Statement of Accounts 2019/20

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THE ROYAL BOROUGH OF
KENSINGTON
AND CHELSEA

Contents

Introduction

The end of 2019/20 and the first few months of 2020/21 has been a hugely challenging time for the Council, and the country as a whole, following the Coronavirus pandemic. The residents and businesses of Kensington and Chelsea have been hit hard by the illness and also by the economic effects of the lockdown that has been put in place to address it. The Council has played a key role in the fight against the virus, and the impact of the pandemic on the borough and the country will be huge both in the short and long term.

The Borough continues also of course to be deeply affected by the Grenfell tragedy on 14 June 2017. The borough has transitioned from response to recovery and is part way through delivering the five-year Grenfell Recovery Strategy which was agreed back in January 2019. Grenfell Recovery will continue to be the borough's top priority for many years to come. The lessons learned and experience gained from the Grenfell crisis has put the council in a strong position to proactively deal with the current Covid-19 crisis.

In March 2019 the Council agreed its 2019/20 budget. The Council took the necessary decision to implement council tax increase of 2.97% plus a 2% additional precept for social care. Despite this increase, the local element of Council Tax was the 4th lowest of the 33 London Boroughs (including the City of London). Performance against this budget is summarised within this report and spending plans for core services last year were broadly in line with the original budget set. There was an underspend against some of the Council's corporate budgets which will be transferred into our reserves to improve our financial resilience and sustainability, and this will likely now be needed to help meet the in year financial impact of COVID-19 in 2020/21.

Looking forward, the future of local authority funding remains uncertain as new Local Government funding arrangements that were meant to be in place by April 2020 have been delayed, and other external factors such as Brexit as the transition period comes to an end in December 2020, a potential second wave of COVID-19, and any prevailing impact of COVID-19 are a concern. The Council is facing financial pressures across the board including its Housing Revenue Account, Dedicated Schools Grant and the core General Fund where the Council is currently facing a £25 million budget gap over the next two years (before any ongoing COVID-19 impact). Whilst the Council holds reserve balances, these include a significant allocation ringfenced to support Grenfell recovery, support to deliver transformation to unlock savings, and a prudent proportion for meeting the impact of local unexpected events. Reserves can only be used once, and efforts should be made to meet ongoing budget challenges through a planned approach to expenditure reductions or increasing income generation. Reserves are best used to protect against one-off unforeseen circumstances (as proven by COVID-19) or to enable investment in transformative initiatives that can deliver a return in the long term. In March 2020, the Council had plans in place to deliver a three year Medium Term Financial Strategy to ensure an evidenced based long term approach to reviewing, and where required, transforming the way in which services are delivered to maintain or improve core outcomes linked to the Council Plan whilst also building financial sustainability. This longer term planning must continue but the public health pandemic has changed the Council, its services and how they are delivered so this will now be in the context of the Council's response through a recovery strategy for the COVID-19 crisis as we look to restore, recover and reimagine our services so that they better support our residents and communities. The approach to balancing the budget for 2021/22 has therefore focussed on a short-term approach of identifying efficiencies.

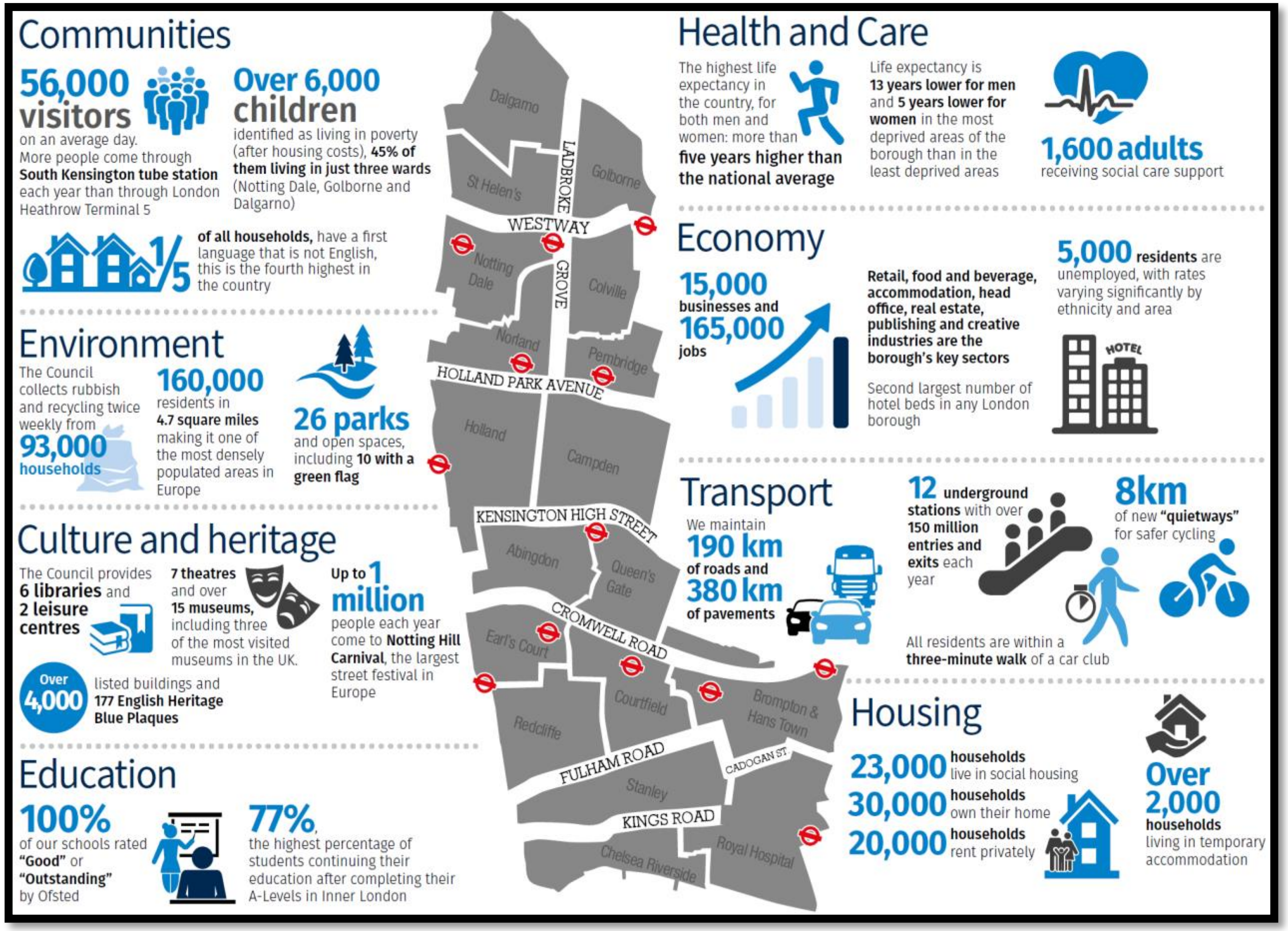
In order to continue to support plans for service improvement for 2020/21 and beyond, whilst adapting to the new operating context, the Council must proactively meet its financial challenges. This report highlights some of the progress already made during 2019/20.

Mike Curtis
Executive Director
of Resources

About the Borough

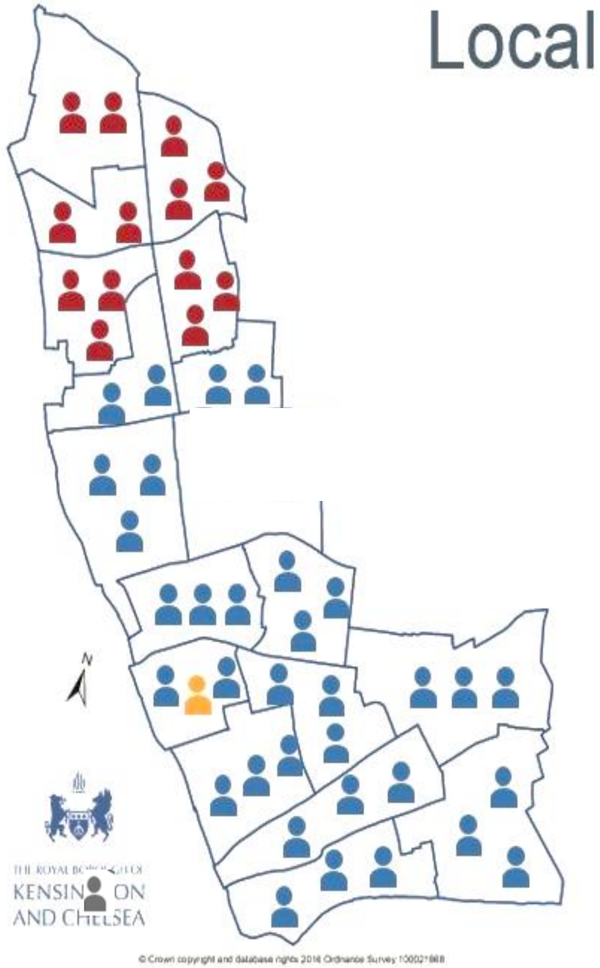
Kensington and Chelsea is a unique central London borough, home to places of great cultural importance, diverse communities and attractive streets and squares. The Borough has the smallest population of any London borough, yet sees significant numbers of visitors. This creates opportunities for the local economy but also brings additional costs. Population density is the fourth highest in London and this brings its own challenges.

The Council Plan and the Medium-Term Financial Strategy seek to ensure the Council’s services are targeted and appropriately funded and funding is targeted appropriately to meet the unique priorities of the borough.



Extract from the Council Plan – Published March 2019

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, 1 Liberal Democrat, and 1 Independent.

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 9 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 9 Portfolios are:

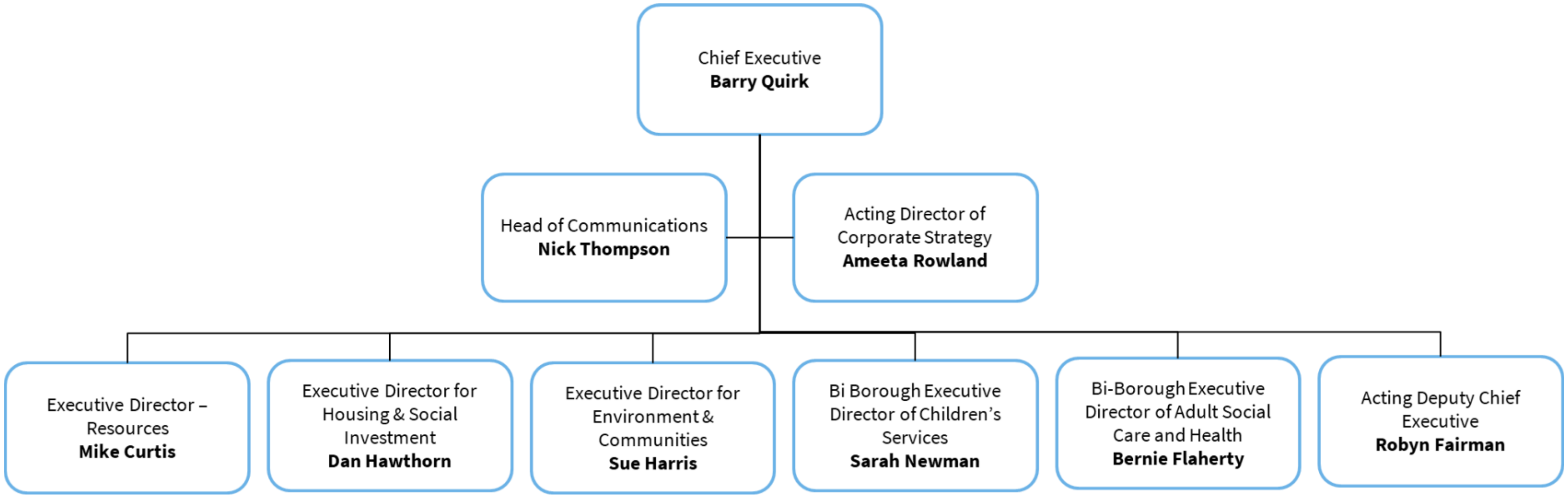
- Adult Social Care and Public Health
- Communities
- Economy, Employment and Innovation
- The Environment
- Grenfell, Housing and Social Investment
- Planning and Transport
- Finance and Customer Delivery
- Community Safety, Culture and Leisure
- Family and Children’s Services

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



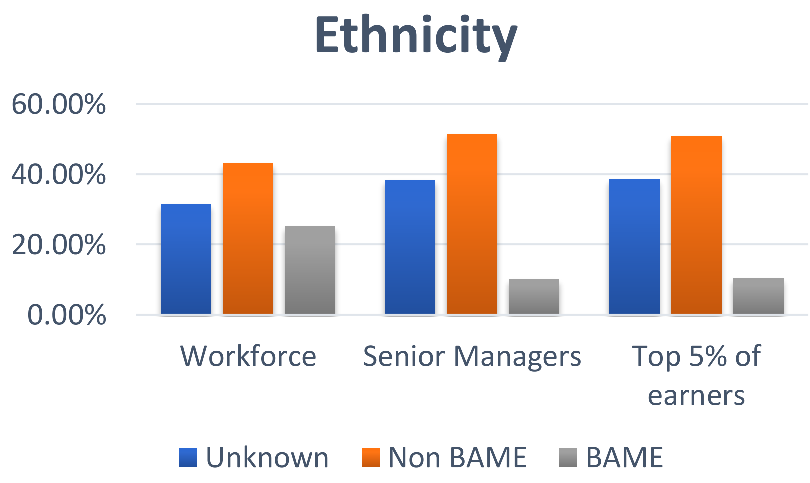
Across these five Executive Directorates, the Council employs 2,262 staff (2,097 FTE), figures that include shared services.

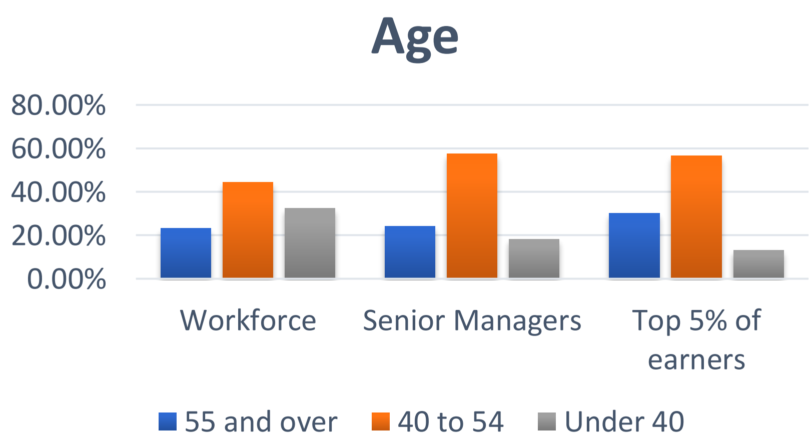
The Council operates several shared services with Westminster City Council in respect of Adult Social Care, Public Health and Children's Services. During 2019/20, the Council's previous shared service arrangements with Hammersmith and Fulham Council for environmental services were brought to an end. Disaggregation was complete by December 2019, with all services within the Environment and Communities portfolio now operated on a sovereign basis, except for Libraries which remain Bi-Borough with Westminster City Council.

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. The charts below show this broken down by ethnicity, age and disability.





As at April 2019 the Council’s mean gender pay gap is 6.6% and median gender pay gap is 6.8%.

Our Priorities

The Council Plan

The new Council Plan was published in April 2019. This set out the five priorities for the next four years and have been the focus of activity throughout 2019/20. These priorities will endure through the COVID-19 crisis.

These Priorities are explored in more detail over the page along with details of how The Council has been working to achieve them throughout 2019/20.

COVID-19

Following recent events, the Council's response to the Coronavirus pandemic will be a key priority in the short and longer term. The Council's COVID-19 Hub has been set up to support vulnerable residents who have been affected by the pandemic. The hub has been reaching out and ensuring that any urgent needs are met, including delivering food packages to those who don't have someone who can get shopping or medical supplies for them.

The Council has been on the front line in the fight against the virus, delivering Government backed support as well as developing and delivering locally funded support for residents. The Council is working with the voluntary and community sectors to support even more vulnerable residents, including those who are not part of the NHS list but who do not have families or friends to support them. The Council has increased the local Hardship Fund by £500,000 and is supporting those who need emergency financial support due to COVID-19 as well as making funding available for the next four months for Council tenants struggling to pay their rent and service charges, and pausing tenancy enforcement action for three months.

Meanwhile the Council has strived to continue to deliver core services where possible and all staff have been involved in enabling vital service delivery in this difficult period.

It is also a priority for the Council to support businesses and the self-employed through the pandemic, delivering grants to eligible businesses and applying the 2020/21 business rates holiday as promised by the Government. The Council has suspended rent invoicing for businesses in Council owned commercial property and storage units for three months and for those using the Council's commercial waste service.

Due to the timing of the crisis which started to impact in March 2020 the impact on these 2019/20 accounts is minimal but the crisis will have huge financial implications for the Council going forward, with increased costs in demand for certain services including social care as well as reduced income likely through lower collection rates of council tax, business rates and fees and charges contingent on the easing of lockdown and economic recovery nationally and locally.

Our Priorities and Performance 2019/20

Grenfell Recovery

In January 2019, the Council agreed a five-year strategy to support long-term recovery for the bereaved, survivors and others affected in the local community, supported by £50m of ringfenced Council funding. Since then, our focus has been on delivering the commitments set out in the strategy, including bespoke services for bereaved and survivors, the provision of ongoing support for the wider community and a Community Programme designed to support community-led recovery.

During 2019/20:

- We have established a Dedicated Service, providing wraparound, personalised support to bereaved and survivors and bespoke housing management services to support survivors in their new homes.
- We have continued to provide targeted emotional health and wellbeing services to those who were affected in schools and community-based settings.
- We have established a Community Leadership Programme, which is designed to provide resources to help local organisations grow and develop.
- We have launched the Grenfell Projects Fund and have held two successful participatory budgeting sessions with local residents, allocating £600,000 to local organisations.

Grenfell Recovery is the Council's number one priority and is a whole Council endeavour, so the Recovery Strategy initiatives sit alongside a much wider range of changes underway across the Council, all informed directly by learning from Grenfell.

A great place to live, work and learn

Most residents want the borough to remain as pleasant and attractive as it is. A key focus will be about ensuring that the rules around licensing, planning, traffic management and short term holiday lets are properly enforced. A new statement of community involvement was adopted by the Council on 12 February 2020 setting out how the Council engages with communities on planning matters. The development of the Economy Strategy will enable individuals and communities to thrive, widening access to employment and enterprise opportunities.

The borough's schools continue to be high performing, with 100% rated as good or outstanding and Educational achievement is high. The borough is the third highest performing for Key Stage 2 with 77% at expected levels in writing, reading and maths compared to the national average of 65%. In terms of GCSE performance, this is well above the national average with 76% achieving grades 4 to 9 in GCSE English and Maths compared to the national average of 65%.

The Council developed and agreed its New HRA Business Plan in January 2020 which sets out the Capital Investment plans for improvements to the Council's housing stock through to 2025/26 and plans for delivery of additional properties.

The New Homes Delivery Programme was agreed with 600 new homes to be built with at least 300 of these Committed as Social Housing . Planning applications for the first phase were submitted in March 2020 which covers 94 homes in the north of the borough, 45 at Social Rent, 22 at intermediate rent and 27 at open market rent improving the availability and mix of housing in the borough.

The library service has been meeting the needs of the socially excluded and digitally isolated and has developed a virtual library service.

There are of course, areas for improvement. There is continued work with Looked After Children and Care Leavers to improve educational outcomes and improve placement stability and dealing with inequality and structural unemployment challenges.

Into 2020/21, the Council is taking action to protect the local economy from the impacts of COVID-19 to protect businesses and the livelihoods of residents, and ensure there are continued opportunities for young people in the borough beyond the crisis.

Supporting and safeguarding vulnerable residents

The Council aims to give the borough's children and young people the best possible start in life and ensure they are protected from harm. This will mean a focus on early intervention. In relation to vulnerable adults, the Council will ensure that people have real choice and control in managing their health and wellbeing and develop digital solutions. An investment in prevention for both vulnerable children and older people is part of the solution for managing increasing levels of need and reducing budgets.

During 19/20 Children's Services were inspected by OFSTED and received an Outstanding rating in every category and judged to deliver "exemplary practice" for children who cannot live with their families, improving on the previous inspection rating from 2016 which was Outstanding overall. This is a shared service with City of Westminster Council and demonstrates how improving outcomes and delivering financial efficiency are not mutually exclusive.

Adult Social Care has statutory duties under the Care Act 2014 and in addition provides a number of discretionary services and is delivering long term support to approximately 1,700 people in Kensington and Chelsea and short term, preventative support to just over 1,000 people. Overall, Adult Social Care services benchmark as delivering good outcomes, are high performance and low cost compared to statistical neighbours. The service has adopted a strength-based approach to meeting the health and care outcomes of individuals focussing on people's self-determination and strengths to tailor better services.

The cost of supporting households in Temporary Accommodation continued to be the greatest cost pressure for the Housing General Fund budget. During 2019/20 the number of households living in temporary accommodation has dropped from 2,500 to 2,300. During the year a project was established to review Temporary Accommodation and has developed new processes and initiatives to improve practice, maintain quality of outcomes and reduce the overall cost of the service, delivery of which has already commenced in year and will continue into 2020/21 and beyond.

Into 20/21 as we face the challenge of the COVID-19 pandemic the Council is focussed on protecting its most vulnerable residents from the pandemic and other risks and continuing to provide the necessary support.

A place of culture to visit and explore

Kensington and Chelsea has one of the strongest visitor communities in London. The Council will develop a vision for the future of its high streets and plan for their improvement. The Council will continue to support the Notting Hill Carnival and other events which draw visitors and enrich the cultural scene. The new Creative and Culture Policy will harness and support the power of the arts and culture through bringing communities together and enhancing skills and enterprise to develop the next generation of talent.

In April 2019, the Council re-opened an improved Chelsea Old Town Hall following 15 months of refurbishment works. The building serves as the home of the borough's registrars service who each year on average register 7,000 births, 1,500 deaths and perform 2,000 marriages. Improvement works commenced at Leighton House Museum jointly funded by the Council, Friends of Leighton House, and Lottery Funding.

Another safe and successful Notting Hill Carnival was held in 2019 and the Council delivered a number of other cultural initiatives through the year including the Sparks Fly Circus & Science Festival during October half term.

Work started on development of a new Culture Plan to co-ordinate and maximise the future cultural opportunities in the Borough.

Healthy, clean and safe

The Council will promote the health and well being for the population as a whole and focus resources on reducing health inequalities between individuals and communities. The Council is committed to having the cleanest and best maintained streets in London and also play a key role in reducing emissions and improving air quality in the borough. The Council will continue to support the police to tackle crime and disorder in the borough.

The Council delivered a blood pressure monitoring project with Thrive Tribe (RBKC's Healthy Lifestyle service provider) with over 10,000 blood pressure checks provided through self-service machines in Kensington Central, North Kensington and Chelsea libraries.

The Council declared a Climate Emergency and set itself ambitious targets for achieving Carbon Neutrality for both the Council itself and the borough with environmental impacts to be considered as part of all decision making. This acts as another driver for change in how the Council operates and designs services in the future. Working with Repowering London Community Benefit Society, the Council has helped to develop and deliver the award-winning North Kensington Community Energy project which installs solar panels on community buildings.

Resident satisfaction is high across a number of environmental services and with the borough's parks and open spaces.

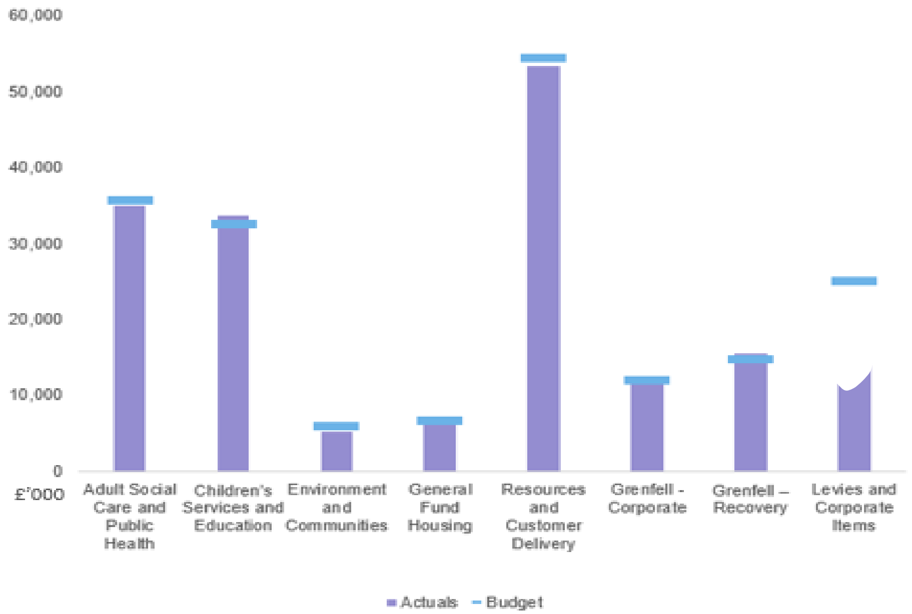
However, there are areas of challenge. Household waste is collected from over 93,000 households twice weekly, but the recycling rate remains in the lower quartile for London.

Into 2020/21, the Council's focus is on minimising the impact of COVID-19 and protecting the health and wellbeing of residents, and developing a strategy to restore, recover, and re-imagine services through and beyond the crisis.

