fund management expenses are accounted for in accordance with the CIPFA guidance “Accounting for Local Government Pension Scheme Management Costs 2016”.

All administrative expenses are accounted for on an accruals basis. All staff costs of the pension administration team are charged direct to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund.

Oversight and governance expenses are accounted for on an accruals basis. All staff costs associated with governance and oversight are charged to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund.

The cost of obtaining investment advice from the external advisor is included in oversight and governance costs.

All investment management expenses are accounted for on an accruals basis. The Investment Committee has appointed external investment managers to manage the investments of the Fund. Managers are paid a fee on the market value of the investments they manage and/or a fee based on performance.

Where an investment manager's fee note has not been received by the Balance Sheet date, an estimate based upon the market value of the mandate as at the end of the year is used for inclusion in the fund account.

<u>Net Assets statement</u>

(g) Financial Assets

Financial assets are included in the net assets statement on a fair value basis as at the reporting date. A financial asset is recognised in the net asset statement on the date the Fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes in the value of the asset are recognised in the Fund account.

The values of investments as shown in the net asset statement have been determined at fair value in accordance with the requirements of the Code and IFRS 13 (see note 16).

(h) Foreign Currency Transactions

Where appropriate, market values, cash deposits and purchases and sales outstanding listed in overseas currencies are converted into sterling at the rates of exchange ruling at the reporting date.

(i) Cash and Cash Equivalents

Cash and cash equivalents comprise cash in hand and deposits with financial institutions that are repayable on demand without penalty.

(j) Financial Liabilities

The Fund recognises financial liabilities at fair value as at the reporting date. A financial liability is recognised in the net assets statement on the date the Fund becomes party to the liability. From this date, any gains or losses arising from changes in the fair value of the liability are recognised by the Fund.

(k) Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits is assessed by the scheme actuary in accordance with the requirements of IAS19 and relevant actuarial standards. As permitted under the Code, the fund has opted to disclose the actuarial present value of promised retirement benefits in note 20.

(l) Additional Voluntary Contributions

Members of the Fund may choose to make Additional Voluntary Contributions (AVC) into a separate scheme run by Prudential Assurance to obtain additional pensions benefits. The company is responsible for providing the investors with an annual statement showing their holding and movements in the year. AVC are not included within the accounts in accordance with Regulation 4 (2)(b) of the LGPS (Management and Investment of Funds) Regulations 2016. They are disclosed in note 23.

4. Assumptions made about the future and other major sources of estimation uncertainty

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities at the year-end and the amounts reported for income and expenditure during the year. Estimates and assumptions are made considering historical experience, current trends, and other relevant factors. However, the nature of estimation means that the actual results could differ from the assumptions and estimates.

The items in the Net Asset Statement as at 31 March 2022 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows.

<u>Uncertainties in actuarial PV of promised retirement benefits</u>

Estimation of the net liability to pay pensions depends on a number of complex judgments relating to the discount rates used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the fund with expert advice about the assumptions to be applied.

The effects on the net pension liability of changes in assumptions can be measured. For instance.

- a 0.1% decrease in the discount rate assumption would result in an increase in the pension liability of £31 million.
- a 0.1% increase in assumed earnings would increase the liabilities by approximately £5 million.
- a one-year increase in assumed life expectancy would increase the liability by approximately £63 million.

Present Value of Promised Retirement Benefits comprise of £1,569 million (2020/21: £1,591 million) as at 31 March 2022. The figures include both vested and non-vested benefits, although the latter is assumed to have a negligible value

<u>Pension Fund Liability</u>

The Pension Fund liability is calculated triennially by the appointed actuary with annual updates in the intervening years. The methodology used in the intervening years follows generally agreed guidelines and is in accordance with IAS19. These assumptions are summarised in note 20. The estimates are sensitive to changes in the underlying assumptions underpinning the valuations.

Unquoted Private Equity Investments

The fair value of private equity investments is unavoidably subjective. The valuations are based on forward-looking estimates and judgements involving many factors. Unquoted private equity assets are valued by the investment managers in accordance with industry standards.

The value of private equity investments at the balance sheet date was £121.4 million (£83.3 million on 31 March 2021). If these assets are under or over valued by 14%, this would affect the overall value of the fund by £16.9 million. Further sensitivities of level 3 assets are detailed in note 16. Management have taken the valuations of the Fund Manager (Adams Street) which has been corroborated with the Fund's custodian, Northern Trust. Assurance on valuation is placed on the Manager's Audited annual accounts as at 31 December 2021 rolled forward to 31 March 2022 with a market value adjustment.

5. Events after the Balance Sheet date

Following Committee approval and successful bidding, the Fund is progressing with the acquisition of a commercial property, costing £28.9 million.

Following Committee approval the Fund is progressing with the acquisition of a Hotel ground rent property, costing £9.1 million.

6. Accounting Standards issued but not yet adopted

At the Balance Sheet date, there were no new standards or amendments yet to be adopted by the Code of Practice on Local Authority Accounting in the United Kingdom which affected the Pension Fund.

7. Contributions receivable

By category	2021/22	2020/21
	£000	£000
Employee contributions	**(8,811)**	**(8,211)**
Employer contributions		
- Normal contributions	(19,439)	(18,102)
- Deficity recovery contributions	(6)	(6)
- Augmentation contributions	(847)	(870)
Total employers' contributions	**(20,292)**	**(18,978)**
Total	**(29,103)**	**(27,189)**

By authority	2021/22	2020/21
	£000	£000
Administering authority	(26,453)	(24,403)
Scheduled bodies	(2,479)	(2,355)
Admitted bodies	(171)	(431)
Total	**(29,103)**	**(27,189)**

8. Benefits payable

By category	2021/22	2020/21
	£000	£000
Pensions	29,329	28,559
Commutation and lump sum retirement benefits	4,229	4,476
Lump sum death benefits	1,217	812
Total	**34,775**	**33,847**

The Fund paid benefits to members who were previously employed by the bodies set out below.

By authority	2021/22	2020/21
	£000	£000
Administering authority	31,356	30,313
Scheduled bodies	637	670
Admitted bodies	2,782	2,864
Total	**34,775**	**33,847**

9. Management expenses

	2021/22	2020/21
	£000	£000
Administrative costs	1,323	869
Investment management expenses		
- management fees	3,503	4,566
- transaction costs	557	560
- custody fees	40	52
- performance related fees	232	270
Oversight and governance costs	355	373
Total	**6,010**	**6,690**

The increase in administrative costs is due to administration services being brought in house at the start of the financial year. As a result, the fund incurred a one-off software and technology cost and increased staff costs.

10. Investment income

	2021/22	2020/21
	£000	£000
Equity dividends	0	(2,212)
Pooled property investments	(1,285)	(1,272)
Interest on cash deposits	(5)	(9)
Rental income	(3,143)	(1,733)
Total	**(4,433)**	**(5,226)**
Taxes on income	0	96
Total	**(4,433)**	**(5,130)**

11. Movements in investments

Market value (MV)	1 April 2020	Purchases	Sales	Change in MV	31 March 2021	Purchases	Sales	Change in MV	31 March 2022
	£'000	£'000	£'000	£'000	**£'000**	£'000	£'000	£'000	**£'000**
Equities	199,860	25,131	(30,484)	(194,357)	**150**	0	(10)	10	**150**
Pooled investments	793,266	116,986	(130,360)	524,236	**1,304,128**	70,112	(99,861)	101,814	**1,376,194**
Pooled property investments	42,061	0	(8,343)	(236)	**33,482**	0	(11,735)	4,097	**25,844**
Private equity/infrastructure	70,468	9,373	(15,507)	19,059	**83,393**	15,265	(24,846)	47,566	**121,378**
Directly managed	25,000	18,579	0	(1,654)	**41,925**	27,903	0	3,252	**73,080**
Sub-total	**1,130,655**	**170,069**	**(184,694)**	**347,048**	**1,463,078**	**113,280**	**(136,452)**	**156,739**	**1,596,646**
Investment income due	462			0	**273**			0	**276**
Amount receivable for sales of investments	914			1	**0**			0	**0**
Spot FX contracts	0			58	**0**			(31)	**0**
Cash deposits	3,232			(601)	**13,514**			443	**30,027**
Amounts payable for purchases of investments	(612)			0	**0**			0	**0**
Net investment assets	**1,134,651**	**170,069**	**(184,694)**	**346,506**	**1,476,865**	**113,280**	**(136,452)**	**157,151**	**1,626,949**

12. Investments by Fund Manager

Fund manager (market value)	31 March 2022		31 March 2021	
	£'000	%	£'000	%
BlackRock	750,131	46.8%	0	0.0%
L and G Liquidity	273,580	17.1%	208,931	14.3%
Baillie Gifford	268,707	16.8%	363,316	24.8%
Adams Street	121,377	7.6%	83,393	5.7%
L and G Multi Factor	87,794	5.5%	76,289	5.2%
Directly managed	73,080	4.6%	41,925	2.9%
KAMES	13,105	0.8%	13,073	0.9%
CBRE	12,739	0.8%	20,409	1.4%
London CIV	150	0.0%	150	0.0%
L and G Equities	1	0.0%	655,593	44.8%
Total Fund Managers	**1,600,664**	**100%**	**1,463,079**	**100%**
Cash held at custody	26,285		13,787	
Total Investments	**1,626,949**		**1,476,866**	

13. Investments exceeding 5% of Net Assets

Fund Manager (MV)	31 March 2022		31 March 2021	
	£'000	%	£'000	%
BlackRock	750,131	46.9%	0	0.0%
L and G Liquidity	273,580	17.1%	208,931	14.3%
Baillie Gifford	268,707	16.8%	363,316	24.8%
Adams Street	121,377	7.6%	83,393	5.7%
Total Fund Managers	**1,413,795**	**88.4%**	**655,640**	**44.8%**

Although several investments by Fund Manager exceed 5% of the Fund’s value, all of the allocations to pooled funds are made up of underlying investments and each of these represents substantially less than 5%.

14. Investment property

	31 March 2022	31 March 2021
	£000	£000
Opening balance	41,925	25,000
Purchases	27,903	18,579
Net increase / (decrease) in MV	3,252	(1,654)
Total	**73,080**	**41,925**

The future minimum lease payments are as follows.

	31 March 2022	31 March 2021
	£000	£000
Within one year	3,516	1,928
Between one and five years	13,347	7,652
Later than five years	12,513	5,384
Total future lease payment due under existing contracts	**29,376**	**14,964**

15. Classification of Financial Instruments

Financial liabilities (creditors) at amortised cost totalled £2.395 million (£1.797 million at 31 March 2021). There were none designated as fair value through profit and loss (FVPL) as at 31 March 2022 or 31 March 2021.

The following table shows the classification of the Fund's financial assets, split between UK and overseas. All investments are quoted unless otherwise stated. The carrying value is the same as the fair value for all financial instruments held by the Fund.

