

# The Royal Borough of Kensington and Chelsea Statement of Accounts

2015-16

Financial Year End: 31 March 2016



THE ROYAL BOROUGH OF  
KENSINGTON  
AND CHELSEA



# Statement of Accounts

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## THE TOWN CLERK'S NARRATIVE REPORT

### AN INTRODUCTION TO THE ROYAL BOROUGH OF KENSINGTON AND CHELSEA

The Council's mission for the Royal Borough includes the following aspirations:

*We want the Royal Borough to be a place where people of all backgrounds wish to live: an attractive, safe and diverse area in which residents, businesses and visitors have the opportunity to thrive; a place that is smart, creative and prosperous, with resilient and public-spirited residents who respect their neighbours and contribute to their local communities.*

According to the 2011 Census, 35 per cent of all working residents work more than 49 hours per week, ranking Kensington and Chelsea second highest after the City of London; and 48 per cent of all residents were born in the United Kingdom, the fourth lowest proportion of all local authorities in England and Wales.

### THE COUNCIL'S PERFORMANCE

Kensington and Chelsea is a great place to live and work: in early 2016, 90 per cent of residents said that they were fairly or very satisfied with the area as a place to live; and 85 per cent said that they were fairly or very satisfied with the way the Council ran things.

Here are some of the ways in which the Council achieves these ratings:

- In March 2016, OFSTED rated children's social services in the borough as Outstanding. It was the most complimentary report issued so far to a local authority under the current model of inspection;
- the borough's primary schools delivered the best results in England in 2015: 90 per cent of children achieved the expected Level 4+ in Key Stage 2 reading, writing and mathematics. This is ten percentage points above the national average and eight points above the average for London schools;
- this borough continues to offer support to adults with 'moderate' needs, even though they can manage to do most daily living tasks for themselves. We believe this means that they remain independent at home for longer. The borough is one of very few Councils that address a wider range of needs in this way;
- the borough collects domestic waste twice a week and achieves very high ratings for its 'street scene' services: 89 per cent of residents rate refuse collection as good, very good or excellent. Street lighting, street cleaning and the repair of roads and pavements score 88 per cent, 88 per cent and 77 per cent respectively;
- parks and open spaces are particularly important for so densely populated a borough: ten of the borough's parks won Green Flags in 2015;

- Since opening in 2015, far more people are using the new Kensington Leisure Centre and the membership has increased significantly. The old centre had 1,300 members; in November 2015 the new one had 2,790.
- The Kensington and Chelsea Community Policing Team comprises an extra 41 police officers partly funded by the Council, to provide an additional, visible police presence in the borough tackling those issues of most concern to our residents.
- Basement developments were blighting residents' lives. The borough now has:
  - The strictest restrictions on such developments in England;
  - The most active enforcement of conditions attached by the Council to such developments; and
  - A new Code of Construction that will bear down on noisy weekend working.
- It sets the fifth lowest Council Tax in England and has not increased it since 2009.

## FINANCIAL PERFORMANCE

### Economic climate

The biggest challenge of the past six years has been austerity in public spending. Since 2010, central government has been wrestling with a deficit of historic proportions and local government has borne a disproportionate share of the consequent spending cuts. In Kensington and Chelsea there has been a cash reduction in our overall budget of about £50 million since 2010-11 but this Council has done its utmost to avoid taxing more or doing less.

Instead it has shared the management of services with its neighbours, the City of Westminster and Hammersmith & Fulham, which yielded savings of about £12 million during 2015-16.

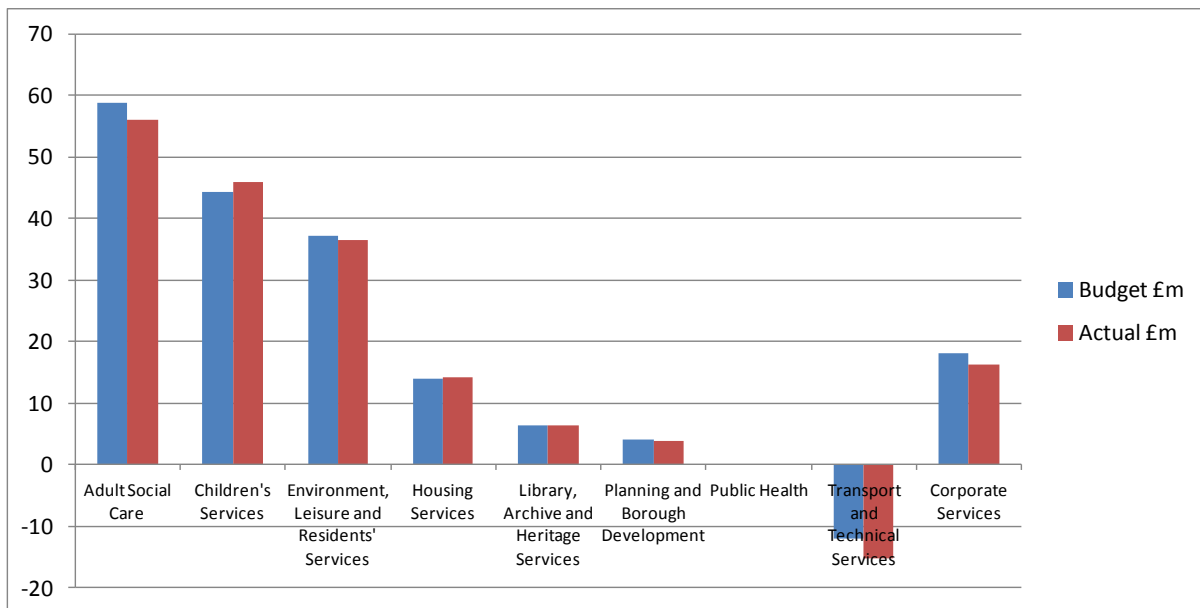
It has continued to find savings and efficiencies, which delivered a further £4 million and it has also been a far more dynamic steward of its property estate with income rising to £9.5 million in 2015-16, up from just £3.8 million in 2010-11.

### Financial Management

#### Revenue

The financial standing of the Council is robust, with a strong balance sheet and substantial reserves backed by cash and investment holdings. This is independently verified by the Council's Standard & Poor's AAA credit rating – the highest possible rating that can be awarded, which was reconfirmed in March 2016.

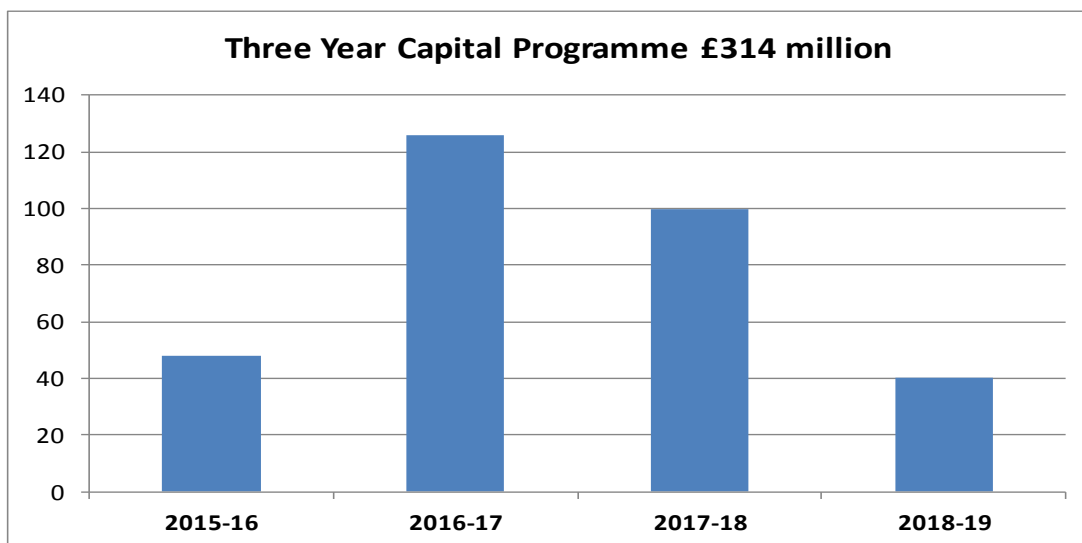
The outturn for the Council is a net contribution to reserves of £14.5 million and can be presented graphically as set out in the table overleaf.



### Ambitious for tomorrow – our capital programme

The major capital investment projects include:

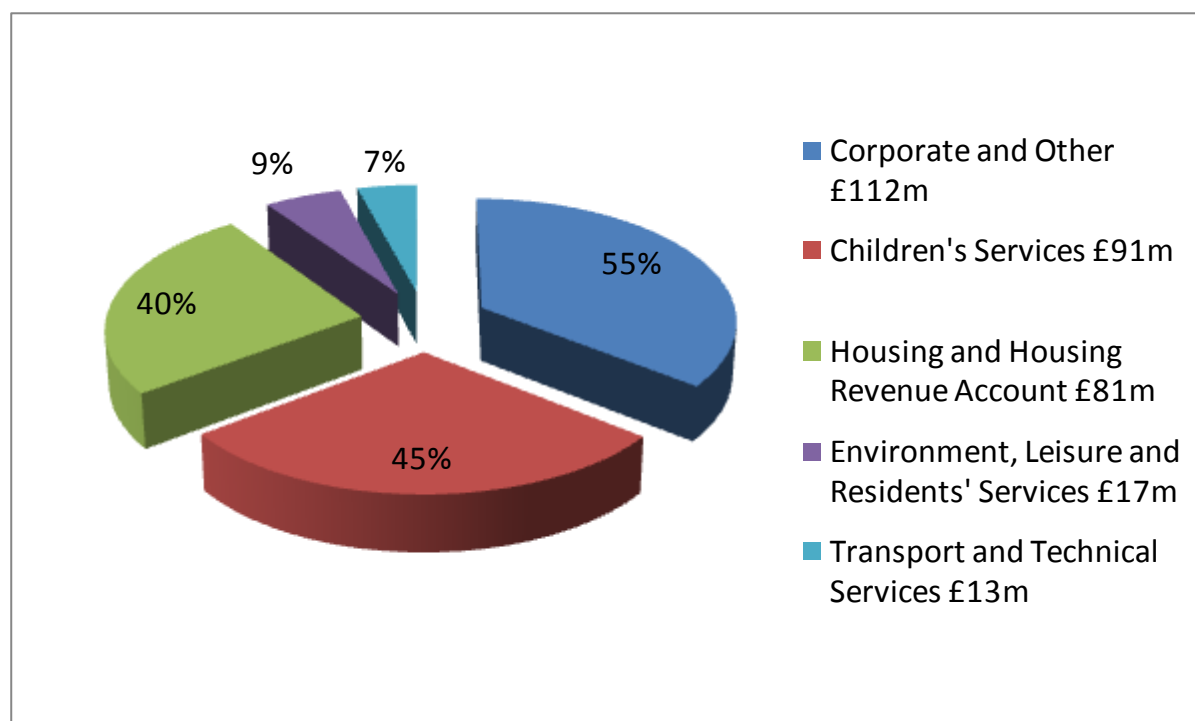
- The re-development of offices at Pembroke Road and provision of more homes, affecting Broadwood Terrace and Chesterton Square;
- the new Barlby Primary School and Special Educational Needs School;
- a rebuilt Marlborough Primary School and redevelopment of the remainder of the site;
- a rebuilt North Kensington Library and Youth Centre with additional commercially let space;
- the re-development of Fox Primary School; and,
- the purchase of homes for temporary accommodation.