Financial Performance 2019/20: Revenue

The Council's day-to-day spending on services is known as revenue expenditure. The end of year position on these budgets during 2019/20 was an underspend of £7.1 million, of which £381,000 is surplus parking income and has been transferred to the parking reserve. The remaining £6.7 million has been transferred to the Budget Stabilisation Reserve. Service expenditure against budget is shown in the table to the right and graphically below.

The overall position on services is a small overspend of £143,000 on services including Grenfell. In addition, there is an underspend of £10.3 million on corporate items.



Directorate	Budget £'000	Adjusted Outturn £'000	Variation £'000
Adult Social Care and Public Health	35,613	35,012	(601)
Children's Services and Education	32,474	33,748	1,274
Environment and Communities	5,920	5,266	(654)
General Fund Housing	6,555	6,817	262
Grenfell - Corporate	14,650	15,577	927
Resources and Customer Delivery	54,408	53,327	(1,081)
Total Service Expenditure	**149,620**	**149,747**	**127**
Grenfell – Recovery	12,000	12,016	16
Total Service Expenditure (including Grenfell)	**161,620**	**161,763**	**143**
Total Levies and Corporate Items	**25,061**	**14,750**	**(10,311)**
Use of Reserves	**(22,612)**	**(24,112)**	**(1,500)**
Resourcing	**(164,069)**	**(159,463)**	**4,606**
Total	**0**	**(7,062)**	**(7,062)**
Transfer to Parking Reserve			381
Transfer to Budget Stabilisation			6,681
General Fund Deficit/Surplus			**0**

£3.8 million of the underspend on Corporate Items is due to the full in year implementation of the Treasury Management Strategy and resulting unbudgeted increased investment income. This impact is a one off and budgets have been adjusted for 2020/21 to fully account for these increased expectations and inform budgeted spend.

Further details are available in the Councils Financial Outturn Report.

Financial Performance 2019/20: Capital

The Council invests money into the purchase, improvement or enhancement of fixed assets that are central to delivery of the public services we provide. These budgets are treated entirely separate to the revenue budgets.

The Council's Capital Strategy, approved by Leadership Team in July 2019, provides a framework for the allocation of resources to fund capital projects. The total capital expenditure incurred for the year was £47.8 million.

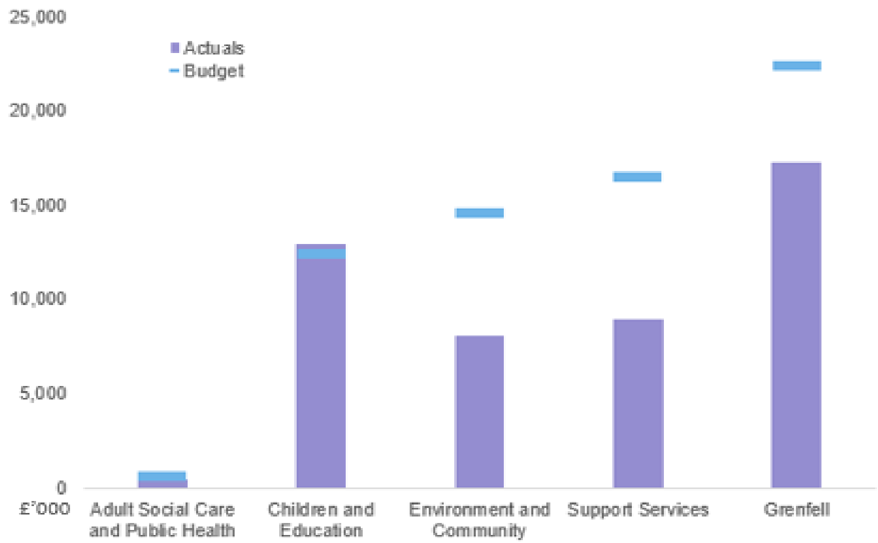
Work has continued on a wide range of other projects including £7 million on Barlby School as well as a range of highway related improvements and essential repairs to operational assets and initiating the New Homes Delivery Programme.

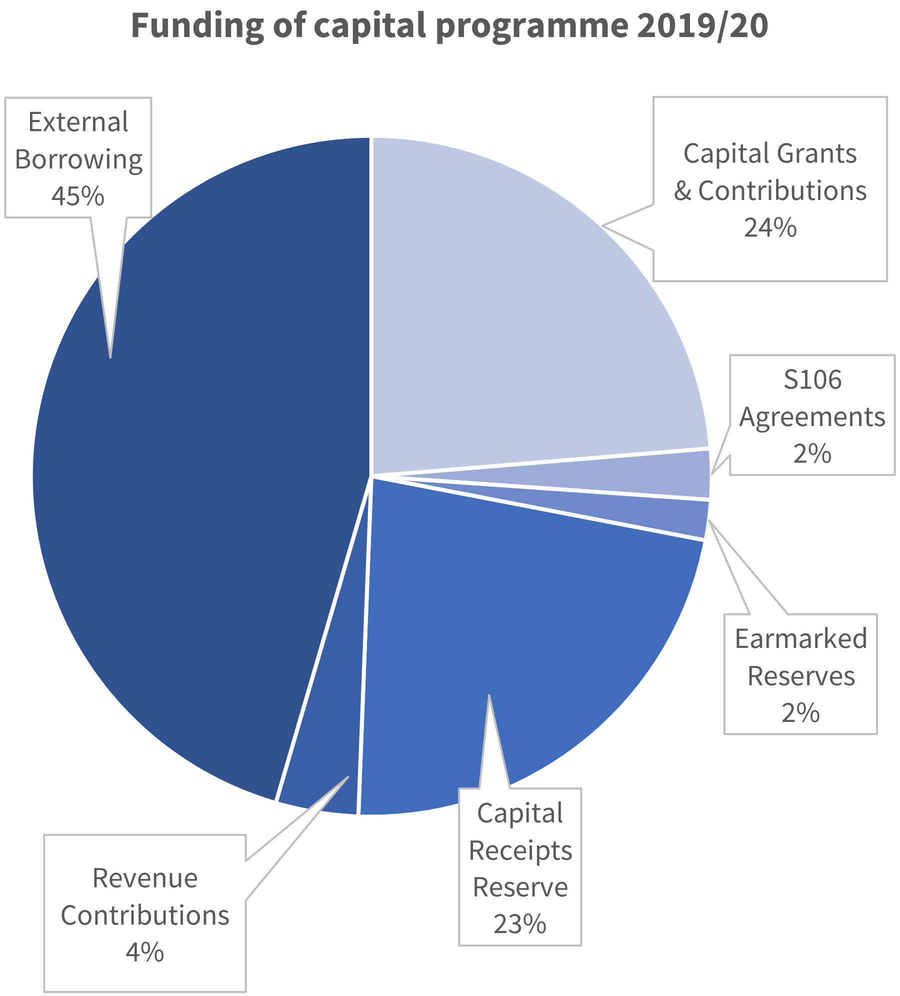
The capital programme has reported significant in-year underspends over the past few years resulting in continued slippage of budget into subsequent years.

This trend has continued into 2019/20 and budget for capital spend overall underspent by £24 million against budget. Of this, £23.525 million relates to spend that will now be incurred in the financial year 2020/21 and £506,000 has been identified as a net underspend on required expenditure.

During 2019, the Council commissioned an external review of the Council's capital programme governance arrangements. This review made several recommendations and an action plan has been put into place to address the issues and recommendations raised to strengthen the governance and decision making of the programme.

	Budget £'000	Actuals £'000	Variance £'000
Adult Social Care and Public Health	**568**	**434**	**-134**
Children and Education	**12,433**	**12,996**	**563**
Environment and Community	**14,561**	**8,097**	**-6,464**
Support Services	**16,444**	**8,967**	**-7,477**
Grenfell	**22,369**	**17,282**	**-5,087**
Contingency	**5,443**	**0**	**-5,443**
RBKC GF Total	**71,818**	**47,776**	**-24,042**





The Council's 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). At 31 March 2020, the Council's external borrowing totalled £263.8 million. (£218.8 million at 31 March 2019). The Council's 2019/20 Treasury Management Strategy had anticipated £80 million of new borrowing during the year, with £5 million of PWLB debt being repaid. However, only £50 million was borrowed in the year due to cash balances remaining relatively high as a result of the capital programme spending less than budget.

The Council's primary capital receipt in year was £10 million, including proceeds from the sale of the Wornington Road site, which will be held in the Capital Receipts Reserve, earmarked to fund the delivery of Affordable Housing across the Borough.

The funding of the capital programme in 2019/20 is summarised opposite, showing that 45% (£22 million) was funded by external borrowing.

Financial Performance 2019/20: 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. Annual income from these dwellings is in the region of £50m.

Overall, at the end of the year there was a draw-down of £7.156 million against the HRA Working Balance, taking the balance to £7.5 million. This reflects the level of spend on repairs and increased energy costs.

It has been accepted that the Council should not budget for the working balance to drop below £5 million. The current financial situation is therefore of concern and mitigating action may be required in year if other significant pressures are identified.

The total capital budget for the HRA was originally set at £37.79 million. This was revised during the year to £17.379m. This reflected the timing of some major projects and was based on advice from professional consultants, the resident consultation process, the outcome and timing of stock condition surveys and the procurement arrangements.

The outturn position was expenditure of £19.34 million. Expenditure in the later months of the year was higher than anticipated, resulting in an overspend against the revised budget. However, these costs will be contained within the overall 7-year capital budget which has been set for the HRA.

Risks

A risk management strategy is in place to identify and evaluate risks. Councillors considered a risk analysis of the Council's proposed budget for 2020/21 when setting the Budget at Full Council in March 2020. These and other key risks for the organisation which have budget and funding implications are set out over the following pages.

The Council monitors and seeks to mitigate risks where possible on an ongoing basis, including managing the financial and budget implications through effective financial management to identify, manage and mitigate these risks and by maintaining sufficient levels of reserves and a contingency budget to protect against uncertain events. These can then be used appropriately if risks materialise and cannot be otherwise managed.

Covid-19

The Coronavirus pandemic is already having direct impact on service delivery across the council and also impacts how the Council can involve communities (a key aspect of The Council Plan) with social distancing measures in place. The crisis is expected to bring a major impact to the Council's finances, both through an increase on costs to key services including social services, and through lower than expected income from council tax, business rates, and fees and charges. These effects are still being modelled but there will be an immediate one off impact in-year as well as longer term implications.

Whilst some funding has been provided by government this will not be sufficient, and whilst the Council maintains a Prudent level of reserves which are in part intended to help manage unforeseen events, the scale and impact of the crisis are too great and would leave the Council with insufficient reserves for future use.

Government Funding

Local Government grant funding has been under continued pressure placing greater reliance on income generated locally. The benefit of this is greater control and certainty for the Council in terms of its spending power, but there are risks associated with these local sources which can be volatile to changes in economic conditions.

The Council has been awaiting the results of the Fair Funding Review being conducted by MHCLG which is looking at the drivers behind Local Government Funding allocations, and also the review of the Business Rates Retention System. This had previously been delayed from April 2020 to April 2021 and the government have since announced it will no longer be implemented in 2021/22 following the pandemic. There is a risk that funding will be redistributed across the country and as a result London councils may lose out.

Economic Conditions	The impact of economic conditions including increases in inflation and rising interest rates can be a cost driver. For every 1% increase in inflation, this can mean a £4.2m increase in running costs. Reduced interest rates lower investment returns but the need for capital investment means the Council is likely to require long term borrowing. This is likely to be available at a lower interest rate than previously anticipated.
Delivery of Savings	The Council was able to set a balanced budget for 2020/21 in part as a result of £9.3m of new budget reductions put forward by Services. However identification and delivery of savings beyond 2020/21 is more challenging. There is currently a budget gap of £25m over the next two years and although work has started, budget reductions of this magnitude require a fundamental change in the way services are delivered if they are to be sustainable and minimise the impact on priority service delivery and outcomes. The Coronavirus pandemic will inevitably increase this budget gap without additional funding from central government.
Brexit	Although the UK left the European Union on 31 January 2020 the country is currently in a transition period while the future trading arrangement is negotiated. This is due to end 31 December 2020 although there is the possibility this will be extended. The ongoing uncertainty means the potential impact cannot be forecast with great certainty. The terms under which the UK will trade with the EU can have a potential impact on local and wider economy and Local Government – including the ability to generate revenue, the supply and cost of staff, higher prices, local property values, changes to legislation and many more.
Demographic Growth	The Council faces direct pressures on both spending and income budgets. For example demographic and demand led pressures, particularly in housing and homelessness, and supporting children and adults with high complex needs. As part of financial planning processes these demands are continually reviewed and forecasted over the medium term for inclusion in financial plans and mitigating actions identified but the risk remains that demand exceeds expectations resulting in a budget shortfall.

Demographic Growth

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Grenfell Inquiry

In October 2019, the report following phase 1 of the Public Inquiry into the Grenfell Fire was published. This made a number of recommendations and the Council is considering these in advance of any legislation coming into effect. Phase 2 of the Public Inquiry began on 27 January 2020 and had expected to be completed around mid-2021. However this was suspended in March as a result of the Coronavirus pandemic and completion is likely to be further pushed back.

Until the Grenfell Public Inquiry has been completed and the police have completed their investigation into possible charges of corporate manslaughter arising from the fire, the Council is unable to quantify what further long term costs in terms of liability, if any, may arise from the fire. No provision has been made in the Council's accounts for any potential costs.

Other Service Specific

The HRA business plan agreed in 2019/20 lays out plans for delivery of an ambitious programme within a tight funding envelope, with working balances as at 2019/20 outturn already coming under pressure and at risk of falling below prudent levels. The Council is continuously reviewing the business plan and adjusting the financial model to mitigate this risk whilst enabling continued delivery of plans.

Funding from health for integrated services and integrated budgets forms a significant proportion (25%) of the total spend on social care and integrated services. The Council's future plans are significantly influenced by, and dependent on, the Council's partnership with health and the future of health and social care integration across North-West London.

The DSG funds Schools, Early Years Services, and additional services and alternative educational provision for children with high needs. This is governed through the Schools Forum. Recent guidance requires the Council to develop a 3 year recovery plan if the DSG falls into deficit. The DSG for RBKC is in deficit and whilst a recovery plan has been developed there was an overspend in 19/20 further adding to this. A review is taking place and the recovery plan will be devised with the Schools Forum.

Outlook

The Government has been undertaking a review of how Local Government is funded and had previously intended to have a new fair funding formula in place from April 2020 following a delay to the original timeframe. However, this has again been delayed due to the COVID-19 pandemic and is not now expected until 2022. At this stage there is no indication on how this will directly impact the Council which creates considerable uncertainty for financial planning.

At time of writing, the COVID-19 Pandemic remains a considerable issue nationally and within the Borough. This is having a considerable impact on the Council’s in year financial position for 2020/21 as it reshapes its service offer to support residents and businesses resulting in additional expenditure. As a result of lockdown income is significantly impacted and dependant the economic recovery. It is likely this will have a lasting impact into future years.

In 2019/20, the Council established a programme to focus on challenging service delivery and internal processes across the Council to ensure all spend is in line with the delivery the five priorities in the Council Plan, putting the customer at the heart of service design and delivery, and to ensure that resources are allocated accordingly whilst meeting a 3 year £40 million budget gap. This helped to identify the required budget reductions to set a balanced budget for 2020/21 whilst ensuring high quality in the services that matter most to residents. However, some of those projects planned to deliver savings may no longer be delivered in-year as the operating context has changed and resources have been diverted to support the crisis.

Whilst the Council holds reserves, any use of reserves to balance the budget is not sustainable and therefore a different approach to service delivery is required. The Council Plan sets out the priorities and guides the Council as it looks to develop its strategy to restore, recover and reimagine its services through the COVID-19 crisis so that they deliver on the Council’s priorities and better support the lives and livelihoods of residents and communities within the new financial envelope. The programme will therefore take a new form and seek to identify in-year as well as longer term savings.

Whilst a lot has changed since the Council initially set its 2020/21 budget and a lot of uncertainty remains at time of writing, ambitious plans for Service Delivery in 2020/21 remain including:

- Delivery of the HRA business plan making significant improvements to existing housing stock
- Continued delivery of the New Homes Programme with the first phase of homes planned to be ready by 2022, and phase 2 planning applications will be submitted during 2020/21
- New contracts to deliver Waste & Street Cleansing and Parks Maintenance Services
- Developing the route map for carbon neutrality by 2030

- Reviewing the way the Council commissions services to ensure it is more efficient, aligned to Council priorities and our communities' voice is at its heart
- Continuing to deliver the redesigned Pre-birth to 5 programme
- Developing a 3-5 year programme across Adult Social Care reviewing the client pathway from 'front door' to long term support and developing a sustainable service focussed around choice and control for individuals, strength based support, and developing strong and reliant communities and flexible accommodation options.

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.

Copies of these financial statements can be obtained by contacting:

Lubna Nasir CPFA ACMA(UK) CGMA
Chief Accountant
Kensington Town Hall
Hornton Street
London
W8 7NX

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ROYAL BOROUGH OF KENSINGTON AND CHELSEA

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the Royal Borough of Kensington and Chelsea (the 'Authority') for the year ended 31 March 2020 which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, the Collection Fund and notes to the financial statements, including a summary of significant accounting policies. The notes to the financial statements include the Notes to the Core Financial Statements, Notes to the Housing Revenue Account and Notes to the Collection Fund. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2020 and of its expenditure and income for the year then ended;
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

The impact of macro-economic uncertainties on our audit

Our audit of the financial statements requires us to obtain an understanding of all relevant uncertainties, including those arising as a consequence of the effects of macro-economic uncertainties such as Covid-19 and Brexit. All audits assess and challenge the reasonableness of estimates made by the Executive Director of Resources and the related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the Authority's future operational arrangements.

Covid-19 and Brexit are amongst the most significant economic events currently faced by the UK, and at the date of this report their effects are subject to unprecedented levels of uncertainty, with the full range of possible outcomes and their impacts unknown. We applied a standardised firm-wide approach in response to these uncertainties when assessing the Authority's future operational arrangements. However, no audit should be expected to predict the unknowable factors or all possible future implications for an authority associated with these particular events.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Executive Director of Resources' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Executive Director of Resources has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

In our evaluation of the Executive Director of Resources' conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20 that the Authority's financial statements shall be prepared on a going concern basis, we considered the risks associated with the Authority's operating activities, including effects arising from macro-economic uncertainties such as Covid-19 and Brexit. We analysed how those risks might affect the Authority's financial resources or ability to continue operations over the period of at least twelve months from the date when the financial statements are authorised for issue. In accordance with the above, we have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Authority will continue in operation.

Emphasis of Matter – effects of Covid-19 on the valuation of land and buildings and property investments

We draw attention to Note 3 of the financial statements, which describes the effects of the Covid-19 pandemic on the valuation of the Authority's land and buildings and investment properties and the Authority's share of the pension fund's property investments as at 31 March 2020. As disclosed in note 3 to the financial statements, the outbreak of the COVID-19 virus has had an impact on market activity in the real estate sector and, consequently, the Council's valuers feel that less weight may be attached to previous market evidence for comparison purposes, to inform opinions of value. The valuers are faced with an unprecedented set of circumstances on which to base a judgement and so values they have provided are reported on the basis of a "material valuation uncertainty" as per VPS 3 and VPGA 10 of the RICS Red Book Global. This declaration means that, in the current circumstances, less certainty, and a higher degree of caution, should be placed on the valuation of these assets than would otherwise be the case. Likewise in respect of the net pension liability, the current response to COVID-19 means pooled property valuations are reported on the basis of 'material valuation uncertainty' as set out in VPGA 10 of the RICS Valuation Global Standards. Consequently, less certainty and a higher degree of caution should be attached to the valuations than would normally be the case.

Our opinion is not modified in respect of these matters.

Other information

The Executive Director of Resources is responsible for the other information. The other information comprises the information included in the Statement of Accounts other than the financial statements and our auditor's report thereon and our auditor's report on the pension fund financial statements. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge of the Authority obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with the 'delivering good governance in Local Government Framework 2016 Edition' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

Opinion on other matter required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority gained through our work in relation to the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources, the other information published together with the financial statements in the Statement of Accounts for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;

- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters**.**

Responsibilities of the Authority, the Executive Director of Resources and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Executive Director of Resources. The Executive Director of Resources is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20, for being satisfied that they give a true and fair view, and for such internal control as the Executive Director of Resources determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Executive Director of Resources is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the Authority will no longer be provided.

The Audit and Transparency Committee is Those Charged with Governance. Those charged with governance are responsible for overseeing the Authority's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Report on other legal and regulatory requirements - Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed our work to give our conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources.

We are satisfied that this matter does not have a material effect on the financial statements for the year ended 31 March 2020.

Further, we cannot formally conclude the audit and issue an audit certificate in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the Authority for the year ended 31 March 2020. We are satisfied that this work does not have a material effect on the financial statements for the year ended 31 March 2020.

In addition, we are required to give an opinion on the consistency of the pension fund financial statements of the Authority included in the Pension Fund Annual Report with the pension fund financial statements included in the Statement of Accounts. The Local Government Pension Scheme Regulations 2013 require authorities to publish the Pension Fund Annual Report by 1 December 2020. As the Authority has not prepared the Pension Fund Annual Report at the time of this report we have yet to issue our report on the consistency of the pension fund financial statements. Until we have done so, we are unable to certify that we have completed the audit of the financial statements in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Paul Grady

Paul Grady
Key Audit Partner

for and on behalf of Grant Thornton UK LLP, Local Auditor

London

19 November 2020

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; and
- 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; and
- 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 2019/20 (set out on pages 52 to 130 and 135 to 155) gives a true and fair view of the financial position of the Council as at 31 March 2020 and its income and expenditure for the year ended 31 March 2020.

Mike Curtis
Executive Director of Resources (CFO)

Cllr Ian Wason
Chairman, Audit and Transparency Committee

18 November 2020

Introduction and purpose of the Annual Governance Statement

This Annual Governance Statement summarises the Council's key governance mechanisms and records and where applicable, the significant governance issues that need to be addressed over the coming year. Whilst the document provides updates on two areas identified in the 2018/19 statement, no new governance issues of significance have been identified in 2019/20. The full *Code of Corporate Governance* can be found on the Council's website and forms part of the Royal Borough's Constitution (available at https://www.rbkc.gov.uk/Council-and-democracy/how-Council-works/constitution – Part 8).

During 2019/20 a review of the Code of Corporate Governance was undertaken and the Council approved and adopted a new Code of Corporate Governance ("the Code"), which is consistent with the principles of the CIPFA/SOLACE Framework Delivering Good Governance in Local Government. The Code was reviewed and updated for the Audit and Transparency Committee in February 2020.

This statement explains how the Council has complied with the Code and meets the requirements of Accounts and Audit Regulations 2015, regulation 6(b), which requires all relevant bodies to prepare an annual governance statement. A governance framework, as set out in the Code, has been in place for the year ended 31 March 2020 and remained in place up to the date of approval of the Statement of Accounts.

1. Scope of responsibility

The Council is responsible for ensuring a sound system of governance; that its business is conducted in accordance with the law and proper standards; and that public money is safeguarded, properly accounted for and used economically, efficiently and effectively.

In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs and facilitating the effective exercise of its functions, which includes arrangements for the management of risk.

2. The Governance framework

Corporate governance generally refers to the process by which organisations are directed, controlled and held to account.

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; and
- How to manage the risks appropriately, given the agreed objectives.

In order to support good governance, reliance is placed on the Council's governance framework. Further information about transparency and openness in the Council can be found at: www.rbkc.gov.uk/Council-and-democracy/open-data-and-transparency.

Following the Grenfell Tower fire, the Council commissioned an independent review of its governance by the Centre for Public Scrutiny (CfPS). This review was published on 7 March 2018 and the Council's response, including a detailed action plan, was approved by the Leadership Team in July 2018. After this a 'Borough and Area Governance Review' was undertaken. This concluded in Spring 2019 with reports implementing governance changes submitted to the May and July 2019 Council meetings.

3. The Constitution

The conduct of the Council is defined by formal procedures and rules which are in the Constitution. This sets out how the Council operates, how decisions are made and the procedures that are followed. The Constitution was reviewed in 2019/20 and the Council adopted the current version of the Constitution at its meeting on 24 July 2019, except for the 'Charter for Public Participation'.

The 'Charter for Public Participation' was developed during a 12-week consultation in late 2019, adopted by the Council in January 2020 and incorporated into the Constitution as well as being published as a standalone document. It provides a short 'high level' statement and explanation on how local people can get involved both in Council meetings and can influence decisions and the development of policies, plans and services that affect them. It has been socialised throughout the Council and, importantly, commits the Council to consulting with local people on matters that affect them well before taking decisions.

4. The Council

In 2019/20, the Council comprised fifty Councillors, across eighteen Wards of which fourteen were three-member Wards and four were two-member Wards. Following elections in May 2018, the composition of the Council was: Conservative 36, Labour 13 and Liberal Democrat 1. Since then, one Conservative member has become independent, reducing the number of Conservative Councillors to 35. In 2019/20, full Council meetings took place seven times in the year. During 2020/21, eight meetings are planned. They are currently being held online in public in light of the ongoing Covid-19 response. The Council was the first in England to hold its Planning Committee as a remote meeting. This was done shortly after the government laid regulations in parliament to allow public meetings to be held remotely.

In 2018, the Council signed up to the recommendations of *the Hillsborough Charter*, which means that the Council maintains a stance that reflects the duty of candour and openness in everything it does in relation to the Public Inquiry, the Police investigation, and in all of its work.

Agreeing *the Hillsborough Charter* means that the Council and its managers, staff and agents are obliged to be truthful in their particular and general responses and they are also obliged to disclose relevant information and be open in their approach to the enquiries of others.

The Council embarked on further changes to its governance structures and approach in 2019/20 which are set out later in this Statement. Changing our governance and management arrangements, improving our service responsiveness, altering our approach to investment, and humanising our organisational culture are some of the small steps we can make as an organisation to reinvent our relationship with the communities we serve.