31 March 2022	**FVPL**	**Amortised Cost**	**Total**
	£'000	£'000	**£'000**
Pooled funds - investment vehicles			
- UK pooled liquidity fund	273,580	0	**273,580**
- Pooled global equities	356,502	0	**356,502**
- Pooled property investments	25,844	0	**25,844**
- Pooled private equity funds (unquoted)	121,377	0	**121,377**
Sub-total	**777,303**	**0**	**777,303**
UK quoted	**31,230**	0	**31,230**
UK unquoted	150	0	**150**
Overseas	714,881	0	**714,881**
Cash with investment managers	0	30,027	**30,027**
Cash with administering authority	0	2,026	**2,026**
Debtors	0	4,264	**4,264**
Total financial assets	**1,523,564**	**36,317**	**1,559,881**

31 March 2021	**FVPL**	**Amortised Cost**	**Total**
	£'000	£'000	**£'000**
Pooled funds - investment vehicles			
- UK pooled liquidity fund	208,931	0	**208,931**
- Pooled global equities	1,095,198	0	**1,095,198**
- Pooled property investments	33,482	0	**33,482**
- Pooled private equity funds (unquoted)	83,393	0	**83,393**
Sub-total	**1,421,004**	**0**	**1,421,004**
UK unquoted	150	0	**150**
Investment income due	0	273	**273**
Cash with investment managers	0	13,514	**13,514**
Cash with administering authority	0	2,618	**2,618**
Debtors	0	3,564	**3,564**
Total financial assets	**1,421,154**	**19,969**	**1,441,123**

16. Valuation of Financial Instruments carried at fair value

The valuation of financial instruments has been classified into three levels, according to the quality and reliability of information used to determine fair values. The definitions of the levels are detailed below and the table showing the analysis is overleaf.

Level 1 – Quoted market price

Fair values are derived from unadjusted quoted prices in active markets for identical assets and liabilities. Examples are quoted equities, quoted index linked securities and unit trusts. All level 1 investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

Level 2 – Using observable inputs

Quoted prices are not available for financial instruments at this level. The valuation techniques used to determine fair value use inputs that are based significantly on observable market data.

The observable inputs to the Pooled Funds that are valued in this way are the evaluated price feeds, apart from property which is in house evaluation of market data.

Level 3 – With significant unobservable inputs

Financial instruments at Level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data, for example, private equity investments.

The values of the private equity investments are based on valuations provided by the General Partners to the private equity funds. These valuations are prepared in accordance with the International Private Equity and Venture Capital Valuation Guidelines, which follow the valuation principles of IFRS and US GAAP. Valuations are undertaken annually at the end of December and cash flow adjustments are used to roll forward the valuations to 31 March as appropriate.

31 March 2022	**Level 2**	**Level 2**	**Level 3**	**Total**
	£'000	£'000	£'000	**£'000**
Financial assets				
- at fair value through profit and loss	746,111	655,926	121,527	**1,523,564**
Total financial assets	**746,111**	**655,926**	**121,527**	**1,523,564**
Non financial assets				
- at fair value through profit and loss	0	0	73,080	**73,080**
Total non financial assets	**0**	**0**	**73,080**	**73,080**
Total assets at FV through profit and loss	**746,111**	**655,926**	**194,607**	**1,596,644**

31 March 2021	Level 2	Level 3	Total
	£'000	£'000	**£'000**
Financial assets			
- at fair value through profit and loss	1,337,611	83,543	**1,421,154**
Total financial assets	**1,337,611**	**83,543**	**1,421,154**
Non financial assets			
- at fair value through profit and loss	0	41,925	**41,925**
Total non financial assets	**0**	**41,925**	**41,925**
Total assets at FV through profit and loss	**1,337,611**	**125,468**	**1,463,079**

The following table provides a reconciliation of movements in Level 3:

31 March 2022	Market Value	Purchases	Sales	Change in MV	Total
	£'000	£'000	£'000	£'000	£'000
London LGPS CIV	150	0	0	0	150
Overseas VC	83,393	15,265	(24,846)	47,566	121,378
Directly held property	41,925	27,903	0	3,252	73,080
Total	**125,468**	**43,168**	**(24,846)**	**50,818**	**194,608**

31 March 2021	Market Value	Purchases	Sales	Change in MV	Total
	£'000	£'000	£'000	£'000	£'000
London LGPS CIV	150	0	0	0	150
Overseas VC	70,468	9,372	(14,350)	17,902	83,392
Directly held property	25,000	18,579	0	(1,654)	41,925
Total	**95,618**	**27,951**	**(14,350)**	**16,248**	**125,467**

Sensitivities of Level 3 Assets

If the Valuation of the underlying companies within the private equity portfolio was out by 2.42% this would alter the value of the Fund's investment assets in this class by £2.9 million.

	Valuation Range	Value 31 March 2022	Value on increase	Value on decrease
	%	£'000	£'000	£'000
Overseas VC	2.42	121,378	124,316	118,441

The % valuation sensitivity represents the estimate for movement in valuation from the audited accounts as at 31 December 2021 to an estimated value as at 31 March 2022. This valuation is carried out by the Fund's global custodian, who adjusts for all capital calls and distributions and provide a market value adjustment based on market movements over the period.

Description of asset	Valuation hierarchy 2020/21	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Directly held equities	Level 1	Valued using close of business quoted price on 31 March 2022	Market value of individual securities	Not required
Pooled Investments - Equity Funds UK and Overseas	Level 2	The NAV for each share class is calculated based on the market value of	Evaluated price feeds	Not required
UK and Overseas Bonds	Level 2	Fixed income securities are priced based on evaluated prices provided	Evaluated price feeds	Not required
Pooled Property Funds	Level 2	The Pension Fund's Property Funds are priced on a Single Swinging Price	In house evaluation of market data	Not required
Private Equity	Level 3	Comparable valuation of similar companies in accordance with International Private and Venture Capital Valuation Guidelines 2012	Earnings before interest, tax, depreciation and amortisation (EBITDA) multiple Revenue multiple	Valuations could be affected by changes to expected cashflows, cost of replacing key business assets, or by any differences between the audited and unaudited accounts
Directly managed property	Level 3	Independent valuations conducted by external RICS valuer	Comparable valuations of properties within same asset class.	Valuations can be affected by rental yields and vacancy of units.

17. Nature of Risk Arising from Financial Instruments

<u>Risk and Risk Management</u>

The Fund's primary long-term risk is that the Fund's assets will fall short of its liabilities and will be unable to pay pensions due. The Fund's liabilities are sensitive to inflation via pension and pay increases, to interest rates and to mortality rates.

The aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gains across the whole Fund portfolio. The Fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cash flows.

In response to the escalating conflict in Europe, the UK government and other international agencies imposed a variety of sanctions on Russia. The Fund engaged with fund managers as events unfolded and can confirm only private equity manager, Adams Street, hold a small exposure to Russian investments, totalling approximately 0.014% (£0.225 million) of total fund value. Given the private/illiquid nature of the investments, it is inherently more difficult to extricate from private equity funds than any other type of investment asset. Officers continue to monitor the situation with fund managers.

Responsibility for the Fund's investment strategy rests with the Committee and is reviewed on a regular basis, along with the Pension Fund Risk Register.

The Fund had achieved fully funded status by the 2016 valuation, and this has been maintained as at the 2019 valuation.

(a) Market Risk

Market risk is the risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix.

The objective of the Fund’s risk management strategy is to identify, manage and control market risk exposure within acceptable parameters, whilst optimising the return on risk.

Price Risk

Price risk arises from the potential for the value of financial instruments to fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such instruments in the market.

The Fund is exposed to price risk. This arises from investments held by the fund for which the future price is uncertain. All securities represent a risk of loss of capital. The maximum risk resulting from financial instruments is determined by the fair value of the financial instruments. The Fund’s investment managers aim to mitigate this price risk through diversification and the selection of securities and other financial instruments.

All assets except for cash, unquoted equities, debtors and creditors are exposed to different levels of price risk. The value of the assets exposed to price movements along with what the value would have been if prices had been higher or lower in accordance with a single spread of variance for the relevant asset class is shown below.

	Value	Value on increase	Value on decrease
	£'000	£'000	£'000
At 31 March 2022	1,322,914	1,496,548	1,149,280
At 31 March 2021	1,253,999	1,429,212	1,078,786

Interest Rate Risk

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. Fixed interest securities and cash are subject to interest rate risks, which represent the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Committee recognises that interest rates can vary and can affect both income to the Fund and the value of the net assets available to pay benefits.

Elements of the pooled investment vehicles (e.g. fixed interest securities and cash) are exposed to interest rate risk. The value of the assets exposed to interest rate movements along with sensitivity analysis is shown below.

	Value	Value on increase	Value on decrease
	£'000	£'000	£'000
At 31 March 2022	303,607	306,643	300,571
At 31 March 2021	222,445	224,669	220,220

Currency Risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than pounds sterling.

Overseas equities, overseas index linked securities, cash in foreign currencies, and some elements of the pooled investment vehicles are exposed to currency risk. The table below shows the value of these assets at the Balance Sheet date and what the value would have been if currencies had been 22.1% higher or lower, in accordance with volatility advised by an external consultant.

	Volatility	Value	Value on increase	Value on decrease
	%	£'000	£'000	£'000
At 31 March 2022	22.1	1,172,713	1,431,882	913,543
At 31 March 2021	7.7	1,144,077	1,232,170	1,055,983

(b) Credit Risk

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the Fund's financial assets and liabilities.

The Fund's entire investment portfolio is essentially exposed to some form of credit risk. However, the Fund has no direct exposure because it does not own any credit assets. The selection of high-quality fund managers, counterparties, brokers and financial institutions minimises credit risk that may occur.

(c) Liquidity Risk

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The Fund therefore takes steps to ensure that the Fund has adequate cash resources to meet its commitments.

The Fund has immediate access to its cash holdings and the majority of its assets are liquid assets. The only assets in the Fund which cannot be liquidated within a month are the private equity assets.

18. Contractual Commitments

As at 31 March 2022, the Fund has outstanding commitments of $71.2 million / £54.1 million to a variety of Adams Street private equity funds. It is anticipated that these commitments will be spread over the next ten years and will be largely offset by cash distributions from the investments made since 2007.

19. Funding Arrangements

The Scheme Regulations require that a full actuarial valuation is carried out every third year. The purpose of this is to establish that the Fund can meet its liabilities to past and present contributors and to review employer contribution rates.

The last such valuation for the Fund was carried out by Barnett Waddingham as at 31 March 2019, in accordance with the Funding Strategy Statement of the Fund and Regulation 62 of the Local Government Pension Scheme Regulations 2013. The results were published in the triennial valuation report which can be found on the Council's website. The next valuation will take place as at 31 March 2022 and will set contribution rates for the period 1 April 2023 to 31 March 2026.