The Council's four year capital programme and its funding can be summarised as follows:

Service	2015-16 £m	2016-17 £m	2017-18 £m	2018-19 £m	Total
Adult Social Care	1.2	2.0	2.5	0.5	6.2
Children's Services	9.9	36.8	27.3	17.4	91.3
Environment, Leisure and Residents' Services	1.3	13.0	1.2	1.7	17.2
Housing General Fund	0.6	10.6	0.6	0.6	12.3
Housing Revenue Account	21.1	20.3	16.3	10.3	68.2
Library, Archive and Heritage Services	1.2	0.5	-	-	1.7
Transport and Technical Services	2.5	5.9	3.8	0.9	13.2
Corporate Services	9.9	36.9	48.3	8.7	103.9
<b>Total Spending</b>	<b>47.9</b>	<b>126.0</b>	<b>100.0</b>	<b>40.1</b>	<b>314.0</b>
Housing Revenue Account Funded	(21.1)	(20.3)	(16.3)	(10.3)	(68.2)
External Funding	(9.1)	(13.5)	(7.2)	(1.1)	(30.9)
Reserves	(6.4)	(56.5)	(31.4)	(5.7)	(100.0)
Capital Receipts	(11.3)	(9.7)	(20.0)	-	(41.0)
Funding Not Finalised	-	(26.0)	(25.0)	(23.0)	(74.0)
<b>Total Funding</b>	<b>(47.9)</b>	<b>(126.0)</b>	<b>(100.0)</b>	<b>(40.1)</b>	<b>(314.0)</b>

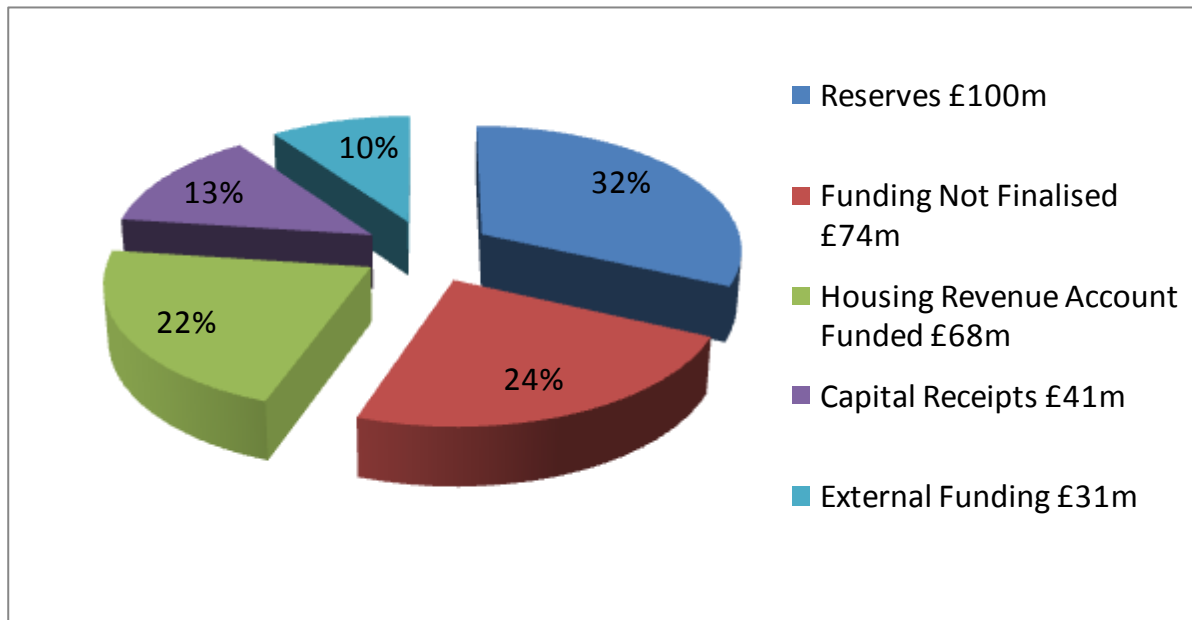
### Capital Spending Planned - £314 million





## Capital Funding - £314 million

Reserves are the largest proportion of funding in the programme, accounting for one third of the funding in the programme. The bulk of the funding that is yet to be finalised is expected to come from the release of land value (capital receipts).



## THE ENVIRONMENT

### Carbon reduction

The Council has been making good progress at reducing its own carbon footprint. In 2008 the Council adopted a Climate Change Strategy and set a target to reduce carbon emissions by 40 per cent by 2020, with an interim target of a 20 per cent reduction. By 2015, the Council had achieved a 21.6 per cent reduction, a saving of over 5,000 tonnes of carbon since 2008 which in turn yielded financial savings of £2 million for the Council and its contractors.

We achieved this by improving our own assets, choosing more efficient heating and lighting and a greener vehicle fleet.

The next milestone will be in 2017 by which time carbon emissions are planned to be down 30 per cent from 2008 levels.

### Air quality and climate change

The Council is not, however, solely focused on its own carbon use. The Council has campaigned for better public transport and to encourage cycling. Complementing those efforts, in January 2016, the Council adopted a new five-year air quality and climate change strategy. The strategy can be read on the Council's website. It and the accompanying Cabinet report reveals that air quality in the borough is seriously poor, so poor that two pollutants alone are believed to be a factor in two hundred deaths a year.

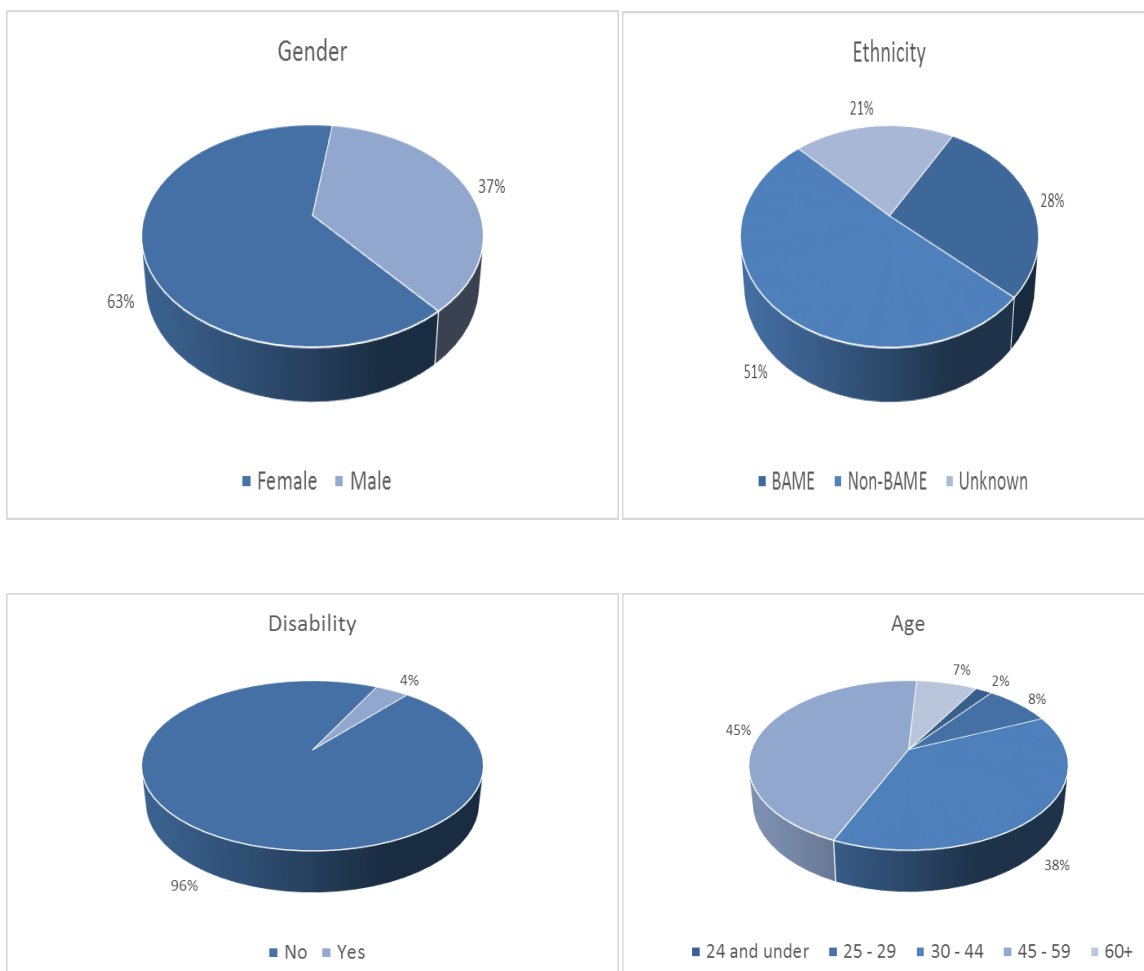
The strategy sets out a range of meaningful measures intended to address both air quality and carbon output.

As well as developing strategy the Council has been experimenting with smaller scale environmental projects. For example, during 2015-16, we have been installing two “green roofs”. One at the Muslim Cultural Heritage Centre on Acklam Road will be used for environmental education sessions and will also serve as “sustainable urban drainage”. The other, at 140 Portland Road, will provide better insulation for about 25 flats, most of which are occupied by elderly and vulnerable residents. This roof too will provide sustainable urban drainage, which once we have enough of it will help reduce the risk of flooding.

## PEOPLE

The Council employs 1,980 people in full time and part-time contracts.

Below is a detailed breakdown of the Council’s employees.



## PRINCIPAL RISKS AND UNCERTAINTIES

A risk management strategy is in place to identify and evaluate risks. There are clearly defined steps to support better decision making through the understanding of risks and their likely impact. The risk management process was audited in 2016, satisfied all assurance requirements and is scrutinised regularly by the council's Audit and Transparency Committee.

<b>Below are our top risks derived from the Council's high level risk register</b>	<b>Impact</b>	<b>Mitigation</b>
Continued reductions in government funding, which restricts revenue spending.	Impact on the Council's ability to run full services and may mean that some services are changed or reduced.	Collaborative working with partners and subsidiaries.
Safeguarding, protecting young people from harm.	Potential harm to children.	Policies, training and management controls, lessons learnt from reviews and enhanced checks.
Additional demands created by new legislation in particular the Care Act.	Increased demand for adult and children care services.	Further focus on integration with health services, focus on preventative and re-ablement services.
Managed Services Programme.	Financial transactional items, processing and management, accounts receivable and payable. Human Resources transactional items, salaries and pensions.	Programme management, relationship management with the service provider, retention of in-house staff and systems.
Information risks associated with Cyber-crime.	Denial of service.	Continuity planning and deployment of technological controls.
Large scale Transformation Programmes, I.T. server moves to a new service provider.	New service provider is not operational in time or data is not transferred in good order.	Transformation programme.
Contract management.	Contractor underperforms impacting directly or indirectly on service users.	Improved processes and systems utilising the council's electronic procurement and contract management software system.

## FINANCIAL STATEMENTS

The Statement of Accounts sets out details of the Council's income and expenditure for the financial year 2015-16 and its Balance Sheet as at 31 March 2016. This covers the General Fund, Housing Revenue Account, Pension Fund and all the other accounts for which the Council is responsible.

The Statement of Accounts comprises 'key' financial statements, explanatory notes and supplementary financial statements:

- The **Movement in Reserves Statement** (MiRS) is a summary of the changes to the Council's reserves during the course of the financial year. The reserves represent the Council's net worth and are analogous to the equity of a private company. Reserves are divided into 'usable' and 'unusable' reserves. Usable reserves can be used to fund expenditure or reduce the Council Tax; unusable reserves cannot.
- The **Comprehensive Income and Expenditure Statement** (CIES) reports all of the Council's gains and losses during the financial year. The CIES is prepared in accordance with International Financial Reporting Standards (IFRS) and the detail will therefore differ from the Council's management accounts and revenue budgets. However, the Council's financial position, i.e. the working balance and reserves, will be the same.
- The **Balance Sheet** is a 'snapshot' of the Council's assets, liabilities and reserves on 31 March 2016. The reserves are always equal to the Council's assets less the Council's liabilities. Assets represent everything owned by the Council and money owed to it. Liabilities are the sums that the Council owes to others.
- The **Cash Flow Statement** shows the changes to the Council's cash and 'cash equivalents' during the financial year. Cash equivalents are assets that can be readily converted into cash and have a low likelihood of a change in value. The statement shows cash flows from 'operating' activities, which are the cash flows from the Council's services; 'investing' activities, which are the cash flows from the Council's capital investment, investments and asset sales; and 'financing' activities, which are primarily the cash flows relating to the Council's borrowings.
- The **Notes** provide more detail about the items contained in the key financial statements, the Council's accounting policies and other information that help interpretation and understanding of the key financial statements and accounts.
- The **Supplementary Financial Statements** provide details of the Housing Revenue Account (HRA), Collection Fund, London Residuary Body (LRB) 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 outturn for 2015-16 includes:

- a General Fund underspend of £14.5 million against the balanced budget set. This represents 2 per cent of the Council's gross recurrent spending on services<sup>1</sup>;
- the working balance confirmed at £10 million – the Council's agreed minimum;
- usable reserves at 31 March 2016 of £300 million (£265 million at 31 March 2015); and
- a robust Balance Sheet.

## 2015-16 BUDGET

Annually, the Cabinet has set out its financial and service plans in its Budget Proposals document<sup>2</sup>. Full details are set out in the relevant financial year's revenue budget and capital programme<sup>3</sup>.

In brief, the Council's budget for 2015-16 included:

- a Council Tax freeze for the Royal Borough for 2015-16 at the rate first set in 2009-10;
- net savings of £19 million offsetting cost pressures and grant losses; which produced:-
- a gross budget of £419 million of which of £73 million is funded from Council Tax; and,
- a final capital budget of £47.9 million.

## REVENUE SPENDING AND FUNDING

The Statement of Accounts sets out the Council's spending and funding in line with accounting requirements. This section and the section on capital spending and funding explain the same information in the form of the Council's management accounts. The Council's financial position (for example, total usable reserves and final working balance) is the same in both formats.

With the Town Clerk's agreement, services can carry forward into the next financial year some of their underspend for the previous year, if for instance a project is late to complete. After agreed budget carry forwards to 2016-17 of £0.4 million, the balance of the 2015-16 underspend has been transferred into the Transformation Fund, Property Strategy Reserve and the Council's Capital Expenditure Reserve.

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<sup>1</sup> The Council's gross 2015-16 spending on services is around £610 million.