5. How the Council operates

The Council is a large organisation and is responsible for providing or commissioning many separate services. Full details of the management and political structure is set out in the narrative section of the accounts.

The Council's main resources are its staff and its financial resources. At the end of March 2020, across five Executive Directorates, the Council employs 2,262 staff (2,097 FTE). In terms of financial resources, 2019/20 spending on the day to date running of these services was £743m. The capital programme invested a further £48m to deliver a wide range of projects, including investment in children's centres, the borough's schools, transport and highway improvements and the Council's property estate. Full details are set out in the narrative section of the Statement of Accounts and the end of year outturn report that was presented to Leadership Team on 15 July.

During 2019/20 the Council commissioned PWC to undertake an external review of the processes and governance arrangements for capital investment across the borough. Officers are currently implementing the Action Plan arising from that review, which it is intended will introduce measures to address the high levels of slippage that has incurred in recent years, improve accuracy of budgets, monitoring and scrutiny of delivery, and timely delivery of projects.

The Council is responsible for the administration of the election process at European, national and local level.

The Council's Constitution sets out how the Council operates, how decisions are made and the procedures that are followed to ensure that these are efficient, transparent and accountable to local people. Some of these processes are required by law, while others are for the Council to determine.

The Council is required to appoint a Monitoring Officer who monitors and reviews the operation of the Constitution and ensures the aims and principles of the Constitution are achieved. The Monitoring Officer advises on compliance with the Constitution; and, together with the Director of Law, ensures that decision making is lawful. The Chief Solicitor has been appointed to this statutory post and has been involved in preparing this statement.

It is the role of senior staff, led by the Chief Executive, to provide policy options and analysis to Councillors in respect of decisions. Councillors must have regard to officer recommendations prior to taking key decisions. Council staff manage the day-to-day business of the Council.

The Head of Paid Service (Chief Executive) is Barry Quirk and Councillor Elizabeth Campbell is the Council Leader. Since the Grenfell Tower tragedy in June 2017 the Council has iteratively reorganised its senior team. Five Executive Directors form the Executive Management Team with the Chief Executive and meet weekly to apply their collective leadership to corporate issues. Two of these posts are shared, on a Bi-Borough basis with Westminster City Council. A Senior Management Forum, made up of the next tier of the directors in the organisation, meets monthly.

Under the most recent review of management arrangements, "Forward 2020", a new Housing and Social Investment directorate has been created, consisting of a new social investment team and its housing services. The latter were previously under the auspices of the

Grenfell directorate, established in 2017 to provide a focussed response to the tragedy. The remaining Grenfell-specific functions, with the responsibility of delivering the £50m recovery programme, are being led by a new Director of Grenfell Partnerships, reporting directly to the chief executive.

A new Director of Communities has been appointed to bring more senior management attention to this important area, and a Director of Corporate Strategy post created with responsibility for programme management, corporate performance and monitoring the delivery of the Council Plan. All of these changes were implemented between July 2019 and March 2020.

The Council's most significant and sensitive 'key decisions' are made by the Leadership Team and, in some circumstances, by individual executive Members. In July 2019, following a review by the Centre for Public Scrutiny and an internal review of Borough and Area Governance, the Council approved changes to scrutiny. From then, one overarching Overview and Scrutiny Committee and four Select Committees have been operating and providing scrutiny over Council decisions (Adult Social Care and Health, Family Services, Housing and Communities and Environment) The Overview and Scrutiny Committee has the chairs of each of the Select Committees among its membership.

In 2017, the Government appointed an Independent Grenfell Recovery Taskforce, chaired by Baroness Jane Scott. This was a non-statutory intervention designed to make sure that the Council was able to deal with the long-term recovery from the Grenfell Tower fire, and acted as an assurance board for the Secretary of State.

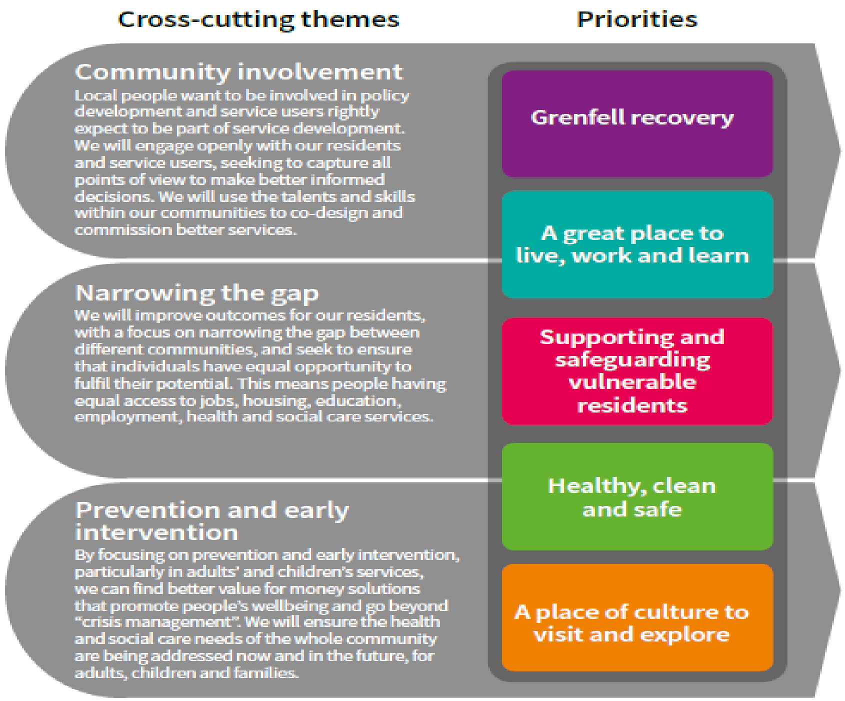
The Taskforce published its final report in March 2020, when the Government said they were confident that RBKC can continue to improve without further support from the Taskforce. The Government will continue to oversee the council's progress through the Grenfell Ministerial Recovery Group, which has met on regular basis since 2017. Following the announcement of the lockdown by Government on 23 March 2020, the Council's Emergency Planning arrangements were invoked, and the structures set out in the Emergency Plan came into operation. Specifically, Gold (Strategic) and Silver (Tactical) meetings were initially taking place on a daily basis from mid-March. Regular informal meetings of Leadership Team were also taking place throughout the period. The capital's emergency response was overseen by London Gold through the London Resilience Forum.

For a short period at the beginning of lockdown the Council put in place arrangements for urgent decisions to be approved by the Leader and published the intention to do so on the Forward Plan. The Council subsequently returned to taking decisions in the normal manner by mid-May 2020. Other than the short-term measure introduced to enable urgent decisions regarding the emergency response to be made and a short period where public meetings were not held, the Council's governance framework has not been impacted. Following the introduction of remote meetings in April 2020, the Leadership Team and other committees (including scrutiny) began meeting remotely from May 2020 onwards.

6. Strategic plans and policies

The Council Plan adopted in March 2019 sets out our priorities as a Council for the four years up to 2023. It seeks both 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.

Three cross-cutting themes run through the Plan, demonstrating the Council's commitment to work with communities in new ways, while five strategic priorities guide the work of the Council in achieving its vision:



The Council Plan is supported by a suite of strategies to support the delivery of the corporate priorities and approaches, such as our Economy Strategy and Housing Strategy. The *Grenfell Recovery Strategy* sets out our plans to support long-term recovery for the bereaved, survivors and those affected by the Grenfell tragedy from the local community. Overall, £50m was committed to support the recovery programme over 5 years (2019/20 to 2023/24).

Delivering our Council Plan has also required a radical change to the culture of the Council, equipping our staff to build relationships, work collaboratively and to work in service to the community with respect, kindness and integrity. Our four values for staff are: *putting communities first*; *integrity*; *respect*; and *working together*. These values underpin our performance appraisal scheme (including performance related pay), our recruitment processes, our corporate induction, and our communications with staff.

Our People Strategy sets out how the organisation will continue to support and encourage staff, increase the diversity of our staff, and promote the Council as a workplace to those who live locally, to ensure the Council's workforce reflects, as far as is possible, the communities it serves. The annual revenue and capital budgets are prepared, consulted upon and notice given in the Forward Plan.

The budget is considered and approved by full Council in March each year. This sets the level of Council Tax and capital investment for the forthcoming financial year.

7. How we ensure our arrangements are working effectively

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

Audit and Transparency Committee - Seeking assurance

The Audit and Transparency Committee has responsibility for receiving reports that deal with issues key to good governance, as well as areas identified as requiring improvement. The Committee uses the reports it receives to hold Directors and officers to account for the systems, services and risks they manage, as well agreeing and seeking assurance over the implementation of risk and counter fraud policies, as well as approving the annual accounts.

During the year, the Committee continued to review the Council's compliance with key controls on key systems and procedures, the associated management of risk in these areas and requested follow up reports from senior management on the following:

- the management of performance and risks in housing management service;
- how risks were being managed in respect of the disaggregation of Environment Leisure and Resident Services from LBHF;
- the Council's insurance service and claims against the Council, including claims for accidents; and,
- the management of risks relating to emergency planning and external threats such as terrorism and extremism.

The Committee considered the effectiveness of its own arrangements against best practice standards and guidance published by the Chartered Institute of Public Finance and Accountancy. While the review found that the Committee met the key requirements for an effective audit committee, it was agreed that the Committee would develop and maintain a forward plan/work programme and an action tracker to ensure that actions they had requested had been implemented. In addition, the Committee undertook to hold a separate private meeting with the external auditor, which took place in July 2019.

The Committee continued to receive regular reports and assurance updates in line with the Committee's Terms of Reference. The following table provides a summary of the matters which the Committee considered in 2019/20:

Jun 2019	• Annual Report on Internal Audit and Internal Control 2018/19 • Anti-Fraud End of Year Report 2018/19 • Risk Management Update • Annual Treasury Report 2018/19	**Jul 2019**	• Reintegration Risk Appraisal (Environment and Communities) • Annual Governance Statement 2018/19 • Report to Those Charged with Governance - ISA260 (External Auditor's Report on the Annual Accounts for 2018/19) • Council and Pension Fund 2018/19 Statement of Accounts • The Use of Covert Surveillance Powers • Review of Effectiveness (Internal Audit and Audit Committee)
Sep 2019	• Revised Audit Findings Report (ISA260) and Letter of Representation for the Accounts for 2018/19 • Update on Housing Management Services • Internal Audit Charter and Strategy • Internal Audit Progress Report • Treasury Management Activity Report • Committee Forward Programme and Action Tracker	**Nov 2019**	• Treasury Management Activity Report • Forward 2020 – Chief Executive's Report • Anti-Bribery and Corruption Policy • Anti-Money Laundering Policy • Fraud Response Plan • Anti-Fraud Half Year Report - 2019/20 • Internal Audit Progress Report • Strategic Risk Register • Committee Terms of Reference review • Committee Forward Programme and Action Tracker
Feb 2020	• Treasury Management Activity • External Audit Plan 2019/20 • External Auditors Progress Report • Risk Management Update • Insurance Report • Draft Internal Audit Plan 2020/21 • Internal Audit Progress Report • Local Code of Corporate Governance • Oral Report on IBC (managed service provided by Hampshire CC) • Chairman's Annual Report • Forward Programme and Action Tracker		

Scrutiny Arrangements

During 2019/20, the following arrangements were in place. Lead Members make up the Executive and are responsible for undertaking all the Council's functions not reserved to full Council or delegated to Committees or officers. Lead Members take key decisions, either individually or collectively as the Leadership Team. The Executive is held to account by the Overview and Scrutiny Committee and four Select Committees. Each has a specific remit with the aim of:

- Holding the Leader and Leadership team to account for their decisions and officers to account for the advice that they give;
- Contributing to the development of policy by investigating issues of local concern, including local services delivered with/by partner organisations);
- Reviewing council policy, the way policies are implemented and their impact on local people;
- Scrutinising decisions before they are made and implemented or scrutinising the implementation of decisions; and,
- Involving the public in any of the above activities.

Membership of the Select Committees reflects the political representation of the Council. The Chair of each Select Committee sits on the Overview and Scrutiny Committee, which agrees and co-ordinates the annual scrutiny work programme across all of the committees to ensure they scrutinise the most important topics and issues falling within their remit and deliver tangible outcomes. Residents, Councillors and officers participate in this programme of work. In addition to formal committee meetings, scrutiny can carry out its work in a range of different ways. This can include establishing time-limited working groups (usually made up of three or four Councillors drawn from that Committee's membership) to look at the issues that have been identified for review. These working groups consider evidence and views from a wide range of stakeholders, including professionals, service users and academic experts, as well as studying national best practice and guidance. At the end of the evidence gathering phase, a report is produced with recommendations intended to resolve the issue or improve the way the Council operates.

As set out earlier in the document, a review of scrutiny arrangements arose from the CfPS Review report in March 2018 and has led to the Council adopting the recommendations made by the Borough and Area Governance Review Panel. These new arrangements came into force in July 2019.

Ethics Panel

At its meeting on 20th June 2018 the Council agreed to establish an Independent Ethics Panel to advise the Council on best practice and to provide advice on complaints that Members have breached the Code of Conduct. The terms of reference of the Panel and the Panel's first annual report are on the Council's website.

Director Assurance Statements

Executive Directors have completed their annual assurance statements detailing their confidence in arrangements for managing their recognised core risk areas and 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.

8. Partnership Governance

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. As part of the Grenfell Recovery Strategy, a Grenfell Strategic Partnership Board, chaired by the Leader of the Council, brings together a range of local agencies with colleagues from the Ministry of Housing, Communities and Local Government (MHCLG) to ensure strategic alignment across the partnership, share intelligence and monitor jointly agreed outcomes for those affected and the wider community.

The Council operates several shared services with Westminster City Council in respect of Adult Social Care, Public Health and Children's Services. During 2019/20, the Council's previous shared service arrangements with Hammersmith and Fulham Council for environmental services were brought to an end. Disaggregation was complete by December 2019 and all services within the Environment and Communities portfolio now operate on a sovereign basis. The exception is Libraries, which remain Bi-Borough with Westminster City Council.

Shared service arrangements are still in place across the three boroughs for some services such as Audit, Risk and Assurance, Pensions and Treasury. Each Council retained its own sovereignty and staff who work within the shared service arrangement do so through an agreement under section 113 of the Local Government Act 1972.

The Council entered into a partnership agreement with Hampshire County Council in December 2017 for the provision of a managed HR, Payroll and Finance service, with the new service and system becoming operational in December 2018. All partners are subject to a partnership agreement which sets out governance arrangements and 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. Programme governance arrangements were put in place to successfully manage the implementation of the new systems and to embed the new system and processes, referred to as 'Stabilisation'. The Council came out of stabilisation on 31 March 2020 and the Council is now part of the standard all partner governance arrangements.

9. Managing Key Risks

Strategic Approach to Risk and Assurance

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 is a key part of the Council's decision-making approach and culture.

As an organisation the Council must ensure that it is delivering against priorities and requirements (political, community and statutory), that it is managing its processes effectively (finance, procurement, governance) and making the best use of its resources (money, assets, people).

The Council also has a duty to improve outcomes for communities and citizens and make the most of opportunities that add value locally. The risks that the public face are not the same as risks that public organisations face in delivering public services. 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).

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 is responsible for providing sufficient assurance against risks and opportunities that affect (or impact upon) the Council and its citizens and communities. It 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.

Strategic Risk Register

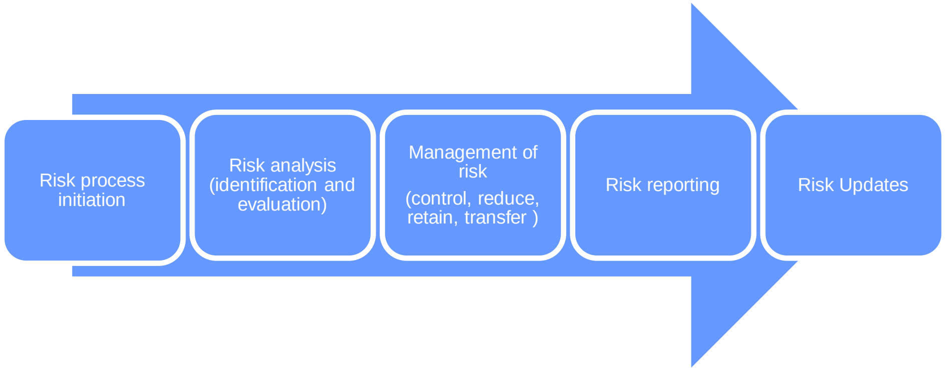
The Strategic Risk Register, which is considered and agreed by the Risk and Control Board, is regularly presented to the Audit and Transparency Committee. The Committee has identified enhancements to the register which have been implemented and uses the register to request detailed reports from directors on the management of specific risks identified. The register contains a mixture of risks specific to the Council (e.g. related to the Grenfell Recovery, the Public Inquiry, Lancaster West Regeneration and Notting Hill Carnival) and key risks which are typically found on registers across local authorities (e.g. fragility of the social care market, cyber security and safeguarding residents). The details of the Council's key financial risks are set out in the narrative of the Statement of Accounts.

Risk Management Strategy

The aim of the Council in delivering risk management is to ensure that risk management becomes a natural component of its management and change processes; risks are identified, understood and managed to an acceptable level; and opportunities are seized.

All Councillors and officers are responsible for ensuring that the implications or risks are considered as part of the decisions they take. The Risk Management Strategy is being reviewed to take account of the Centre for Public Scrutiny report recommendations, the Grenfell Recovery Taskforce, the Council Plan and the new ways of working arising from changes to shared service arrangements.

The Risk Management Strategy Statement in place during 2019/20 set out the approach to risk management for shared and sovereign services to respond to risk and opportunities in the delivery of both strategic and operational objectives. The five-step process to identifying and managing risk is shown below:



10. Managing the risk of fraud

To deliver the priorities set out in the Council Plan, it is recognised that the Council must maximise its financial resources and ensure fraud and misappropriation are reduced to a minimum.

The Council will not tolerate fraud or corruption by its Councillors, officers, suppliers, contractors or service users; and will take all necessary steps to investigate all allegations of fraud or corruption and pursue sanctions available in each case, including removal from office, dismissal and/or prosecution. The *Anti-Fraud and Corruption Strategy* is based on three key themes: acknowledge, prevent and pursue, and it adheres to the *Local Government Fraud Strategy*.

The *Anti-Fraud and Corruption Strategy* summarises the Council's position, building on the content of a number of corporate policy statements incorporated in the Council's Constitution or available on the Council's intranet, namely:

- *Councillors Code of Conduct;*
- *Officers Code of Conduct;*
- *Whistleblowing Policy*
- *Anti-Bribery Policy;*
- *Anti-Money Laundering Policy;*
- *Financial Procedure Rules; and,*
- *Procurement Rules* and *Contract Regulations.*

A *Fraud Response Plan* is available to all officers and Members. It provides guidance on what actions they need to take in the event of their becoming aware of a fraud or an act of corruption.

11. Anti-Bribery and Corruption

The Officer Code of Conduct and Whistleblowing Policy were reviewed in 2019/2020, with Administration Committee approving the updated documents in February 2020. The Code of Conduct emphasises employees' responsibilities to raise concerns and to promote and support open communication, where any reasonably suspected or known breach of the code of conduct, fraud, or corruption is raised by employees internally and dealt with in a timely and effective manner.

The Code sets out the conduct required of officers, including officers of gifts and hospitality. Offers of gifts and hospitality need to be dealt with in an appropriate way so that the Council and its staff are seen to be honest, fair and open at all times. All officers and staff have a responsibility to declare any offer of a gift, hospitality, benefit or service with a value in excess of £20, even if the offer is not accepted. Offers must be recorded on the Gifts and Hospitality Register System, and any action discussed with the line manager. The Councillor Code of Conduct requires Members to notify the Monitoring Officer of any gifts or hospitality accepted with a value excess of £20 or more.

12. Information Governance and Freedom of Information (FOI)

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 Security and Governance includes physical, personnel and information security and is an essential enabler towards making the Council work efficiently. Information risks must be managed effectively, collectively and proportionately, to achieve a secure and confident working environment.

The Council is aware that risks can never be eliminated fully and it has in place controls to manage risk. 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.

Processes for Information Security and Governance are in place, which, if complied with by officers and Members, provide increased confidence in the security of the Council's information assets and data handling procedures. Further assurance of the security of the Council's information asset systems will however necessitate increased senior management involvement including sign-off of policies. The Local Public Services Data Handling Guidelines 2008 and the Local Public Services Data Handling Guidelines 2012 introduced some specific responsibilities in relation to Information Security and Governance shown below together with their Council roles as follows:

- Accounting Officer: the Executive Director of Resources, who has overall responsibility for ensuring that information risks are assessed and mitigated to an acceptable level.
- Senior Information Risk Owner: the Chief Information Officer fulfils this role who is familiar with and takes ownership of the Council's information governance policy and strategy.
- Information Asset Owners: Directors involved in running the relevant Directorate; their role is to understand and address risks to the information assets they 'own' and to provide assurance to the Senior Information Risk Officer on the security and use of those assets.

These specific roles together with the Data Protection Officer and the Senior Information Security & Assurance Officer work together with senior management to ensure compliance with best practice with the overriding objective to keep the residents and customers' information safe. 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.

In addition, the Council has a statutory requirement to respond to all FOI requests within 20 working days. Following the Grenfell Tower fire, the Council has experienced an increased number of requests for information and statistics. This is a risk for the Council in terms of the nature of the enquiries and the capacity to respond to these higher numbers within the statutory timescales.

13. Chief Financial Officer

The Council has appointed a Chief Financial Officer. This is a statutory post, responsible for delivering and overseeing the financial management arrangements of the Council. The Executive Director for Resources is the Chief Financial Officer and is a member of the Council's Executive Management Team.

The Council can confirm that it complies with the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government. The Council's financial management arrangements conform to the governance requirements of good financial management so that public money is safeguarded at all times and used appropriately, economically, efficiently and effectively.

The Chief Financial Officer 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 Chief Financial Officer considers the arrangements are working effectively and that all matters of significance have been identified and included within this statement.

14. Monitoring Officer

The Council has appointed a Monitoring Officer which is a statutory post. The Monitoring Officer is responsible for maintaining the register of councillors' interests, dealing with complaints that councillors have breached the Councillor Code of Conduct and has a statutory duty to report findings of maladministration by the Local Government and Social Care Ombudsman to the Council.

The Council adopted amendments to the Councillor Code of Conduct with effect from 1 December 2019. The amended Code requires councillors to register other relevant interests over and above the statutory requirement to register specified disclosable pecuniary interests.

The Monitoring Officer received four complaints alleging a breach of the Councillor Code of Conduct. None of the complaints progressed to an investigation.

15. Internal and External Audit 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 in 2019/20.

In March 2020 the Council commissioned the Local Government Association to undertake a Corporate Peer Challenge, where a team of senior local government officers and councillors visited the authority to examine its plans and its capacity to deliver, and to make recommendations.

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.

The Accounts and Audit (Coronavirus) Amendments Regulations 2020 (SI 2020/404) extended the statutory audit deadline for 2019/20 from 31 July to 30 November 2020. The corresponding date for publishing the draft accounts to be audited also changed from 31 May to 31 August 2020. The Council reviewed its annual closing timetable in March 2020 and was able to publish draft financial statements on 19 June 2020, well ahead of the 31 August extended deadline.

Pursuant to the Local Audit and Accountability Act 2014 and the Accounts and Audit Regulations 2015, members of the public and local government electors have a right to inspect the Council's accounts, ask the auditor questions and raise an objection with the auditor. The period of public inspection for the Council's 2019/20 financial statements ran from 22 June to 31 July 2020. There were no questions or objections raised with the Council or the external auditor.

16. Internal Audit

The Council's Internal Audit service works carries out its work in line with the *Public Sector Internal Audit Standards* (PSIAS) which have been developed specifically for public sector organisations. Compliance with these standards is externally assessed on a cyclical basis. During 2019/20 a self-assessment of compliance was undertaken; only minor improvements to enhance the service were identified.

The Committee approved the Internal Audit Charter, which sets out the role of internal audit, its responsibilities, and clarifies its independence. Internal audit is required to annually review how it complies with the charter.

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 2019/20 is that the Council's internal control systems in the areas audited were adequate.

17. External Audit

Grant Thornton UK LLP issued an unqualified opinion on the Council's 2018/19 financial statements and concluded that the financial statements gave a true and fair view of the financial position of the Council and of its expenditure and income for the year. The financial statements also include those of the Pension Fund. However, they were unable to issue an opinion on the Council's value for money conclusion. This was consistent with the previous two years where they identified areas of further work they needed to undertake, recognising that following the Grenfell Tower fire a number of investigations and inquiries had commenced and that matters they needed to consider were potentially included in the inquiries and investigations commissioned by central government and other regulatory bodies.

Grant Thornton UK LLP reviewed the 2018/19 Annual Governance Statement as part of its work on auditing the Council's accounts and concluded that it complies with Delivering Good Governance in Local Government: A Framework published by CIPFA/SOLACE. There were no areas for improvement noted.

18. Reviews of governance

In July 2018 the Council adopted the 12 principles of good governance recommended by the CfPS independent review of governance and has subsequently embedded these within its Constitution.

The Council recognises that it is essential to put these principles into practice, and to ensure consistent and meaningful consultation and engagement with local residents, organisations and businesses to inform Council decisions. The actions delivered by the Council in response to the review have increased the ways in which local people can be involved and heard.

The Borough and Area Governance Review Panel recommended further modernisation to change the Council's culture and practice to improve the whole chain of decision making, making every part of the system more open to resident involvement, more transparent and easily understandable to every person. The new arrangements came into force in July 2019.