The funding policy is set out in the Funding Strategy Statement. The key elements of the funding policy are to:

- Set levels of employer contribution that will build up a Fund of assets that will be sufficient to meet all future benefit payments from the Fund, and
- Build up the required assets in such a way that employer contribution rates are kept as low and stable as possible.

During 2021/22 and 2020/21, the common contribution rate was 21.3% of pensionable pay to be paid by each employing body participating in the Fund. In addition, each employing body must pay an individual adjustment to reflect its own circumstances and funding position within the Fund. Details of each employer's contribution rate are contained in the Statement to the Rates and Adjustment Certificate in the triennial valuation report.

The actuarial valuation, done using the projected unit method, is based on financial and statistical assumptions, the main ones being:

Financial assumptions	March 2019	March 2016	March 2013
	%	%	%
Consumer Price Index (CPI) increases	2.6	2.4	2.7
Salary increases	3.6	3.9	4.5
Pension increases	2.6	2.4	2.7
Discount rate	4.3	4.9	5.9

Both the Local Government Pension Scheme and discretionary benefits liabilities have been assessed by Barnett Waddingham LLP, an independent firm of actuaries. Estimates for the Pension Fund are based on the full valuation of the scheme as at 31 March 2019.

Other assumptions:

- Commutation – An allowance is included for future retirements to elect to take 50% of the maximum additional tax-free cash up to HMRC limits.
- 50/50 Scheme Allowance – It is assumed that 5% of active members will opt to pay 50% of contributions for 50% of benefits under the new scheme.
- Mortality Projection – Long term rate of improvement of 1.25% per annum.

The actuary's smoothed market value of the scheme's assets at 31 March 2019 was £1.189 billion and the Actuary assessed the present value of the funded obligation at £951 million. This indicates a net surplus of £236 million, which equates to a funding position of 125% (2016: £26 million and 103%).

20. Actuarial Present Value of Promised Retirement Benefits

The table below shows the total net liability of the Fund as at 31 March 2022. The figures have been prepared by the Fund's actuary, only for the purposes of providing the information required by IAS 26 (Accounting and Reporting by Retirement Benefit Plans). They are not relevant for calculations undertaken for funding purposes or for other statutory purposes under UK pensions legislation.

In calculating the below net liability, the actuary adopted methods and assumptions that are consistent with IAS 19. In conducting the 2019 actuarial valuation referred to in note 19, the Actuary has taken into account the investment policy when determining the assumptions to be used.

	31 March 2022	31 March 2021
	£'m	£'m
Present value of promised retirement benefits	(1,569)	(1,614)
Fair value of scheme assets (bid value)	1,627	1,477
Net liability	**58**	**(137)**

The actuary contract expired during the year and the Pension Fund tendered for actuarial services. Following the LGPS Framework, the contract was awarded to Hymans Robertson, having previously been provided by Barnett Waddingham.

<u>Financial assumptions</u>

The financial assumptions applied by the actuary are set out below:

Financial assumptions	31 March 2022	31 March 2021
	%	%
Consumer Price Index (CPI) increases	3.20	2.85
Salary increases	4.20	3.85
Pension increases	3.20	2.85
Discount rate	2.70	2.00

Demographic Assumptions

The post mortality tables adopted are the S3PMA tables with a multiplier of 110% for males and 105% for females. Improvements are in line with CMI_2021 Model, with a 0% weighting for 2021 and 2020 data, standard smoothing, initial adjustment of 0.25% and a long-term rate of improvement of 1.5% p.a. for both males and females.

Life expectancy from age 65 years	31 March 2022	31 March 2021
	Years	Years
Retiring today		
- Males	21.4	21.6
- Females	24.1	24.3
Retiring in 20 years		
- Males	22.9	22.9
- Females	26.1	25.7

Other Assumptions

- Members will exchange half of their commutable pension for cash at retirement
- Members will retire at one retirement age for all tranches of benefit, which will be the pension weighted average tranche retirement age
- 5% of active members will take up the option under the new LGPS to pay 50% of contributions for 50% of benefits.

21. Current Assets

	31 March 2022	31 March 2021
	£'000	£'000
Debtors		
- Contributions due - employers	2,562	2,259
- Contributions due - employees	833	612
- Sundry debtors	869	693
Sub-total	**4,264**	**3,564**
Cash balances	2,026	2,618
Total	**6,290**	**6,182**

Analysis of debtors	31 March 2022	31 March 2021
	£000	£000
RBKC	3,217	2,586
Other entities and individuals	1,047	978
Total	**4,264**	**3,564**

22. Current Liabilities

	31 March 2022	31 March 2021
	£'000	£'000
Creditors		
- Sundry creditors	(2,196)	(1,735)
- Benefits payable	(129)	(62)
Total	**(2,325)**	**(1,797)**

Analysis of creditors	31 March 2022	31 March 2021
	£'000	£'000
Central government bodies	(147)	(392)
Other local authorities	0	(253)
RBKC	(1,346)	(613)
Other entities and individuals	(832)	(539)
Total	**(2,325)**	**(1,797)**

23. Additional Voluntary Contributions (AVC)

The Council has arranged for current members to make additional payments through its payroll into a variety of funds operated by Prudential Assurance according to individuals' preferences. These funds are invested in equities, bonds, property and cash. The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009, as amended, do not permit AVC to be paid into the Fund, so they are not included in these accounts.

During 2021/22, AVC of £0.446 million (£0.496 million in 2020/21) were paid to the provider, Prudential. The market value of these funds as at 31 March 2022 is £4.258 million (£4.134 million at 31 March 2021). The figures for 2021/22 are pending following servicing delays experienced by Prudential Assurance. Amounts are not expected to differ significantly from prior years and have no effect on the Pension Fund accounts

24. Related Party Transactions

The Fund is administered by RBKC who also provide the pension administration services. The Council also has a shared service arrangement with Westminster City Council for oversight and governance services. Costs incurred and reimbursed for RBKC Council and Westminster City Council totalled £1.43 million and £0.11 million respectively in the financial year 2021/22 (£0.599 million and £0.097 million respectively in 2020/21). The increase in RBKC costs is due to the Council providing pension administration services since 1 April 2021, taking over from Surrey County Council.

In year, and in total, the Council contributed £15.352 million to the Fund compared to £14.129 million in 2020/21. As at 31 March 2022 the Council owed the Pension Fund a net amount of £3.217 million (£2.586 million at 31 March 2021).

The key management personnel of the Fund are the Members of the Committee, the Executive Director of Resources and the Tri-Borough Director of Pensions and Treasury. During the year, £0.035 million (£0.048 million in 2020/21) was payable to key management personnel in respect of short-term benefits. In 2021/22 there was a £0.032 million reduction in costs to the Pension Fund of post-employment benefits due to a significant fall in the discount rate of future pension payments (compared to £0.078 million payment in 2021/22). The net payment for 2021/22 was therefore £0.003 million (£0.126 million in 2020/21).

25. Agency Services

The Fund pays discretionary awards to the former employees of the Council. The amounts are not included within the Fund Account as they are not expenses or income related to the Pension Fund but are provided as a service and fully reclaimed from the Council. During 2021/22, the Fund paid the gross sum of £0.223 million (£0.226 million in 2020/21) on behalf of RBKC.

26. External Audit Costs

The external audit fee payable to the Fund’s external auditors, Grant Thornton, was £0.050 million (£0.045 million in 2020/21).

27. Contingent liabilities

The Pension Fund had no contingent liabilities for 2021/22.

1. General Principles

The Statement of Accounts summarises the Council's financial transactions for the 2021/22 financial year and its position at 31 March 2022. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015 in accordance with proper accounting practices. Proper practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 (the Code), supported by International Financial Reporting Standards (IFRS).

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments. The Statement of Accounts has been prepared on a 'going concern' basis. The Council's significant accounting policies are detailed below.

2. Accruals

The Council accounts for income and expenditure in the year that the effects of the transactions are experienced, not simply when the cash payments are made or received, subject to a de minimis of £10k for both capital and revenue, although manager's discretion may be used.

Where income or expenditure streams are stable and 12 months of receipts or charges appear in a financial year, accruals may be processed at manager's discretion.

3. Cash and cash equivalents

Cash is represented by cash in hand and at bank. Cash equivalents are call accounts with financial institutions repayable on notice of not more than 24 hours, having originally been invested for a period no longer than three months. Fixed deposits are not considered to be readily convertible since they are only repayable at the point of maturity and cannot be traded or redeemed without penalty.

4. Charges to revenue for non-current assets

Services, support services and trading accounts are charged with the following amounts to record the cost of holding property, plant, and equipment during the year:

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

The Council is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisation. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the Council in accordance with statutory guidance. Depreciation, revaluation and impairment losses and amortisation are therefore replaced by the contribution in the General Fund balance through a Minimum Revenue Provision (MRP), by way of an adjusting transaction with the CAA in the Movement in Reserves Statement for the difference between the two.

The Council's MRP policy on GF assets is as follows:

- for capital expenditure prior to 1st April 2008, the Council adopts ' the regulatory method' (Option 1) under Regulation 27 of the Local Authorities (Capital Finance and Accounting)

(England) Regulations 2003. Option 1 leads to a lower level of MRP than Option 2, and avoids the Council having to make complex calculations for all its assets which it would have to do if Options 3 or 4 were adopted for supported borrowing.

- for subsequent prudential borrowing incurred post 1 April 2008, the Council adopts Option 3 under Regulation 28 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003, 'the asset life method', and that an 'annuity' approach is used for calculating repayments. This ensures payments are spread equally over the life of the asset, which matches more closely the value the council gets from the asset, than loading payments in the early years of the asset life as would happen under the equal instalment method. It is also considered that this option is more cost effective as provision is not required until the year following actual capital expenditure.
- for assets acquired to rehouse families affected by the Grenfell Tower fire, for which a direction has been given by the Secretary of State to hold these properties within the GF, rather than the HRA, a prudent assessment of a nil MRP will be made as long as these properties are held for this purpose. This assessment is consistent with the treatment of comparable HRA assets. If any such property is no longer held for that purpose, then option 3 will apply unless the property is disposed of with the receipts being applied for debt redemption.

5. Community Infrastructure Levy (CIL)

The Council has elected to charge CIL on new builds (chargeable developments for the Council) with appropriate planning consent. The Council charges for and collects the levy, which is a planning charge. The income from the levy will be used to fund several infrastructure projects (these include transport, flood defences and schools) to support the development of the area.

CIL is received without outstanding conditions; it is therefore recognised at the commencement date of the chargeable development in the CIES in accordance with the accounting policy for government grants and contributions set out further in this document. CIL charges will be largely used to fund capital expenditure. However, a proportion of the charges may be used to fund revenue expenditure.