<sup>2</sup> The Council's 2015-16 Budget Proposals can be found at:  
<http://www.rbkc.gov.uk/council/howthecouncilworks/ourperformance/businessplanning.aspx>

<sup>3</sup> The Council's 2015-16 revenue budget and capital programme can be found at:  
<http://www.rbkc.gov.uk/council/howthecouncilmanagesmoney/councilspendingandfinances.aspx>

The table below sets out the movement in the 2015-16 working balance:

	<b>£m</b>
<b>Working balance 31 March 2015</b>	<b>10.0</b>
Add 2015-16 General Fund underspend	14.5
Net Transfer to Budget Carry Forward Reserve	(0.4)
Transfer to Property Strategy Reserve	(0.5)
Transfer to Capital Expenditure Reserve	(13.6)
<b>Working balance 31 March 2016</b>	<b>10.0</b>

The management accounts outturn position is as set out below<sup>1</sup>:

	<b>Budget 2015-16 £'000</b>	<b>Actual 2015-16 £'000</b>	<b>Variance 2015-16 £'000</b>	<b>Variance 2015-16 %</b>
<b>Service Budgets</b>				
Adult Social Care	58,745	56,166	(2,578)	-4%
Children's Services	44,274	45,909	1,635	4%
Environment, Leisure and Residents' Services	37,228	36,518	(710)	-4%
Housing Services	13,995	14,115	120	1%
Library, Archive and Heritage Services	6,371	6,367	(4)	0%
Planning and Borough Development	4,069	3,767	(302)	-7%
Public Health	-	-	-	0%
Transport and Technical Services	(12,096)	(15,195)	(3,099)	26%
Corporate Services	18,076	16,335	(1,741)	-10%
Adult and Family Learning Services	55	47	(9)	-16%
<b>Service Total</b>	<b>170,717</b>	<b>164,029</b>	<b>(6,689)</b>	<b>-4%</b>
Contingency and Central Budgets	3,149	-	(3,149)	-100%
<b>Net Cost of Services</b>	<b>173,866</b>	<b>164,029</b>	<b>(9,838)</b>	<b>-6%</b>
Levies	3,400	3,400	-	0%
Net Interest	(1,444)	(2,172)	(728)	50%
Pension Fund Costs and Adjustments	(6,504)	(7,160)	(656)	10%
Capital Costs and Adjustments	(9,562)	(9,625)	(63)	1%
Transfer to/from reserves (revenue)	5,030	5,030	-	0%
Business Rates Tariff (paid to government)	35,735	35,735	-	0%
<b>Net Spending</b>	<b>200,521</b>	<b>189,237</b>	<b>(11,284)</b>	<b>-6%</b>
<b>Funded by</b>				
Grants (including Revenue Support Grant)	(44,791)	(48,047)	(3,256)	7%
National Non-Domestic Rates (retained locally)	(82,624)	(82,624)	-	0%
Council Tax	(73,106)	(73,109)	(2)	0%
<b>Outturn</b>	<b>-</b>	<b>(14,543)</b>	<b>(14,543)</b>	
<b>Transfers to Reserves</b>				
Net Transfer to Budget Carry Forward Reserve	-	413	413	
Transfer to Property Strategy Reserve	-	500	500	
Transfer to Capital Expenditure Reserve	-	13,630	13,630	
<b>Balanced Budget</b>	<b>-</b>	<b>-</b>	<b>-</b>	

<sup>1</sup> The net cost of services shown above in the management accounts outturn position would not be expected to reconcile to the net cost of services within the Comprehensive Income and Expenditure Statement.

Note 27 Segmental Reporting – Amounts Reported for Resource Allocation Decisions on page 96 to 99 provides the reconciliation between the net cost of services disclosed in the management accounts and the Comprehensive Income and Expenditure Statement.

## CAPITAL SPENDING AND FUNDING

The Council invests in its property assets and makes capital investments in services. The Council budgeted to spend £83 million on capital projects in 2015-16. Summary details are set out below.

<b>Service</b>	<b>Budget £'000</b>	<b>Actual £'000</b>	<b>Variance £'000</b>	<b>Variance %</b>
Adult Social Care	1,552	1,229	(323)	(21%)
Children's Services	19,549	9,854	(9,695)	(50%)
Environment, Leisure and Residents' Services	8,114	1,331	(6,783)	(84%)
Housing General Fund	1,847	641	(1,206)	(65%)
Housing Revenue Account	23,345	21,145	(2,200)	(9%)
Library, Archive and Heritage Services	1,684	1,200	(484)	(29%)
Transport and Technical Services	6,129	2,548	(3,581)	(58%)
Corporate Services	21,603	9,926	(11,677)	(54%)
<b>Total 2015-16 Capital Programme</b>	<b>83,823</b>	<b>47,875</b>	<b>(35,948)</b>	<b>(43%)</b>

£35 million of the £36 million underspend on capital projects will slip into 2016-17.

	<b>Underspend 2015-16 £'000</b>	<b>Slippage 2016-17 £'000</b>
Pembroke Road Leaseholder Buyout	0	5,094
Fox Primary School Expansion	0	4,420
Marlborough Primary School	0	1,946
Acquisition of retail unit	0	1,404
Kensington Leisure Centre	0	1,205
Opera Holland Park Related	0	1,160
Parks Strategy	0	1,139
Silchester Garages (final payment)	0	1,050
Purchase of temporary accommodation properties	0	1,000
Stanley Bridge	0	770
Golborne Road Area Improvement	0	762
Street Scene Improvements	0	741
Pembroke Road planning costs	0	500
Central Library Condition works	0	476
Other underspends and slippage	937	13,344
<b>Subtotal</b>	<b>937</b>	<b>35,011</b>
<b>Total</b>	<b>35,948</b>	

Capital expenditure in 2015-16 was funded mainly from the Council's own resources with £10 million of external grants and contributions.

<b>Funding Source</b>	<b>£'000</b>
Capital Grants and Contributions	10,052
General Fund Reserves	6,426
Housing Revenue Account Reserves	17,588
Capital Receipts	13,356
Direct Revenue Financing	453
<b>Total Funding</b>	<b>47,875</b>

### 31 MARCH 2016 BALANCE SHEET

The Balance Sheet as at 31 March 2016 is summarised below. The overall position is an increase in the net assets of the Council of nearly £170 million. The bulk of the increase is driven by higher property valuations which are a result of the buoyant central London property market.

	<b>31-Mar-16</b>	<b>31-Mar-15</b>
	<b>£m</b>	<b>£m</b>
Long term assets	1,672	1,587
Current assets less current liabilities	235	195
Long term liabilities	(398)	(438)
<b>Net Assets</b>	<b>1,509</b>	<b>1,343</b>
Represented by		
Usable reserves	(300)	(265)
Unusable reserves	(1,209)	(1,078)
<b>Total Reserves</b>	<b>(1,509)</b>	<b>(1,343)</b>

The breakdown of the usable reserves is set out below:

	<b>31-Mar-16</b>	<b>31-Mar-15</b>
	<b>£m</b>	<b>£m</b>
General Fund	267	232
Schools Reserves	7	6
Housing Revenue Account	22	22
London Residuary Body	4	4
<b>Total</b>	<b>300</b>	<b>265</b>



## HOUSING REVENUE ACCOUNT (HRA)

The Statement of Accounts also includes the ring-fenced Housing Revenue Account for the provision of social housing. The Housing Revenue Account closed substantially on budget. Full details are set out in on pages 129-137.

## LONDON RESIDUARY BODY (LRB)

The accounts also include statements related to functions that transferred to the Council from the former London Residuary Body (residual matters relating to the abolition of the Inner London Education Authority in 1999, which the Council manages on behalf of the rest of the inner London boroughs). Details are set out on pages 160-161.

## FUTURE OUTLOOK

The Council once again froze Council Tax for 2016-17. Funding reductions and cost pressures were matched by over £13 million in budget reductions which - including prior year savings – brings the total budget reductions to £85 million since 2010-11. The Council is also planning to fund an ambitious capital programme - £314 million over the next three years - without any external borrowing.

The national economic outlook has improved from that of previous years but the deficit in the UK's public finances remains unsustainably large. Therefore, the Government has delivered substantial cuts to local government funding and has announced further such reductions up to 2019-20.

The Council remains well positioned to meet these challenges. It is planning for substantial budget reductions for 2016-17 and future years, both as an individual authority and as part of Tri-borough and Bi-borough working on delivery of shared services with the neighbouring boroughs of the City of Westminster and the London Borough of Hammersmith & Fulham.

## ACCOUNTING POLICIES

The 2015-16 accounts are compliant with International Financial Reporting Standards (IFRS). They comply with the Chartered Institute of Public Finance and Accountancy (CIPFA) / Local Authority (Scotland) Accounts Advisory Committee (LASAAC) *Code of Practice on Local Authority Accounting in the United Kingdom 2015/16* (the Code), which is based on IFRS.

The accounting policies adopted by the Council comply with the Code and are set out on pages 45-63. These are substantially unchanged from 2014-15.

## **STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS**

### **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 has the responsibility for the administration of those affairs. The Council's chief financial officer is the Town Clerk;
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets; and
- approve the Statement of Accounts.

### **The Town Clerk's Responsibilities**

The Town Clerk is responsible for the preparation of the Council's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting (the Code).

In preparing this Statement of Accounts, the Town Clerk has:

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

The Town Clerk has also:

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

I confirm that the Statement of Accounts 2015-16 gives a true and fair view of the financial position of the Council as at 31 March 2016 and its income and expenditure for the year ended 31 March 2016.



Nicholas Holgate  
**Town Clerk**  
29 September 2016

I confirm on behalf of the Council that the Statement of Accounts 2015-16 was reviewed by the Audit and Transparency Committee on 29 September 2016.



Councillor Will Pascal  
**Chairman of the Audit and Transparency Committee**

# THE ROYAL BOROUGH OF KENSINGTON AND CHELSEA

## ANNUAL GOVERNANCE STATEMENT 2015-16

### Introduction and purpose of the Annual Governance Statement

This Annual Governance Statement summarises key governance mechanisms and records the significant governance issues that need to be addressed over the coming year. The full *Code of Corporate Governance* can be found on the Council's website and forms part of the [Royal Borough's Constitution](#).

The purpose of the statement is to enable the Council to meet its obligations under the *Accounts & Audit Regulations 2015*, which require that the Council prepares such a statement.

A governance framework has been in place for the year ended 31 March 2016 and remained so up to the date of approval of the Statement of Accounts.

The Council is responsible for ensuring 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.

### 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 and not absolute assurance of effectiveness. 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 through this link: [Council and Democracy](#), on the Council's website.

### The Constitution

The conduct of the Council is defined by formal procedures and rules, which are in the Constitution and sets out how the Council operates, how decisions are made and the procedures that are followed (please see the [Council's Constitution](#)).

### The Council

During the period of the review, the Council comprised 50 Councillors. There were 18 Wards altogether, 14 three-member Wards and four two-member Wards. The composition of the Council was: Conservative 37, Labour 12 and Liberal Democrat 1. All Councillors meet together as the Council and full Council meetings are scheduled to take place generally five times a year.

## **How the Council operates**

The Council is a large organisation with a total turnover over £500 million. It is responsible for providing or commissioning several hundred separate services and the three-year capital programme is £250 million.

The Council has been recognised as one that achieves high performance. It also has an annual appraisal of its credit rating by Standard and Poor's (S&P) and is currently ranked AAA, S&P's highest credit rating.

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 reviewing the Code of Corporate Governance and preparing this statement. The Chief Solicitor is satisfied that the arrangements in place are working effectively and that no matters of significance have been omitted from this Statement.

Senior staff, led by the Town Clerk, provide policy options and analysis to Councillors in respect of decisions, the Councillors have regard to officer recommendations prior to taking key decisions. Council staff manage the day-to-day business of the Council.

## **Strategic plans and policies**

The annual revenue and capital budgets are prepared, consulted upon and reflected in the Forward Plan and are 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. Budget plans are summarised in a document - [Budget Proposals](#) - which was published after approval by the full Council in March 2015.