19. Significant Governance Issues

Two matters reported in the 2018/19 Annual Governance Statement are covered in this report; one is considered resolved while progress has been made on the other matter, as set out below. No new significant governance issues have been identified during 2019/20. However, the Council, along with all other public sector and governmental organisations were faced with an unprecedented challenge which emerged at the end of the financial year.

Covid-19

The Covid-19 Pandemic is an unprecedented disaster. It is an international health emergency, a multi-faceted economic crisis and a unique social challenge. Whilst not a significant governance issue, from mid-March 2020 the demands on the Council were intense in seeking to maintain essential services, support individuals and businesses in times of hardship, and support the vulnerable, as well as playing its part in London-wide emergency response arrangements. All of this needed to be done with the vast majority of the workforce working remotely away from Council offices.

At the outset of the crisis, the Council invoked its established emergency response procedures. The Borough Emergency Command Centre was responsible for managing operational aspects of the incident; collating and reporting information to London Resilience; and identifying issues that needed a Council response. Council Silver, a senior Director appointed on a rota basis led the Council's tactical response, advised by a Tactical Pandemic Group. They reported to Council Gold, who set the overall strategy for the response, advised and supported by a Strategic Pandemic Group.

A small number of strategic sub-groups have also been established to support policy development and service delivery and to advise Silver and Gold in particular areas, such as economy and suppliers, community resilience, and humanitarian response.

The initial response to the crisis was necessarily fast-paced and the measures required urgently. Key Decisions were made using the Council's urgency procedures to implement new policies and commit resources. Urgent reports were first considered for endorsement by the Gold command group, then presented to the Leader and provided to the relevant chairs of Scrutiny Committees for consideration prior to approval. All decisions made in this way were published on the Council's website. In total, 8 decisions were made using this process, mainly around providing assistance to local residents and businesses in light of the impact of the pandemic. During 2020/21 the character of the response is likely to evolve and the necessary management and governance arrangements will need to change with it.

20. Update on other significant issues covered in the 2018/19 Statement

Grenfell

As set out earlier in the statement, the Council signed up to the recommendations in the Hillsborough Charter in 2018 and continues to review and change its governance arrangements in line with this commitment. Following the Grenfell Tower fire in June 2017, a number of significant issues arose, in response to which the Council is implementing a range actions, some of which will continue into 2020/21:

- In November 2018, the Council accepted the Repairs Direct Board's decision to cease delivering repairs services to the Council from April 2019. From that date, repairs services would be directly managed by the Council. The Transformation of Undertakings (Protection from Employment) regulations 2006 applied, staff were transferred from Repairs Direct to the Council on 1st April 2019. The audit of the 2018/19 accounts has just been completed and was for the final year of the company. An opinion could not be expressed because of being unable to obtain sufficient appropriate audit evidence for a few transactions. The accounts have now been submitted to Companies House.

- The Grenfell Recovery Strategy approved by the Council in January 2019 is being implemented and includes ongoing rehousing and resettlement support for former residents of Grenfell Tower and Grenfell Walk; a Dedicated Service for the bereaved and survivors; ongoing school and community-based support for the wider community; and a programme to build leadership, social capital and community capacity in the local area.

- Ownership of the Grenfell Tower site transferred to the Ministry for Housing, Communities and Local Government in July 2019, meaning that the Council will take no role in decisions about the management of the site.

- As set out earlier in the Statement, the Independent Task Force published its final report in March 2020. Actions arising from the CfPS independent governance review were implemented during 2019/20.

- Internal audit has carried out a number of reviews to provide assurance over the housing management functions, which along with the management of risks in this area have been the subject of regular reports to the Audit and Transparency Committee. The Committee have recognised that risks are being managed and improvements made.

- The Council is a core participant in the Grenfell Public Inquiry and a suspect in the corporate manslaughter investigation being undertaken by the Metropolitan Police Service. The Council adopted the Charter for Families Bereaved through

Public Tragedy and continues to support the Public Inquiry through the retention and provision of documents covering all aspects of the Inquiry's terms of reference. The Council is also under an ongoing duty to retain and disclose documentation and electronic records for the police investigation.

Health and Safety

- In 2017/18, building health and safety compliance was audited as unacceptably low across the Tri-Borough estate. A series of control measures were put in place including 'stepping in' to a number of areas to mitigate risk. During 2018/19 the Council agreed to terminate the contract with the existing facilities management provider and has, prior to the contract ending, put in place new arrangements to oversee property maintenance and compliance with statutory requirements, procured a range of contracts to provide appropriate and specialist services to maintain Council buildings and to ensure compliance with all statutory requirements.

- Progress to improve the health and safety of the council's buildings continued in 2019/20 and the new working arrangements are now in place. Governance arrangements ensure that performance is reported and monitored, through meetings of both the Workplace Board and Corporate Safety Board.

- The Corporate Health and Safety Policy and Corporate Fire Safety Policy were produced and approved by the Leadership Team in December 2019 and are being implemented across the Council.

- Under the Corporate Health and Safety Policy, a Corporate Safety Board has been established to support, monitor and scrutinise the council's health and safety performance, ratify policies and report progress to EMT. The Board meets regularly and has senior representation from all Directorates.

- Having previously operated as a shared service, the dedicated Corporate Health and Safety Team was established in 2019 and continues to provide support and advice for services across the Council.

21. Conclusion of this review

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. 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 20. As a result, a satisfactory level of assurance has been achieved following the conclusion of the Review.

In the context of further reductions in government funding and the impact of Covid-19 on residents, businesses, services and the borough, the Council will continue to prioritise and endeavour to maintain strong governance arrangements, focusing on the purpose of the Council and on outcomes for the community. It will do this by engaging with and involving residents and stakeholders, and through demonstrating the values of good governance through upholding high standards of conduct and behaviour. Further to this, proactive risk management arrangements have been enhanced to support the delivery of the Council's key objectives.

Signed:

Barry Quirk
Chief Executive

Cllr Elizabeth Campbell
Leader

18 November 2020

The **Statutory Accounts** set out the Council's income and expenditure for the year, and its financial position at 31 March 2020. 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 2019/20, 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 **Comprehensive Income and Expenditure Statement** (CIES) on page 54 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 **Movement in Reserves Statement** (MIRS) on page 55 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 UK GAAP 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 statue. 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 **Balance Sheet** on page 56 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 57 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 122 to 154 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 Annual Governance Statement – this sets out the governance structures of the Council and its key internal controls.
- 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 – 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.

Comprehensive Income and Expenditure Statement

Comprehensive Income and Expenditure Statement	2019/20 Gross Expenditure	2019/20 Gross Income	2019/20 Net Expenditure	2018/19* Gross Expenditure	2018/19* Gross Income	2018/19* Net Expenditure
	£'000	£'000	£'000	£'000	£'000	£'000
Adult Social Care and Public Health	85,587	(51,591)	33,996	90,060	(52,999)	37,061
Children's Services and Education	154,943	(103,117)	51,826	150,740	(97,768)	52,972
Environment and Communities	87,679	(77,060)	10,619	86,956	(76,346)	10,610
General Fund Housing	59,596	(40,509)	19,087	56,076	(39,199)	16,877
Resources and Customer Delivery	229,785	(139,127)	90,658	264,057	(145,093)	118,964
Grenfell - Recovery	17,169	(1,919)	15,250	39,225	(24,482)	14,743
Grenfell - Corporate	21,134	(1,435)	19,699	97,784	(713)	97,071
Housing Revenue Account	87,192	(61,663)	25,529	80,672	(53,935)	26,737
Cost of Services	**743,085**	**(476,421)**	**266,664**	**865,570**	**(490,535)**	**375,035**
Other operating income and expenditure (Note 12)			19,084			(513)
Financing and investment income and expenditure (Note 13)			22,844			20,860
Taxation and non-specific grant income and expenditure (Note 14)			(204,997)			(216,727)
(Surplus) or Deficit on Provision of Services			**103,595**			**178,655**
(Surplus) / deficit on revaluation of non current assets (Note 11)			(19,921)			63,882
(Surplus) / deficit on revaluation of available for sale financial assets			0			0
Remeasurement of net defined benefit liability (Note 11)			(120,006)			(99,691)
Other Comprehensive Income and Expenditure			**(139,927)**			**(35,809)**
Total Comprehensive Income and Expenditure			**(36,332)**			**142,846**

*2018/19 comparators have been restated to reflect changes in the Council's directorate reporting structure which took place during 2019/20.

Movement in Reserves Statement

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 2019	**(145,474)**	**(15,679)**	**(115,596)**	**0**	**(21,968)**	**(298,717)**	**(1,225,506)**	**(1,524,223)**
Movement in reserves during 2019/20								
Total Comprehensive Income and Expenditure	76,119	27,476	0	0	0	**103,595**	(139,927)	**(36,332)**
Adjustments between accounting basis and funding basis under regulations (Note 9)	(67,033)	(20,320)	9,389	0	(10,691)	**(88,655)**	88,655	**0**
Net (increase) / decrease in 2019/20	9,086	7,156	9,389	0	(10,691)	**14,940**	**(51,272)**	**(36,332)**
Balance at 31 March 2020	**(136,388)**	**(8,523)**	**(106,207)**	**0**	**(32,659)**	**(283,777)**	**(1,276,778)**	**(1,560,555)**
Balance at 31 March 2018	**(135,737)**	**(20,449)**	**(125,946)**	**(1,925)**	**(11,729)**	**(295,786)**	**(1,371,283)**	**(1,667,069)**
Movement in reserves during 2018/19								
Total Comprehensive Income and Expenditure	155,971	22,684	0	0	0	**178,655**	(35,809)	**142,846**
Adjustments between accounting basis and funding basis under regulations (Note 9)	(165,708)	(17,914)	10,350	1,925	(10,239)	**(181,586)**	181,586	**0**
Net (increase) / decrease in 2018/19	(9,737)	4,770	10,350	1,925	(10,239)	**(2,931)**	145,777	**142,846**
Balance at 31 March 2019	**(145,474)**	**(15,679)**	**(115,596)**	**0**	**(21,968)**	**(298,717)**	**(1,225,506)**	**(1,524,223)**

Balance Sheet	Note	31 March 2020	31 March 2019
		£'000	£'000
Property, Plant and Equipment	15	1,411,184	1,404,244
Intangible Assets	16	6,219	3,739
Heritage Assets	17	46,252	44,709
Investment Property	18	315,112	355,145
Long Term Debtors	21	3,900	1,154
Long Term Assets		**1,782,667**	**1,808,991**
Short Term Investments	19	186,497	138,513
Inventories		79	117
Debtors	21	90,022	107,602
Cash and Cash Equivalents	23	60,061	78,888
Current Assets		**336,659**	**325,120**
Short Term Borrowing	19	(14,404)	(7,301)
Creditors	24	(136,271)	(127,927)
Capital Grants Receipts in Advance	34	(6,921)	(3,399)
Revenue Grants Receipts in Advance	34	(5,468)	(2,356)
Provisions	25	(21,737)	(34,911)
Current Liabilities		**(184,801)**	**(175,894)**
Provisions	25	(2,574)	(1,828)
Long Term Borrowing	19	(252,246)	(213,836)
Long Term Creditors	24	(1,136)	(620)
Other Long Term Liabilities	19	(83,672)	(184,257)
Capital Grants Receipts in Advance	34	(34,342)	(33,453)
Long Term Liabilities		**(373,970)**	**(433,994)**
Net Assets		**1,560,555**	**1,524,223**
Usable Reserves	9/10	(283,777)	(298,717)
Unusable Reserves	11	(1,276,778)	(1,225,506)
Total Reserves		**(1,560,555)**	**(1,524,223)**

Cash Flow Statement	Note	2019/20	2018/19
		£'000	£'000
Net Surplus or (Deficit) on Provision of Services		**(103,595)**	**(178,655)**
Adjustments to net surplus or deficit on the provision of services for non-cash movements	26	124,530	217,131
Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	26	(36,498)	(39,315)
Net cash flows from Operating Activities		**(15,563)**	**(839)**
Investing Activities	27	(57,940)	(39,713)
Financing Activities	28	54,676	16,242
Net (increase) or decrease in cash and cash equivalents		**(18,827)**	**(24,310)**
Cash and cash equivalents at the beginning of the reporting period		78,888	103,198
Cash and cash equivalents at the end of the reporting period	23	**60,061**	**78,888**

1. General accounting policies

The Statement of Accounts summarises the Council's financial transactions for the 2019/20 financial year and its position at 31 March 2020. 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 2019/20* (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.

Where an accounting policy relates to a specific disclosure note, this has been included within that note.

1.1 Accruals of Income and Expenditure

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.

1.2 Overheads and Support Services

The costs of overheads and support services are charged to service segments in accordance with the Council's arrangements for accountability and financial performance.

1.3 Adjustments to Prior Periods and Accounting Policies

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively i.e. in the current and future years affected by the changes, and do not give rise to a prior period adjustment.

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

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

1.4 Revenue Recognition

The Council does not make full disclosures under IFRS 15 as most of its revenue items are non-exchange and/or statutory based items that are outside the scope of IFRS 15.

1.5 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.

1.6 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 Capital Adjustment Account.

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 Capital Adjustment Account from the GF balance in the MIRS.

1.7 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.

1.8 Rounding

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

2. Accounting standards issued 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.

The following standards are not expected to have any significant impact for the Council.

- Amendments to IAS 28 Investments in Associates and Joint Ventures: Long-term Interests in Associates and Joint Ventures
- Annual Improvements to IFRS Standards 2015-2017 Cycle
- Amendments to IAS 19 Employee Benefits: Plan Amendment, Curtailment or Settlement.

Implementation of IFRS 16 Leases, which was issued in January 2016 and came into general effect in January 2019, has been deferred until the 2021/22 CIPFA Code.

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 to reflect the changes, including a threshold for exempt low-value leases.

The transition date is 1 April 2021 and as the Council does not know what leasing arrangements will be in place on this date, it is not possible to reasonably estimate how this standard will impact the Council's accounts although this is not expected to be material.

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

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.

At 31 March 2020, the actuaries advised that the net pension liability was £83.596 million, which includes a £160.706 million decrease based on changes in financial and demographic assumptions since 2018/19.

The current response to COVID-19 means pooled property valuations are reported on the basis of 'material valuation uncertainty' as set out in VPGA 10 of the RICS Valuation Global Standards. Consequently, less certainty and a higher degree of caution should be attached to the valuations than would normally be the case. The value of assets impacted, and a sensitivity analysis based on the principal actuarial assumptions, are shown in note 38.

Property, Plant and Equipment (PPE) held at current value

The value of the Council's PPE and investment properties is estimated by professional valuers on the basis of comparable market evidence.

The outbreak of the COVID-19 virus has had an impact on market activity in the real estate sector, and as such the Council's valuers feel that less weight may be attached to previous market evidence for comparison purposes, to inform opinions of value. The valuers are faced with an unprecedented set of circumstances on which to base a judgement and so values they have provided are reported on the basis of a "material valuation uncertainty" as per VPS 3 and VPGA 10 of the RICS Red Book Global. This declaration means that, in the current circumstances, less certainty, and a higher degree of caution, should be placed on the valuation of these assets than would otherwise be the case.

At 31 March 2020, the Council had Dwellings and Other Land and Buildings to the value of £1,334.967 million, and investment properties to the value of £315.112 million. A 1% change in the estimation of these PPE values would lead to a £13.349 million change in the value of the Council's PPE and a £3.151 million change in the value of the Council's investment properties. These changes to valuations would not have a direct impact on the Council's General Fund, since any effect charged to the CIES would be reversed to the Council's unusable reserves.

Debtors – Expected Credit Losses

At 31 March 2020, the Council had £140.941 million gross debtors outstanding, consisting of income owed which includes business rates, council tax, housing rents and trade receivables. An expected credit loss of £47.019 million for non-collectable debt has been estimated against these debtors based on historical collection rates and forward-looking analysis.

The outbreak of the COVID-19 virus has had an impact on businesses and individuals, such that the estimation of collection rates is more uncertain than would otherwise be the case.

A 1% change in the estimation of credit losses would lead to an £0.745 million change in the Council's net debtors. This would be credited/debited to the Council's surplus/deficit on provision of services and impact the General Fund.

Business Rates Appeals

Since the introduction of the Business Rates Retention Scheme in 2013/14, Local Authorities are liable for successful appeals against business rates charged to businesses in 2019/20 and earlier financial years in their proportionate share.

A provision of £19.057 million has been recognised for the best estimate of the Council's share of business rates income which will need to repay to businesses up to 31 March 2020. This estimate has been calculated using the latest Valuation Office (VAO) ratings list of appeals and an analysis of successful appeals up to and including 31 March 2020. Appeals are, however, treated by the VAO on an individual basis and for a wide range of valuations, and historic data is an uncertain guide to the impact of future appeal outcomes.

Whilst any change in successful appeals would not have a direct impact on the CIES, a change in this provision would have an impact on the Council's funding of services in future years.

4. Material items of income and expense

During the year, the Council sold Kensington and Chelsea College to the Department for Education (DfE) for £10 million. The asset had a Net Book Value (NBV) of £25 million. The sale is believed to be the best way to ensure the long-term educational and community use of the site and will enable significant investment in the College's future.

5. 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.

COVID-19

At the outbreak of the COVID-19 pandemic, a system was established for monitoring both the direct costs from COVID-19 and the wider implications on the financial position. The impacts of COVID-19 are expected to be most significant in 2020/21 but the road to recovery may be long and could mean that increased costs continue into future years. Many of the Council's income sources may only recover in the medium term whilst others may not recover at all.

The next three years will be significantly challenging. The expected impact on the Council's budget in 2020/21, based on the latest position reported to MHCLG, shows that there are estimated General Fund service cost pressures of £15.7 million and potential loss of income of £25.1 million. This gives a total general fund service budget pressure relating to COVID-19 of £40.8 million. This is based on the actual impact on the Council's income and expenditure up until September 2020, and then individual assumptions for the remainder of the financial year for each service based on knowledge at this time.

Some of these pressures will be mitigated through government funding with general grants of £12 million to cover expenditure pressures and a scheme to cover a proportion of specific income losses estimated to cover around £9 million of income losses. There is also £2 million of direct funding to cover test and trace expenditure and some social care costs will be met through CCGs. These will however be insufficient to cover the remaining significant pressures, pending further government announcements.

Thames Water charges

The Council entered into a contract in 2002, whereby it collected water charges from its tenants on behalf of Thames Water and was paid a commission for doing so.

In December 2019, Kingston-Upon-Thames lost a case brought against it by a tenant who held that their contract was for resale of water under which the recovery of commission was limited by law. The key issue in the case was whether the Council was acting as an 'agent' for Thames Water or a 'customer' in which case it was reselling water services and should have passed savings onto tenants.

The Council, along with several other local authorities, had sought legal advice as part of a collective under the umbrella of the Local Government Association (LGA) pending the outcome of the appeal lodged by Royal Borough of Kingston-Upon-Thames.

In October 2020, the Royal Borough of Kingston-Upon-Thames lost its appeal to the Court of Appeal over the High Court ruling. The Council has decided to make provision for refund payments to tenants, in line with advice from the LGA. These payments will be financed from the HRA working balance.

The court decision occurred towards the end of the audit and the Council did not have the necessary information available when preparing these accounts. Previously the potential liability was disclosed as a contingent liability, being contingent on the outcome of the court case, which has now materialised.

As the court decision relates to a past event, appropriate accounting treatment would be to recognise the impact of this liability as an adjusting event in the 2019/20 accounts. The Council has however opted instead to set aside provision in the 2020/21 accounts on the grounds that the adjustment is not material to the figures in the 2019/20 accounts.

6. 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.

			2019/20				2018/19	
Expenditure and Funding Analysis	**As reported in the Narrative Report**	**Adjustments to arrive at exp charged to GF and HRA balances**	**Expenditure charged to GF and HRA balances**	**Adjustments between accounting and funding (note 8)**	**Net Expenditure in the CIES**	**Expenditure charged to GF and HRA balances**	**Adjustments between accounting and funding (note 8)**	**Net Expenditure in the CIES**
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Adult Social Care and Public Health	35,012	5,703	40,715	(6,719)	33,996	46,278	(9,217)	37,061
Children's Services and Education	33,748	12,410	46,158	5,668	51,826	45,413	7,559	52,972
Environment and Communities	5,266	14,242	19,508	(8,889)	10,619	11,867	(1,257)	10,610
General Fund Housing	6,817	14,710	21,527	(2,440)	19,087	18,226	(1,349)	16,877
Resources and Customer Delivery	53,327	(16,816)	36,511	54,147	90,658	37,683	81,281	118,964
Grenfell - Recovery	12,016	2,600	14,616	634	15,250	13,929	814	14,743
Grenfell - Corporate	15,577	4,044	19,621	78	19,699	4,635	92,436	97,071
Housing Revenue Account	0	(515)	(515)	26,044	25,529	(1,092)	27,829	26,737
Net Costs of Services	**161,763**	**36,378**	**198,141**	**68,523**	**266,664**	**176,939**	**198,096**	**375,035**
Other GF income and expenditure	(161,763)	(27,807)	(189,570)	24,554	(165,016)	(187,768)	(4,558)	(192,326)
Other HRA income and expenditure	0	7,671	7,671	(5,724)	1,947	5,862	(9,916)	(4,054)
(Surplus) / Deficit on Services	**0**	**16,242**	**16,242**	**87,353**	**103,595**	**(4,967)**	**183,622**	**178,655**

	2019/20			2018/19		
Movement on GF and HRA balances	**GF**	**HRA**	**Total**	**GF**	**HRA**	**Total**
	£'000	£'000	£'000	£'000	£'000	£'000
Opening Balance:	**(145,474)**	**(15,679)**	**(161,153)**	**(135,737)**	**(20,449)**	**(156,186)**
(Surplus) / Deficit on Balance in Year	9,086	7,156	16,242	(9,737)	4,770	(4,967)
Closing Balance:	**(136,388)**	**(8,523)**	**(144,911)**	**(145,474)**	**(15,679)**	**(161,153)**

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 general fund and HRA balances. These adjustments mainly reflect the fact that:

- revenue outturn includes within net cost of services only controllable internal recharges and some funding items which are deemed to be non-service related from a management reporting perspective, and
- the EFA includes all internal recharges related to individual services within net cost of services and excludes, in compliance with the Code, specific non-service-related expenditure from net cost of services.

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.

Community Engagement develops policies, co-ordinated activities, works within communities and supports key projects to deliver better community engagement.

The main 'front door' access point for a wide range of council services is provided by Customer Delivery. These include Revenues and Benefits, residential parking permits, housing needs, planning and cashiers. It also provided internal facilities management services to over 100 operational properties.

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

Governance and Co-ordination is responsible for governance, economic development and Adult and Family Learning.

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

Legal Services provides a wide range of legal services to the Council, Members and Officers.

7. Expenditure and income analysed by nature

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

	2019/20	2018/19
	£'000	£'000
Expenditure		
Employee benefits expenses	213,162	197,650
Other service expenses	480,824	501,567
Depreciation, amortisation and impairment	61,348	175,104
Interest Payments	11,025	11,776
Net interest on net defined benefit liability	4,242	6,156
Payments to the Government Housing Capital Receipts Pool	1,161	1,161
Precepts and Levies	4,971	4,986
Total expenditure	**776,733**	**898,400**
Income		
Fees, charges and other service income	(240,218)	(264,452)
Loss / (Gain) on disposal of non-current assets	14,297	(5,034)
Government grants & contributions	(315,223)	(312,189)
Interest Income	(2,432)	(2,950)
Net income from Council Tax and Business Rates	(149,394)	(149,603)
Change in Fair Value of Investment Properties	19,832	14,483
Total income	**(673,138)**	**(719,745)**
(Surplus) or Deficit on Provision of Services	**103,595**	**178,655**

8. 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:

	2019/20			
	Capital	**Pension**	**Other**	**Total**
	£'000	£'000	£'000	**£'000**
Adult Social Care and Public Health	101	797	(7,617)	**(6,719)**
Children's Services and Education	11,564	4,452	(10,348)	**5,668**
Environment and Communities	5,172	2,005	(16,066)	**(8,889)**
General Fund Housing	69	673	(3,182)	**(2,440)**
Resources and Customer Delivery	15,346	5,803	32,998	**54,147**
Grenfell - Recovery	377	381	(124)	**634**
Grenfell - Corporate	711	16	(649)	**78**
Housing Revenue Account	25,590	1,089	(635)	**26,044**
Net Cost of Services	**58,930**	**15,216**	**(5,623)**	**68,523**
Other income and expenditure (GF)	15,948	3,947	4,659	**24,554**
Other income and expenditure (HRA)	(6,716)	295	697	**(5,724)**
Total Adjustments	**68,162**	**19,458**	**(267)**	**87,353**

	2018/19			
	Capital	**Pension**	**Other**	**Total**
	£'000	£'000	£'000	**£'000**
Adult Social Care and Public Health	(145)	2,226	(11,298)	**(9,217)**
Children's Services and Education	11,290	5,022	(8,753)	**7,559**
Environment and Communities	5,440	3,936	(10,633)	**(1,257)**
General Fund Housing	101	1,243	(2,693)	**(1,349)**
Resources and Customer Delivery	43,079	14,796	23,406	**81,281**
Grenfell - Recovery	95	959	(240)	**814**
Grenfell - Corporate	86,652	(1)	5,785	**92,436**
Housing Revenue Account	26,721	1,150	(42)	**27,829**
Net Cost of Services	**173,233**	**29,331**	**(4,468)**	**198,096**
Other income and expenditure (GF)	(11,737)	5,790	1,389	**(4,558)**
Other income and expenditure (HRA)	(10,435)	366	153	**(9,916)**
Total Adjustments	**151,061**	**35,487**	**(2,926)**	**183,622**

9. Adjustments between accounting and funding bases – usable reserves

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.