6. Collection Fund – council tax and business rates

The Council acts as agent in relation to the Collection Fund (Billing Authority), collecting council tax and non-domestic rates (NDR) on behalf of the major preceptors (including central government for NDR) and, as principal, collecting council tax and NDR for itself. The Council is required by statute to maintain a separate Collection Fund for the collection and distribution of amounts due in respect of council tax and NDR. Under the legislative framework for the Collection Fund, the Council, major preceptors, and central government share proportionately the risks and rewards that the amount of council tax and NDR collected could be less or more than predicted.

The council tax and NDR income included in the CIES is the Council's share of accrued income for the year. However, regulations determine the amounts of council tax and NDR that must be included in the GF in year. Therefore, the difference between the accrued income included in the CIES and the amount required by regulation to be credited to the GF is taken to the Collection Fund Adjustment Account and included as a reconciling item in the MIRS. The Balance Sheet includes the Council's share of the end of year balances in respect of council tax and NDR relating to arrears, impairment allowances for doubtful debts, overpayments, prepayments, and appeals.

Where debtor balances for the above are identified as impaired because of a likelihood arising from a past event that payments due under the statutory arrangements will not be made (fixed or determinable payments), the asset is written down and a charge made to the Collection Fund. The impairment loss is measured as the difference between the carrying amount and the revised future cash flows.

7. Employee benefits

Benefits payable during employment

Short-term employee benefits are those due to be settled wholly within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits for current employees and are recognised as an expense for services in the year in which employees render service to the Council. An accrual is made for the cost of holiday entitlements or time off in lieu, earned by employees but not taken before the year-end, which employees can carry forward into the next financial year. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the MIRS so that holiday entitlements are charged to revenue in the financial year in which the holiday absence occurs.

The Council has concluded that there is no material benefit in undertaking an annual determination of the accrual and has established a policy to undertake a review of the accrual every three to five years unless, in the intervening period, there is evidence of a change in circumstances which would materially affect the amount to be disclosed. The annual accrual is therefore adjusted in line with trends in FTE number of employees in the intervening years.

Termination benefits

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy in exchange for those benefits and are charged on an accruals basis to the appropriate service segment or, where applicable, to a corporate service segment at the earlier of when the Council can no longer withdraw the offer of those benefits or when the Council recognises costs for a restructuring.

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

Post-Employment Benefits

Employees of the Council are usually members of one of two separate pension schemes:

- The Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education (DfE); or
- The Local Government Pension Scheme (LGPS), which for most staff is administered by Surrey County Council on behalf of RBKC and for a relatively small number, by the London Pension Fund Authority.

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

The Local Government Pension Scheme

The liabilities are included in the Balance Sheet on an actuarial basis using the projected unit method i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on actuarial assumptions about mortality rates, employee turnover rates and projected earnings of current employees etc.

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

- Quoted securities: current bid price
- Unquoted securities: professional estimate
- Unitised securities: current bid price
- Property: market value.

The change in the net pension liability is analysed into the following:

Service cost, comprising:

- Current service cost: the increase in liabilities as a result of years of service earned by employees in the financial year, allocated in the CIES to the services for which the employees worked
- Past service cost: the increase in liabilities arising from fund performance relating to years of service earned in earlier years; debited to the Surplus or Deficit on the Provision of Services in the CIES as part of Non-Distributed Costs
- Net Interest on the net defined liability (asset): the change in the net defined benefit liability due to the passage of time, which is charged to Financing and Investment Income and Expenditure in the CIES. It is calculated by applying the same discount rate used to measure the defined benefit obligation, to the net defined benefit liability (asset), taking into account any changes due to contributions and benefit payments.

Re-measurements, comprising:

- Return on plan assets: investment returns, excluding amounts included in net interest on the net defined benefit liability (asset); debited to the Pensions Reserve
- Actuarial gains and losses: changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions; debited to the Pensions Reserve
- Contributions paid to the Kensington and Chelsea Pension Fund: cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

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

Discretionary Benefits

The Council does not award discretionary post-retirement benefits upon early retirement and has not done so for many years. All such discretionary awards that were made in the past are now funded as part of the employers' contributions. When early retirements occur, an amount is paid directly to the Fund to cover the capital costs arising.

8. Events after the Balance Sheet date

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

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

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

9. Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The Council measures the fair value of an asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The Council uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Inputs to the valuation techniques in respect of assets and liabilities for which fair value is measured or disclosed in the Council's financial statements are categorised within the fair value hierarchy as follows:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the Council can access at the measurement date

- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
- Level 3 – unobservable inputs for the asset or liability.

When measuring the fair value of a non-financial asset, the Council takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

10. Financial instruments

Financial liabilities

Financial liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the CIES for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. For the Council's borrowings, this means that the amount on the Balance Sheet comprises the principal repayable plus accrued interest.

Financial liabilities are de-recognised when the obligation is discharged, cancelled, or expires.

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

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

Financial assets

Financial assets are classified based on a classification and measurement approach that reflects the business model for holding the financial assets and their cash flow characteristics.

The financial assets which the Council holds are accounted for under the following classifications:

- Amortised cost
  - cash in hand
  - current and deposit accounts with the Council's bankers
  - loans to other local authorities and commercial banks
  - loans to other organisations
  - trade receivables
- Fair value through profit or loss (FVPL)
  - money market funds.

The Council's business model for holding most of its financial assets is to collect contract cash flows, so they are initially measured at fair value and subsequently measured at amortised cost. The only exception is money market funds, which are measured only at fair value.

For most of the financial assets held by the Council, this means that:

- The amount included in the Balance Sheet is the outstanding principal receivable, plus accrued interest, less loss allowance; and
- Interest credited to the CIES is the amount receivable for the year according to the contract agreement.

The Council may sometimes make loans at less than market rates (soft loans), e.g. to employees, voluntary organisations, or other entities. When soft loans are made, and if material, a loss is recorded in the CIES for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal. Interest is credited to the Financing & Investment Income line in the Comprehensive Income and Expenditure Statement at a marginally higher effective rate of interest than the rate receivable from the soft loan debtor, with the difference increasing the amortised cost of the loan in the Balance Sheet.

Expected Credit Loss (ECL) model

Loss allowances are calculated for financial assets held at amortised cost, based on the statistical likelihood that the borrower or debtor will be unable to meet their contractual commitments to the Council. The Council recognises expected credit losses on all its financial assets held at amortised cost, either on a 12-month or lifetime basis. The ECL model also applies to lease receivables and contract assets. Only lifetime losses are recognised for trade receivables (debtors) held by the Council. Together with any gains and losses arising from the de-recognition of an asset, these are credited/debited to the Financing and Investment Income and Expenditure line in the CIES.

11. Government grants and contributions

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

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

Amounts recognised as due to the Council are not credited to the CIES until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that must be met by the recipient as specified or the grant must be repaid. Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-Specific Grant income (non-ring-fenced revenue grants and all capital grants) in the CIES.

Where capital grants are credited to the CIES, they are reversed out of the GF in the MIRS and is posted to the Capital Grants Unapplied Reserve. Amounts in the Capital Grants Unapplied reserve are transferred to the CAA once they have been applied to fund capital expenditure.

12. Heritage assets

Heritage Assets are accounted for at current cost except where it is not practical to obtain a valuation at a cost which is commensurate with the benefits to users of the financial statements. This is in line with the Code and in such cases, Heritage Assets are measured at historic cost using any method that is appropriate and relevant.

The Heritage Property Assets (the museums) are valued and accounted for in accordance with the Council's accounting policies on property i.e. fair value, determined as the amount that would be paid for the asset in its existing use ("Existing Use Value" or "EUV"). The museums are depreciated over their expected useful lives.

The museum collections and the art in parks are reported in the Balance Sheet at insurance valuation (based on market values) and historical information from curators. These valuations are reviewed periodically as deemed appropriate for insurance purposes. The Council self-insures assets valued below £250,000 and it therefore does not have valuation certificates for all items worth less than this amount. Acquisitions are recognised at cost. The museum collections and art are deemed to have indeterminate lives and high residual value. Hence the Council does not deem it appropriate to charge depreciation for these assets.

The local regalia and the local studies and archive collection are not disclosed on the Balance Sheet because the collections are of low Balance Sheet value due to individual items either: having nil or low market value; being worth less than the Council's de minimis threshold of £10,000; or having no up-to-date valuation that is reliable.

13. Intangible assets

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

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held can be determined by reference to an active market. No intangible asset held by the Council meets this criterion and they are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line(s) in the CIES. An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the relevant service line(s) in the CIES. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the other operating expenditure line in the CIES.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the GF balance. The gains and losses are therefore reversed out of the GF balance in the MIRS and posted to the CAA and (for any sale proceeds greater than £10,000) the capital receipts reserve.

The Council does not have internally generated assets.

The Council accounts for its software as intangible assets, to the extent that the software is not an integral part of any IT system and accounted for as part of the hardware item of PPE.

14. Inventories

The Council holds low levels of inventory stock on the Balance Sheet and exercises discretion to account for some stocks through the CIES e.g. housing repairs material held in mobile repair vehicles. Where stocks are held on the Balance Sheet, this is on the basis of cost price. No allowance is usually made for obsolescence or slow-moving stock items. This approach does not materially affect the accounts for the year as the values held are extremely low.

15. Investment properties

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale. Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's-length. As a non-financial asset, investment properties are measured at highest and best use. Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the CIES. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for either the GF or HRA. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the GF. The gains and losses are therefore reversed out of the GF via the MIRS and posted to the CAA and, for any sale proceeds greater than £10,000, the Capital Receipts Reserve.

16. Leases

Leases are classified as finance leases where the terms of the lease transfers substantially all the risks and rewards incidental to ownership of the property, plant, or equipment from the lessor to the lessee. All other leases are classified as operating leases. Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

<u>The Council as Lessee</u>

PPE held under a finance lease is recognised on the Balance Sheet at the commencement of the lease either at its fair value, measured at the inception date of the lease, or if lower, the present value of the minimum lease payments. The asset recognised is matched by a liability representing the obligation to pay the lessor. Initial direct costs of the Council are added to the carrying amount of the asset. Premiums paid on entry into a lease are used to write down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred.

Lease payments are apportioned between:

- a charge for the acquisition of the interest in the property, plant, or equipment, which writes down the lease liability
- a finance charge, which is debited to the Financing and Investment Income and Expenditure line in the CIES.

PPE recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the Council at the end of the lease period). Capital charges arising from leased assets are substituted in the GF for a revenue contribution, by way of an adjusting transaction with the CAA via the MIRS for the difference between the two.