## **How we ensure our arrangements are working effectively**

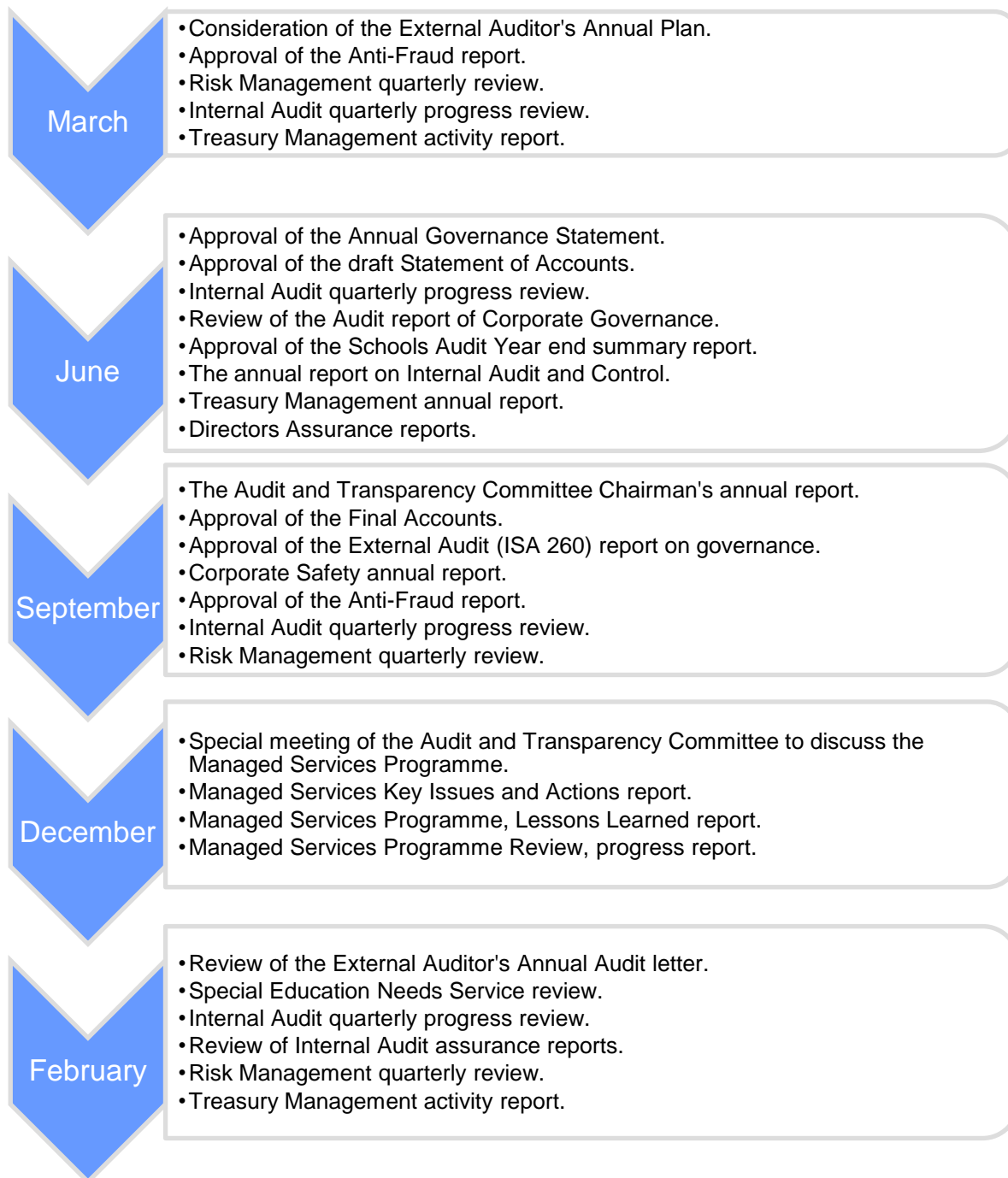
To monitor the effectiveness of the Council's corporate governance systems, a review is undertaken each year of the governance framework, the basis of which is shown overleaf.

## Sources of Assurances

Corporate Governance	Management Team	Services are delivered economically, efficiently & effectively
<ul style="list-style-type: none"> <li>• Constitution (incl. statutory officers, scheme of delegation, financial management and procurement rules)</li> <li>• Audit and Transparency Committee</li> <li>• Internal and external audit</li> <li>• Independent external sources</li> <li>• Scrutiny function</li> <li>• Council, Cabinet and Panels</li> <li>• Medium Term Financial Strategy</li> <li>• Complaints system</li> <li>• HR policies and procedures</li> <li>• Whistleblowing and other countering fraud arrangements</li> <li>• Risk management framework</li> <li>• Performance management system</li> <li>• Codes of conduct</li> </ul>	<ul style="list-style-type: none"> <li>• The role of Chief Officers</li> <li>• Delivery of Council's aims and objectives</li> <li>• Corporate Planning</li> <li>• Business, Financial and Commissioning Plans</li> <li>• Officer codes of conduct</li> <li>• Performance appraisal</li> <li>• The role of the Chief Financial Officer</li> <li>• The role of the Head of Internal Audit</li> <li>• Roles and responsibilities of Members and Officers</li> <li>• Timely production of a Statement of accounts</li> <li>• External and Internal audit reports recommendations</li> <li>• Review of Corporate Governance</li> </ul>	<ul style="list-style-type: none"> <li>• Management of risk</li> <li>• Effectiveness of internal controls</li> <li>• Democratic engagement and public accountability</li> <li>• Budget and financial management arrangements</li> <li>• Standards of conduct and behaviour</li> <li>• Compliance with laws and regulations, internal policies and procedures</li> <li>• Action plans dealing with significant issues are approved, actioned and reported on</li> <li>• Local Government Ombudsman report</li> <li>• Electoral Commission report</li> <li>• Scrutiny reviews</li> <li>• Effectiveness reviews of Audit and Transparency Committee and Scrutiny Committees, Internal Audit</li> <li>• Employee performance</li> <li>• Budgetary control</li> <li>• Compliance with the Code of Procurement</li> <li>• Stakeholder engagement</li> <li>• Evaluation of benefits gained from investments and projects</li> </ul>

## Audit and Transparency Committee - Key Audit Business

The following provides a summary of information on the areas that the Committee has considered:



## **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 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 Managed Services Programme;
- Assurance from BT in connection with the deliverables of the Managed Services Programme;
- Climate change and carbon reduction Programme; and,
- The Client Affairs Service.

Internal Audit has continued to highlight concerns identified in respect of the implementation of the Managed Services Programme and have provided regular updates on progress being made. The Committee continue to actively monitor the status of the Managed Services Programme.

## **Effectiveness review of Scrutiny Committees**

Cabinet 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. Cabinet Members take key decisions, either individually or collectively as the Cabinet. The Executive is held to account by five Scrutiny Committees. Each has a specific remit, for example Housing or Children's Services.

Scrutiny Committees can:

- ask the Cabinet to think again about a decision, either through pre-decision scrutiny or call-in;
- summon Cabinet Members and senior council staff to account for what they have done or plan to do;
- put local services (for example the National Health Service) under the spotlight by undertaking in-depth reviews;
- make suggestions to the Cabinet or to full Council about alternative ways of delivering services; and,
- involve the public in any of the above activities.

Membership of the Scrutiny Committees reflects the current political representation of the Council. The Chairman of each Scrutiny Committee sits on the Scrutiny Steering Group, which helps to coordinate scrutiny work across all five Committees.

## **Scrutiny reviews and the annual work programme**

During September each year, Scrutiny Committees identify and agree a programme of work for the coming year, to ensure they are scrutinising the most important topics and issues falling within their remit. Residents, Councillors and officers participate in this



programme of work. The programme is not fixed and issues can, with the agreement of the Chairman, be added to it at any time.

Once the work programme is agreed, the Committees regularly establish 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.

### Partnership Governance

The Council shares a number of services with the London Borough of Hammersmith and Fulham and Westminster City Council. Each Council retains 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.

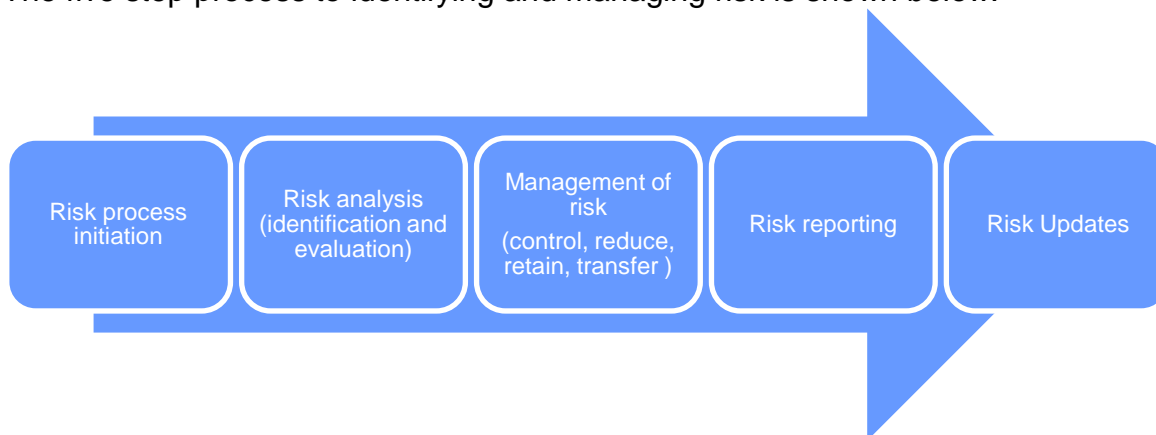
Since each Council retains its own sovereignty, the governance arrangements for the Royal Borough remain the same for all services.

### Managing Key Risks

The successful delivery of the Council's aims and policies depends on the ability to tolerate and manage risk rather than eliminate it altogether; therefore, a certain amount of risk-taking is inevitable. All Councillors and officers are responsible for ensuring that the implications or risks are considered as part of the decisions they take. The Council has adopted the *Shared Services Risk Management Strategy*. It was reviewed by the Audit and Transparency Committee and reflects the approach the Council wishes to take to the management of risk.

The *Risk Management Strategy Statement* sets out the intended approach to risk management to be used for shared and sovereign services to respond to risk and opportunities in the delivery of both strategic and operational objectives. Management must follow a uniform process to ensure consistency and high quality of risk management.

The five step process to identifying and managing risk is shown below:



## Risk review process

It is recognised by the Council that risk management is an integral part of good governance. Services are undergoing substantial changes that will continue into 2016 resulting in a variety of business models being used across the Council.

The aim of the Council 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.

The Council is committed to;

- raising awareness of the benefits of effective risk management;
- adopting and embedding a risk aware culture; and,
- establishing and maintaining a consistent and integrated framework that anticipates and meets the changing needs of the councils over time; and, in doing so, ensures that risk management arrangements accord with established best practice.

## Managing the risk of fraud

To fulfil the Council's Corporate Strategy, it is recognised that the Council must maximise its financial resources and ensure fraud and misappropriation is 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 *Corporate Fraud 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, namely:

- *Members Code of Conduct;*
- *Officers Code of Conduct;*
- *Whistleblowing Policy;*
- *Financial Procedure Rules; and*
- *Procurement Procedure 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.

There were no significant cases of fraud or corruption identified during 2015-16.

## **Anti Bribery and Corruption**

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. Officers who are offered, or who receive unsolicited gifts with a value of £20 or more must record this in the Gifts and Hospitality Register System, and discuss with their line manager what action should follow such an offer or receipt. Members are required to notify the Monitoring Officer of any gifts or hospitality in excess of £50.

For more information about these revised procedures, please see the *Anti-Bribery Policy*.

## **Freedom of Information, including Environmental Information requests**

1,268 Freedom of Information requests were logged in the period 1 April 2015 – 31 January 2016.

- 81 per cent of requests were completed within the 20 working-day deadline.
- 68 per cent were responded to in full and 10 per cent were refused in full.

In the same period, 19 requests for internal review were received. The original decision was upheld in eight cases, in three cases the decision to withhold was upheld but different exemptions were applied. In three cases the information was released in full and in two cases the information was released in part. There were three requests for internal review due to a response having not been received; – in two cases the information was subsequently released in full and one case the information was exempt.

## **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 Town Clerk is both the Chief Financial Officer and the Head of Paid Service and is a member of the Council's Chief Officers' Management Team. In the medium term it is quite likely that these two roles will be separated, notwithstanding this 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 Chief Financial Officer has been involved in reviewing the Corporate Governance arrangements of the Council and the preparation of this Statement from its early stages. He is satisfied with the arrangements in place for managing finances and manager compliance with the 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.

## **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, KPMG LLP.

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

## **Internal Audit**

The Audit and Transparency Committee agreed that the *Public Sector Internal Audit Standards* (PSIAS) should be followed from April 2013. These have been developed specifically for public sector organisations, by CIPFA. Compliance with these standards is externally assessed on a cyclical basis. During 2015-16 a self-assessment of compliance was undertaken and only minor non-conformities 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 2015-16 is that the Council's internal control systems in the areas audited were adequate, with the exception of a few systems where improvements were recommended. Due to the issues arising with the implementation of the Managed Services Programme and its influence on key financial systems, internal audit have not undertaken sufficient work in this area to provide assurance over the controls operating in respect of key financial systems.

## **External Audit**

The Council's external auditor, KPMG LLP, issued an unqualified value for money conclusion for 2014-15 on 21 September 2015. The report concluded that the Council has proper arrangements for securing financial resilience. To arrive at its conclusion, KPMG LLP reviewed financial governance, financial planning and financial control processes, as well as how the Council was prioritising resources and improving efficiency and productivity.

KPMG LLP issued an unqualified opinion on the Council's 2014-15 financial statements on 21 September 2015 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.

KPMG LLP reviewed the 2014-15 Annual Governance Statement and concluded that it was consistent with their understanding.

There were no areas for improvement noted.

## **Significant Governance Issues**

Matters reported in the 2014-15 Annual Governance Statement, with the exception of those related to the Managed Services Programme, have been addressed during 2015-16.

While generally satisfied with the effectiveness of corporate governance arrangements and the internal control environment, as part of continuing efforts to improve governance arrangements the following issues, as highlighted in the statement, have been identified for improvement.

### **Contract Management and Procurement**

Contract management arrangements across the Council have been refined throughout 2015-16. The Council has designed new internal control and governance arrangements that include establishing a new centralised commercial services team within the Adult Social Care Department. The primary responsibility of this team is to improve commissioning standards in both the procurement and contract management activities of the Department. Going forward this team will design and implement processes and procedures to embed a culture of best practice within these key activities across its services.

In October 2015, a new structure model for commissioning of Children's Services in the Directorate was proposed to future proof the service by strengthening commissioning practice, to drive value for money and to deliver clear improvements in outcomes for children and young people in the borough. The key features of the new structure and the most significant differences between the historic and the new structure, comprised the introduction of a holistic focus across the Children's Services agenda together with the restructuring of historic commissioning teams who had a focus on specific agendas or cohorts of children and young people. A new structure was designed, with an implementation date of April 2016.

More widely the Council's sovereign departments and other services have retained well-established devolved commissioning and procurement structures that utilise more fully the Council's e-tendering system, 'CapitalEsourcing', for management of its tendering and procurement workflow needs.