GF Balance

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.

HRA Balance

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.

Capital Receipts Reserve (CRR)

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.

Major Repairs Reserve (MRR)

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.

Capital Grants Unapplied Reserve (CGUR)

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 during 2019/20	GF	HRA	CRR	MRR	CGUR
	£'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)	(18,075)	(1,384)	0	0	0
- Financial instruments (transferred to the Financial Instruments Adjustments Account)	56	0	0	0	0
- Council Tax and NDR (transfers to or from the Collection Fund)	711	0	0	0	0
- Holiday pay (transferred to the Accumulated Absence Reserve)	(438)	(62)	0	0	0
- Reversal of entries included in the (Surplus) or Deficit on Provision of Services in relation to capital expenditure (charged to the Capital Adjustment Account)	(62,578)	(26,219)	0	0	(25,238)
Total Adjustments to Revenue Resources	(80,324)	(27,665)	0	0	(25,238)
Adjustments between Revenue and Capital Resources					
- Transfer of non-current asset sale proceeds from revenue to the CRR	10,413	4,062	(14,475)	0	0
- Administrative costs of non-current asset disposals (funded by contribution from the CRR)	0	0	0	0	0
- Payments to the government housing receipts pool (funded by a transfer from the CRR)	(1,161)	0	1,161	0	0
- Posting of HRA resources from revenue to the MRR	0	3,283	0	(3,283)	
- Statutory provision for the repayment of debt (transfer from the CAA)	1,250	0	0	0	
- Capital expenditure financed from revenue balances (transfer to the CAA)	2,789	0	0	(2,074)	
Total Adjustments between Revenue and Capital Resources	13,291	7,345	(13,314)	(5,357)	0
Adjustments to Capital Resources					
- Use of the CRR to finance capital expenditure	0	0	22,703	0	0
- Use of the MRR to finance capital expenditure	0	0	0	5,357	0
- Application of capital grants to finance capital expenditure	0	0	0	0	14,547
- Cash payments in relation to deferred capital receipts	0	0	0	0	0
Total Adjustments between Revenue and Capital Resources	0	0	22,703	5,357	14,547
Total Adjustments during 2019/20	**(67,033)**	**(20,320)**	**9,389**	**0**	**(10,691)**

Movement on Usable Reserves during 2018/19	GF	HRA	CRR	MRR	CGUR
	£'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)	(33,971)	(1,516)	0	0	0
- Financial instruments (transferred to the Financial Instruments Adjustments Account)	56	0	0	0	0
- Council Tax and NDR (transfers to or from the Collection Fund)	2,991	0	0	0	0
- Holiday pay (transferred to the Accumulated Absence Reserve)	(11)	(111)	0	0	0
- Reversal of entries included in the (Surplus) or Deficit on Provision of Services in relation to capital expenditure (charged to the Capital Adjustment Account)	(136,186)	(23,779)	0	0	(33,305)
Total Adjustments to Revenue Resources	(167,121)	(25,406)	0	0	(33,305)
Adjustments between Revenue and Capital Resources					
- Transfer of non-current asset sale proceeds from revenue to the CRR	1,456	4,563	(6,019)	0	0
- Administrative costs of non-current asset disposals (funded by contribution from the CRR)	0	(151)	151	0	0
- Payments to the government housing receipts pool (funded by a transfer from the CRR)	(1,161)	0	1,161	0	0
- Posting of HRA resources from revenue to the MRR	0	3,080	0	(3,080)	0
- Statutory provision for the repayment of debt (transfer from the CAA)	834	0	0	0	0
- Capital expenditure financed from revenue balances (transfer to the CAA)	284	0	0	(144)	
Total Adjustments between Revenue and Capital Resources	1,413	7,492	(4,707)	(3,224)	0
Adjustments to Capital Resources					
- Use of the CRR to finance capital expenditure	0	0	15,059	0	0
- Use of the MRR to finance capital expenditure	0	0	0	5,149	0
- Application of capital grants to finance capital expenditure	0	0	0	0	23,066
- Cash payments in relation to deferred capital receipts	0	0	(2)	0	0
Total Adjustments between Revenue and Capital Resources	0	0	15,057	5,149	23,066
Total Adjustments during 2018/19	**(165,708)**	**(17,914)**	**10,350**	**1,925**	**(10,239)**

10. 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 2018	Transfer Out 2018/19	Transfer In 2018/19	Balance at 31 March 2019	Transfer Out 2019/20	Transfer In 2019/20	Balance at 31 March 2020
General Fund:		£'000	£'000	£'000	**£'000**	£'000	£'000	**£'000**
Grenfell	i	(39,660)	45,576	(54,629)	**(48,713)**	20,365	(1,762)	**(30,110)**
Special Projects	ii	(33,604)	11,305	0	**(22,299)**	6,585	0	**(15,714)**
Car Parking	iii	(21,627)	284	(3,043)	**(24,386)**	1,246	(381)	**(23,521)**
Budget Carry Forward	iv	(906)	0	(1,611)	**(2,517)**	1,030	(1,518)	**(3,005)**
Budget Stabilisation	v	(4,788)	0	(6,694)	**(11,482)**	2,975	(12,692)	**(21,199)**
Reorganisation	vi	0	0	(10,000)	**(10,000)**	1,326	0	**(8,674)**
Schools Reserves	vii	(5,409)	809	(865)	**(5,465)**	1,217	(822)	**(5,070)**
Insurance	viii	(5,509)	242	0	**(5,267)**	1,556	(68)	**(3,779)**
Public Health	ix	(11,476)	6,568	0	**(4,908)**	442	0	**(4,466)**
London Residuary Body	x	(4,067)	83	0	**(3,984)**	0	(55)	**(4,039)**
Notting Hill Carnival	xi	(375)	0	0	**(375)**	0	0	**(375)**
Street Trading	xii	(237)	0	(104)	**(341)**	69	0	**(272)**
Dedicated Schools Grant	xiii	2,368	1,895	0	**4,263**	0	638	**4,901**
Capital Expenditure	xiv	0	0	0	**0**	0	(9,900)	**(9,900)**
Staff Healthcare	xv	0	0	0	**0**	0	(341)	**(341)**
Local Projects	xvi	0	0	0	**0**	0	(175)	**(175)**
Troubled Families	xvii	0	0	0	**0**	0	(539)	**(539)**
Proceeds of Crime	xviii	0	0	0	**0**	0	(110)	**(110)**
Other Earmarked Reserves		(447)	447	0	**(0)**	0	0	**(0)**
Total GF Earmarked Reserves		**(125,737)**	**67,209**	**(76,946)**	**(135,474)**	**36,811**	**(27,725)**	**(126,388)**
GF Working Balance		(10,000)			(10,000)			(10,000)
Total GF Reserves per MIRS		**(135,737)**			**(145,474)**			**(136,388)**

	Note	Balance at 31 March 2018	Transfer Out 2018/19	Transfer In 2018/19	Balance at 31 March 2019	Transfer Out 2019/20	Transfer In 2019/20	Balance at 31 March 2020
		£'000	£'000	£'000	**£'000**	£'000	£'000	**£'000**
HRA:								
HRA Controlled Repairs	xix	(576)	0	(412)	**(988)**	0	0	**(988)**
HRA Working Balance		(19,873)	5,182	0	**(14,691)**	7,156	0	**(7,535)**
Total HRA Reserves per MIRS		**(20,449)**	**5,182**	**(412)**	**(15,679)**	**7,156**	**0**	**(8,523)**

i. This reserve is held to support the Grenfell budget and any unanticipated one-off expenditure.
ii. The funds are primarily available for one-off costs associated with service and re-design and supporting the move to self-sufficiency.
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 revenue underspends in prior years to meet the cost of specific projects.
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.
vi. This reserve has been established to support the Council in delivering its Medium-Term Financial Strategy.
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 earmarked for use in future reserves.
x. The LRB reserve contains the balance of funding transferred to the Borough to fund residual liabilities relating to the former LRB.
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 is ring-fenced for the Dedicated Schools Grant which supports provision for the Council's maintained schools.
xiv. This reserve contains funding ring-fenced for the Lancaster West Main Refurbishment capital scheme.
xv. This reserve is to be used for staff healthcare costs to speed up return to work following sickness.
xvi. 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, focused mainly for those who live in social housing in the borough.
xvii. This reserve has been created to manage balances of Troubled Families Grant Funding between years.
xviii. 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.
xix. This reserve provides resources for housing repair projects.

11. Movements in unusable reserves

Certain reserves are held to manage accounting processes and do not represent usable resources for the Council.

	31 March 2020	31 March 2019
	£'000	£'000
Revaluation Reserve	(686,255)	(670,189)
Capital Adjustment Account	(669,388)	(734,996)
Collection Fund Adjustment Account	(8,173)	(7,462)
Pensions Reserve	83,596	184,144
Deferred Capital Receipts	(5)	(6)
Financial Instruments Adjustments	464	519
Short-term Accumulted Absences	2,983	2,484
Total unusable reserves	**(1,276,778)**	**(1,225,506)**

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.

The Reserve contains only revaluation gains accumulated since 1 April 2007, the date that the Reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

	2019/20		2018/19	
	£'000	£'000	£'000	£'000
Balance at 1 April		(670,189)		(736,172)
Upward revaluations of assets	(29,842)		(25,804)	
Downward revaluation of assets	9,921		89,686	
Revaluation not posted to the (Surplus) or Deficit on Provision of Services		**(19,921)**		**63,882**
Difference between current and historic cost depreciation		3,516		1,909
Accumulated depreciation on assets sold or scrapped		339		192
Balance at 31 March		**(686,255)**		**(670,189)**

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. The CAA also contains revaluation gains accumulated on PPE before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.

	2019/20	2018/19
	£'000	£'000
Balance at 1 April	**(734,996)**	**(881,917)**
Reversal of items debited or credited to the CIES:		
Impairment / Revaluation charged to the CIES	46,914	161,330
Charges for depreciation	10,348	10,245
Reversal of depreciation charged in respect of dwellings	3,283	3,080
Amortisation of intangible assets	803	448
Revenue expenditure funded from capital under statute	4,083	2,994
Amounts written off on disposal or sale as part of the gain / loss on disposal to the CIES	30,847	834
Adjusting amounts written out of the Revaluation Reserve:		
Accumulated revaluation gains on assets sold or scrapped	(339)	(192)
Difference between fair value depreciation and historic cost depreciation	(3,516)	(1,909)
Capital financing applied in the year:		
Use of the Capital Receipts Reserve to finance new capital expenditure	(22,703)	(15,059)
Use of the MRR to finance new capital expenditure	(5,357)	(5,149)
Capital grants and contributions credited to the CIES that have been applied to capital financing	(9,264)	(21,150)
Application of grants to capital financing from the Capital Grants Unapplied Account	(5,283)	(1,916)
Statutory provision for the repayment of debt - MRP	(1,251)	(834)
Capital expenditure charged against the General Fund and HRA balances	(2,789)	(284)
Other Movements:		
Movements in the market value of investment properties	19,832	14,483
Movement in year	**65,608**	**146,921**
Closing balance at 31 March	**(669,388)**	**(734,996)**

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.

	2019/20	2018/19
	£'000	£'000
Balance at 1 April	(7,462)	(4,471)
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	(711)	(2,991)
Balance at 31 March	**(8,173)**	**(7,462)**

Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post-employment benefits and for funding benefits in accordance with statutory provisions. The Council accounts for post-employment benefits in the CIES. As the benefits are earned by employees, the liabilities are updated to recognise inflation and the assumptions change in light of investment returns. However, statutory requirements are that benefits earned should be financed as the Council makes employer's contributions to the pension funds or pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Council has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

	2019/20	2018/19
	£'000	£'000
Balance at 1 April	184,144	248,348
Remeasurements recognised in Other Comprehensive Income and Expenditure	(120,006)	(99,691)
Reversal of items relating to retirement benefits debited or credited to (Surplus) or Deficit on the Provision of Services	36,286	47,638
Employers contributions payable to scheme	(16,828)	(12,151)
Balance at 31 March	**83,596**	**184,144**

Short-term Accumulated Absences

An accrual is made for the cost of holiday entitlements (or any form of leave e.g. time off in lieu) earned by employees, but not taken before the year-end and which employees can carry forward into the next financial year. The accrual is charged in the CIES, but then reversed out via the MIRS so that holiday benefits 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.

12. Other operating income and expenditure

	2019/20	2018/19
	£'000	£'000
Levies	3,626	3,360
Payments to the government Housing Capital Receipts Pool	1,161	1,161
(Gains) / losses on the disposal of non-current assets	14,297	(5,034)
Total other operating expenditure	**19,084**	**(513)**

13. Financing and investment income and expenditure

	2019/20	2018/19
	£'000	£'000
Interest payable and similar charges	11,025	11,776
Net interest on the net defined benefit liability	4,242	6,156
Interest receivable and similar income	(2,433)	(2,930)
Income and expenditure in relation to investment properties	(17,160)	(12,394)
Changes in fair values of investment properties	19,832	14,483
Deficit on trading operations not allocated to services	2,148	1,528
Expected Credit Loss - impairment allowance	5,190	2,241
Total financing and investment income and expenditure	**22,844**	**20,860**

14. Taxation and non-specific grant income and expenditure

	2019/20	2018/19
	£'000	£'000
Council tax income	(88,375)	(82,366)
Non domestic rates	(166,702)	(218,671)
Business rates tariff	105,684	151,434
Non-ringfenced government grants		
- S31 Business Rate Relief	(7,208)	(4,837)
- S31 Other	(15,943)	(26,471)
- COVID-19 Support Grant	(5,949)	0
- Other general grants	(3,676)	(2,521)
Capital grants and contributions		
- Community Infrastructure Levy	(5,127)	(7,418)
- MHCLG S31 Grenfell Grant	(8,283)	(12,081)
- DFE Basic Needs Grant	(3,776)	0
- Adult Social Care Support Grant	0	(3,276)
- Other capital grants and contributions	(5,642)	(10,520)
Total taxation and non-specific grants	**(204,997)**	**(216,727)**

15. Property, plant and equipment (PPE)

These 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. This category excludes properties which are held solely for the purpose of generating financial return (Investment Properties and Assets for Sale) and those held primarily for their contribution to knowledge and culture (Heritage Assets).

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.

Subsequent changes in value

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 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 2019/20 with an effective valuation date of 31 March 2020. 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.

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.

The outbreak of the COVID-19 virus has had an impact on market activity in the real estate sector, and as such the Council's valuers feel that less weight may be attached to previous market evidence for comparison purposes. The values they have provided are therefore reported on the basis of a "material valuation uncertainty". This declaration means that, in the current circumstances, less certainty can be placed on the valuation of these assets than would otherwise be the case.

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 – 6 to 85 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 in its own right. 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. Where assets are recognised as their component parts then each element is considered independently for future valuations, depreciation, replacement and disposal accounting. This Council will recognise the Structure, Roof, Heating & associated systems, Electrical, Lift and Externals as components.

PPE depreciation will be calculated using the weighted average remaining useful life of the structure and associated components provided by the Council's Valuer on an annual basis. The weighted average remaining useful life satisfies the requirement for accounting for PPE assets on a component basis where each part of an item of PPE with a cost that is significant in relation to the total cost of the item is separately depreciated.

Where a component is replaced or restored, the carrying amount of the old component is derecognised to avoid double counting and the new component reflected in the carrying amount. This recognition and de-recognition takes place regardless of whether the replaced part had been depreciated separately.

There are a number of circumstances where componentisation will not apply, including:

- Vehicles and Equipment will be considered immaterial and not subject to componentisation.
- Infrastructure assets are excluded pending the status of the Code of Practice on Transport Infrastructure Assets.
- Investment properties are not depreciated but must be considered for componentisation where enhancement expenditure is incurred.

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 (SDPOS). 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.

Services, support services and trading accounts are debited with the following capital charges to record the cost of holding fixed assets during the year:

- depreciation attributable to the assets used by the relevant service;
- revaluation and impairment losses on assets used by the service in excess of any accumulated gains in the Revaluation Reserve against which the losses can be written off; and
- amortisation of intangible fixed assets attributable to the service.

Under statute, the Council is not required to raise Council Tax to cover the cost of depreciation and amortisation on assets. However, the Council is required to make a prudent annual contribution (MRP) from revenue towards the overall council borrowing requirement. Capital Charges are replaced by MRP in the GF balance by way of an appropriation to the CAA in the MIRS for the difference in the two charges.

Regulations have replaced the detailed formula for calculating MRP with a requirement to be prudent. The MRP policy for non-HRA 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.

Each year, the MRP provided for assets owned via a finance lease will be equal to the amount that is provided to write down the liability. This is transparent and will eliminate the risk of the Council "double counting" the cost of the lease in its accounts.

Capital Commitments

As at 31 March 2020 the Council has outstanding capital commitments of £27.7 million GF (£29.3 million at 31 March 2019) and £1.4 million HRA (£1.6 million at 31 March 2019) in respect of contracted schemes.

The major commitments as at 31 March 2020 were:

- Barlby and Special Education Needs Schools - £22.3 million (£29.3 million as at 31 March 2019)
- Colville Schools - £1.0 million (no commitment as at 31 March 2019)
- Leighton House Museum - £4.4 million (no commitment as at 31 March 2019)
- HRA Fire Doors £1.4 million (no commitment as at 31 March 2019).

2019/20	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**
Cost or Valuation at 1 April 2019	**777,238**	**536,756**	**18,453**	**73,109**	**14,585**	**38,400**	**1,458,541**
Additions and enhancement	23,742	16,196	1,015	3,031	2,141	7,940	**54,065**
Revaluation increases / (decreases) recognised in Revaluation Reserve	1,908	10,761	0	0	0	0	**12,669**
Revaluation increases / (decreases) recognised in (Surplus) or Deficit on Provision of Services	(35,878)	(13,049)	0	0	0	0	**(48,927)**
Derecognition - disposals	(238)	0	(3,745)	0	0	(2,074)	**(6,057)**
Other Reclassifications and transfers	17,531	0	0	0	1	(17,531)	**1**
At 31 March 2020	**784,303**	**550,664**	**15,723**	**76,140**	**16,727**	**26,735**	**1,470,292**
Accumulated Depreciation and Impairment at 1 April 2019	**(1)**	**(98)**	**(10,329)**	**(43,869)**	**0**	**0**	**(54,297)**
Depreciation charge	(3,151)	(5,194)	(931)	(4,187)	0	0	**(13,463)**
Depreciation / Impairment written out to the Revaluation Reserve	2,904	2,792	0	0	0	0	**5,696**
Depreciation / Impairment written out to (Surplus) or Deficit on Provision of Services	245	2,500	0	0	0	0	**2,745**
Derecognition - disposals	3	0	208	0	0	0	**211**
At 31 March 2020	**0**	**0**	**(11,052)**	**(48,056)**	**0**	**0**	**(59,108)**
Net Book Value (NBV):							
- At 31 March 2020	784,303	550,664	4,671	28,084	16,727	26,735	**1,411,184**
- At 31 March 2019	777,237	536,658	8,124	29,240	14,585	38,400	**1,404,244**

2018/19	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**
Cost or Valuation at 1 April 2018	**763,042**	**605,858**	**15,955**	**72,244**	**13,147**	**129,180**	**1,599,426**
Additions and enhancement	26,407	12,947	2,498	865	1,438	16,186	**60,341**
Revaluation increases / (decreases) recognised in Revaluation Reserve	(44,868)	(24,378)	0	0	0	0	**(69,246)**
Revaluation increases / (decreases) recognised in (Surplus) or Deficit on Provision of Services	(131,192)	(32,949)	0	0	0	0	**(164,141)**
Derecognition - disposals	(557)	0	0	0	0	(15)	**(572)**
Other Reclassifications and transfers	164,406	(24,722)	0	0	0	(106,951)	**32,733**
At 31 March 2019	**777,238**	**536,756**	**18,453**	**73,109**	**14,585**	**38,400**	**1,458,541**
Accumulated Depreciation and Impairment at 1 April 2018	**(241)**	**(101)**	**(9,541)**	**(39,727)**	**0**	**0**	**(49,610)**
Depreciation charge	(2,771)	(5,444)	(788)	(4,142)	0	0	**(13,145)**
Depreciation on assets reclassified as investment properties	(122)	122	0	0	0	0	**0**
Depreciation / Impairment written out to the Revaluation Reserve	2,813	2,445	0	0	0	0	**5,258**
Depreciation / Impairment written out to (Surplus) or Deficit on Provision of Services	315	2,880	0	0	0	0	**3,195**
Derecognition - disposals	5	0	0	0	0	0	**5**
At 31 March 2019	**(1)**	**(98)**	**(10,329)**	**(43,869)**	**0**	**0**	**(54,297)**
Net Book Value (NBV):							
- At 31 March 2019	777,237	536,658	8,124	29,240	14,585	38,400	**1,404,244**
- At 31 March 2018	762,801	605,757	6,414	32,517	13,147	129,180	**1,549,816**

*Council dwellings at 31 March 2020 include 252 properties held within the GF with a NBV of £41.807 million (219 properties held within the GF with a NBV of £36.565 million at 31 March 2019).

16. 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.

The carrying amount of intangible assets is amortised on a straight-line basis over a five-year period, which is deemed to be the period that intangible assets are expected to be of use to the Council.

Software Licences	**2019/20**	**2018/19**
	£'000	£'000
Balance at 1 April		
- Gross carrying amount	11,476	8,245
- Accumulated amortisation	(7,737)	(7,290)
Net carrying amount at 1 April	**3,739**	**955**
Additions:		
- Purchases	3,283	3,232
Amortisation for the period	(803)	(448)
Net carrying amount at 31 March	**6,219**	**3,739**
Comprising:		
- Gross carrying amounts	**14,759**	**11,476**
- Accumulated amortisation	**(8,540)**	**(7,737)**

17. 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.

Valuations of heritage assets property 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 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.

Heritage Properties

The Council operates two museums; Leighton House Museum and 18 Stafford Terrace (also known as Linley Sambourne House).

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 Royal Borough, mainly in Holland Park. Details of these items can be found on the Council's website.

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

	Heritage Properties	Museum Collections	Art in Parks	Total
	£'000	£'000	£'000	**£'000**
Cost or Valuation at 1 April 2019	**19,993**	**22,753**	**1,963**	**44,709**
Additions	823	66	0	**889**
Revaluations	(823)	1,477	0	**654**
Depreciation	0	0	0	**0**
Cost or Valuation at 31 March 2020	**19,993**	**24,296**	**1,963**	**46,252**

	Heritage Properties	Museum Collections	Art in Parks	Total
	£'000	£'000	£'000	**£'000**
Cost or Valuation at 1 April 2018	**19,978**	**22,753**	**1,963**	**44,694**
Additions	474	0	0	**474**
Revaluations	(474)	0	0	**(474)**
Depreciation	15	0	0	**15**
Cost or Valuation at 31 March 2019	**19,993**	**22,753**	**1,963**	**44,709**

18. Investment properties

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.

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:

	2019/20	2018/19
	£'000	£'000
Office units	9,001	12,427
Commercial units	288,245	324,941
Land	17,418	17,311
Other investment property	448	466
Total fair value	**315,112**	**355,145**

There were no transfers between any of the three levels of the fair value hierarchy during 2019/20 or the preceding year. During 2019/20, one open space transferred from investment properties to community 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:

	2019/20	2018/19
	£'000	£'000
Rental income from investment property	(19,510)	(15,177)
Direct operating expenses arising from investment property	2,350	2,783
Net (gain) / loss	**(17,160)**	**(12,394)**

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 Council has no contractual obligations to purchase, construct or develop investment property or repairs, maintenance or enhancement.

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

	2019/20	2018/19
	£'000	£'000
Balance at 1 April	**355,145**	**393,116**
Additions		
- Purchases	0	0
- Subsequent expenditure	4,801	9,512
Net gains / (losses) from fair value adjustments	(19,832)	(14,483)
Disposals	(25,001)	(267)
Transfers (to) / from Property, Plant and Equipment	(1)	(32,733)
Balance at 31 March	**315,112**	**355,145**

19. Financial instruments

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

No financial instruments have been reclassified in 2019/20.

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 Council held the following types of financial assets during 2019/20:

- Loans with other local authorities and commercial banks
- Deposits in call accounts with the Council's bankers
- Treasury bills issued by the UK Government
- LVNAV money market funds
- Trade receivables

Since the Council's business model for holding all of these financial assets is to collect contractual cash flows, they are all initially measured at fair value and subsequently measured at amortised cost.

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. 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.

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

	31 March 2020		31 March 2019	
Financial Assets	**Long-term**	**Current**	**Long-term**	**Current**
	£'000	£'000	£'000	£'000
Investments				
At amortised cost - principal amount	0	185,500	0	138,100
At amortised cost - accrued interest	0	997	0	413
Total investments	**0**	**186,497**	**0**	**138,513**
Debtors				
Loans at amortised cost	506	1,137	508	878
Other receivables at amortised cost*	3,394	17,603	646	24,502
Total included in debtors	**3,900**	**18,740**	**1,154**	**25,380**
Cash and Cash Equivalents (CCE)				
At amortised cost - principal amount	0	60,037	0	78,841
At amortised cost - accrued interest	0	24	0	47
Total included in CCE	**0**	**60,061**	**0**	**78,888**
Total financial assets	**3,900**	**265,298**	**1,154**	**242,781**
Other Assets	1,778,767	71,361	1,807,837	82,339
Total Assets per Balance Sheet	**1,782,667**	**336,659**	**1,808,991**	**325,120**

*2018/19 comparators have been adjusted to include loans to staff including season ticket loans.

Financial Liabilities

Financial liabilities are initially measured at fair value and are subsequently measured at amortised cost. 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.