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

<u>The Council as Lessor</u>

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

Lease rentals receivable are apportioned between:

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

The gain credited to the CIES on disposal is not permitted by statute to increase the GF and is required to be treated as a capital receipt. Where a premium has been received, this is transferred from the GF to the Capital Receipts Reserve in the MIRS. Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the GF to the Deferred Capital Receipts Reserve via the MIRS. When the future rentals are received, the element of the capital receipt relating to the disposal of the asset is used to write down the lease debtor. At this point, the deferred capital receipts are transferred to the Capital Receipts Reserve.

The written-off value of disposals is not a charge against council tax, as the cost is fully provided for under separate arrangements for capital financing. Amounts are therefore appropriated to the CAA from the GF via the MIRS.

<u>Operating Leases</u>

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

17. Overheads and support services

The costs of overheads and support services charged to the HRA are in accordance with the Council's arrangements for accountability and financial performance. Those which relate to GF departments are shown in the department in which the expenditure was originally incurred and adjusted through the EFA to reconcile management reporting with financial reporting of the accounts.

18. Property, plant, and equipment (PPE)

PPE are tangible assets that have a physical substance and are held for operational reasons i.e. in the production or supply of goods and services or for administrative purposes.

Recognition

Expenditure on the acquisition, creation or enhancement of PPE is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably.

Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred. The Council has a capitalisation threshold of £10,000 and allows the capitalisation of staffing costs that are directly associated with delivering of the capital schemes.

Measurement

Assets are initially measured at cost, comprising:

- the purchase price
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management
- the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located

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

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

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

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

- community assets and assets under construction – historical cost
- infrastructure and vehicles, plant, and equipment – depreciated historical cost
- dwellings at fair value, determined using the basis of existing use value for social housing (EUV-SH)

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

Where there is no market-based evidence of fair value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of fair value. Where non-property assets that have short useful lives or low values (or both), depreciated historical cost is used as a proxy for fair value.

<u>Subsequent changes in value</u>

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

Where decreases in value are identified, they are accounted for as follows:

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

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

Valuations of land, buildings and associated plant are carried out in accordance with the methodologies and bases for estimation set out by RICS, except for Council Dwellings, which are valued in accordance with Government Guidance Stock Valuation for Resource Accounting: Guidance for Valuers - 2016. Associated plant is held under the current cost model as a component of its parent building and therefore has no associated historic cost.

The significant assumptions applied in estimating the fair values are:

- Except where specific information is available, assets are maintained in a reasonable condition
- No allowance has been made for any national or local tax whether existing or which may arise in the future
- In relation to Council dwellings, the valuation takes account of plant and machinery normally associated with valuation of land and buildings, including mains services, heating and permanent structures and other relevant installations.

Vehicles, furniture, and equipment that are not traded in an active market, have a short useful life, value that is not material or all three, are carried at depreciated historical cost as a proxy for fair value.

Impairment

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

- where there is a balance of revaluation gains for the asset in the revaluation reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- where there is no balance in the revaluation reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the CIES.

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

Depreciation

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

The following useful lives and depreciation rates have been used in the calculation of depreciation, all on a straight-line basis:

- Council Dwellings – 50 to 100 years
- Other Land and Buildings – 5 to 70 years
- Vehicles – 4 to 7 years; Plant – 21 to 24 years; Equipment and Furniture – 2 to 38 years
- Infrastructure – 16 to 50 years (normally 25 years)

The residual value, useful life and depreciation method are reviewed on a regular basis. If expectations differ from previous estimates the changes will be accounted for as a change in accounting estimates.

Depreciation is calculated on the current value of an asset. Where this valuation is above the historic cost, the difference between depreciation as calculated on current value and that calculated on historic cost is transferred each year from the Revaluation Reserve to the CAA.

Componentisation of valuations

Where beneficial to the accuracy of the accounts the Council may opt to recognise each of the component parts of a material asset. This may be necessary to reflect the fact that some components may have an appreciably shorter useful life than the wider asset and will therefore need replacing sooner.

In principle, the policy for componentisation applies to items of PPE, however typically PPE items other than property assets are not of a nature that would require the policy to be applied. Therefore only property assets are considered for componentisation.

The land and building elements of all properties are valued separately and treated as separate assets for accounting purposes.

Infrastructure assets are excluded pending the status of the Code of Practice on Transport Infrastructure Assets.

Disposals and non-current assets held for sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the CIES. Gains in fair value are recognised only up to the amount of any previously losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

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

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

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. A proportion of receipts relating to housing disposals (75% for dwellings, 50% for land and other assets, net of statutory deductions and allowances) is payable to the Government. The balance of receipts remains within the Capital Receipts Reserve and can then only be used for new capital investment or set aside to reduce the Council’s underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Reserve from the General Fund Balance in the MIRS.

From April 2012 a proportion of receipts arising from additional RTB sales, following an increase in the maximum cash cap on discounts, is retained by the Council where it agrees to spend a sufficient level of resources on replacement social housing. The same applies to non-RTB sales where the agreement is to spend on provision of additional affordable housing or regeneration projects.

The written-off value of disposals is not a charge against council tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the CAA from the General Fund Balance in the MIRS.

Assets under construction

Where works will result in an asset but the works are not completed by the end of the financial year and the asset is not yet in operational use, the cost is charged to Assets under Construction within Non-Current Assets in the Balance Sheet. Assets under Construction are carried in the Balance Sheet at accumulated historical cost during the period of construction and are exempt from depreciation. In exceptional cases, impairment losses might need to be charged during the construction period, should they arise. Once assets are ready for operational use, the assets are reclassified and valued in accordance with the basis relevant to that class of assets.

Schools

The Code of Practice on Local Authority Accounting in the UK confirms that the balance of control for local authority maintained schools (i.e. those categories of school identified in the School Standards and Framework Act 1998, as amended) lies with the Council.

In line with accounting standards and the Code on group accounts and consolidation, all maintained schools are considered to be entities controlled by the Council. Rather than produce group accounts, the income, expenditure, assets, liabilities, reserves and cash flows of each school are recognised in the Council’s single entity accounts. The Council has the following types of maintained schools under its control:

- Community
- Voluntary Aided
- Voluntary Controlled
- Foundation Trust
- Foundation

Capital expenditure on community schools is added to the balances for those schools. Capital expenditure on voluntary aided, controlled and foundation schools not included on the Council’s Balance Sheet is treated as "REFCUS" (Revenue Expenditure Funded from Capital under Statute") and written off each year to the CIES within Education and Children's services.

Schools’ non-current assets (school buildings and playing fields) are recognised on the Council’s Balance Sheet where the Council directly owns the assets, where the Council holds the balance of control of the assets or where the school or the school governing body owns the assets or have had rights to use the assets transferred to them through licence arrangement.

When a maintained school converts to an Academy, the schools’ non-current assets held on the Council’s Balance Sheet are treated as a disposal. The carrying value of the asset is written off to ‘Financing and Investment income’ in the CIES. Any revaluation gains are accumulated for the asset in the revaluation reserve are transferred to the CAA.

The written off asset value is not charged against the GF, as the cost of non-current asset disposal resulting from schools transferring to an Academy is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the CAA from the GF balance in the MIRS.

19. Provisions, contingent liabilities and contingent assets

Provisions

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

Provisions are charged as an expense to the appropriate service line in the CIES in the year that the Council becomes aware of the obligation at the Balance Sheet date. They are measured at the best estimate of the expenditure required to settle the obligation, considering the relevant risks and uncertainties.

Estimated settlements are reviewed at the end of each financial year. The Council does not unwind any discount on provision balances. Where it becomes less than probable that a transfer of economic benefits will be required or a lower settlement than anticipated is made, the provision is reversed and credited back to the relevant service.

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

Contingent Liabilities

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

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

Contingent Assets

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

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

20. Revenue expenditure funded from capital under statute (REFCUS)

Expenditure incurred during the year that may be capitalised under statutory provisions, but that does not result in the creation of a non-current asset, has been charged as expenditure to the relevant service in the CIES in the year. Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the MIRS from the GF Balance to the CAA then reverses out the amounts charged so that there is no impact on the level of council tax.

21. Revenue from service contracts

Revenue from contracts with service recipients, whether for services or the provision of goods, is recognised generally at the point that the service is provided or is charged for. It is not considered that this would be materially different from recognising revenue from contracts with service recipients when (or as) the goods or services are transferred to the service recipient in accordance with the performance obligations in the contract.

22. Reserves

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by transferring amounts out of the GF Balance in the MIRS. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on the Provision of Services in the CIES. The reserve is then appropriated back into the GF Balance in the MIRS so that there is no net charge against council tax for the expenditure. Details of earmarked reserves are given in note 7.

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, local taxation and retirement and employee benefits and do not represent usable resources for the Council. These are detailed in note 8.

23. Rounding

It is not the Council’s policy to adjust for immaterial cross-casting differences between the main statements and disclosure notes.

24. VAT

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

1. Executive Summary

1.1. Scope of responsibility

This Annual Governance Statement explains how the Council has complied with the Governance Framework. It also meets the requirements of Regulation 6 of the Accounts and Audit Regulations 2015 in relation to the publication of the statement of internal control.

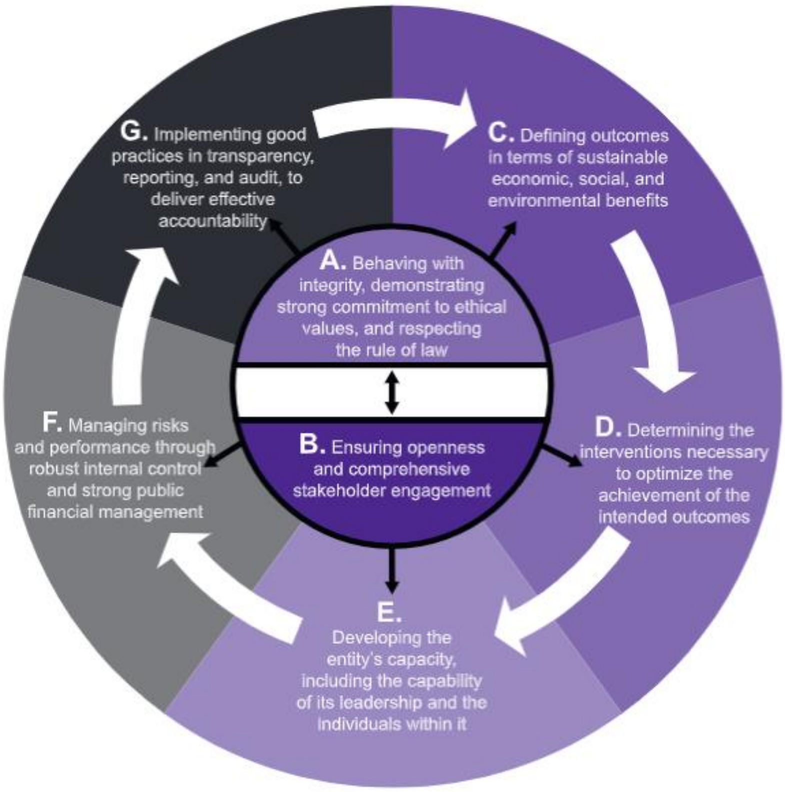
The CIPFA/SOLACE Delivering Good Governance in Local Government Framework (2016) expects local authorities to put in place proper governance arrangements to ensure that these responsibilities are being met. The Council's Audit and Transparency Committee reviews governance arrangements, risk registers and quarterly performance reports.