## Managed Services Programme

The Council entered into a Strategic Partnership with the London Borough of Hammersmith and Fulham and the City of Westminster Council to procure a managed services solution from BT. The Managed Services Programme was set up to introduce an externally managed service to deliver finance and human resource processes to all three Councils. The programme overran its original delivery date of 1 April 2014 and went live on 16 March 2015 with a further programme of staged implementation to 30 April 2015 that has, in the event, continued to be extended until post April 2016.

The Council has recognised that the Managed Services Programme has failed to deliver against the agreed terms of service delivery. A commitment from BT to improve performance has been made, and Council officers have been working together with BT to identify and rectify service failures during the year. However, performance in critical areas of service has been poor and the benefits of commercial expertise have not been realised. Given the scope of business critical services within the contract and financial saving targets pinned on this model of service delivery, the Council will be required to make key decisions and plans going forward as to how performance in critical areas can be improved whilst minimising any associated costs.

In order to undertake an effective internal audit whereby reliance can be placed on the testing undertaken, there needs to be confidence that the system being reviewed is operating in a stable environment with changes properly controlled and tested prior to being implemented. Apart from the high level controls review of the Managed Service Programme, which indicated that there were a number of areas where assurance on controls could not be given, Internal Audit have not independently reviewed the system controls and have therefore not undertaken any substantive testing during 2015-16 in the key areas of HR, Payroll and Finance.

Progress continues to be made towards a stable operational system and an effective shared service centre with the implementation of further agreed improvements and deferred functionality due during the second half of 2016. A review to consider a further raft of improvements, simplifications and automations to meet the future needs of the three Authorities has also commenced.

The Council will continue to engage with BT to agree the best option for taking forward changes that should result in robust improvements in service delivery and achievement of the desired outcomes from the contract. Any significant issues will be escalated as appropriate and Member decisions will be obtained as required.

Progress on actions connected to year-end accounting requirements continues whilst addressing historic issues associated with pensions and other payroll and HR issues has been lagging behind plan and remedial action has been instructed.

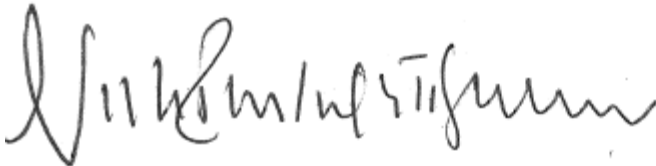
In addressing historic issues and increasing the due diligence in respect of the systems and its operation as a whole, other problems are being detected and added to the resolution list. Whereas it is regrettable that these problems exist, the open and joint way in which they are being addressed indicates an increasing commitment from all parties.

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

Signed:



Nicholas Holgate  
**Town Clerk**



Councillor Paget-Brown  
**The Leader of the Council**  
On behalf of the Royal Borough of Kensington and Chelsea

## GLOSSARY OF TERMS

<b>Balance Sheet</b>	This is a 'snapshot' of the Council's assets, liabilities and reserves on 31 March 2016. The reserves are always equal to the Council's assets less the Council's liabilities. Assets represent everything owned by the Council and money owed to it. Liabilities are the sums that the Council owes to others.
<b>Budget</b>	A forecast of the Council's planned expenditure; the level of the council tax is set by reference to detailed revenue budgets. Budgets are reviewed during the course of the financial year to take account of pay and price changes and other factors affecting the level or cost of services.
<b>Business Rates Tariff</b>	Under the local authority grant distribution system, authorities either pay a portion of their retained rates to the Government (a tariff) or are paid back a portion of the national total (a top-up). The Council pays a business rates tariff.
<b>Cabinet</b>	The Cabinet is the executive body responsible for undertaking all of the Council's functions except those functions that are reserved to the full Council or delegated to committees or officers. When the executive meets collectively, it is known as 'the Cabinet'. Individual councillors that are members of the executive are known as 'Cabinet Members'.
<b>Capital Adjustment Account</b>	An account recording financing transactions relating to capital expenditure. This account is not available for general use to fund capital expenditure.
<b>Capital Expenditure</b>	Spending on the acquisition or enhancement of fixed (non-current) assets or advances and loans to other individuals or organisations.
<b>Capital Receipts</b>	Income received from the sale of fixed assets or repayment of capital advances.
<b>CIPFA</b>	Chartered Institute of Public Finance and Accountancy.
<b>Collection Fund</b>	A statutory account into which Council Tax and National Non-Domestic Rates are paid and from which amounts are paid to the Council and the precepting body, the Greater London Authority.
<b>Community Assets</b>	A class of fixed (non-current) assets that are expected to be held by the Council in perpetuity to deliver services. Examples include parks.



<b>Depreciation</b>	A measure of the consumption or wearing out of a fixed (non-current) asset over its useful economic life.
<b>Fixed or 'Non-current' Assets</b>	Assets that provide benefit to the Council and its services for a period in excess of one year.
<b>General Fund</b>	The primary revenue account, which records the cost of providing the majority of the Council's services.
<b>Heritage Asset</b>	An asset with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture.
<b>Housing Revenue Account (HRA)</b>	A statutory account recording the income and expenditure relating to the Council's provision of social housing.
<b>IAS19 Employment Benefits</b>	This International Accounting Standard is based on the principle that an organisation should account for retirement and other benefits when it is committed to give them, even if the actual payments will be made many years into the future.
<b>Infrastructure</b>	A class of fixed (non-current) assets that includes bridges, roads and highway works. Infrastructure assets are not normally saleable.
<b>Intangible Assets</b>	A class of non-financial fixed (non-current) assets that do not have any physical substance, but are identifiable and are controlled by the Council, for example purchased software licences.
<b>LASAAC</b>	Local Authority (Scotland) Accounts Advisory Committee.
<b>London Residuary Body (LRB)</b>	The authority to which functions were transferred from the Greater London Council and the Inner London Education Authority. Residual functions for inner-London, including education awards, were subsequently transferred to the Council on behalf of London's local authorities.
<b>LPFA</b>	London Pensions Fund Authority.
<b>Major Repairs Allowance (MRA)</b>	The Major Repairs Allowance is an element of Government subsidy payable to the Housing Revenue Account. It represents the capital cost of keeping the housing stock in its current condition. Unused Major Repairs Allowance is held in the Major Repairs Reserve (MRR) until required.
<b>Management Board</b>	The Council's senior management team.

<b>Minimum Revenue Provision (MRP)</b>	The amount defined by statutory regulation that must be set aside to provide for the redemption of debt.
<b>Monitoring Officer</b>	A role, carried out by the Chief Solicitor, to report to the Council any potential illegality, misadministration or injustice that may come to his or her attention.
<b>Municipal Mutual Insurance (MMI)</b>	MMI ceased accepting new business during 1992-93 and the Council and the LRB (through the Council) are members of a scheme of arrangement that has been put in place to try and ensure an orderly settlement of the run-off of MMI
<b>National Non Domestic Rates (NNDR)</b>	The form of local taxation charged on non-residential premises at a level set by the Government. As part of the grant distribution system (the Business Rates Retention Scheme) business rates are collected and a share retained by the local authority and the balance paid to the local preceptor and the Government.
<b>Precept</b>	The charge made by another public authority on the Council to finance its net expenditure. The Council currently has one precepting authority, the Greater London Authority (GLA).
<b>Public Works Loan Board (PWLB)</b>	Government agency responsible for the financing of a large proportion of local authority borrowing.
<b>Related Parties</b>	Related parties are those individuals and entities that the Council either has the ability to influence, or to be influenced by. Related parties include the Government, subsidiary and associated companies, the Pension Fund, Councillors and senior officers.
<b>Reserves (Unusable)</b>	Unusable reserves are reserves that in simple terms balance the Council's Balance Sheet and cannot be released to spend on services. For example, the Revaluation Reserve records the effect of revaluing fixed assets and is not available for general use in the financing of capital expenditure. Full details are set out in Note 23 Unusable Reserves.

## Reserves (Usable)

Usable reserves are those reserves that can be released to spend on services or added to for future spending on services.

Details of these are set out in Note 8 Transfers to and from Earmarked Reserves and Usable Reserves.

The Council has a detailed reserves policy as set out in its published revenue budget book which can be found at [How the Council Manages Money](#).

The Council holds material and ongoing earmarked reserves for the following purposes:

### General Fund Earmarked Reserves

**Better City Life** - Provides resources for new policy priorities.

**Budget Carry Forward** - Earmarks funds for budgets carried forward from previous years' revenue underspends to meet the cost of specific projects.

**Capital Expenditure** – Provides a source of funding for capital investment and revenue costs in support of capital investment.

**Car Parking** – 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.

**Community Safety** – Holds funds for community safety initiatives within the Council.

**Corporate Information Systems (IS) Initiatives** – Provides funds for the financing of corporate information systems.

**Cost Reduction (Transformation Fund)** – Resources for 'invest to save' opportunities identified as part of the business and financial planning process.

**Demand Growth** – Resources to meet the effects of volatile demand on budgets (to improve budget resilience).

**Economic Development** - For investment in economic development and regeneration initiatives.

**Excellence All Round** – Funds initiatives to improve services.

**General Services Building Maintenance** – Holds a fixed annual contribution that provides for variable annual maintenance costs.

**Insurance** – Earmarked insurance fund to cover future insurance liabilities.

**Lead Flood Authority** – Fund to hold government allocated funding for the discharge of the relevant Lead Flood Authority duties and responsibilities or related activities.

**Licensing and Planning Costs** – Provides funds to meet costs from unexpected planning and licensing legal cases.

**Local Elections** – Holds funds set aside to cushion the financial impact of local elections.

**Local Initiative (Transformation Fund)** – Provides resources to support the introduction of transformative projects.

**Planning and Borough Development Resources** – An agreed fund to hold part of the 2014-15 service underspend to strengthen the service's resources over future years and to align resources more accurately to workload.

**Property Strategy** – Meets the cost of feasibility studies and condition surveys to assist in asset management and capital budget planning.

**Repairs and Renewals** – Provides for the replacement of vehicles and plant, office machinery and special items. It is funded from annual revenue contributions.

**Service Risks** – Provides for unexpected service requirements and funds the cost of reducing risks.

**Severance (Transformation Fund)** – Provides resources to meet the costs of potential job losses.

**Specific Grant Loss (Specific Grant Loss Housing)** – Provides resources to help cushion against adverse changes in specific grant regimes where there are unavoidable financial commitments (specifically held for General Fund Housing).

**Strategic Regeneration** – Provides resources to support regeneration activities funded from the (now ended) Local Authority Business Growth Incentive Scheme (LABGI).

**Supporting People** - Provides resources to cushion the impact of reduced grant allocation for this service.

**Value Added Tax (VAT)** – Provides resources to mitigate the impact of a breach in the VAT partial exemption ratio. The Council can only recover VAT on exempt activities up to five per cent of its VAT bill. The Council is currently below this limit, but may in the future exceed it.

#### **Housing Revenue Account Earmarked Reserve:**

**Controlled Repairs** – Provides resources for TMO repair projects.

<b>Revenue Support Grant</b>	Grant which can be used for any purpose from central government allocation as part of the local authority grant distribution system alongside a share of National Non Domestic Rates.
<b>Revenue Expenditure</b>	Day-to-day expenditure incurred in the provision of services including salaries, goods and services.
<b>REFCUS</b>	Revenue Expenditure Funded from Capital Under Statute.
<b>Section 151 Officer</b>	A term used to describe the chief financial officer, whose responsibilities are set out in the <i>Statement of Responsibilities for the Statement of Accounts</i> . The Council's chief financial officer is the Town Clerk.
<b>SeRCOP</b>	CIPFA's Service Reporting Code of Practice, which provides guidance on financial reporting to stakeholders and establishes 'proper practice' with regard to consistent financial reporting.
<b>Tenant Management Organisation (TMO)</b>	The Kensington and Chelsea Tenant Management Organisation Limited manages the Council's Housing Revenue Account dwelling stock on behalf of the Council.



# Core Financial Statements 2015-16



THE ROYAL BOROUGH OF  
KENSINGTON  
AND CHELSEA





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

We have audited the financial statements of the Royal Borough of Kensington and Chelsea for the year ended 31 March 2016 on pages 41 to 162. 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 2015/16.

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. Our audit work has been undertaken so that we might state to the members of the Authority, as a body, 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 members of the Authority, as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of the Town Clerk and auditor**

As explained more fully in the Statement of the Town Clerk's Responsibilities, the Town Clerk 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, and for being satisfied that the financial statements give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Strategic Finance Director; and the overall presentation of the financial statements.

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

## **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2016 and of the Authority's expenditure and income for the year then ended;
- give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2016 and the amount and disposition of the Fund's assets and liabilities as at 31 March 2016, other than liabilities to pay pensions and other benefits after the end of the scheme year; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

## **Matters on which we are required to report by exception**

The Code of Audit Practice requires us to report to you if:

- the Annual Governance Statement set out on pages 16 to 27 does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007; or
- the information given in the Narrative Statement for the financial year for which the financial statements are prepared is not consistent with the financial statements; or
- any matters have been reported 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
- any recommendations have been made under Section 24 of the Local Audit and Accountability Act 2014; or
- any other special powers of the auditor have been exercised under the Local Audit and Accountability Act 2014.

We have nothing to report in respect of these matters.