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

	31 March 2020		31 March 2019	
Financial Liabilities	**Long-term**	**Current**	**Long-term**	**Current**
	£'000	£'000	£'000	£'000
Borrowings				
Amortised cost - principal amount	(252,246)	(11,589)	(213,836)	(5,009)
Amortised cost - accrued interest	0	(2,815)	0	(2,292)
Total borrowings	**(252,246)**	**(14,404)**	**(213,836)**	**(7,301)**
Creditors				
Financial liabilities carried at contract amounts	(1,136)	(53,022)	(620)	(54,867)
Total included in creditors	**(1,136)**	**(53,022)**	**(620)**	**(54,867)**
Total financial liabilities	**(253,382)**	**(67,426)**	**(214,456)**	**(62,168)**
Other liabilities	(120,588)	(117,376)	(219,538)	(113,726)
Total Liabilities per Balance Sheet	**(373,970)**	**(184,802)**	**(433,994)**	**(175,894)**

The Other Long-Term Liabilities shown in the Balance Sheet relate mainly to the Council's obligation in respect of its defined benefit plans, which does not meet the definition of a financial liability.

Income, Expenses, Gains and Losses

Interest is credited to the Financing and Investment Income and Expenditure line in the CIES based on the carrying amount of financial instruments, multiplied by the effective rate of interest for the instruments.

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

2019/20	**Assets at amortised cost**	**Liabilities at amortised cost**	**Total financial instruments**
	£'000	£'000	**£'000**
Interest expense in CIES	0	11,024	**11,024**
Interest and investment income in CIES	(2,432)	0	**(2,432)**
Net (gain) / loss for the year	**(2,432)**	**11,024**	**8,592**

2018/19	**Assets at amortised cost**	**Liabilities at amortised cost**	**Total financial instruments**
	£'000	£'000	**£'000**
Interest expense in CIES	0	10,449	**10,449**
Interest and investment income in CIES	(1,624)	0	**(1,624)**
Net (gain) / loss for the year	**(1,624)**	**10,449**	**8,825**

Financial instruments – fair values

Financial assets classified as loans and receivables and all non-derivative financial liabilities are carried on the Balance Sheet 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 2020, using the following methods and assumptions:

- Public Works Loan Board (PWLB) loans have been valued using the new borrowing certainty rates published by the Debt Management Office (DMO) on 31 March 2020
- No early repayment or impairment is recognised for any financial instrument
- The fair value of short-term instruments, including trade payables and receivables, is assumed to approximate to the carrying amount.

The fair values are calculated as follows:

	Level	31 March 2020 Fair Value	31 March 2020 Carrying Amount	31 March 2019 Fair Value	31 March 2019 Carrying Amount
		£'000	£'000	£'000	£'000
PWLB loans	2	(291,174)	(266,651)	(260,290)	(221,137)
Liabilities for which fair value is not disclosed			(292,596)		(304,595)
		(291,174)	(559,247)	(260,290)	(525,732)

20. 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; and
- 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 2019-20 can be found on the Council's website:
https://www.rbkc.gov.uk/committees/Meetings/tabid/73/ctl/ViewMeetingPublic/mid/669/Meeting/7781/Committee/1593/Default.aspx

Credit Risk

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.

Investments

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	**2019/20**	**2018/19**
		£'000	£'000
UK Government (Treasury bills)	AA+	0	55,100
Other local authorities	UNRATED	115,500	83,000
Money Market Funds	AAA	58,200	70,300
Banks	A+	70,000	0
Banks	BBB+	0	1,886
Total		**243,700**	**210,286**

Approximately 90% of all investments as at 31 March 2020 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 2019/20, the risk of loss on the Council's investments was considered immaterial.

Trade Receivables

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.

Details of expected credit losses for receivables can be found in note 21.

<u>Liquidity Risk</u>

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 for 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. The PWLB also works as lender of last resort for Councils. In addition, the Council is also required to set an annual balanced budget in setting its Council Tax requirements for the forthcoming year (Local Government Act 1992). Thus, there is minimum risk of the Council being unable to raise finance to meet its financial commitments.

All sums invested (£243.700 million) are due to be paid back to the Council in less than a year.

<u>Refinancing Risk</u>

Refinancing risk is the possibility that the Council might be required to renew a financial liability which has matured at a disadvantageous interest rate. The Council maintains a significant debt and investment portfolio. While the cash flow procedures detailed above are considered against the refinancing risk procedures, long term risk to the Council relates to managing the exposure to replace financial instruments maturing; both loans and investments.

The approved prudential indicator limits for the maturity structure of debt and the limits placed on investments for greater than one year in duration are the key parameters used to address this risk, which include:

- Monitoring the maturity profile of financial liabilities; the profile being changed through new borrowing or the restructure of the Council's debt; and
- Monitoring the maturity profile of investments to ensure that there is sufficient liquidity for the Council's day to day cash flow requirements; both in the long and short term.

The Council's investments all have a maturity profile of less than one year. The maturity analysis of the Council's borrowings is detailed below:

Maturity Period	2019/20	2018/19
	£'000	£'000
Maturing in under one year	(11,588)	(5,009)
Maturing between one and two years	(17,992)	(11,572)
Maturing between two and five years	(17,700)	(23,000)
Maturing between five and ten years	(20,531)	(25,736)
Maturing between ten and 20 years	(45,004)	(52,504)
Maturing between 20 and 30 years	(90,000)	(65,000)
Maturing in over 30 years	(61,020)	(36,025)
Total	**(263,835)**	**(218,846)**

Market Risk

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.

Interest Rate Risk

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, so nominal gains and losses on these do not impact on the surplus or deficit on the CIES. The Council does not have any variable rate borrowing.

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	(802)
Impact on CIES	(802)
Share of overall impact debited to the HRA	675
Decrease in fair value of fixed rate borrowing liabilities	(35,834)

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.

Price Risk

The Council, excluding the Pension Fund, does not generally invest in equity shares or marketable bonds.

21. Debtors

Category of debt (all at amortised cost)	31 March 2020 Gross Debtor	ECL	Net Debtor	31 March 2019 Gross Debtor	ECL	Net Debtor
	£000	£000	£000	£000	£000	£000
Current Debtors						
Trade receivables	12,553	(4,725)	7,828	17,639	(4,205)	13,434
Other receivables	3,096	(1,729)	1,367	2,939	(1,268)	1,671
Payments in advance	4,805	0	4,805	7,959	0	7,959
Central government - Grenfell related	16,037	0	16,037	40,626	0	40,626
Central government - Other	19,925	0	19,925	11,637	0	11,637
Health Authorities	4,970	0	4,970	1,020	0	1,020
Other Local Authorities	17,347	0	17,347	16,247	0	16,247
Temporary Accommodation	3,569	(2,020)	1,549	3,672	(1,902)	1,770
Commercial Waste	171	(18)	153	141	(16)	125
Housing Benefit Overpayments	8,750	(6,840)	1,910	9,281	(6,836)	2,445
Local Taxation	18,422	(9,669)	8,753	14,563	(9,225)	5,338
HRA Rent Payers	4,530	(2,466)	2,064	4,371	(2,060)	2,311
HRA Service Charge	2,031	(338)	1,693	2,155	(759)	1,396
Parking	20,161	(18,570)	1,591	19,500	(17,877)	1,623
Advances and deposits	30	0	30	0	0	0
Total Current Debtors	**136,397**	**(46,375)**	**90,022**	**151,750**	**(44,148)**	**107,602**
Long Term Debtors						
Trade receivables	398	0	398	0	0	0
Service Loans	506	0	506	508	0	508
HRA Service Charge	2,947	(429)	2,518	0	0	0
Advances and deposits	693	(215)	478	754	(108)	646
Total Long Term Debtors	**4,544**	**(644)**	**3,900**	**1,262**	**(108)**	**1,154**
Total Current and Long Term Debtors	**140,941**	**(47,019)**	**93,922**	**153,012**	**(44,256)**	**108,756**

Debtors are held at amortised cost and the Council assesses expected credit losses (ECL) against them on a lifetime basis. Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. This is based on historical collection rates and forward-looking estimates. The likelihood of default on debts over £0.250 million are considered on an individual basis; others are grouped into service areas and assessed collectively.

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.

22. Debtors for Local Taxation

	31 March 2020	31 March 2019
	£'000	£'000
Less than one year (current)	7,199	3,755
More than one year (long term)	1,554	1,583
Total	**8,753**	**5,338**

The above is an analysis of the age of debtors, net of impairment.

23. Cash and cash equivalents

Cash is represented by cash in hand and at bank. Cash equivalents are call accounts and deposits with financial institutions repayable without penalty 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.

	31 March 2020	31 March 2019
	£'000	£'000
Cash held by the Council	23	6
Bank current accounts	1,814	6,649
Short-term deposits	58,224	72,233
Total cash and cash equivalents	**60,061**	**78,888**

24. Creditors

	31 March 2020		31 March 2019	
	Current	Long Term	Current	Long Term
	£'000	£'000	£'000	£'000
Trade payables	(45,295)	(619)	(43,478)	(620)
Receipts in advance	(17,452)	0	(23,214)	0
Central government bodies	(21,328)	0	(29,312)	0
Other local authorities	(30,137)	0	(13,234)	0
NHS bodies	(9,730)	0	(7,300)	0
Other payables	(12,329)	(517)	(11,389)	0
Total creditors	**(136,271)**	**(1,136)**	**(127,927)**	**(620)**

25. 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.

2019/20	Insurance	NDR Appeals	Disputed Invoices	Other	Total
	£'000	£'000	£'000	£'000	**£'000**
Balance at 1 April	(2,838)	(31,318)	(2,050)	(533)	**(36,739)**
Additional provisions made	(2,554)	(1,921)	(196)	(16)	**(4,687)**
Amounts used	1,111	6,352	1,346	443	**9,252**
Unused amounts reversed	0	7,830	0	33	**7,863**
Balance at 31 March	**(4,281)**	**(19,057)**	**(900)**	**(73)**	**(24,311)**
Of which:					
Long Term	**(2,574)**	**0**	**0**	**0**	**(2,574)**

Insurance

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.

Business Rates

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 2017 list. Further to a new agreement between the London Pool and central government, the Council's share of NDR assets and liabilities decreased from 64% in 2018/19 to 48% in 2019/20.

Disputed Invoices

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

Other Provisions

Other provisions include the London Residuary Body's (LRB) public liability insurance claims and Looked After Children savings.

Thames Water charges

The Council has opted not to create a provision in 2019/20 for the liability arising as a result of the Appeal Court case lost by Royal Borough of Kingston-Upon-Thames in October 2020. The adjustment is not considered material and a provision will be created in the 2020/21 accounts. See note 5 for further details.

26. Cash Flow Statement - Operating Activities

	2019/20	2018/19
	£'000	£'000
Net Surplus / (Deficit) on the Provision of Services	**(103,595)**	**(178,655)**
Remove non-cash movements		
Depreciation and amortisation	14,435	13,773
Impairment and downward revaluations	46,913	161,439
Increase / (decrease) in creditors	(469)	(47,125)
(Increase) / decrease in debtors	5,941	14,262
Movement in pension liability	19,458	35,487
Carrying amount of non-current assets and assets held for sale, sold or derecognised	30,847	834
Other non-cash items	7,405	38,461
Sub-total	**124,530**	**217,131**
Adjust for items that are investing and financing activities		
Proceeds from the sale of non-current assets	(14,475)	(6,019)
Grants for the financing of capital expenditure	(22,023)	(33,296)
Sub-total	**(36,498)**	**(39,315)**
Net cash flows from revenue activities	**(15,563)**	**(839)**

27. Cash Flow Statement - Investing Activities

	2019/20	2018/19
	£'000	£'000
Purchase of non-current assets	(62,560)	(67,379)
(Purchase) / disposal of short-term and long-term investments	(47,400)	(18,792)
Other (payments) / receipts for investing activities	0	771
Proceeds from the sale of non-current assets	14,475	6,062
Capital grants and contributions received	37,545	39,625
Net cash flows from investing activities	**(57,940)**	**(39,713)**

28. Cash Flow Statement - Financing Activities

	2019/20	2018/19
	£'000	£'000
Cash receipts / (repayments) of borrowing	44,991	(7,509)
Cash receipts / (repayments) of other liabilities	(499)	0
Collection Fund adjustments	10,184	23,751
Net cash flows from financing activities	**54,676**	**16,242**

29. Pooled budgets

The Council has entered into a pooled budget arrangement with the West London Clinical Commissioning Group (WLCCG) 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.

	2019/20	2018/19
	£'000	£'000
RBKC contributions to the pooled budget	(8,283)	(33,437)
WLCCG contributions to the pooled budget	(13,151)	(31,072)
Total contributions into the pooled budget	**(21,434)**	**(64,509)**
Costs relating to the reablement of residents	4,336	4,863
Costs relating to care provided in residential settings or in community settings	10,192	46,566
Support Services and programme management relating to the BCF	846	5,592
iBCF Programme	6,570	5,329
Total expenditure met by the pooled budget	**21,944**	**62,350**
Net in-year (surplus) / deficit	**510**	**(2,159)**
Comprising shares due to:		
RBKC	0	(405)
WLCCG	510	(1,754)

During 2019/20, WLCCG and RBKC agreed to align the BCF programme with Joint Health & Wellbeing Board priorities and vary the programme to reflect national guidance. Schemes no longer aligned to the agreed priorities were removed and this is reflected above.

30. Officers remuneration

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. Senior officers are excluded from this table as their remuneration is disclosed separately further below.

	2019/20 No. of employees	2018/19 No. of employees
£50,000 - £54,999	147	170
£55,000 - £59,999	125	117
£60,000 - £64,999	69	65
£65,000 - £69,999	44	42
£70,000 - £74,999	40	31
£75,000 - £79,999	28	33
£80,000 - £84,999	9	20
£85,000 - £89,999	15	10
£90,000 - £94,999	6	10
£95,000 - £99,999	7	5
£100,000 - £104,999	6	7
£105,000 - £109,999	7	6
£110,000 - £114,999	1	7
£115,000 - £119,999	3	2
£120,000 - £124,999	2	1
£125,000 - £129,999	0	1
£130,000 - £134,999	1	0
£135,000 - £139,999	1	2
£140,000 - £144,999	1	2
£145,000 - £149,999	1	1
Total	**513**	**532**

The increase in number of officers in the above table is as a result of officers reaching the £50,000 threshold in 2019/20 and Repairs Direct employees being brought in-house.

Termination benefits are amounts payable to an employee as a result of a decision by the Council to terminate his or her employment before the normal retirement date, or an employee's decision to accept voluntary redundancy. The benefits are charged on an accruals basis to the CIES at the point that the Council is demonstrably committed to termination of employment.

The numbers of exit packages with total cost per band are set out in the table below. These costs include termination benefits, compulsory and voluntary redundancy costs, pension contributions in respect of added years, ex gratia payments and any other departure costs.

Included in the below total cost of exit packages for 2019/20 is £0.256 million (£0.501 million in 2018/19) in respect of approved redundancies yet to be finalised.

2019/20

Exit Package Cost Band	Compulsory redundancies	Other departures agreed	Departures by cost band	Total cost of exit packages in each band
£'000	Number	Number	**Total Number**	**£**
0 - 20	18	9	**27**	**296,313**
21 - 40	5	2	**7**	**193,773**
41 - 60	1	1	**2**	**82,280**
61 - 80	3	1	**4**	**266,150**
81 - 100	2		**2**	**174,244**
101 - 150	3	1	**4**	**432,287**
151 - 200	1		**1**	**195,605**
201 - 250	1		**1**	**205,087**
Total	**34**	**14**	**48**	**1,845,739**

2018/19

Exit Package Cost Band	Compulsory redundancies	Other departures agreed	Departures by cost band	Total cost of exit packages in each band
£'000	Number	Number	**Total Number**	**£**
0 - 20	14	23	**37**	**382,999**
20 - 40	7	9	**16**	**478,717**
40 - 60	3	4	**7**	**340,348**
60 - 80	4	0	**4**	**263,976**
80 - 100	1	1	**2**	**170,143**
100 - 150	0	1	**1**	**136,704**
Total	**29**	**38**	**67**	**1,772,887**

The following table sets out the remuneration for senior officers reporting directly to the Chief Executive or hold statutory posts, as well as any other officer whose salary is more than £150,000.

Job Title	Note	Salary, Fees and Allowances	Performance Related Pay*	Expenses	Compensation: Loss of Office	Total remuneration excluding pension contributions	Employer Pension Contribution	Total Remuneration
2019/20		£	£	£	£	**£**	£	**£**
Chief Executive (Barry Quirk)		204,200	0	0	0	**204,200**	0	**204,200**
Executive Director of Resources and Assets (Mike Curtis)	1	173,800	8,500	1,666	0	**183,966**	2,462	**186,428**
Executive Director for Grenfell (Robyn Fairman)		160,000	0	0	0	**160,000**	27,200	**187,200**
Executive Director for Environment and Communities		143,250	7,542	936	0	**151,728**	26,759	**178,487**
Chief Solicitor		97,100	4,900	1,404	0	**103,404**	18,103	**121,507**
Director of Grenfell Partnerships	2	91,633	0	1,404	0	**93,037**	16,807	**109,844**
Director of Communications and Community	3	10,308	0	0	0	**10,308**	0	**10,308**
Head of Communications	4	124,248	0	0	0	**124,248**	0	**124,248**
Director of Corporate Strategy	5	64,400	3,600	0	0	**68,000**	11,548	**79,548**
Principal Policy Management Advisor		72,800	3,600	0	0	**76,400**	12,976	**89,376**

*Performance related pay (PRP) is an estimated amount; actual PRP could be higher or lower.

Notes

1. The Council received £32,000 as a 15% contribution from the Pension Fund for the senior officer's work in this area. The cost shown above is the officer's total remuneration.
2. The postholder has held this role permanently since 1 Jan 2020 and was acting up prior to this. Remuneration shown is for the full year.
3. The services of the Director of Communications and Community were secured on an interim basis with Westco until 30 April 2019. The amount disclosed above is the cost incurred by the Council and not the individual's remuneration.
4. The officer has been seconded from Westminster Council since August 2017 and assumed the Head of Communications role from 1 May 2019. The amount disclosed above is the total cost incurred by the Council in 2019/20 and not the individual's remuneration.

5. The postholder covered the role of Principal Policy Advisor during 2019/20 until taking on the role of Director of Corporate Strategy from 16 March 2020. The amount shown is the officer's remuneration for the full year.

Senior Officer shared posts employed by other local authorities

- The WCC employed Bi-Borough Executive Director of Children's Services is shared 50% with RBKC.
- The WCC employed Director of Public Health is shared 44% RBKC and 56% WCC. The post is covered by interim staff.
- The WCC employed Bi-Borough Executive Director of Adult Social Care and Health is shared 50% with RBKC.

Remuneration details for these officers can be found within Westminster Council's statement of accounts at https://www.westminster.gov.uk/annual-accounts.

Job Title	Note	Salary, Fees and Allowances	Performance Related Pay*	Expenses	Compensation: Loss of Office	Total remuneration excluding pension contributions	Employer Pension Contribution	Total Remuneration
2018/19		£	£	£	£	**£**	£	**£**
Chief Executive (Barry Quirk)	1	200,200	0	0	0	**200,200**	0	**200,200**
Executive Director of Resources and Assets (Chris Buss)		36,933	0	0	0	**36,933**	0	**36,933**
Executive Director of Resources and Assets (Mike Curtis)	2	116,748	8,160	1,374	0	**126,282**	19,167	**145,449**
Executive Director for Grenfell (Robyn Fairman)		145,000	0	0	0	**145,000**	24,650	**169,650**
Executive Director for Environment and Communities		111,397	6,658	0	0	**118,055**	18,864	**136,919**
Chief Solicitor		94,274	4,685	1,364	0	**100,323**	16,695	**117,018**
Director of Communications and Community		142,970	0	0	0	**142,970**	0	**142,970**
Bi-Borough Director of Integrated Care		62,679	0	39	88,682	**151,400**	11,551	**162,951**
Director of Corporate Strategy	3	70,805	0	0	0	**70,805**	12,037	**82,842**
Principal Policy Management Advisor	4	70,805	0	0	0	**70,805**	12,037	**82,842**

Notes

1. The 2018/19 'salary fees and allowances' figure has been restated to exclude £6,766.80 payment as returning officer.
2. The 2018/19 'salary fees and allowances' figure has been restated to include a payment of £4,000 made in 2019/20 which relates to 2018/19.
3. Restated to show that the postholder was covering this role since 4 April 2018.
4. Restated to show that the postholder was covering this role since 4 April 2018.

31. Member allowances

The total of Members' Allowances paid in 2019/20 was £1.154 million (£1.137 million in 2018/19).

32. External audit costs

	2019/20	2018/19*
	£'000	£'000
Fees payable with regard to external audit services carried out by the appointed auditor for the year	122	113
Fees payable for the certification of grant claims and returns for the year	30	38
Fees payable in respect of other services provided during the year	19	19
Total audit costs	**171**	**170**

*restated to include additional fees of £42,200: £19,800 of additional audit fees, £16,420 additional fees for certification of grant claims and returns and £6,000 for other audit services.

The fees payable in respect of the audit of the 2019/20 accounts include a £29,000 increase on 2018/19 to reflect the level of resources employed by Grant Thornton on the Council's audit. These include £9,500 for PPE audit work and the cost of an external valuer, £7,000 for increased challenge and depth of audit work and materiality, £5,000 for data extraction and new systems audit work and £3,500 for pensions work.

33. 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 2019/20 are below.

2019/20	**Central Expenditure**	**ISB**	**Total**
	£'000	£'000	**£'000**
Final DSG for 2019/20			**99,890**
Less academy figure recouped			**(27,032)**
DSG after academy recoupment			**72,858**
Plus brought forward from 2018/19			**(4,263)**
Less carry forward to 2020/21 agreed in advance			**4,263**
Agreed initial budget distribution	14,512	58,346	**72,858**
In year adjustments	0	(2,957)	**(2,957)**
Final budgeted distribution	**14,512**	**55,389**	**69,901**
Less actual central expenditure	(15,147)		**(15,147)**
Less actual ISB deployed to schools		(55,392)	**(55,392)**
Net appropriation / (drawdown)	**(635)**	**(3)**	**(638)**

2018/19	Central Expenditure	ISB	Total
	£'000	£'000	£'000
Final DSG for 2018/19			**96,882**
Less academy figure recouped			**(28,106)**
DSG after academy recoupment			**68,776**
Plus brought forward from 2017/18			**(2,368)**
Less carry forward to 2019/20 agreed in advance			**2,368**
Agreed initial budget distribution	4,067	64,709	**68,776**
In year adjustments	0	(556)	**(556)**
Final budgeted distribution	**4,067**	**64,153**	**68,220**
Less actual central expenditure	(3,651)		**(3,651)**
Less actual ISB deployed to schools		(66,464)	**(66,464)**
Net appropriation / (drawdown)	**416**	**(2,311)**	**(1,895)**

Since the introduction of the Children and Families Act in 2014, which included the age range for support extending from 19 to 25 year olds, additional financial pressures have resulted as the provision of support for children with Special Educational Needs and Disabilities (SEND) has increased. This has increased spend within the High Needs Block of DSG. A deficit recovery plan was submitted to the ESFA on 28 June 2019, as approved by the Schools Forum.

The DSG negative reserve of £4.901 million at 31 March 2020 (£4.263 at 31 March 2019) must be deducted from the Council's school budget or, partially or fully, carried forward into the next funding period. The deficit cannot be funded from GF or other resources outside of the DSG without permission of the secretary of state. No GF contribution has been used to supplement DSG budgets.

The earmarked DSG reserve shown in note 10 is analysed as follows.

	31 March 2020	31 March 2019
	£'000	£'000
ISB	3,842	3,839
Central	1,059	424
Total DSG reserve	**4,901**	**4,263**

34. Grant income

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.

The following revenue grants, contributions and donations were credited to Net Cost of Services in the CIES during 2019/20.

Net Cost of Services	2019/20	2018/19
	£'000	£'000
Housing Benefit Subsidy	(122,490)	(125,878)
Dedicated Schools Grant	(70,224)	(68,220)
Public Health Grant	(20,347)	(20,899)
Improved Better Care Fund	(6,570)	(5,329)
Flexible Homelessness Support Grant	(3,780)	(5,745)
Pupil Premium Grant	(3,551)	(3,793)
UASC and Leaving Care Fund	(1,669)	(1,254)
Teacher's Pension Emp Conts Grant	(1,013)	0
Other Grants (under £1 million each)	(14,060)	(13,657)
Revenue contributions	(15,915)	(289)
Total	**(259,619)**	**(245,064)**

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	2019/20	2018/19
	£'000	£'000
Current Liabilities		
GLA Building Council Homes Programme	(6,000)	0
DFE School Condition allocation	(687)	0
Community Infrastructure Levy (CIL)	(227)	(1,326)
MHCLG Grenfell grant	0	(2,073)
Other Grants (under £500k)	(7)	0
	(6,921)	(3,399)
Long Term Liabilities		
Section 106 and private contributions	(32,851)	(30,388)
Section 278 contributions	(1,491)	(1,658)
Other Grants (under £500k)	0	(1,407)
	(34,342)	(33,453)
Balance as at 31 March	**(41,263)**	**(36,852)**

Revenue	2019/20	2018/19
	£'000	£'000
Current Liabilities		
MHCLG S31 Business Rate Relief Grant	(4,850)	(1,286)
DWP Housing Benefit Subsidy	0	(77)
Other Grants (under £500k)	(618)	(993)
Balance as at 31 March	**(5,468)**	**(2,356)**

35. Related Parties

The Council is required to disclose material transactions with related parties.

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 and are set out in notes 14 and 34.