From 2022/23, it is proposed that the Audit Committee receive joint performance and finance reports each quarter and use these to identify further areas for review by the committee. This will enable them to build up a picture of the financial and operational position in advance of their review and approval of the final accounts.

The Council is responsible for ensuring that:

- its business is conducted in accordance with the law and proper standards
- public money is safeguarded, properly accounted for and used economically, efficiently and effectively
- it maintains a sound system of governance, which includes its system of internal controls and arrangements for the management of risk.

The Council is committed to improving governance on a continuing basis through a process of evaluation and review and delivering the seven principles of good governance as identified in Delivering Good Governance in Local Government Framework 2016. These principles are:



1.2. Overall opinion on level of assurance

The Council receives a substantial amount of assurance from the work that is undertaken by its Internal Audit team and external auditors, Grant Thornton UK LLP. In terms of the finance, HR and payroll managed service provided by Hampshire County Council, the partnership receives independent assurance over the controls in place which is provided by Hampshire's external auditor. No issues were identified in respect of testing undertaken during the 2020/21 audit and none are expected in 2021/22.

The Grenfell tragedy has led the Council to review its strategic focus, leadership and ways of working and it continues to strive to embed the learning from the tragedy in its work and organisational culture.

In March 2020, the Council commissioned the Local Government Association (LGA) to undertake a Corporate Peer Challenge, where a team of senior local government officers and councillors visited the Council to examine its plans and its capacity to deliver, and to make recommendations. In early 2021, the Council commissioned a further review of governance by the Centre for Governance and Scrutiny, as agreed by the Administration Committee in July 2020. The Council also commissioned the LGA to undertake an Equalities Peer Challenge which took place in September 2021. The peer challenge team found that there has been good progress in the last two years on Equalities, Diversity and Inclusion (EDI). The outcome of all three reviews and the Council's response were published in the recent 'Double Down' paper from the Chief Executive which is available on the Council's website at https://www.rbkc.gov.uk/committees/Meetings/tabid/73/ctl/ViewMeetingPublic/mid/669/Meeting/8543/Committee/1544/SelectedTab/Documents/Default.aspx.

This assurance is further supplemented by the reviews undertaken by external agencies such as OFSTED, the Care Quality Commission, the Office of the Information Commissioner and other Local Authority inspectorates. The Internal Audit team utilises the services of external providers to undertake specialist reviews such as technical audits of information systems.

One of the key assurance statements the Council receives is the annual report and the opinion of the Head of Internal Audit. The Opinion of the Head of Internal Audit in respect of audit work completed in 2021/22 is that the Council's internal control systems in the areas audited were adequate, with 83% of the audits undertaken receiving a positive assurance opinion (89% in 2020/21). The annual report on internal audit and control for 2021/22 can be accessed on the Council's website.

The Chief Financial Officer (CFO) has been involved in reviewing the Corporate Governance arrangements of the Council and the preparation of this Statement. They are satisfied with the arrangements in place for managing finances and manager compliance with the Financial Procedure Rules and Code of Procurement. The CFO considers the arrangements are working effectively and that all matters of significance have been identified and included within this statement.

The Council has been implementing a range of actions to strengthen governance, scrutiny and oversight arrangements. Under the leadership of the Chief Executive the Council has put in place appropriate strategies and plans, including the Council Plan, which set a clear vision, direction and approach for how the Council meets the needs of its residents. The current plan is under review and the new Council Plan for the period 2023 to 2027 will be published in March 2023 alongside a refreshed Medium Term Financial Strategy. This together with the details of the review set out in this statement demonstrate that the Council has appropriate arrangements in place, in accordance with the governance framework. Progress has been made on the significant issues identified in the previous year as set out in section 4.1 below. As a result, a satisfactory level of assurance has been achieved following the conclusion of the Review.

2. Identification of key governance arrangements

2.1. Governance arrangements

The governance framework enables the Council to monitor the achievement of its strategic objectives. The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable but not absolute assurance of effectiveness. The system includes processes to identify:

- the risks to the achievement of the Council's aims and objectives
- the likelihood of the risks crystallising
- how to manage the risks appropriately, given the agreed objectives.

A key focus of the Council's governance processes and structures is attainment of sustainable economic, societal, and environmental outcomes. The Council has a duty to improve outcomes for communities and citizens and make the most of opportunities that add value locally. In a rapidly changing world, we need to think about what the main threats and opportunities to citizens' outcomes are, what impact they will have and the role the Council can play – i.e. helping communities develop resilience to social and economic changes. This requires us to look both inwardly (to ensure we have effective governance and controls) but also more importantly outwardly at risk (e.g. to the risk to citizens, to protect citizens and build resilience).

In 2021 an independent review was commissioned of the shared functions and services with Westminster City Council (principally adult social care, public health, children's services and libraries), which had been operating under a shared arrangement since 2011. The PWC review concluded that there were numerous benefits from sharing services from a resourcing, resilience, innovation and learning perspective. The shared arrangement across the two Councils had helped both maintain a strong cadre of professional excellence in those key areas that are crucial for effective service delivery.

The PWC review recommended that both Councils reset the overall goal and strategy of sharing functions and services. They also suggested that both Councils jointly adopt integrated, regular and light-touch governance reviews of the cost effectiveness of the core functions to ensure that goals are being met and that performance is monitored. The review further recommended that joint governance arrangements were re-commenced to gain assurance that the advantages identified through the review were being realised.

Governance arrangements for the Hampshire Partnership are subject to a partnership agreement which sets out how partners will proportionately share costs, benefits and liabilities of the joint services. All partners, including the Council, are engaged in taking forward the strategic governance and oversight of the partnership through their membership of either the Strategic Direction Board or the Operational Forum. The Shared Services Forum and the Operational Performance Group are used to identify issues of a strategic nature for be escalated to Operational Forum.

The Council's Local Code of Corporate Governance is incorporated into the Council's Constitution and is available on its website at: Part 8 Section 1 Code of Corporate Governance (rbkc.gov.uk).

The Annual Governance Statement is based on more detailed reports presented to the Audit and Transparency Committee throughout 2021/22, copies of which can be found on the Council's website at: Council Committees > Audit and Transparency Committee (rbkc.gov.uk).

Following an independent review of historic property transactions, the Council placed a renewed emphasis on proper democratic decision-making and sound advice-giving to Members as part of the Council's broader cultural change. Since then, the publication of several reports in the public interest and new requirements such as the CIPFA Financial Management (FM) Code, launched in October 2019 as the first professional code for general financial management in local authorities, have amplified the need for this focus. New guidance on the sufficiency, appropriateness and adequacy of officer drafted reports is being developed to ensure that Members receive rounded, objective, impartial, balanced and best professional advice in achieving the Council's agreed policies and plans.

2.2. Response to COVID-19 pandemic

During the last two years, the Council's focus has been on responding to the pandemic and its recovery for the Council and the borough. Between March 2020 and January 2021, Gold (Strategic) and Silver (Tactical) meetings were taking place regularly and initially on a daily basis. Regular informal meetings of Leadership Team were also taking place throughout the period. The Council published its Outbreak Management Plan in June 2020, which was refreshed in February 2021, to include community testing and vaccination roll out. During 2021/22, the Council moved into its recovery stage and in December 2020, the Council's COVID-19 Recovery Framework was agreed by Leadership Team. Further details are available here and this was managed through the Recovery Board who considered spending in line with the six priorities identified and the underlying issue of addressing inequality in the borough that had been exasperated through the pandemic.

3. Evaluation of the effectiveness of governance

3.1. Outline of assurance process

To monitor the effectiveness of the Council's key corporate governance systems, a review is undertaken each year of the governance framework, the sources of assurance from this review are shown below.

Corporate Governance	Management Team	Services are delivered economically, efficiently & effectively
•Constitution (incl. statutory officers, scheme of delegation, financial procedure, management and procurement rules) •Audit and Transparency Committee •Internal and external audit •Independent external assurance sources •Overview and Scrutiny function and Select Committees •Council, Leadership Team and Panels •Council Plan and Peoples Strategy •Medium Term Financial Strategy, including Capital Strategy •Complaints system •HR policies and procedures •Whistleblowing and other countering fraud arrangements •Risk management framework •Performance management system •Codes of conduct	•The role of Chief Officers •Delivery of Council's aims and objectives •Corporate Planning •Business, Financial and Commissioning Plans •Officer codes of conduct •Performance appraisal •The role of the Chief Financial Officer •The role of the Head of Internal Audit •Roles and responsibilities of Members and Officers •Timely production of a Statement of accounts •External and Internal audit reports recommendations •Review of Corporate Governance •Risk and Control Board	•Management of risk •Effectiveness of internal controls •Democratic engagement and public accountability •Budget and financial management arrangements •Standards of conduct and behaviour •Compliance with laws and regulations, internal policies and procedures •Action plans dealing with significant issues are approved, actioned and reported on •Local Government Ombudsman reports •Electoral Commission report •Overview and Scrutiny reviews •Effectiveness reviews of Audit and Transparency Committee and Overview and Scrutiny Committees, Internal Audit •Employee performance •Budgetary control •Compliance with the Code of Procurement •Stakeholder engagement •Evaluation of benefits gained from investments and projects

3.2. Assessment of effectiveness of governance arrangements

The governance framework described in section 2 has been in place throughout 2021/22 and maintained up to the date of the approval of the Statement of Accounts. Key governance processes during 2021/22 comprised the following:

Audit and Transparency Committee	Receives reports on key issues and areas requiring improvement, holds Directors and officers to account for systems, services and risks they manage, seeks assurance over implementation of risk and counter fraud policies and approves the annual accounts.
Lead Members (Executive Leadership Team)	The Leadership Team is responsible for most of the major service, financial and policy decisions, and undertake those Council functions not reserved to full Council or delegated to Committees or officers. The Leadership Team takes key decisions (individually or collectively) and uphold Codes of Corporate Governance. Lead Members provide political leadership and work with Chief Officers to develop and set policy. Following the local elections on 5 May 2022, there are now 19 new members. Induction arrangements have been in place for new and existing members and will continue throughout 2022. Officers are working with new Lead Members to provide background and updates on new portfolio areas.
Overview and Scrutiny Committee and 4 Select Committees	Hold the Executive Leadership Team to account, agree and co-ordinate the annual scrutiny work programme (with residents, councillors and officers) across all committees to ensure they scrutinise the most important topics and issues falling within their remit.
Ethics Panel	Advises the Council on best practice and provides advice on complaints that Members have breached the Code of Conduct.
Executive Directors	Complete annual assurance statements detailing their confidence in arrangements for managing their recognised core risk areas, which have been subject to independent review. This reflects the Directors' responsibilities, including the management of strategic and operational risk, the effectiveness of controls, financial management, service delivery and continuity, information governance and compliance with other legislation relevant to their areas. From 2022/23 assurance statements will also include evidence of compliance with the FM Code.
Monitoring Officer	Maintains the register of councillors' interests, deals with complaints that councillors have breached the Councillor Code of Conduct and has a statutory duty to report breaches of the Council's legal obligations and findings of maladministration by the Local Government and Social Care Ombudsman to the Council.