## **Conclusion on the Royal Borough of Kensington and Chelsea's arrangements for securing economy, efficiency and effectiveness in the use of resources**

### **Authority's responsibilities**

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

### **Auditor's responsibilities**

We are required under Section 20(1) (c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Comptroller and Auditor General (C&AG) requires us to report to you our conclusion relating to proper arrangements.

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

### **Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources**

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by C&AG in November 2015, as to whether the Royal Borough of Kensington and Chelsea had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The C&AG determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Royal Borough of Kensington and Chelsea put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2016.

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

### **Conclusion**

On the basis of our work, having regard to the guidance issued by the C&AG in November 2015, we are satisfied that, in all significant respects, the Royal Borough of Kensington and Chelsea put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2016.

## **Certificate**

We certify that we have completed the audit of the financial statements of the Royal Borough of Kensington and Chelsea in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

Andrew Sayers, for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants  
KPMG LLP  
15 Canada Square  
London E14 5GL  
30 September 2016

## Movement in Reserves Statement

Notes	Revenue Reserves				Capital Reserves			Total Usable Reserves £'000	Total Unusable Reserves £'000	Total Council Reserves £'000
	General Fund	Earmarked Reserves <sup>1</sup>	Housing Revenue Account	Other Usable Reserves	Major Repairs Reserve	Capital Receipts Reserve	Capital Grants Unapplied			
	£'000	£'000	£'000	£'000	£'000	£'000	£'000			
<b>Balance at 31 March 2014</b>	<b>10,000</b>	<b>183,419</b>	<b>18,942</b>	<b>10,672</b>	<b>392</b>	<b>36,743</b>	<b>7,143</b>	<b>267,311</b>	<b>1,034,867</b>	<b>1,302,178</b>
<b>Movement in reserves during 2014-15</b>										
Surplus / (deficit) on provision of services <sup>2</sup>	16,815	-	8,212	-	-	-	-	25,027	-	25,027
Other Comprehensive Expenditure and Income	-	-	-	(234)	-	-	-	(234)	15,827	15,593
<b>Total Comprehensive Expenditure and Income</b>	<b>16,815</b>	<b>-</b>	<b>8,212</b>	<b>(234)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>24,793</b>	<b>15,827</b>	<b>40,620</b>
Adjustments between accounting basis and funding basis under regulations <sup>2</sup>	7a/b (13,631)	-	(5,700)	-	216	(9,040)	674	(27,481)	27,481	-
<b>Net increase / decrease before transfers to Earmarked Reserves</b>	<b>3,184</b>	<b>-</b>	<b>2,512</b>	<b>(234)</b>	<b>216</b>	<b>(9,040)</b>	<b>674</b>	<b>(2,688)</b>	<b>43,308</b>	<b>40,620</b>
Transfers to / from Earmarked Reserves	(3,184)	3,509	45	(370)	-	8	-	8	(8)	-
<b>Increase / (decrease) in 2014-15</b>	<b>8</b>	<b>-</b>	<b>3,509</b>	<b>(604)</b>	<b>216</b>	<b>(9,032)</b>	<b>674</b>	<b>(2,680)</b>	<b>43,300</b>	<b>40,620</b>
<b>Balance at 31 March 2015</b>	<b>10,000</b>	<b>186,928</b>	<b>21,499</b>	<b>10,069</b>	<b>608</b>	<b>27,711</b>	<b>7,817</b>	<b>264,631</b>	<b>1,078,166</b>	<b>1,342,797</b>
<b>Movement in reserves during 2015-16</b>										
Surplus / (deficit) on provision of services	47,632	-	19,619	-	-	-	-	67,251	-	67,251
Other Comprehensive Expenditure and Income	-	-	-	(147)	-	-	-	(147)	99,543	99,396
<b>Total Comprehensive Expenditure and Income</b>	<b>47,632</b>	<b>-</b>	<b>19,619</b>	<b>(147)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>67,104</b>	<b>99,543</b>	<b>166,647</b>
Adjustments between accounting basis and funding basis under regulations	7a/b (34,239)	-	(19,673)	-	99	24,407	(2,055)	(31,461)	31,461	-
<b>Net increase / decrease before transfers to Earmarked Reserves</b>	<b>13,393</b>	<b>-</b>	<b>(54)</b>	<b>(147)</b>	<b>99</b>	<b>24,407</b>	<b>(2,055)</b>	<b>35,643</b>	<b>131,004</b>	<b>166,647</b>
Transfers to / from Earmarked Reserves	(13,393)	12,727	(33)	699	-	7	-	7	(7)	-
<b>Increase / (decrease) in 2015-16</b>	<b>8</b>	<b>-</b>	<b>12,727</b>	<b>(87)</b>	<b>99</b>	<b>24,414</b>	<b>(2,055)</b>	<b>35,650</b>	<b>130,997</b>	<b>166,647</b>
<b>Balance at 31 March 2016</b>	<b>10,000</b>	<b>199,654</b>	<b>21,410</b>	<b>10,622</b>	<b>707</b>	<b>52,126</b>	<b>5,763</b>	<b>300,282</b>	<b>1,209,163</b>	<b>1,509,445</b>

<sup>1</sup> The Earmarked Reserves balance includes Housing Revenue Accounts (HRA) Earmarked Reserves.

<sup>2</sup> The 2014-15 comparatives detailed above were amended since the 2014-15 audited accounts due to presentational changes between gross movements in the General Fund and Housing Revenue Account. The General Fund and Housing Revenue Account balance at 31 March 2015 shown above are the same as the 2014-15 audited accounts.

## Comprehensive Income and Expenditure Statement

	Year Ended 31 March 2016			Year Ended 31 March 2015			Notes
	Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000	Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000	
Central services to the public	8,788	(6,039)	2,749	11,145	(4,890)	6,255	
Cultural and related services	19,363	(2,213)	17,150	29,003	(5,884)	23,119	
Environment and regulatory services	37,729	(10,894)	26,835	41,104	(9,877)	31,227	
Planning services	12,632	(4,010)	8,622	19,330	(4,700)	14,630	
Education and children's services	157,927	(111,581)	46,346	172,057	(119,458)	52,599	
Highways and transport services	42,822	(50,418)	(7,596)	42,248	(51,215)	(8,967)	
Local authority housing – other	39,822	(55,553)	(15,731)	50,172	(54,923)	(4,751)	
Other housing services	193,311	(175,280)	18,031	197,398	(178,653)	18,745	
Adult social care	69,350	(22,088)	47,262	70,635	(23,713)	46,922	
Public health	18,407	(18,407)	-	17,799	(17,389)	410	
Corporate and democratic core	5,701	(21)	5,680	8,644	(2,084)	6,560	
Non distributed costs – past service pension costs	878	-	878	641	-	641	
Non distributed costs – (gain) / loss on settlements	-	(319)	(319)	-	(1,138)	(1,138)	
Non distributed costs – other	3,804	(437)	3,367	6,383	(4,273)	2,110	
<b>Cost of services</b>	<b>610,534</b>	<b>(457,260)</b>	<b>153,274</b>	<b>666,559</b>	<b>(478,197)</b>	<b>188,362</b>	27b
Other Operating Expenditure	9,025	(38,732)	(29,707)	4,378	(6,159)	(1,781)	9
Financing and Investment Income and Expenditure	35,336	(49,020)	(13,684)	29,722	(60,341)	(30,619)	10
Taxation and Non-Specific Grant Income	35,735	(212,869)	(177,134)	35,065	(216,054)	(180,989)	11
<b>Net (Surplus) / Deficit on Provision of Services</b>			<b>(67,251)</b>			<b>(25,027)</b>	27b
(Surplus) or deficit on revaluation of non-current assets			(33,571)			(71,584)	23b
(Surplus) or deficit on revaluation of available for sale financial assets			(436)			980	
Remeasurements of the net defined benefit liability / asset			(65,536)			54,777	40
Any other (gains) / losses required to be included			147			234	
<b>Other Comprehensive Income and Expenditure</b>			<b>(99,396)</b>			<b>(15,593)</b>	
<b>Total Comprehensive Income and Expenditure</b>			<b>(166,647)</b>			<b>(40,620)</b>	

## Balance Sheet

	31 March '16 £'000	31 March '15 £'000	Notes
<b><u>Long-term Assets</u></b>			
Property, Plant and Equipment	1,380,721	1,338,328	12a
Heritage Assets	44,416	44,416	13
Investment Property	244,571	201,621	14
Intangible Assets	1,802	2,153	15
Long Term Investments	-	23	16a
Long Term Debtors	87	95	17b
<b>Total Long Term Assets</b>	<b>1,671,597</b>	<b>1,586,636</b>	
<b><u>Current Assets</u></b>			
Short Term Investments	269,584	216,978	16a
Assets Held for Sale	-	4,538	19
Inventories	167	206	
Short Term Debtors	73,493	51,415	17a
Cash and Cash Equivalents	32,010	34,869	18
<b>Total Current Assets</b>	<b>375,254</b>	<b>308,006</b>	
<b><u>Current Liabilities</u></b>			
Short Term Borrowing	9,395	10,793	16a
Short Term Creditors	120,568	98,847	20
Provisions	9,711	3,801	21
<b>Total Current Liabilities</b>	<b>139,674</b>	<b>113,441</b>	
<b><u>Long-term Liabilities</u></b>			
Provisions	2,522	7,635	21
Long Term Borrowing	133,864	141,373	16a
Other Long Term Liabilities	219,368	265,758	44
Capital Grants Receipts in Advance	41,978	23,638	33c
<b>Total Long Term Liabilities</b>	<b>397,732</b>	<b>438,404</b>	
<b>Net Assets</b>	<b>1,509,445</b>	<b>1,342,797</b>	
<b><u>RESERVES</u></b>			
Usable Reserves	300,282	264,631	7/8
Unusable Reserves	1,209,163	1,078,166	7/23
<b>Total Reserves</b>	<b>1,509,445</b>	<b>1,342,797</b>	

## Cash Flow Statement

	2015-16 £'000	2014-15 £'000	Notes
Net surplus / (deficit) on the provision of services London Residuary Body	67,251 (147)	25,027 (234)	
<b>Net surplus / (deficit)</b>	<b>67,104</b>	<b>24,793</b>	
Adjustments to net surplus or deficit on the provision of services for non-cash movements	10,519	2,699	
Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	(53,682)	(14,553)	
<b>Net cash flows from Operating Activities</b>	<b>23,941</b>	<b>12,939</b>	24
Investing Activities	(19,749)	14,714	25
Financing Activities	(7,051)	(2,983)	26
<b>Net increase / (decrease) in cash and cash equivalents</b>	<b>(2,859)</b>	<b>24,670</b>	
Net cash and cash equivalents at the beginning of the reporting period	34,869	10,199	
<b>Net cash and cash equivalents at the end of the reporting period</b>	<b>32,010</b>	<b>34,869</b>	18

*The cash flow statement has been prepared using the indirect method in accordance with proper practice.*

The 2014-15 comparatives were amended since the 2014-15 audited accounts due to changes in presentational changes to follow the CIPFA Code of Practice. The net cash and cash equivalents balance at 31 March 2015 are the same as the 2014-15 audited accounts.



## **Notes to the Core Financial Statements**

### **1. Accounting Policies**

#### **i. General Principles**

The Statement of Accounts summarises the Council's financial transactions for the 2015-16 financial year and its financial position at 31 March 2016. 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 2015/16* (the Code) and the *Service Reporting Code of Practice 2015/16 (SeRCOP)*, 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.

#### **ii. Accruals of Income and Expenditure**

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Revenue from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that the economic benefits or service potential associated with the transaction will flow to the Council.
- Revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- Supplies are recorded as expenditure when they are consumed. Where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for as income and expenditure respectively, based on the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue or expenditure has been recognised, but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

### iii. Exceptional Items

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

### iv. Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

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.

### v. 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:

- **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.
- **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.

### vi. 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.

### vii. Overheads and Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Service Reporting Code of Practice 2015-16 (SeRCOP). The total absorption costing principle is used: the

full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- **Corporate and Democratic Core:** costs relating to the Council's status as a multi-functional, democratic organisation.
- **Non-Distributed Costs:** the cost of discretionary benefits awarded to employees retiring early and impairment losses chargeable on Assets Held for Sale.

These two cost categories are defined in the SeRCOP and accounted for as separate headings in the Comprehensive Income and Expenditure Statement, as part of Net Expenditure on Continuing Services.

### viii. Inventories and Long Term Contracts

Inventories are included in the Balance Sheet at the lower of cost and net realisable value. The cost of inventories is assigned using the 'first-in first-out' (FIFO) costing formula.

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

### ix. Reserves

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund in the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure.

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

### x. Government Grants and Contributions

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

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

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement 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-ringfenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund in the Movement in Reserves Statement. Where a grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied Reserve. Where a grant is received and applied in-year, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

## **xi. Property, Plant and Equipment**

Non-current assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used for more than one financial year are classified as Property, Plant and Equipment.

### *Recognition*

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable the future economic benefits or service potential associated with the item will flow to the Council and that 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. minor repairs and maintenance, is charged as an expense when it is incurred.

### *Measurement*

Assets are initially measured at cost, comprising:

- the purchase price; and
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended.