Councillors and Officers

Councillors have direct control of the Council's policies and strategies. The total of councillor's allowances paid during 2019/20 is shown in note 31.

Day-to-day responsibility lies with the Council's Executive Leadership Team which in 2019/20 comprised ten 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 councillor has declared a relationship or position held with a company that has a material commercial relationship with the Council. Some councillors 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 councillors and one officer held positions of control or significant influence in related parties to the Council during 2019/20. These include charitable organisations which received funds from the Council detailed below.

	£'000	Charity No.	Board Trustees
Action Disability Kensington and Chelsea	133	1045769	Adrian Berrill-Cox
St Giles Trust	130	801355	Ameeta Rowland
Kensington and Chelsea Over 50s Forum	49	1158108	Marie-Therese Rossi
Kensington and Chelsea Citizens Advice Bureau	970	1057195	Monica Press, Ian Wason, Dori Schmetterling
Muslim Cultural Heritage Centre Trust	110	1059085	Gerard Hargreaves
Pepper Pot Day Centre	101	297952	Julie Mills
Westway Trust	464	1123127	Anne Cyron, Monica Press, Sof McVeigh, Marwan Elnaghi
Total	**1,957**		

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

At the time of publication, one Councillor and ten officers had not returned their declarations; nine of these 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. It has deemed group accounts not to be required in respect of these as the consolidated position would not be materially different to the single entity accounts.

The Council has two wholly owned subsidiaries, Kensington and Chelsea Estates Limited and Repairs Direct. Group accounts are not prepared 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). This is a Council owned company established to facilitate investment in existing housing stock. As at 31 March 2020 the Company had not started trading.

Kensington and Chelsea Repairs Direct Ltd (Company reference 08375353 incorporated on 25 January 2013). Repairs Direct Ltd was purchased by the Council for a nominal sum on 1 March 2018 and is a wholly owned subsidiary of RBKC. The following officers were Directors for Repairs Direct Ltd during 2019/20:

- Taryn Eves, Director for Financial Management
- Sue Harris, Executive Director for Environment and Communities (resigned 19 December 2019)
- Debbie Morris, Director for Human Resources and Organisational Development (resigned 19 December 2019).

On 1 April 2019 the Council took direct control of housing repairs and maintenance and the company was made inactive.

Other Public Bodies

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 34.

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.

36. Capital expenditure and capital financing

	2019/20	2018/19
	£'000	£'000
Opening Capital Financing Requirement	**403,082**	**370,921**
Capital investment		
Property, Plant and Equipment	54,064	60,341
Heritage Assets	888	474
Investment Properties	4,801	9,512
Intangible Assets	3,283	3,232
Revenue Expenditure Funded from Capital Under Statute	4,083	2,994
Sources of finance		
Capital receipts	(22,703)	(15,059)
Government grants and other contributions	(14,547)	(23,066)
Sums set aside from revenue:		
- Direct revenue contributions	(2,789)	(284)
- Direct Revenue Funding (Major Repairs Reserve)	(5,357)	(5,149)
- MRP / loans fund principal	(1,251)	(834)
Closing Capital Financing Requirement	**423,554**	**403,082**
Provision to reduce the underlying need to borrow (MRP)	(1,251)	(834)
Increase in underlying need to borrow (supported by capital receipts)	21,723	32,995
Increase / (decrease) in Capital Financing Requirement	**20,472**	**32,161**

37. 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 PPE 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.

The Council as Lessee

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 PPE, which writes down the lease liability; and
- 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 PPE. 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.

Assets acquired under finance leases were held as PPE (Other Land and Buildings) in the Balance Sheet at £0.850 million as at 31 March 2020 and 31 March 2019.

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

	31 March 2020	31 March 2019
	£'000	£'000
Not later than one year	75	77
Later than one year and not later than five years	173	243
Later than five years	68	73
Total minimum lease payments	**316**	**393**

During 2019/20, minimum lease payments of £0.077 million (£0.160 million in 2018/19) were charged to the CIES.

The Council as Lessor

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 of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are therefore appropriated to the CAA from the GF via the MIRS.

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 to 1150 years and four other properties have been let on terms of 125 and 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, a parcel of land at Henry Dickens Court, a property on Notting Hill Gate and a small parcel of land at Redcliffe Square.

The land parcels set out above 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

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.

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 2020	31 March 2019
	£'000	£'000
Not later than one year	11,538	13,231
Later than one year and not later than five years	38,695	46,076
Later than five years	103,720	120,935
Total future minimum lease payments	**153,953**	**180,242**

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. It is assumed in the table that the existing arrangements governing tenancies at will, leases that have been held over and leases without a finite expiry date will continue for 15 years.

38. Defined benefit pension schemes

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 Council recognises the cost of retirement in the cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge the Council is required to make against council tax is based on the cash payable in the year, so the real cost of post-employment benefits is reversed out of the GF via the MIRS.

Where termination benefits involve the enhancement of pensions, statutory provisions require the GF / HRA 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. Appropriations are required to and from the Pensions Reserve via the MIRS to remove the notional debits and credits for enhanced pension benefits and to replace them with debits for the cash paid to either the Pension Fund or pensioners and any such amounts payable, but unpaid at the year-end.

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; and
- **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; and
- **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.

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

Transactions made in the CIES	2019/20 RBKC Pension Scheme	2018/19 RBKC Pension Scheme	2019/20 LPFA Pension Scheme	2018/19 LPFA Pension Scheme
	£'000	£'000	£'000	£'000
Service cost comprising:				
- Current service cost	29,312	31,929	90	131
- Past service costs	2,132	8,966	56	0
- (Gain) / loss on settlements	(277)	0	0	0
Financing and Investment Income and Expenditure:				
- Net interest expense	4,214	6,095	28	61
- Administration expenses	691	417	40	39
Post Employment Benefits charged to the (Surplus)/Deficit on Services in the CIES	**36,072**	**47,407**	**214**	**231**
Remeasurement of the net defined benefit liability / asset comprising:				
- Return on plan assets	70,091	(81,451)	1,382	(1,939)
- Actuarial gains and losses arising on changes in demographic assumptions	(40,854)	(75,707)	756	(967)
- Actuarial gains and losses arising on change in financial assumptions	(118,668)	58,986	(2,113)	1,146
- Experience (gain) / loss	(30,382)	0	(235)	0
- Changes in effect of asset ceiling / Other (gains) / losses	(734)	0	751	241
Total Post Employment Benefits charged to 'Other Income and Expenditure ' in the CIES	**(120,547)**	**(98,172)**	**541**	**(1,519)**
Total Post Employment Benefits charged to the CIES	**(84,475)**	**(50,765)**	**755**	**(1,288)**

Transactions made in the MIRS	2019/20 RBKC Pension Scheme	2018/19 RBKC Pension Scheme	2019/20 LPFA Pension Scheme	2018/19 LPFA Pension Scheme
	£'000	£'000	£'000	£'000
Reversal of net IAS 19 charges	(36,072)	(47,407)	(214)	(231)
Actual amount charged to GF/HRA	16,671	12,151	157	0

The liabilities of the Pension Fund attributable to the Council 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. The actuary's estimate of the duration of the pension fund liabilities adopts an approach that reflects national auditor preferences.

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 amounts included in the Balance Sheet arising from the Council's obligations in respect of its defined benefit schemes are as follows:

	31 March 2020	31 March 2019	31 March 2020	31 March 2019
Pension Assets and Liabilities recognised in the Balance Sheet	**RBKC Pension Scheme**		**LPFA Pension Scheme**	
	£'000	£'000	£'000	£'000
Present value of the defined benefit obligation	(1,154,427)	(1,308,308)	(28,247)	(30,511)
Fair value of plan assets	1,072,669	1,125,404	27,771	31,125
Sub-total	**(81,758)**	**(182,904)**	**(476)**	**614**
Present value of unfunded obligation	0	0	(1,362)	(1,613)
Impact of asset ceiling	0	0	0	(241)
Net liability arising from defined benefit obligation	**(81,758)**	**(182,904)**	**(1,838)**	**(1,240)**

Reconciliation of Movement in the Fair Value of Scheme Assets	31 March 2020 RBKC Pension Scheme	31 March 2019 RBKC Pension Scheme	31 March 2020 LPFA Pension Scheme	31 March 2019 LPFA Pension Scheme
	£'000	£'000	£'000	£'000
Opening balance at 1 April	**1,125,404**	**1,026,166**	**31,125**	**29,819**
Interest on assets	26,889	26,068	697	729
Return on assets less interest	(70,091)	81,451	(1,382)	1,939
Administration expenses	(691)	(417)	(40)	(39)
Contributions - employer	16,831	14,683	170	182
Contributions - scheme participants	6,090	6,121	14	21
Estimated benefits paid plus unfunded net of transfers in	(31,886)	(28,668)	(1,815)	(1,526)
Other actuarial gains / (losses)	734	0	(998)	0
Settlement prices received / (paid)	(611)	0	0	0
Closing balance at 31 March	**1,072,669**	**1,125,404**	**27,771**	**31,125**

Reconciliation of Present Value of Scheme Liabilities	31 March 2020 RBKC Pension Scheme	31 March 2019 RBKC Pension Scheme	31 March 2020 LPFA Pension Scheme	31 March 2019 LPFA Pension Scheme
	£'000	£'000	£'000	£'000
Opening balance at 1 April	**(1,308,308)**	**(1,271,986)**	**(32,124)**	**(32,347)**
Current service cost	(29,312)	(31,929)	(90)	(131)
Interest cost	(31,103)	(32,163)	(719)	(790)
Change in financial assumptions	118,508	(61,518)	2,100	(1,328)
Change in demographic assumptions	40,854	75,707	(756)	967
Experience (loss) / gain	30,382	0	235	0
Liabilities assumed / (extinguished) on settlements	888	0	0	0
Estimated benefits paid net of transfers in	31,886	28,668	1,687	1,394
Past service costs and curtailments	(2,132)	(8,966)	(56)	0
Contributions - scheme participants	(6,090)	(6,121)	(14)	(21)
Unfunded pension payments	0	0	128	132
Closing balance at 31 March	**(1,154,427)**	**(1,308,308)**	**(29,609)**	**(32,124)**

Fair value of the Council's Local Government Pension Scheme assets comprised:

	31 March 2020			31 March 2019		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
	£'000	£'000	**£'000**	£'000	£'000	**£'000**
UK equities	17,270	107	17,377	0	142	142
Overseas equities	171,520	0	171,520	444,338	0	444,338
Property	0	63,395	63,395	0	42,998	42,998
Absolute return portfolio	95,897	0	95,897	98,440	0	98,440
Global Equity Pooled Fund	507,372	0	507,372	306,246	0	306,246
Private equity	0	66,613	66,613	0	58,753	58,753
LGIM Sterling Liquidity	146,956	0	146,956	169,717	0	169,717
Cash / Temporary Investments	3,539	0	3,539	4,770	0	4,770
Total	**942,554**	**130,115**	**1,072,669**	**1,023,511**	**101,893**	**1,125,404**

Fair value of Local Pension Fund Authority assets comprised:

	31 March 2020			31 March 2019		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
	£'000	£'000	**£'000**	£'000	£'000	**£'000**
Equities - segregated	11,678	0	11,678	12,513	0	12,513
Equities - private	0	2,291	2,291	0	3,174	3,174
Target return / Fixed Income	1,362	0	1,362	1,463	0	1,463
Investment funds and unit trusts	3,349	0	3,349	4,357	0	4,357
Infrastructure	0	1,949	1,949	0	1,867	1,867
Property	0	2,536	2,536	0	2,926	2,926
Cash (including liability driven investments, currency hedge)	2,287	261	2,548	2,304	62	2,366
Credit	0	2,057	2,057	0	2,459	2,459
Derivatives	1	0	1	0	0	0
Total	**18,677**	**9,094**	**27,771**	**20,637**	**10,488**	**31,125**

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 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.

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 2016; the latest valuation as at 31 March 2019 will be reflected in the 2020/21 accounts. The next actuarial valuation of the Fund will be carried out as at 31 March 2022 and will set contribution rates for the period 1 April 2023 to 31 March 2026.

The principal assumptions used by the actuary are as follows:

	31 March 2020	31 March 2019	31 March 2020	31 March 2020	31 March 2019
	RBKC Pension Scheme Unweighted		LPFA weighted by liability	LPFA Pension Scheme Unweighted	
Life expectancy assumptions:					
Longevity at 65 for pensioners retiring now (in years):					
- Males	21.8	23.4	22.0	21.1	19.9
- Females	24.4	24.8	24.0	23.7	22.8
Longevity at 65 for pensioners retiring in 20 years (in years):					
- Males	23.2	25.0	23.5	22.5	21.7
- Females	25.8	26.6	26.0	25.3	24.4
Other assumptions					
Rate of RPI inflation	2.70%	3.40%		2.85%	3.50%
Rate of CPI Inflation	1.90%	2.40%		1.95%	2.50%
Rate of increase in salaries	2.90%	3.90%		2.95%	4.00%
Rate of increase in pensions	1.90%	2.40%		1.95%	2.50%
Rate for discounting scheme liabilities	2.35%	2.40%		2.30%	2.30%

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

	RBKC Pension Scheme		LPFA Pension Scheme	
Sensitivity analysis	**Increase in assumption**	**Decrease in assumption**	**Increase in assumption**	**Decrease in assumption**
	£'000	£'000	£'000	£'000
Life expectancy (increase or decrease of 1 year): Present value of total obligation	(1,200,097)	(1,110,610)	(30,598)	(28,652)
Life expectancy (increase or decrease of 1 year): Projected service cost	28,050	26,409	88	82
Long term increase in salaries (increase or decrease of 0.1%): Present value of total obligation	(1,156,086)	(1,152,780)	(29,616)	(29,602)
Long term increase in salaries (increase or decrease of 0.1%): Projected service cost	27,230	27,204	85	85
Increase in pensions (increase or decrease of 0.1%): Present value of total obligation	(1,176,250)	(1,133,037)	(29,980)	(29,242)
Increase in pensions (increase or decrease of 0.1%): Projected service cost	27,889	26,561	86	84
Adjustment to discount rate (increase or decrease of 0.1%): Present value of total obligation	(1,131,513)	(1,177,828)	(29,238)	(29,985)
Adjustment to discount rate (increase or decrease of 0.1%): Projected service cost	26,551	27,900	84	86

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%. This will come into effect from 2020/21.

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.

At 31 March 2020, the Council anticipated paying contributions of £12.642 million to the scheme for the year to 31 March 2021 (£14.460 million estimated at 31 March 2019).

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 McCloud and Sargeant Judgements concerned the introduction of career average revalued earnings (CARE) pension schemes to replace the former final salary-based pension schemes as part of the Hutton recommendation to reform public service pension schemes.

Under the changes introduced to each scheme, there was protection provided for older members. In December 2018, the Court of Appeal ruled that the reforms amounted to unlawful discrimination against younger members.

In June 2019, the Supreme Court denied the Government leave to appeal the decision. As a result, the Council's actuaries estimated an increase in the Council's pension liability during 2018/19, based on calculations carried out by the Government Actuary's Department (GAD) and adjusted for the assumption that the change will not impact members who joined the scheme after 31 March 2012. This change was made to the Council's balance sheet under Other Long-Term Liabilities and is included in the above disclosures.

The Chief Secretary to the Treasury announced in July 2019 that the rulings would apply to all public service pension schemes. As a result each scheme is expected to produce its own solution to meet the implications of the two Judgements, but it is expected that these are likely to apply the same principles as the remedies for the judges and police schemes, which are possibly not expected to be developed until well into 2020/21 or 2021/22.

The latest information from GAD confirms that the underpin protection will not apply to members joining the Scheme after 31 March 2012, so we are satisfied that our approach taken in the 2018/19 accounts of adjusting the GAD calculations to remove this element of liability is justified, and that the current allowance we have made remains appropriate.

Guaranteed Minimum Pension (GMP) Equalisation

In January 2018, the Government published the outcome of its indexation and equalisation of GMP in public service pension schemes consultation following the High Court's Lloyds ruling on GMP between genders. No adjustments have been made to the value placed on the IAS 19 Net Pension Liability as a result of this outcome.

39. 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 2019/20, the Council paid £4.612 million to Teachers' Pensions in respect of teachers' retirement benefits, representing 16.48% of pensionable pay to September 2019 and 23.68% since then following a mid-year change in contribution rate. The figures for 2018/19 were £3.461 million and 16.48%. 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.

40. 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 2020, the Council had the following contingent liability:

- Following the tragic fire at Grenfell Tower on 14 June 2017 the Met Police is investigating the Council and KCTMO for corporate manslaughter and a public inquiry is underway to look into the causes of the fire. It is not possible to quantify any liability resulting from this investigation or any civil claims at this time.

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	Notes	31 March 2020	31 March 2019
		£'000	£'000
Expenditure			
Repairs and maintenance		19,989	17,251
Supervision and management		41,259	33,235
Rents, rates, taxes and other charges		287	276
Dwellings Depreciation		2,982	2,771
Depreciation of other non current assets		301	309
(Gains) / Losses as a result of revaluation or impairment		22,308	26,721
Debt Management Costs		52	100
Total Expenditure		**87,178**	**80,663**
Income			
Dwelling rents		(40,421)	(40,961)
Non-dwelling rents		(709)	(1,749)
Charges for services and facilities		(20,441)	(11,133)
Contributions towards expenditure		(92)	(92)
Total Income		**(61,663)**	**(53,935)**
Net Cost of HRA Services as included in the CIES		**25,515**	**26,728**
HRA service share of Corporate and Democratic Core		14	10
Net (Income) / Cost for HRA Services		**25,529**	**26,738**

HRA Income & Expenditure Statement (continued)	Notes	31 March 2020	31 March 2019
		£'000	£'000
Net (Income) / Cost for HRA Services (carried forward from above)		**25,529**	**26,738**
HRA share of operating income and expenditure included in the CIES			
(Gain) or loss on sale of HRA non-current assets		(3,828)	(3,860)
Interest payable and similar charges		9,031	9,420
Movement in Expected Credit Loss (ECL) impairment provision	8	697	153
Interest and net investment income		(128)	(99)
Changes to fair value of investment properties		2,920	(6,273)
Income and expenditure relating to investment properties		(4,219)	(3,094)
Capital grants and contributions receivable		(2,526)	(301)
HRA share of operating income and expenditure		**1,947**	**(4,054)**
(Surplus) or deficit for the year on HRA services		**27,476**	**22,684**

Movement on the HRA Statement	Notes	31 March 2020	31 March 2019*
		£'000	£'000
HRA balance at the end of the previous year		**(14,691)**	**(19,873)**
(Surplus) or deficit for the year on the HRA Income and Expenditure Statement		27,476	22,684
Adjustments between accounting basis and funding basis under statute			
- Reversal of gain or (loss) on sale of HRA non-current assets		3,828	3,860
- Reversal of revaluation losses		(22,308)	(26,721)
- Difference between any other item of income and expenditure determined in accordance with the Code and determined in accordance with statutory HRA requirements		(5,123)	1,867
- Transfer to / (from) Major Repairs Reserve		3,283	3,080
Net (increase) or decrease before transfers to or from earmarked reserves		**7,156**	**4,770**
Transfers to / (from) reserves			
- HRA Controlled Repairs Reserve		0	412
(Increase) or decrease in year on the HRA		**7,156**	**5,182**
HRA balance at the end of the year		**(7,535)**	**(14,691)**
HRA general balance		(7,535)	(14,691)
HRA earmarked reserves		(988)	(988)
Total HRA reserves at the end of the year		**(8,523)**	**(15,679)**

*2018/19 comparators have been restated for presentational reasons.

1. Value of assets held on the Balance Sheet

	31 March 2020	31 March 2019
	£'000	£'000
Council dwellings	742,496	740,672
Other land and buildings	12,961	12,729
Assets under construction	2,698	2,598
Investment properties	62,969	65,418
Total	**821,124**	**821,417**

2. Number and types of dwelling

Archetype description	1 April 2020	1 April 2019	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	67	67	0
Bungalows	11	11	0
Low-Rise Flats <1945	208	209	-1
Low-Rise Flats >1945	188	188	0
Medium	3,596	3,600	-4
High Rise	2,507	2,510	-3
Multi-Occupancy	44	44	0
Total	**6,693**	**6,701**	**-8**

3. Depreciation

HRA non-current assets are depreciated in line with the estimated useful lives disclosed in note 15 of the Council's main accounts.

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 2020 the vacant possession value of dwellings within the HRA was £2,969.984 million (£2,962.688 million as at 31 March 2019). The difference of £2,227.488 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

	2019/20	2018/19
	£'000	£'000
Capital expenditure		
- dwellings	17,167	26,268
- assets under construction	2,175	0
	19,342	**26,268**
Funded by:		
Usable capital receipts	(11,911)	(8,423)
Capital grants and contributions	(2,074)	(12,243)
Major Repairs Reserve	(5,357)	(5,149)
Borrowing	0	(453)
	(19,342)	**(26,268)**

6. Capital Receipts in Year

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

	2019/20	2018/19
	£'000	£'000
Dwellings (net of sale expenses)	(1,797)	(4,175)
Other property	(2,266)	(237)
Total	**(4,063)**	**(4,412)**

7. Cost of Borrowing

The HRA paid interest on borrowing of £8.736 million during 2019/20 (£9.054 million in 2018/19).

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	2019/20	2018/19
	£'000	£'000
Gross arrears	**4,530**	**4,439**
Net arrears (including credit balances)		
- Former tenants	1,379	980
- Current tenants	751	1,649
Net arrears at 31 March	**2,130**	**2,629**

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	2019/20	2018/19
	£'000	£'000
Gross arrears	**5,504**	**3,142**
Net arrears (including credit balances)		
- Leaseholder charges	4,019	1,545
- Commercial properties	885	843
Net arrears at 31 March	**4,904**	**2,388**

The total provision included in the Balance Sheet in respect of all HRA ECL is £3.598 million (£2.996 million at 31 March 2019).

The Collection Fund is an agent's statement that shows the transactions of the billing authority in relation to the collection from taxpayers and distribution to local authorities and the Government of council tax and non-domestic rates.

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 themselves. 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.

	2019/20				2018/19			
	BRS	**NNDR**	**Council Tax**	**Total**	**BRS**	**NNDR**	**Council Tax**	**Total**
Income	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Council Tax Receivable	0	0	(118,727)	(118,727)	0	0	(111,583)	(111,583)
Business Rates Receivable	0	(347,712)	0	(347,712)	0	(357,990)	0	(357,990)
Business Rates Supplement	(10,917)	0	0	(10,917)	(11,125)	0	0	(11,125)
Transactional Protection Payments	0	807	0	807	0	(6,800)	0	(6,800)
	(10,917)	**(346,905)**	**(118,727)**	**(476,549)**	**(11,125)**	**(364,790)**	**(111,583)**	**(487,498)**
Expenditure								
Precepts, Demands and Shares								
Central Government	0	83,379	0	83,379	0	0	0	0
Greater London Authority	0	90,049	31,227	121,276	0	119,204	28,345	147,549
Billing Authority	0	160,088	86,453	246,541	0	211,917	81421	293,338
	0	**333,516**	**117,680**	**451,196**	**0**	**331,121**	**109,766**	**440,887**
Apportionment of PY Surplus / (Deficit)								
Central Government	0	(1,204)	0	(1,204)	0	2,569	0	2,569
Greater London Authority	0	1,188	2,018	3,206	0	1,603	(380)	1,223
Billing Authority	0	3,418	5,796	9,214	0	1,788	(1,083)	705
	0	**3,402**	**7,814**	**11,216**	**0**	**5,960**	**(1,463)**	**4,497**
BRS - Payment to Levying authorities	**10,550**	**0**	**0**	**10,550**	**11,079**	**0**	**0**	**11,079**
Charges to Collection Fund								
Increase / (Decrease) in Impairment	348	5,305	(1,570)	4,083	26	2,635	538	3,199
Increase / (Decrease) in Provision for Appeals	0	(9,231)	0	(9,231)	0	26,099	0	26,099
Cost of Collection	19	643	0	662	20	655	0	675
	367	**(3,283)**	**(1,570)**	**(4,486)**	**46**	**29,389**	**538**	**29,973**
(Surplus) / Deficit arising during the year	**0**	**(13,270)**	**5,197**	**(8,073)**	**0**	**1,680**	**(2,742)**	**(1,062)**
(Surplus) / Deficit at start of year	**0**	**(631)**	**(7,843)**	**(8,474)**	**0**	**(2,311)**	**(5,101)**	**(7,412)**
(Surplus) / Deficit at end of year	**0**	**(13,901)**	**(2,646)**	**(16,547)**	**0**	**(631)**	**(7,843)**	**(8,474)**

1. Analysis of (Surplus) / Deficit

The surplus at 31 March 2020 is attributable to:

	31 March 2020	31 March 2019
	£'000	£'000
RBKC	(8,173)	(7,462)
Greater London Authority	(4,206)	(2,214)
Central Government	(4,168)	1,202
Total	**(16,547)**	**(8,474)**

2. Non-Domestic Rates (NDR)

The Council collects Non-Domestic 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 Council entered a pooling arrangement with all other London Councils from 1 April 2018. The total amount collected, less reliefs and deductions, is divided between the Council (48%), the Greater London Authority (27%) and the government (25%).

Following the 2017 Revaluation, the Non-Domestic Rateable Value was £800 million at 31 March 2020 (£813 million at 31 March 2019). The standard NDR multiplier for 2019/20 was 50.4 pence (49.3 pence in 2018/19). The Small Business Rate Relief multiplier for 2019/20 was 49.1 pence (48.0 pence for 2018/19).

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 2020 was £653 million (£666 million at 31 March 2019). The standard BRS multiplier for 2019/20 was 2 pence, unchanged from previous years.