Chief Financial Officer (CFO)	Delivers and oversees financial management arrangements, complies with requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government and is a member of the Council's Executive Management Team.
Information Governance	Information Security and Governance is the overall process of analysing, evaluating, assessing and mitigating the impact of risks to the Council's information and information systems. Information risk is managed by assigning roles and responsibilities and co-ordinating the implementation of mitigating controls and security based on information polices and all supporting documentation. Together these measures form the Information Security and Governance lifecycle and apply across the Council and in its dealings with all partners and third parties. The Executive Director of Resources has overall responsibility for ensuring that information risks are assessed and mitigated to an acceptable level. The Chief Information Officer fulfils the role of Senior Information Risk Owner and is familiar with and takes ownership of the Council's information governance policy and strategy. The Council also has a Data Protection Officer. All Directors hold responsibility for their own area and a Caldicott Guardian is responsible for ensuring that health and social care information is managed appropriately, and that our annual Information Governance Toolkit submission meets the required levels of compliance.
Anti-Fraud work	The Audit and Transparency Committee review the Anti-Fraud Strategy (in line with the national Fighting Fraud and Corruption Locally strategy) and associated policies (including Fraud Response Plan, Anti-Bribery and Corruption Policy, Whistleblowing Policy and Anti-Money Laundering Policy). The Corporate Anti-Fraud Service leads on the implementation of the strategy and policies and the delivery of the Annual Anti-Fraud Plan, which is reported to the Audit and Transparency Committee.
Risk management	The Executive Management Team adopted a strategic approach to Risk Management in 2018, with the Risk and Control Board meeting on a bi-monthly basis to review and update the Strategic Risk Register. The Strategic Risk Register is reported to the Audit and Transparency Committee, who select specific risks for further deep dive reports from responsible directors. Executive Directors are responsible for maintaining risk registers for their area and to escalate risks as appropriate to the Strategic Risk Register.

Partnerships	The Council has a number of partnerships in place which are supported through their own governance and decision making, including: • Bi Brough and Tri Borough, through arrangement under Section 113 of the Local Government Act 1972 • Health Partnerships, through Section 75 Agreement • Hampshire County Council, a partnership agreement for the provision of a managed HR, Payroll and Finance services, with the new service and system operational since in December 2018.
Performance management	Performance management has a large scope. A cross service team are currently reviewing existing business planning processes to ensure consistency across the Council - from the council plan through to individual priorities. This is supported by a new appraisal process that is in place from April 2021. Since the revised Council Plan was published in June 2021, the Council has been strengthening its approach to performance management and is developing a comprehensive performance management framework which will include corporate business planning and regular management of our progress against key indicators and measures. The Council has a Corporate Performance dashboard which is updated and reviewed quarterly. Directorates and teams also monitor performance measures through dashboards and review meetings. During 2022/23, the Council is also aligning performance and finance reporting to Leadership Team. It is proposed that Corporate Performance measures will be reported bi-annually to Leadership Team and Overview and Scrutiny, alongside an update against the Council Plan priorities, with the performance dashboard continuing to be updated quarterly.
Complaint investigations	The Leadership Team have agreed a new two stage complaints process for the Council. Quarterly reporting is now presented to Directorate Management Teams and the Executive Management Team.
Citizen's Panel	The Council consulted widely for twelve weeks, between mid-September and mid-December 2019, on a 'Charter for Public Participation'. The Charter provides sets out how local people can get involved in Council meetings and influence decisions, and in the development of policies, plans and services that affect them. Through the Charter we aspire to inform, consult, involve and codesign or co-produce with local people. This charter is now

	in place and 2000 residents are now part of a new, representative Citizens' Panel. The panel took part in four surveys during 2021/22.
Risk and Control Board	The Chief Executive chairs a bi-monthly Risk and Control Board to oversee and develop the Council's risk strategy and strategic risk register. Membership comprises Executive Management Team members along with the Director of Audit Fraud, Risk and Insurance. The Risk and Control Board sets the standards and ensures the Council has the right policies, practices and behaviours in place for effective assurance and risk management. The Board is also responsible for ensuring that new and emerging risks are identified, captured and appropriate mitigations are put in place. It sets the standards and ensures the Council has the right policies, practices and behaviours in place for effective assurance and risk management.
External Audit	The Council's external auditor, Grant Thornton, provides assurance on the accuracy of the year-end Statement of Accounts and the overall adequacy of arrangements for securing and improving value for money. The most recent Audit Letter, issued in September 2021, confirmed that they had been able to give an unqualified audit opinion in respect of the Council's 2020/21 Statement of Accounts.

3.3. Securing Value for Money (VFM) in use of resources

The Council has in place various arrangements for securing Value for Money (VFM) from its use of resources and these are subject to external audit review annually.

Following a change in 2020/21 to the way in which external auditors assess VFM, Grant Thornton no longer issues a VFM conclusion and instead produces an annual report covering arrangements for financial sustainability, governance and economy, efficiency and effectiveness in the Council's use of resources. No risks of significant weaknesses were identified in any of the three areas. Some recommendations for improvement were made and the Council's response to these recommendations will be considered by Audit and Transparency Committee at their meeting in July 2022.

The Council uses an outcomes-based approach to align budget commitments more closely to corporate priorities, and this is reflected in the Medium-Term Financial Strategy. Achieving value for money is an integral part of this strategy – looking at small scale efficiencies in services through to transforming and re-designing services to achieve the same or improved outcomes for less. Benchmarking information shows that in some areas, Kensington and Chelsea is high spending and achieving good outcomes in most areas. Over the next year, officers will make greater use of benchmarking to facilitate discussions around balancing the books whilst still retaining outcomes.

The Council has put in place robust arrangements to ensure that risks and uncertainties are given due consideration in short and medium-term financial planning and the impact is effectively modelled. The Council's understanding of the key drivers for income and expenditure relating to core services and ability to understand the impact of decisions taken is strong. The Council remains responsive to emerging circumstances, whilst keeping sight of longer-term strategic goals which underpin future investment decisions from use of reserves.

A key part of providing VFM is ensuring appropriate governance procedures under collaborative arrangements and demonstrating transparent, consistent ways of working. The Council has reflected this approach in its response to the COVID-19 pandemic in working collaboratively with other London Borough Councils and wider stakeholders, openly sharing information, and adopting best practice in respect of monitoring and reporting on risks and responses. Other examples include the response to supporting refuges from Afghanistan and more recently Ukraine.

The Council continues to work to change its organisational culture by embedding the principles of good governance as recommended by the Centre for Governance and Scrutiny. Alongside this, in 2021/22, the Council reviewed the priorities in the Council Plan and its MTFS using a new spend mapping tool which aligns budgets and spending with priorities. The Council Plan is currently undergoing a more fundamental review and new priorities for 2023 to 2027 will be published in March 2023 alongside a refreshed MTFS as part of the outcomes-based budgeting programme.

3.4. Identification of significant governance issues

A prime purpose of the governance framework is to ensure that any significant risks which do arise are highlighted so that appropriate mitigating action can be taken. Key risks identified in 2021/22 are set out below together with the Council’s response:

COVID-19 pandemic

The scale and extent of the pandemic’s impact in the longer term is still unknown. Spending and income pressures have not yet returned to pre-pandemic levels and it remains uncertain if some will have a longer term impact – particualry social care, housing and homelessness and income streams reliant on visitor populations. This uncertainty and the impact on both the Council, local residents and businesses has worsed with the current cost of living crisis. The unprecendeted levels of high inflation will affect everyone, the cost and demand of many Council services. The impact will continnue to be considered through the Cost of Living Work, the development of the revised Council Plan and to develop an MTFS that must consider these longer term pressures on services and the use of evidence to consider impact.

Grenfell

In responding to the Grenfell tragedy, the Council has worked closely with the emergency services, the health sector, the local community and voluntary sector, schools, national Government, and emerging self-organised groups of bereaved and survivors. The Council is part way through its five-year Grenfell Recovery Strategy and the plans for the remaining three years was agreed in December 2020.

Given the ongoing Public Inquiry, Grant Thornton had not been able to issue an overall conclusion in respect of VFM since 2018/19 as the Council’s predecessor auditors had not yet issued their VFM conclusions in respect of the 2016/17 and 2017/18 audits. KPMG however issued their conclusion in February 2022. This was an adverse conclusion for 2016/17 and 2017/18 because the Council had not made proper arrangements to ensure it made informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. This was in relation to the client management by the Council of Kensington and Chelsea Tenant Management Association. Grant Thornton are concluding their work to issue the conclusion for 2018/19 and 2019/20 alongside the audit of the 2021/22 accounts. For 2020/21, the VFM work changed and a conclusion is no longer issued. Instead, An Annual Audit Report is published. A copy is published here and improvements to the recommendations is being put in place where required.

The Council is committed to building a longer-term legacy of learning. Moving forward, we will continue to work with the bereaved, survivors and the local community as equal partners to shape the recovery programme and focus on building a long-term, sustainable legacy from the tragedy. The work of the Grenfell Tower Inquiry and the criminal investigation will be vital. The Council will continue to support the search for the truth, adhering to the commitments set out in the Charter for Families Bereaved through Public Tragedy.