The Council capitalises borrowing costs incurred whilst assets are under construction. With the exception of HRA dwellings, the Council does not capitalise aggregate expenditure of less than £10,000 in any given year for a given asset unless expenditure is expected to exceed £10,000 during the life of a project. Expenditure on HRA dwellings is capitalised in line with Government guidance irrespective of the amount expended.

The cost of assets acquired other than by purchase is deemed to be its fair value, unless the acquisition does not have commercial substance. 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.

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

- **Community assets and assets under construction:** historic cost.
- **Infrastructure:** depreciated historic cost.

- **Dwellings:** fair value, determined using the basis of existing use value for social housing (EUV-SH).
- **All other assets:** fair value, determined as the amount that would be paid for the asset in its existing use ('Existing Use Value' or EUV) except where: the asset is specialised or no market exists for an asset when Depreciated Replacement Cost (DRC) is used as an estimate of fair value; or a non-property asset has a short useful life, low value, or both, when depreciated historic cost is used as an estimate of fair value.

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

Revaluation losses for an asset are initially charged to the Revaluation Reserve up to the balance held in the reserve for that asset. Once the balance on the reserve is exhausted or where no balance exists, the revaluation loss is charged to the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007, the date of its formal implementation. Revaluation gains arising before that date have been consolidated into the Capital Adjustment Account.

Where a revaluation loss previously recognised in the Comprehensive Income and Expenditure Statement is reversed, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

### *Impairment*

The Balance Sheet values of assets are assessed at year-end to determine if 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.

Impairments are initially charged to the Revaluation Reserve up to the balance held in the reserve for that asset. Once any balance on the reserve is exhausted or where no balance exists, the impairment is charged to the appropriate service line in the Comprehensive Income and Expenditure Statement.

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

## *Depreciation*

Depreciation is charged on Property, Plant and Equipment assets and infrastructure assets. Assets without a determinable finite useful life e.g. freehold land, Community Assets and non-property Heritage assets, and assets that are not yet available for use i.e. assets under construction, are not depreciated.

Depreciation is calculated on the following bases:

- **Dwellings:** dwellings are depreciated on a straight-line basis over the estimated useful life of the property.
- **Other land and buildings:** buildings are depreciated on a straight-line basis over the estimated useful life of the property.
- **Vehicles, plant, furniture and equipment:** straight-line over the anticipated useful life of the asset.
- **Infrastructure:** straight-line over the anticipated useful life of the asset.

For all assets re-valued from 1 April 2010, subject to a de minimis threshold of £1 million for the total value of the whole asset, the Council will hold and separately depreciate components, up to a maximum number of five per asset, that meet the following criteria:

- are worth at least 10 per cent of the total value of the asset (a de minimis threshold of £0.5 million for any individual component); and
- have a significantly shorter life, defined as less than two thirds of the current life of the whole asset.

Revaluation gains are also depreciated by an amount equal to the difference between the current depreciation charged and the depreciation that would have been chargeable based on the historic cost of the assets. The difference is transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

## *Disposals and Non-current Assets Held for Sale*

A non-current asset is classified as an "Asset Held for Sale" when it is probable that its value will be recovered through its sale and the following criteria, as set out in IFRS 5 and the Code, are met:

- The asset must be available for sale in its present condition subject to the terms that are usual and customary for the sale of such assets.
- The sale must be highly probable: management must be committed to a plan to sell the asset, which has been initiated; the asset must be actively marketed at a price that is reasonable in relation to its current fair value; it is expected that the sale will be completed within one year; and it is unlikely that significant changes to the plan will be made, or the plan of sale withdrawn.

If the criteria are met, the asset is valued immediately prior to reclassification using the valuation basis specified in the Code for that category of assets. Once reclassified, the

asset is carried at the lower of this valuation or its fair value less costs to sell. If the carrying amount of the asset is reduced, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Increases in the value of an asset are not recognised except where a loss has been posted to the Comprehensive Income and Expenditure Statement, when an amount up to the value of that loss can be recognised. Depreciation is not charged on Assets Held for Sale.

If an asset no longer meets the criteria to be classified as Assets Held for Sale, it is reclassified back to the appropriate category of non-current asset and valued at the lower of:

- its carrying amount before it was classified as held for sale, adjusted for depreciation, amortisation or revaluations that would have been recognised had the asset not been classified as Held for Sale; or
- the recoverable amount at the date of the decision not to sell the asset.

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

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

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. Receipts are credited to the Capital Receipts Reserve and statutorily can then only be used for new capital investment or set aside to reduce the Council's debt or underlying need to borrow (the 'Capital Financing Requirement'). Receipts are appropriated to the reserve from the General Fund in the Movement in Reserves Statement.

The written-off value of disposals is not a charge against Council Tax because the cost of fixed assets is fully provided for under separate statutory arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund or Housing Revenue Account balance in the Movement in Reserves Statement.

## **xii. Charges to Revenue for Non-Current Assets**

Services, support services and trading accounts are debited with the following amounts to record the cost of holding 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.

The Council is not required to raise Council Tax to fund depreciation, revaluation losses, impairments and amortisation. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement. This contribution is calculated on a prudent basis by the Council in accordance with statutory guidance and is known as the Minimum Revenue Provision (MRP). Depreciation, revaluation and, impairment losses and amortisation are therefore replaced by the MRP in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

### xiii. Heritage Assets

The Council holds a range of Heritage Assets comprising the Council's two museum buildings and land (Leighton House and 18 Stafford Terrace), the museum collections, the art in parks, local regalia and a local studies and archive collection held in Kensington Library. Heritage Assets are accounted for in accordance with UK GAAP under Financial Reporting Standard (FRS) 102.

A Heritage Asset is defined as an asset with *“historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture.”*

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” when “Heritage Assets shall be measured at historic cost” (paragraph 4.10.2.8 of the Code). Under the Code, “valuations may be made by any method that is appropriate and relevant. There is no requirement for valuations to be carried out or verified by external valuers nor is there any prescribed minimum period between revaluations” (paragraph 4.10.2.9 of the Code).

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 “EUUV”). The museums are depreciated over their expected useful lives.

The museum collections and the art in parks are reported in the Balance Sheet at insurance valuation (based on market values). 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. (FRS 102 does not require the Council to obtain valuations of heritage assets where none exists.)

The Council's heritage asset holdings are static with low numbers of acquisitions or donations and no recent disposals.



#### xiv. Investment Property

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used for the delivery of services, the production of goods. An investment property that is likely to be sold cannot be classified, under IFRS, as an Asset Held for Sale.

Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's-length. 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 Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

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

#### xv. 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 for a period greater than one year.

Internally generated assets consist of software, which is capitalised when the Council will be able to generate future economic benefits or deliver service potential by using the software. The expenditure capitalised is that which can be measured reliably and has been spent on development.

Expenditure on the development of websites is not capitalised if the website is solely or primarily intended to promote or advertise the Council's goods or services. Costs may be capitalised when a website is used to deliver or enhance services.

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the Council can be determined by reference to an active market. In practice, no intangible asset held by the Council meets this criterion and they are therefore carried at amortised cost. Intangible assets are amortised over their useful life to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. An asset is tested for impairment whenever there is an indication that the asset might be impaired and any losses recognised are posted to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. Such gains and losses are therefore reversed out of the General Fund in the Movement in Reserves Statement and

posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

## xvi. Financial Instruments

### Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument. They are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

For most of the borrowings that the Council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest) and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

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

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund to be spread over future years. The Council spreads the gain or loss over the term that was remaining on the loan when it was repaid. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

### Financial Assets

Financial assets are classified into two types:

- **Loans and receivables:** assets that have fixed or determinable payments, but are not quoted in an active market.
- **Available-for-Sale assets:** assets that have a quoted market price and/or do not have fixed or determinable payments.

#### *Loans and Receivables*

Loans and receivables are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument classified as such. They are initially measured at fair value and are subsequently measured at amortised cost. Annual

credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

However, the Council has made a number of loans to voluntary organisations at less than market rates (soft loans). When soft loans are made, a loss is recorded in the Comprehensive Income and Expenditure Statement (debited to the appropriate service) for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal. Interest is credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement at a marginally higher effective rate of interest than the rate receivable from the voluntary organisations, with the difference serving to increase the amortised cost of the loan in the Balance Sheet. Statutory provisions require that the impact of soft loans on the General Fund is the interest receivable for the financial year. The reconciliation of amounts debited and credited to the Comprehensive Income and Expenditure Statement to the net gain required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

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

Any gains and losses that arise on the derecognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

#### *Available-for-Sale Assets*

Available-for-Sale assets are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument classified as such. They are initially measured and subsequently carried at fair value. Where the asset has fixed or determinable payments, annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument. Where there are no fixed or determinable payments, income e.g. dividends, is credited to the Comprehensive Income and Expenditure Statement when it becomes receivable by the Council.

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

- **Instruments with quoted market prices:** the market price.

- **Other instruments with fixed and determinable payments:** discounted cash flow analysis.
- **Equity shares with no quoted market prices:** independent appraisal of company valuations.

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

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

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

Where fair value cannot be measured reliably, the instrument is carried at cost less any impairment losses.

## **xvii. Cash and Cash Equivalents**

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours, having originally been invested for a period no longer than three months.

Cash equivalents are investments that, having originally been invested for no longer than three months, are repayable on demand or readily convertible to known amounts of cash with an insignificant risk of change in value. 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.

Cash and cash equivalents are held to meet the daily cash flow needs of the Council. These are distinct from investments that are held for the purposes of capital protection or appreciation and/or earning a return.

## **xviii. Provisions, Contingent Liabilities and Contingent Assets**

### **Provisions**

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits

or service potential, and a reliable estimate of the amount of the obligation can be made. For instance, the Council may be involved in a court case that could eventually result in settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement 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, taking into account the relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year. Where it becomes less than probable that a transfer of economic benefits will be required or a lower settlement than anticipated is made, the provision is reversed and credited back to the relevant service.

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

### **Contingent Liabilities**

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

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

### **Contingent Assets**

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

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

## **xix. Revenue Expenditure Funded from Capital under Statute**

Expenditure incurred during the year that may be capitalised under statutory provisions, but does not result in the creation of a non-current asset; or is revenue expenditure under accounting regulations, but is funded from capital under statute, is charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement. Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer via the Movement in Reserves Statement from the General Fund to the Capital Adjustment Account reverses out the amounts charged so that there is no impact on the level of Council Tax.

## xx. Leases

Leases are classified as finance leases where the terms of the lease transfers substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Arrangements that do not have the legal status of a lease, but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

### The Council as Lessee

#### *Finance Leases*

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

Lease payments are apportioned between:

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

Property, Plant and Equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the Council at the end of the lease period).

The Council is not required to raise Council Tax to cover depreciation, revaluation losses and impairments arising from leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation, revaluation losses and impairments are therefore substituted in the General Fund for a revenue contribution, by way of an adjusting transaction with the Capital Adjustment Account via the Movement in Reserves Statement for the difference between the two.

#### *Operating Leases*

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the

lease even if this does not match the pattern of payments e.g. there is a rent-free period at the commencement of the lease.

## **The Council as Lessor**

### *Finance Leases*

Where the Council grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. A gain, representing the Council's net investment in the lease, is also credited to the same line in the Comprehensive Income and Expenditure Statement 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 Comprehensive Income and Expenditure Statement.

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund and is required to be treated as a capital receipt. Where a premium has been received, this is transferred from the General Fund to the Capital Receipts Reserve in the Movement in Reserves Statement. Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the General Fund to the Deferred Capital Receipts Reserve via the Movement in Reserves Statement. 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 Capital Adjustment Account from the General Fund via the Movement in Reserves Statement.

### *Operating Leases*

Where the Council grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments 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.

## xxi. Employee Benefits

### Benefits Payable During Employment

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

### Termination Benefits

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 Comprehensive Income and Expenditure Statement when the employee is informed of his or her likely redundancy (known as 'redundancy advice') i.e. when the Council is demonstrably committed to termination of employment.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund 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 Movement in Reserves Statement 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.

### Post Employment Benefits

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

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

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



Staff who were compulsorily transferred from the Primary Care Trust to the Council when responsibility to Public Health was transferred to the Council on 1 April 2013 remain part of the NHS pension scheme. The NHS pension scheme is a defined benefit scheme that is accounted for as if it were a defined contribution scheme, in line with statutory requirements. Public Health is a Tri-borough service hosted by Westminster City Council, but the Council accounts for its share of Public Health spending as if it were incurred directly by the Council.

### *The Local Government Pension Scheme*

The Local Government Scheme is accounted for as a defined benefits scheme. The liabilities of the Pension Fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on actuarial assumptions about mortality rates, employee turnover rates and projected earnings of current employees etc.

Liabilities are discounted to their value at current prices, using a discount rate determined by the actuary that is based on the indicative rate of return on high quality corporate bonds. The actuary's estimate of the duration of the pension fund liabilities is 19 years, so the discount rate is the annualised yield at the 19 year point on the Merrill Lynch AA-rated corporate bond yield curve. This was 3.7 per cent at 31 March 2016.

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

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

The change in the net pensions 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 Comprehensive Income and Expenditure Statement 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 Comprehensive Income and Expenditure Statement as part of Non-Distributed Costs.
- **Net Interest on the net defined liability (asset):** The change in the net defined benefit liability due to the passage of time, which is charged to Financing and Investment Income and Expenditure in the Comprehensive Income and Expenditure Statement. 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.