4. Council Tax

In 2019/20 the tax base for the Council was 97,429 properties (96,336 in 2018/19) which was used to calculate the Band D council tax of £1,190.59 (£1,123.07 in 2018/19), excluding Garden Squares. This includes the GLA Band D precept of £320.51 (£294.23 in 2018/19).

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 Dwellings		Band Ratio	Band D Equivalent No.	
	£	£	2019/20	2018/19		2019/20	2018/19
A	up to	40,000	741	767	0.67	494	511
B	40,001	52,000	1,727	1,644	0.78	1,343	1,279
C	52,001	68,000	5,531	5,406	0.89	4,917	4,806
D	68,001	88,000	9,134	8,869	1.00	9,134	8,869
E	88,001	120,000	9,957	9,862	1.22	12,170	12,053
F	120,001	160,000	9,747	9,720	1.44	14,079	14,040
G	160,001	320,000	17,272	17,169	1.67	28,787	28,615
H	320,001	and above	14,373	14,190	2.00	28,746	28,380
			68,482	**67,627**		**99,670**	**98,553**
			Collection rate after allowance for non-collection			97.8%	97.8%
			Council Tax base used to calculate Band D			**97,429**	**96,336**

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

Opinion

We have audited the financial statements of Kensington and Chelsea Pension Fund (the 'pension fund') administered by the Royal Borough of Kensington and Chelsea (the 'Authority') for the year ended 31 March 2020 which comprise the Fund Account, the Net Assets Statement and notes to the pension fund financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20.

In our opinion, the financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2020 and of the amount and disposition at that date of the fund's assets and liabilities;
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the pension fund's financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

The impact of macro-economic uncertainties on our audit

Our audit of the pension fund financial statements requires us to obtain an understanding of all relevant uncertainties, including those arising as a consequence of the effects of macro-economic uncertainties such as Covid-19 and Brexit. All audits assess and challenge the reasonableness of estimates made by the Executive Director of Resources and the related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment.

Covid-19 and Brexit are amongst the most significant economic events currently faced by the UK, and at the date of this report their effects are subject to unprecedented levels of uncertainty, with the full range of possible outcomes and their impacts unknown. We applied a standardised firm-wide approach in response to these uncertainties. However, no audit should be expected to predict the unknowable factors or all possible future implications for a fund associated with these particular events.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Executive Director of Resources' use of the going concern basis of accounting in the preparation of the pension fund's financial statements is not appropriate; or
- the Executive Director of Resources has not disclosed in the pension fund's financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for the pension fund for a period of at

least twelve months from the date when the pension fund's financial statements are authorised for issue.

In our evaluation of the Executive Director of Resources' conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20 that the pension fund financial statements shall be prepared on a going concern basis, we considered the risks associated with the fund's operating model, including effects arising from macro-economic uncertainties such as Covid-19 and Brexit, and analysed how those risks might affect the fund's financial resources or ability to continue operations over the period of at least twelve months from the date when the financial statements are authorised for issue. In accordance with the above, we have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the fund will continue in operation.

Emphasis of Matter - effects of Covid-19 on the valuation of property investments

We draw attention to Note 4 of the financial statements, which describes the effects of the Covid-19 pandemic on the valuation of the pension fund's property investments as at 31 March 2020. As disclosed in note 4 to the financial statements, the ongoing impact of the COVID-19 pandemic has created uncertainty surrounding illiquid asset values. As such, the Pension Fund property and private equity allocations as at 31 March 2020 are difficult to value according to preferred accounting policy. For pooled property, professional valuers have not been actively valuing many similar sized assets in the market due to the lockdown environment. As such, values have been rolled over from February 2020 with an adjustment and may be inaccurate to the true 31 March 2020 position.

The current response to COVID-19 means pooled property valuations are reported on the basis of 'material valuation uncertainty' as set out in VPGA 10 of the RICS Valuation Global Standards. Consequently, less certainty and a higher degree of caution should be attached to the valuations than would normally be the case.

Our opinion is not modified in respect of this matter.

Other information

The Executive Director of Resources is responsible for the other information. The other information comprises the information included in the Statement of Accounts other than the pension fund's financial statements, our auditor's report thereon and our auditor's report on the Authority's financial statements. Our opinion on the pension fund's financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the pension fund's financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the pension fund's financial statements or our knowledge of the pension fund obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the pension fund's financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matter required by the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice)

In our opinion, based on the work undertaken in the course of the audit of the pension fund's financial statements and our knowledge of the pension fund the other information published together with the pension fund's financial statements in the Statement of Accounts for the financial year for which the financial statements are prepared is consistent with the pension fund's financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters.

Responsibilities of the Authority, the Executive Director of Resources and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Executive Director of Resources. The Executive Director of Resources is responsible for the preparation of the Statement of Accounts, which includes the pension fund's financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20, for being satisfied that they give a true and fair view, and for such internal control as the Executive Director of Resources determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the pension fund's financial statements, the Executive Director of Resources is responsible for assessing the pension fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the pension fund will no longer be provided.

The Audit and Transparency Committee is Those Charged with Governance. Those charged with governance are responsible for overseeing the Authority's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the pension fund's financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority’s members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Paul Grady

Paul Grady
Key Audit Partner

for and on behalf of Grant Thornton UK LLP, Local Auditor

London

19 November 2020

Fund Account	Note	2019/20	2018/19
		£000	£000
Dealings with members, employers and others directly involved in the fund			
Contributions	8	(26,577)	(23,773)
Individual transfers in from other pension funds		(4,661)	(7,641)
Other income		0	(277)
		(31,238)	(31,691)
Benefits	9	32,180	31,551
Payments to and on account of leavers			
- Refunds to members leaving scheme or fund		86	28
- Individual transfers out to other pension funds		5,400	5,612
- Payments in respect of tax		505	0
Other expenditure		436	0
		38,607	37,191
Net (additions) / withdrawals from dealings with members		**7,369**	**5,500**
Management expenses	10	7,344	2,900
Net (additions) / withdrawals including fund management expenses		**14,713**	**8,400**
Returns on Investments:			
Investment Income	11	(6,908)	(7,079)
Other income		(46)	(275)
Profit and losses on disposal of investments and changes in market value of investments*	12	42,388	(108,052)
Taxes on income	11	110	195
Net return on investments		**35,544**	**(115,211)**
Net (increase) / decrease in the net assets available for benefits during the year		**50,257**	**(106,811)**
Opening net assets of the scheme		(1,188,585)	(1,081,774)
Closing net assets of the scheme		**(1,138,328)**	**(1,188,585)**

Net Assets Statement	Notes	31 March 2020	31 March 2019
		£000	£000
Investment assets	12	1,135,264	1,186,808
Investment liabilities		(612)	(1,525)
Total net investments		**1,134,652**	**1,185,283**
Current assets	21	5,690	6,404
Current liabilities	22	(2,014)	(3,102)
Net assets of the fund available to fund benefits at the reporting period end		**1,138,328**	**1,188,585**

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:

	2019/20	2018/19
Active members	3,499	3,884
Pensioners receiving benefits	3,157	3,118
Deferred pensioners*	4,734	4,389
Total	**11,390**	**11,391**

* in 2019/20 there were an additional 921 leavers (974 in 2018/19) 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 19) and the current contribution rates range from 16.2% to 23.4% 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 four 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 three 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 10th February 2020 (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 eight 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 2019/20 and its position at the year-end as at 31 March 2020. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 (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).

Going Concern

The LGPS is a statutory, state back scheme that is 125% 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.

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.

3. Summary of significant accounting policies

Fund Account – revenue recognition

(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.

Fund Account – expense items

(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 Sub-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.

Net Assets statement

(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 (AVCs) into a separate scheme run by Prudential Assurance in order 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. AVCs 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.

(m) Rounding

The accounts have been rounded to the nearest thousand throughout.

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 at 31 March 2020 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows.

COVID-19
The ongoing impact of the COVID-19 pandemic has created uncertainty surrounding illiquid asset values. As such, the Pension Fund property and private equity allocations as at 31 March 2020 are difficult to value according to preferred accounting policy. For pooled property, professional valuers have not been actively valuing many similar sized assets in the market due to the lockdown environment. As such, values have been rolled over from February 2020 with an adjustment and may be inaccurate to the true 31 March 2020 position.

The current response to COVID-19 means pooled property valuations are reported on the basis of 'material valuation uncertainty' as set out in VPGA 10 of the RICS Valuation Global Standards. Consequently, less certainty and a higher degree of caution should be attached to the valuations than would normally be the case. As at 31 March 2020 pooled property totalled £42.2m, the below sensitivity analysis shows what the value would have been if the valuation per unit had been 4% higher or 4% lower, representing a £1.7m change in market value.

	Value (£)	Value on 4% increase	Value on 4% decrease
Kames	14,730,391	15,319,607	14,141,175
CBRE	27,331,212	28,414,460	26,237,963
	42,061,603	43,734,067	40,379,138

Uncertainties in actuarial PV of promised retirement benefits
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% increase in the discount rate assumption would result in a decrease in the pension liability of £24.7 million.
- a 0.1% increase in assumed earnings would increase the liabilities by approximately £1.7 million.
- a one-year increase in assumed life expectancy would increase the liability by approximately £46 million.

Present Value of Promised Retirement Benefits comprise of £1,214m (2018/19: £1,383) and £17.2m (2018/19: £36.2m) in respect of vested benefits and non-vested benefits respectively as at 31 March 2020.

Uncertainties in private equity investments

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

There is a risk that these investments, totalling £70.469 million, may be under or overstated in the accounts. If these assets are under or over valued by 7%, this would affect the overall value of the fund by £4.9 million. Further sensitivities of level 3 assets are detailed in Note 16.

McCloud Judgement

Management has agreed a reasonable set of assumptions in consultation with the actuary which derives the total liability, including an estimated adjustment for the recent McCloud ruling on a prudent basis (pay growth equals CPI plus 1%) which may not materialise.

5. Critical judgements in applying accounting practices

In applying the accounting policies set out in note 4, the Council has had to make certain critical judgements about complex transactions or those involving uncertainty about future events.

Pension Fund Liability

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 £70.468 million (£61.063 million on 31 March 2019). 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 2019 rolled forward to 31 March 2020 with a market value adjustment.

6. Events after the Balance Sheet date

On 18 May 2020, the Committee considered the investment strategy and the recent pandemic causing significant market volatility. Officers agreed to liquidate and reallocate the absolute return portfolio with Pyrford into cash and equity. The COVID-19 global pandemic in March caused a 5% decrease on the Fund's Investment Assets by year end. As at 30 June 2020 this had fully recovered, increasing by 13%.

7. 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.

8. Contributions receivable

By category	2019/20	2018/19
	£000	£000
Employee contributions	**(7,505)**	**(6,936)**
Employer contributions		
- Normal contributions	(17,391)	(16,151)
- Deficity recovery contributions	(9)	(10)
- Augmentation contributions	(1,672)	(676)
Total employers' contributions	**(19,072)**	**(16,837)**
Total	**(26,577)**	**(23,773)**

By authority	2019/20	2018/19
	£000	£000
Administering authority	(23,675)	(20,816)
Scheduled bodies	(2,166)	(2,142)
Admitted bodies	(736)	(815)
Total	**(26,577)**	**(23,773)**

9. Benefits payable

By category	2019/20	2018/19
	£000	£000
Pensions	27,142	25,744
Commutation and lump sum retirement benefits	4,704	4,955
Lump sum death benefits	334	852
Total	**32,180**	**31,551**

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

By authority	2019/20	2018/19
	£000	£000
Administering authority	29,190	28,686
Scheduled bodies	637	471
Admitted bodies	2,353	2,394
Total	**32,180**	**31,551**

10. Management expenses

	2019/20	2018/19
	£000	£000
Administrative costs	576	490
Investment management expenses		
- management fees	4,140	1,919
- transaction costs	2,019	193
- custody fees	74	58
- performance related fees	77	0
Oversight and governance costs	458	240
Total	**7,344**	**2,900**

11. Investment income

	2019/20	2018/19
	£000	£000
Equity dividends	(5,001)	(5,121)
Pooled property investments	(1,687)	(1,701)
Other investment income	0	(8)
Private equity income	28	(175)
Interest on cash deposits	(248)	(73)
Total	**(6,908)**	**(7,078)**
Taxes on income	110	195
Total	**(6,798)**	**(6,883)**

12. Movements in investments

Market value (MV)	1 April 2018	Purchases	Sales	Change in MV	31 March 2019	Purchases	Sales	Change in MV	31 March 2020
	£'000	£'000	£'000	£'000	**£'000**	£'000	£'000	£'000	**£'000**
Equities	258,601	61,445	(130,202)	35,908	**225,752**	49,963	(41,759)	(34,096)	**199,860**
Pooled investments	718,426	145,041	(83,337)	60,342	**840,472**	1,233	(26,419)	(22,020)	**793,267**
Pooled property investments	44,512	0	(713)	462	**44,261**	0	(1,109)	(1,091)	**42,061**
Private equity/infrastructure	52,942	8,670	(11,728)	11,179	**61,063**	5,913	(10,979)	14,471	**70,468**
Directly managed	0	0	0	0	**0**	25,000	0	0	**25,000**
Sub-total	**1,074,481**	**215,156**	**(225,980)**	**107,891**	**1,171,548**	**82,109**	**(80,266)**	**(42,736)**	**1,130,656**
Investment income due	464			0	**352**			0	**462**
Amount receivable for sales of investments	0			4	**488**			(5)	**914**
Spot FX contracts	0			(325)	**0**			4	**0**
Cash deposits	4,612			497	**14,420**			335	**3,232**
Amounts payable for purchases of investments	(391)			(13)	**(1,525)**			14	**(612)**
Net investment assets	**1,079,166**	**215,156**	**(225,980)**	**108,054**	**1,185,283**	**82,109**	**(80,266)**	**(42,388)**	**1,134,652**

13. Investments by Fund Manager

Fund manager (market value)	31st March 2020		31st March 2019	
	£'000	%	£'000	%
L and G Liquidity	155,486	13.7%	179,056	15.1%
Baillie Gifford	232,196	20.5%	234,461	19.8%
Longview	202,166	17.8%	234,328	19.8%
L and G Equities	277,096	24.4%	292,574	24.8%
L and G Multi Factor	27,039	2.4%	30,524	2.6%
Pyrford	101,449	9.0%	103,857	8.8%
CBRE	27,331	2.4%	28,081	2.4%
KAMES	15,378	1.4%	17,283	1.5%
Adams Street	70,468	6.2%	61,986	5.2%
London CIV	150	0.0%	150	0.0%
Directly managed	25,000	2.2%	0	0.0%
Total Fund Managers	1,133,759	100%	1,182,300	100%
Cash held at custody	893		2,983	
Total Investments	1,134,652		1,185,283	

14. Investments exceeding 5% of Net Assets

Fund Manager (MV)	31 March 2020		31 March 2019	
	£'000	%	£'000	%
L and G Liquidity	155,486	13.7	179,056	15.1
Baillie Gifford	232,196	20.5	234,461	19.8
Longview	202,166	17.8	234,328	19.8
L and G Equities	277,096	24.4	292,574	24.7
Adams Street	70,468	6.2	61,986	5.2
Pyrford	101,449	9.0	103,857	8.8
Total Fund Managers	**1,038,861**	**91.6**	**1,106,262**	**93.4**

Although a number of 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%.

15. Classification of Financial Instruments

Financial liabilities (creditors) at amortised cost totalled £2.014 million (£3.102 million at 31 March 2019) and those designated as fair value through profit and loss (FVPL) totalled £0.612 million (£1.525 million at 31 March 2019).

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 2020	FVPL*	Amortised Cost	Total
	£'000	£'000	**£'000**
UK quoted	18,258	0	**18,258**
UK unquoted	150	0	**150**
Overseas	181,452	0	**181,452**
Sub-total	**199,860**	**0**	**199,860**
Pooled funds - investment vehicles			
UK pooled liquidity fund	155,486	0	**155,486**
Pooled global equities	536,331	0	**536,331**
Pooled global absolute return fund	101,449	0	**101,449**
Pooled property investments	42,062	0	**42,062**
Direct property investment	25,000	0	**25,000**
Pooled private equity funds (unquoted)	70,468	0	**70,468**
Investment income due	0	1,376	**1,376**
Cash with investment managers	0	3,232	**3,232**
Cash with administering authority	0	2,044	**2,044**
Debtors	0	3,646	**3,646**
Total financial assets	**930,796**	**10,298**	**941,094**

31 March 2019	FVPL*	Amortised Cost	Total
	£'000	£'000	**£'000**
UK quoted	26,462	0	**26,462**
UK unquoted	150	0	**150**
Overseas	199,140	0	**199,140**
Sub-total	**225,752**	**0**	**225,752**
Pooled funds - investment vehicles			
UK pooled liquidity fund	179,056	0	**179,056**
Pooled global equities	557,559	0	**557,559**
Pooled global absolute return fund	103,857	0	**103,857**
Pooled property investments	44,261	0	**44,261**
Pooled private equity funds (unquoted)	61,063	0	**61,063**
Investment income due	0	845	**845**
Cash with investment managers	0	14,419	**14,419**
Cash with administering authority	0	2,045	**2,045**
Debtors	0	4,359	**4,359**
Total financial assets	**945,796**	**21,668**	**967,464**

*FVPL are assets designated as fair value through profit and loss.

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, with the exception of 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.

If the Valuation of the underlying companies within the private equity portfolio was out by 10% this would alter the value of the Fund's investment assets in this class by £7 million.

31 March 2020	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	**£'000**
Financial assets				
- at fair value through profit and loss	199,710	860,328	70,618	**1,130,656**
Total financial assets	**199,710**	**860,328**	**70,618**	**1,130,656**
Financial liabilities				
- at fair value through profit and loss	0	(612)	0	**(612)**
Total financial liabilities	**0**	**(612)**	**0**	**(612)**
Net financial assets	**199,710**	**859,716**	**70,618**	**1,130,044**

31 March 2019	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	**£'000**
Financial assets				
- at fair value through profit and loss	225,602	884,733	61,213	**1,171,548**
Total financial assets	**225,602**	**884,733**	**61,213**	**1,171,548**
Financial liabilities				
- at fair value through profit and loss	0	(1,525)	0	**(1,525)**
Total financial liabilities	**0**	**(1,525)**	**0**	**(1,525)**
Net financial assets	**225,602**	**883,208**	**61,213**	**1,170,023**

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

31 March 2020	Market Value	Purchases	Sales	Change in MV	Total
	£'000	£'000	£'000	£'000	**£'000**
London LGPS CIV	150	0	0	0	**150**
Overseas VC	61,063	6,586	(9,943)	12,762	**70,468**
Total	**61,213**	**6,586**	**(9,943)**	**12,762**	**70,618**

Description of asset	Valuation hierarchy 2019/20	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Segregated UK Equities	Level 1	Equity Live Prices close of business 31 March	Equity bid prices	Not Required
Pooled Investments - Equity Funds UK and Overseas Managed Funds	Level 2	The NAV for each share class is calculated based on the market value of the underlying equity assets.	Evaluated price feeds	Not required
UK and Overseas Bonds	Level 2	Fixed income securities are priced based on evaluated prices provided by independent pricing services	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

Sensitivities of Level 3 Assets

	Valuation Range	Value 31 March 2020	Value on increase	Value on decrease
	%	£'000	£'000	£'000
Overseas VC	7	70,468	75,401	65,535
Total	**7**	**70,468**	**75,401**	**65,535**

The 7% valuation sensitivity represents the estimate for movement in valuation from the audited accounts as at 31 December 2019 to an estimated value as at 31 March 2020. 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.

17. Nature of Risk Arising from Financial Instruments

Risk and Risk Management

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.

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.

Assets exposed to price risk	Value	Value on increase	Value on decrease
	£'000	£'000	£'000
At 31 March 2020	975,020	1,064,544	885,496
At 31 March 2019	992,341	1,065,774	918,908

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 or 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.

Assets exposed to interest rate risk	Value	Value on increase	Value on decrease
	£'000	£'000	£'000
At 31 March 2020	158,718	160,305	157,131
At 31 March 2019	193,475	195,410	191,540

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 10% higher or 10% lower.

Assets exposed to currency risk	Value	Value on 10% increase	Value on 10% decrease
	£'000	£'000	£'000
At 31 March 2020	879,692	967,661	791,722
At 31 March 2019	890,157	979,173	801,141

(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 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 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 2020, the Fund has outstanding commitments of $71.8m (£57.9 million) to a variety of Adams Street private equity funds of 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 is able to 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 2016 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 is available on the Council's website at the link below. The next valuation will take place as at 31 March 2019.

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 2019/20, the common contribution rate was 17.5% 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 particular 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)	2.4	2.4	2.7
Salary increases	3.9	3.9	4.5
Pension increases	2.4	2.4	2.7
Discount rate	2.4	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 2016; the latest valuation as at 31 March 2019 will be reflected in the 2020/21 accounts. The next actuarial valuation of the Fund will be carried out as at 31 March 2022 and will set contribution rates for the period 1 April 2023 to 31 March 2026.

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 2013 was £630 million and the actuary assessed the present value of the funded obligation at £663 million on indicating a net surplus of £33 million, resulting in a funding level of 95%.

As at 31 March 2016, the actuary's smoothed market value of the scheme's assets had risen to £841 million and the actuary assessed the present value of the funded obligation at £815 million indicating a net surplus of £26 million, resulting in a funding level of 103%.

The next actuarial valuation of the Fund will be as at 31 March 2019 and will be published in 2020. The funding level is shown as 125% and new contribution rates will apply from 1 April 2020.

20. Actuarial Present Value of Promised Retirement Benefits

The table below shows the total net liability of the Fund as at 31 March 2020. 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 20, the Actuary will take into account the investment policy when determining the assumptions to be used.

	31 March 2020	31 March 2019
	£'000	£'000
Present value of promised retirement benefits		
- Vested obligation	(1,213,594)	(1,346,135)
- Non vested obligation	(17,208)	(37,294)
Fair value of scheme assets (bid value)	1,134,652	1,187,333
Net liability	**(96,150)**	**(196,096)**

Financial assumptions

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

Financial assumptions	**31 March 2020**	**31 March 2019**
	%	%
Retail Price Index (RPI) increases	2.70	3.40
Consumer Price Index (CPI) increases	1.90	2.40
Salary increases	2.90	3.90
Pension increases	1.90	2.40
Discount rate	2.35	2.40

Demographic Assumptions

The post mortality tables adopted are the S3PMA tables with a multiplier of 110% for males and 105% for females. These base tables are then projected using the CMI 2018 Model allowing for a long term rate of improvement of 0.5% per annum.

Life expectancy from age 65 years	31 March 2020	31 March 2019
	Years	Years
Retiring today		
- Males	21.8	23.4
- Females	24.4	24.8
Retiring in 20 years		
- Males	23.2	25.0
- Females	25.8	26.6

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; and
- 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 2020	31 March 2019
	£'000	£'000
Debtors		
- Contributions due - employers	1,317	1,929
- Contributions due - employees	572	526
- Sundry debtors	1,757	1,904
Sub-total	**3,646**	**4,359**
Cash balances	2,044	2,045
Total	**5,690**	**6,404**

Analysis of debtors	31 March 2020	31 March 2019
	£000	£000
Central government bodies	2	679
RBKC	3,125	2,090
Other entities and individuals	519	1,590
Total	**3,646**	**4,359**

22. Current Liabilities

	31 March 2020	31 March 2019
	£'000	£'000
Creditors		
- Sundry creditors	(2,014)	(3,102)
- Benefits payable	0	0
Sub-total	**(2,014)**	**(3,102)**
Cash overdrawn	0	0
Total	**(2,014)**	**(3,102)**

Analysis of creditors	31 March 2020	31 March 2019
	£'000	£'000
Central government bodies	(346)	(334)
Other local authorities	(279)	(405)
RBKC	(317)	(262)
Other entities and individuals	(1,072)	(2,101)
Total	**(2,014)**	**(3,102)**

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 2019/20, AVC of £0.462 million (£0.624 million in 2018/19) were paid to the provider, Prudential. The market value of these funds at 31 March 2020 is £3.514 million (£3.511 million at 31 March 2019).

24. Related Party Transactions

The Fund is administered by RBKC. The Council incurred, and was reimbursed for, costs of £0.564 million in the financial year 2019/20 (£0.420 million in 2018/19) in relation to administration costs.

In year, and in total, the Council contributed £13.348 million to the Fund compared to £12.159 million in 2018/19. At 31 March 2020 the Council owed the Pension Fund a net amount of £3.073 million (£2.090 million at 31 March 2019).

They 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, £0.056 million (£0 in 2018/19) was payable to key management personnel by the Pension Fund.

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 2019/20 the Fund paid the gross sum of £0.237 million (£0.240 million in 2018/19) on behalf of RBKC.

26. External Audit Costs

The external audit fee payable to the Fund's external auditors, Grant Thornton, was £0.025 million (£0.016 million in 2018/19).

27. Contingent liabilities

The Pension Fund had no contingent liabilities for 2019/20.

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.

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.

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).

CONTINGENT LIABILITIES arise 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 Council's control. They may also arise in circumstance 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.

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.

DEBT MANAGEMENT OFFICE (DMO) is an Executive Agency of Her Majesty's Treasury and responsible for debt and cash management for the UK Government, lending to local authorities and managing certain public sector funds.

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.

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

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.

MINISTRY OF HOUSING, COMMUNITIES AND LOCAL GOVERNMENT (MHCLG) is the UK Government department for housing, communities and local government in England.

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

NET BOOK VALUE is the amount at which fixed assets are included in the Balance Sheet. This historical cost or current value less the cumulative amount provided for their depreciation.

NON-CURRENT ASSETS are assets that provide benefit to the Council and its services for a period in excess of 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).