3.5. Strategic risks

The risks that could impact on the sustainability and delivery of the Council's statutory and non-statutory services and operations are of strategic significance. At the time of preparing the latest Audit Plan the Council's Strategic Risks were identified as failure to:

- appropriately and effectively meet the housing, emotional and psychological needs of former residents of the Tower and Walk
- manage the impact of Public Inquiry hearings (particularly module 4 of Phase 2), potential criminal charges and other legal action related to Grenfell on organisational effectiveness
- deliver the necessary investment and improvements to the Council's social housing stock so that residents are safe and live in properties which are in a good state of repair, sufficiently warm and dry, are accessible and have well-functioning facilities.
- meet landlord health and safety requirements (maintenance and housing services) for social housing tenants/properties.
- respond effectively to a major incident and protect/safeguard residents/businesses/visitors from the effects of significant incidents (e.g. terrorist attack or being drawn into terrorist activity, pandemic health incident, infectious disease outbreaks, legionella outbreaks), protect/safeguard individuals/businesses / visitors from the effects and impact of the Coronavirus pandemic
- respond to the impact of significant external economic factors, affecting service delivery
- establish corporate mechanisms for corporate planning, policy development, performance and control framework.
- ensure service continuity/safeguarding arrangements in social care
- protect against serious information/cyber security Incident leading to all or multiple council systems shutdown and/or council unable to undertake business and/or significant ICO fine & reputational damage due to data breach, malware outbreak, phishing or ransomware attack
- addressing the medium-term budget challenge
- monitor and respond to the fragility of the local Care Market in light of COVID-19 (pressures include staffing and financial resilience).
- prepare for the impact associated with climate change, including air quality/pollution, water quality/availability, extreme weather (e.g. flooding, heat)
- in conjunction with other agencies, to adequately, fairly and sustainably ensure that the short, medium and long term needs of families and individuals placed in hotels in the borough are met, in relation to both bridging hotels (for Afghan evacuees) and contingency hotels (for those seeking asylum).
- implement a new sovereign IT service which supports the continuous delivery of and access to services for residents and which provides effective security for resident, community and Council data, both in the transitional period and in the new target operating model.
- comply with our statutory requirements as laid out in the Public Sector Equality Duty (Equality Act 2010). Policies and processes put in place to ensure compliance to the law and best practice are not embedded within the organisation.

Since the Grenfell fire the Council has been reflecting on its organisational culture and governance to ensure it is fit for new purposes and outward facing. The risk strategy and strategic risk register, presented regularly to Audit and Transparency Committee, is a key part of the Council's decision-making approach and culture. Since July 2021, the Gold Group for Afghan Evacuees has met on a weekly basis, with a separate Gold Risk Register being maintained.

The Council also has a duty to improve outcomes for communities and citizens and make the most of opportunities that add value locally. This requires us to look both inwardly (to ensure we have effective governance and controls) but also more importantly outwardly at risk (e.g. to the risk to citizens, to protect citizens and build resilience).

The Chief Executive chairs a bi-monthly Risk and Control Board to oversee and develop the Council's risk strategy and strategic risk register. Membership comprises Executive Management Team members along with the Director of Audit Fraud, Risk and Insurance.

During the period covered by this Statement, the Monitoring Officer received four complaints (one of the complaints was about the alleged conduct of two councillors arising from a single event) alleging a breach of the Councillor Code of Conduct. One of the complaints is still being considered. Two councillors apologised and there was no breach of the Code in the case of two councillors.

4. Accountability and action plans

4.1. Update on significant issues addressed in 2020/21 AGS

There were four key risks identified in last year's AGS:

1. COVID-19 pandemic
2. Grenfell
3. FM Code
4. Pension Administration Service

The first two remain current key risks and are discussed above. The Pension Administration Service brought in-house from 1 April 2021 was successfully implemented and no new risks have been identified at this stage although the service will remain under review.

Since introduction of the FM Code, the Director of Financial Management has established a working party and carried out two in-depth reviews to ascertain the Council's level of compliance with the standards and principles of the FM Code. The outcome of the first review was reported to Audit and Transparency Committee in June 2021 alongside a proposed action plan.

Work continued throughout 2021/22 including through a series of workshops and surveys to consider progress against the actions and further evidence of compliance. The Council's overall self-assessment demonstrates compliance with the Code. It is the opinion of the CFO and Deputy CFO that the Council has robust financial management processes in place that meet or exceed all the minimum standards contained within the FM Code. The latest report will be presented to Audit and Transparency Committee in July 2022.

4.2. Action plan to address significant governance issues

The Council Plan adopted in March 2019 sets out our priorities as a Council for the four years up to 2023. This plan was refreshed in 2021 to reflect the lessons learnt from the pandemic and the Council's response to the recovery on people and the local economy. The revised Council Plan was published alongside the Medium-Term Financial Strategy. The plan seeks to express the shifting aims of the Council in the light of Grenfell and also to place resident priorities truly at the heart of the Council's business. It blends a fundamental focus on engaging, involving and listening to our communities with a commitment to maintaining public amenity, enabling opportunity, and responding to inequalities that have been exasperated due to the pandemic.

Work is now underway to develop the next Council Plan for the period 2023 to 2027. Revised priorities will be subject to consultation in the Autumn and the updated Council Plan will be published alongside the Medium-Term Financial Strategy in March 2023. The aligned Council Plan and Medium-Term Financial Strategy will ensure that the Council's objectives and delivery of services are affordable and achievable within current and future budgets. Together these documents describe what the Council will focus on and how our activity will be resourced.

<u>Recovery Outcomes Framework</u>

During a large part of 2020/21 and 2021/22, the Council's focus was on its response to the pandemic. In December 2020, Leadership Team agreed a recovery framework of outcomes based on the data and evidence that had emerged during the pandemic. It sets out the needs and interventions required to support the economy, the borough and its residents and the Council. (RBKC Committees > Meetings). The programme is governed through the Recovery Board (Lead Members and Executive Directors) and a series of Task and Finish Groups who develop proposals to deliver the outcomes framework. Regular updates are provided through the Recovery Board.

Review of Historic Property Transactions (Kroll Report)

Kroll and Associates were commissioned to undertake an independent forensic examination of four historic property transactions at the Council in light of the report published by Kensington and Chelsea College in October 2018 which Kroll had also undertaken. The independent Kroll report shows that previous decisions, in the period from 2011 to 2016, were based on a strategic rationale to maximise rental income so as to support the Council's revenue base. While forms of information provision about the Council's objectives for these transactions were in place at that time, it was apparent that a wider and more open style of community engagement was not an aspect of the Council's general approach.

While the Kroll report identified no wrongdoing on the part of Members nor officers it did highlight a number of areas for the Council to consider its future approach. The report was presented to the Audit and Transparency Committee in March 2021, with six key recommendations being made by the Chief Executive. This includes providing guidance on the sufficiency, appropriateness and adequacy of officer drafted reports so as to ensure that Members receive rounded, objective, impartial, balanced and best professional advice in achieving the Council's agreed policies and plans. Progress against the recommendations will be reported to the Audit and Transparency Committee.

5. Conclusion

The Council is satisfied that appropriate governance arrangements have been maintained in 2021/22. It recognises however that these arrangements are designed only to manage risk down to a reasonable level and cannot provide absolute assurance that the Council will successfully deliver all of its policies, aims and objectives. We remain committed to maintaining and where possible improving these arrangements, by:

- Addressing issues identified by Internal Audit
- Addressing issues identified by External Review – including external inspections, peer reviews, the Centre for Governance and Scrutiny review, the ongoing Grenfell Public Inquiry and the recommendations arising from the independent Kroll review
- Focussing on key risks and areas for improvement
- Continuing regular, open and transparent engagement with local people

Barry Quirk Chief Executive	Cllr Elizabeth Campbell Leader
28 June 2022	28 June 2022

ACCOUNTING POLICIES are the specific principles, rules and procedures implemented by the Council to prepare its financial statements.

ACCRUALS are amounts included in the accounts for income or expenditure in relation to the financial year but not received or paid at year end.

AMORTISATION is the practice of reducing the value of certain types of assets to reflect their reduced worth over time.

BUSINESS, ENERGY AND INDUSTRIAL STRATEGY (BEIS) is the UK Government department responsible for policy areas such as business and industrial strategy, science, innovation, energy and climate change.

CAPITAL EXPENDITURE is spending on the acquisition or enhancement of non-current assets or advances and loans to other individuals or organisations.

CAPITAL RECEIPTS represent income received from the sale of fixed assets or the repayment of capital advances, subject to the Council's de minimis of £10,000, which may only be used to repay loan debt or to finance new capital expenditure. Certain flexibilities may be available in the use of Capital Receipts, but this would only be through a Secretary of State Direction.

CIPFA (CHARTERED INSTITUTE OF PUBLIC FINANCE AND ACCOUNTANCY) is the professional institute for accountants working in the public sector.

COMMUNITY ASSETS are a class of fixed assets that are expected to be held by the Council in perpetuity to deliver services (e.g. parks).

COUNCIL TAX is the local property tax on domestic dwellings within the borough.

COUNCIL TAX BASE converts the domestic properties in the Council's area by council tax band into an equivalent number of band D dwellings for the purpose of setting the council tax.

CREDITORS are owed money by the Council for goods and services it has received but not yet paid for at the end of the financial year.

DEBTORS owe money to the Council for goods and services they have received but not yet paid the Council for at the end of the financial year.

DEPARTMENT FOR LEVELLING UP, HOUSING AND COMMUNITIES (DLUHC), formerly the Ministry for Housing, Communities and Local Government, is the UK Government department for housing, communities, local government in England and the levelling up policy.

DEPRECIATION is a measure of the consumption of a fixed asset over its useful economic life, sometimes referred to as 'wear and tear'.

EFFECTIVE INTEREST RATE (EIR) is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

HERITAGE ASSETS have historical, artistic, scientific, technological, geophysical, or environmental qualities and are held and maintained principally for their contribution to knowledge and culture.

IMPAIRMENT represents a reduction in the value of a fixed asset due to obsolescence, damage, or an adverse change in the statutory environment.

INFRASTRUCTURE ASSETS are fundamental facilities and technical structures, such as highways and footpaths.

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) are a set of accounting standards developed by an independent, not-for-profit organisation called the International Accounting Standards Board (IASB).

INVESTMENT PROPERTIES are properties that are used solely to earn rental income and/or for capital appreciation. This definition does not apply if the property is used for the delivery of services or the production of goods.

NON-DOMESTIC RATES (NDR) is a levy on businesses, based on a national rate in the pound set by the Government and multiplied by the assessed rateable value of the premises they occupy. It is collected by the Council on behalf of itself, the Greater London Authority (GLA) and Central Government

NON-CURRENT ASSETS are assets that provide benefit to the Council and its services for a period more than one year.

OPERATING LEASE is a lease whose term is shorter than the useful life of the asset or piece of equipment being leased. It is commonly used to acquire equipment for use on a relatively short-term basis.

RELATED PARTIES are those bodies or individuals that have, through transacting with, performing services for or in any other way, the potential to control or influence the Council or be controlled or influenced by the Council.

REVENUE EXPENDITURE represents the Council's day-to-day spending on the provision of services including salaries, goods, and services.

REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE (REFCUS) is a type of expenditure which statutory law requires to be classified as capital for funding purposes, when it does not result in the expenditure being carried on the Balance Sheet as a fixed asset. Examples include works on property owned by other parties, renovation grants and capital grants to other organisations.

UK GAAP ACCOUNTING STANDARDS is the Generally Accepted Accounting Practice in the UK (UK GAAP). This is the body of accounting standards and other guidance published by the UK's Financial Reporting Council (FRC).

Index of Notes to the Statement of Accounts

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