**Remeasurements**, comprising:

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

In relation to retirement benefits, statutory provisions require the General Fund 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 Movement in Reserves Statement 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 General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

#### *Discretionary Benefits*

The Council has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff (including teachers) are accrued in the year the decision is taken and accounted for using the same policies as are applied to the Local Government Pension Scheme.

#### **xxii. Collection Fund**

The accounting framework recognises an agent/principal relationship with regard to the Collection Fund. The Council is recognised as an agent, collecting National Non Domestic Rates on behalf of the Government. In addition, relevant shares of the assets and liabilities of the Collection Fund have been devolved to precepting bodies; in the Council's case, the Greater London Authority.

#### **xxiii. Carbon Reduction Commitment Allowances**

The Council is required to participate in the Carbon Reduction Commitment (CRC) Energy Efficiency Scheme. The Council is required to purchase and surrender allowances (currently retrospectively) on the basis of emissions i.e. the amount of carbon dioxide produced as energy is used. As carbon dioxide is emitted, a liability and an expense are recognised. The liability will be discharged by surrendering allowances and is measured at the best estimate of the expenditure required to meet the obligation, normally at the current market price of the number of allowances required to meet the liability at the

reporting date. The cost to the Council is recognised and reported in the cost of services and is apportioned to services on the basis of energy consumption.

## 2. Accounting Standards Issued Not Yet Adopted

Under the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 (the Code), the Council is required to disclose information setting out the impact of an accounting change required by a new accounting standard that has been issued but not yet adopted by the Code.

The following existing standards have had minor amendments be adopted by the Code in 2016-17 and will be applicable to the Council from 1 April 2016:

**IAS19 Employee Benefits** (Defined Benefit Plans: Employee Contributions)

**IFRS 11 Joint Arrangements** (Accounting for Acquisitions of Interests in Joint Operations)

**IAS 16 Property, Plant and Equipments and IAS 38 Intangible Assets** (Clarification of Acceptable Methods of Depreciation and Amortisation)

**IAS 24 Related Party Disclosure in Relation to Senior Personnel**

**IAS 1 Presentation of Financial Statements** (Disclosure Initiative) mainly:

Changes to the format of the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement and the introduction of the new Expenditure and Funding Analysis.

Changes to the format of the Pension Fund Account and the Net Assets Statement.

It is not anticipated that the above amendments will have a material impact on the financial statements and therefore there is unlikely to be a change in the information in the reported net cost of services. However, in 2016-17 the comparator for 2015-16 Comprehensive Income and Expenditure Statement and the Movement in Reserves Statement must reflect the new formats and reporting requirements.

The CIPFA Code of Practice on Transport Infrastructure Assets (the Infrastructure Code) takes effect from the 1 April 2016. There will be a requirement in the 2016-17 statement of accounts to recognise transport infrastructure assets as a separate class of property, plant and equipment and measured at depreciated replacement cost. Although this is a change in accounting policy, the Code of Practice has stated that there will be no need for a prior period adjustment, as the value will be at 1 April 2015 and the 2015-16 comparatives will be adjusted for the value of these assets in the 2016-17 financial statements.

### 3. Critical Judgements in Applying Accounting Policies

In applying the accounting policies set out on Note 1, the Council has had to make certain critical judgements about complex transactions or those involving uncertainty about future events. In the accounts these are as follows:

- There is a high degree of uncertainty concerning future funding for local government. The Council believes that this uncertainty is neither sufficient nor significant enough in its likely impact to warrant impairment of assets due to reduced levels of service provision or a need to close facilities. Furthermore, property prices in the Royal Borough are such that any asset the Council deems surplus is unlikely to be disposed of for less than its current fair value.
- The Council entered into joint working arrangements with neighbouring local authorities, the City of Westminster and the London Borough of Hammersmith & Fulham. These arrangements are currently referred to as 'Tri-borough' or 'shared working'. The proposals have not reduced the level of service provided by the Council. Therefore, the Council believes that it is not necessary to impair any non-current asset in light of Tri-borough and shared working. Property prices in the Royal Borough are such that any asset the Council deems surplus is unlikely to be disposed of for less than its current fair value.
- The Council has significant reserves set aside to meet the costs of its transformation projects and potential redundancies, whether due to Tri-borough and shared working, or any other reconfiguration of services that delivers greater efficiency, or is the result of Government changes to funding or service arrangements. Therefore, the Council does not believe that it is necessary to set aside any additional funds or to make any provision to meet such costs.
- The Council is required to take a view on which school assets are recognised on the Council's Balance Sheet. The Council has recognised community schools. The Council has not recognised Voluntary Aided, Free, or Academy schools as it is of the view that these school assets are - to varying degree - beyond the control of the Council.

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

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

The items in the Council's Balance Sheet at 31 March 2016 for which there is a significant risk of material adjustment in the forthcoming financial year are set out overleaf:

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
<b>Non-current Assets</b>	<p>Asset valuations are based on market prices and are periodically reviewed to ensure that the Council does not materially misstate its non-current assets and investment properties. During the past financial year, the property market in the Royal Borough grew, particularly for high-end residential properties, but the number and relevance of asset sales against which the Council could judge the fair value of its property assets was low. Therefore, the Council judged that no fundamental alteration to the estimates that underpin the valuation of its properties and dwellings was required. Should evidence emerge in 2015-16 that causes the Council to amend these estimates, the estimated fair value of its property and dwellings could change.</p>	<p>A reduction in estimated valuations would result in reductions to the Revaluation Reserve and / or a loss recorded as appropriate in the Comprehensive Income and Expenditure Statement. For example, a 10 per cent reduction in the value of the Council's investment properties would result in a <b>£24.4 million</b> charge to the Comprehensive Income and Expenditure Statement.</p> <p>Conversely, an increase in value would result in increases to the Revaluation Reserve and / or reversals of previous negative revaluations to the Comprehensive Income and Expenditure Statement and / or gains being recorded as appropriate in the Comprehensive Income and Expenditure Statement.</p> <p>Depreciation charges for operational buildings will change in direct proportion to the change in estimated fair value.</p> <p>The net book value of non-current assets subject to potential revaluation is around £1.6 billion.</p>
<b>Pensions Liability</b>	<p>Estimation of the net liability to pay pensions depends on a number of complex estimates relating to, amongst others, the discount rate used, the rate at which salaries are projected to increase, changes in retirement age, mortality rates and expected returns on pension fund assets. Consulting actuaries provide advice concerning these estimates.</p>	<p>The effect of changes in these estimates on the net pension liability of the Council can be measured, but are complex and interact in a complex manner. The Council is reliant on the advice of its actuaries regarding estimates and the calculations of their effects. For example, changes in estimates, such as the measure of inflation and rate of inflation, could either reduce or increase the net pensions liability.</p>
<b>Business Rates</b>	<p>Following the introduction on 1 April 2013 of the Business rates retention scheme, local authorities are liable for their proportionate share of successful appeals against business rates. A provision based on best available information (the Valuation Office ratings list of appeals and an analysis of successful appeals to date) has been made for this liability.</p>	<p>Under the Business Rates Retention Scheme, the Council's financial exposure for financial losses in excess of the provision made is limited to £1.6 million.</p>

## **5. Material Items of Income and Expense**

Investment properties were revalued as at 31 March 2016 and resulted in a £25 million increase in revaluation. This is detailed in note 14 of the accounts.

## **6. Events after the Balance Sheet Date**

As at the balance sheet date, the Council has a contractually agreed sale of the site of the Thamesbrook House former Elderly Persons Home (2 Dovehouse Street) which is due to be completed (ownership of the asset transferred) in September 2016. The receipt due before costs of disposal is substantial with a deposit of around £10 million.

## **7. Adjustments between Accounting Basis and Funding Basis under Regulations**

The following tables detail the adjustments that are made between the total comprehensive income and expenditure recognised by the Council in accordance with proper accounting practice and the resources that are specified by statutory provisions as being available to the Council to meet future capital and revenue expenditure.

The 2014-15 comparatives in Table 7a (ii) Movement on Usable Reserves 2014-15 were amended since the 2014-15 audited accounts due to presentational changes between movements in the General Fund and Housing Revenue Account. An asterisk (\*) was included in the text where the amounts were amended. The General Fund and Housing Revenue Account balance at 31 March 2015 are the same as the 2014-15 audited accounts.

Table 7a (i)  
Movement on Usable Reserves 2015-16

	Revenue Reserves					Capital Reserves			Total Usable Reserves
	General Fund Balance	Earmarked Reserves (including HRA Earmarked Reserves)	Housing Revenue Account (HRA)	Schools Reserves	London Residuary Body	Major Repairs Reserve	Capital Receipts Reserves	Capital Grants Unapplied	
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	
<b>Balance at 1 April 2015</b>	<b>10,000</b>	<b>186,928</b>	<b>21,499</b>	<b>6,125</b>	<b>3,944</b>	<b>608</b>	<b>27,711</b>	<b>7,817</b>	<b>264,631</b>
Surplus or (deficit) on provision of services	47,632	-	19,619	-	-	-	-	-	67,251
Other comprehensive expenditure and income	-	-	-	-	(147)	-	-	-	(147)
<b>Total Comprehensive Expenditure and Income</b>	<b>47,632</b>	<b>-</b>	<b>19,619</b>	<b>-</b>	<b>(147)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>67,104</b>
<i>Adjustments between accounting basis and funding basis under regulations</i>									
<b>Reversal of items debited or credited to the CIES</b>									
Depreciation of tangible non-current assets (excluding HRA depreciation)	10,115	-	-	-	-	-	-	-	10,115
Amortisation of intangible non-current assets (excluding HRA amortisation)	764	-	-	-	-	-	-	-	764
HRA depreciation / amortisation	-	-	2,648	-	-	-	-	-	2,648
Impairment / revaluation losses (charged to the CIES)	(4,776)	-	6,040	-	-	-	-	-	1,264
Capital grants and contributions applied	(6,952)	-	(428)	-	-	-	-	-	(7,380)
Revenue Expenditure Funded from Capital Under Statute	4,483	-	1,054	-	-	-	-	-	5,537
Movement in the market value of investment property	(20,530)	-	(4,707)	-	-	-	-	-	(25,237)
Amounts of non-current assets written off on disposal or sale as part of the gain / loss on disposal to the CIES	4,569	-	1,333	-	-	-	-	-	5,902
Capital grants and contributions unapplied credited to the CIES	(1,666)	-	-	-	-	-	-	1,666	-
Transfer of sale proceeds credited as part of the gain / loss on disposal to the CIES	(32,839)	-	(13,659)	-	-	-	46,498	-	-
Use of capital grants to finance capital expenditure	-	-	-	-	-	-	-	(3,721)	(3,721)
Use of capital receipts reserve to finance capital expenditure	-	-	-	-	-	-	(14,602)	-	(14,602)
Reversal of items relating to retirement benefits debited or credited to the CIES	32,511	-	-	-	-	-	-	-	32,511
Amount by which council tax income and residual community charge adjustment included in the CIES is different from the amount taken to the General Fund in accordance with regulations	(42)	-	-	-	-	-	-	-	(42)
Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(49)	-	-	-	-	-	-	-	(49)
Amount by which finance costs calculated in accordance with the Code are different from the amount of finance costs calculated in accordance with statutory requirements	(56)	-	-	-	-	-	-	-	(56)
<b>Insertion of items not debited or credited to the CIES</b>									
Statutory provision for the repayment of debt - Minimum Revenue Provision	(938)	-	-	-	-	-	-	-	(938)
Statutory repayment of debt (finance lease liabilities)	(81)	-	-	-	-	-	-	-	(81)
Voluntary provision above the Minimum Revenue Provision	(316)	-	-	-	-	-	-	-	(316)
Contribution to disposal costs of capital sales	1,756	-	108	-	-	-	(1,864)	-	-
HRA capital receipts to housing central pool	-	-	5,625	-	-	-	(5,625)	-	-
Revenue contribution to finance capital	(6,879)	-	-	-	-	-	-	-	(6,879)
Employers' contributions to pension schemes	(13,313)	-	-	-	-	-	-	-	(13,313)
Reversal of Major Repairs Allowance credited to the HRA	-	-	(17,687)	-	-	17,687	-	-	-
Use of the Major Repairs Reserve to finance new capital expenditure	-	-	-	-	-	(17,588)	-	-	(17,588)
<b>Total adjustment between accounting basis and funding basis under regulations</b>	<b>(34,239)</b>	<b>-</b>	<b>(19,673)</b>	<b>-</b>	<b>-</b>	<b>99</b>	<b>24,407</b>	<b>(2,055)</b>	<b>(31,461)</b>
<b>Net increase / decrease before transfers to earmarked reserves</b>	<b>13,393</b>	<b>-</b>	<b>(54)</b>	<b>-</b>	<b>(147)</b>	<b>99</b>	<b>24,407</b>	<b>(2,055)</b>	<b>35,643</b>
<b>Transfers to / from earmarked reserves (see Note 8)</b>	<b>(13,393)</b>	<b>12,727</b>	<b>(33)</b>	<b>699</b>	<b>-</b>	<b>-</b>	<b>7</b>	<b>-</b>	<b>7</b>
<b>Increase / decrease (movement) in-year</b>	<b>-</b>	<b>12,727</b>	<b>(87)</b>	<b>699</b>	<b>(147)</b>	<b>99</b>	<b>24,414</b>	<b>(2,055)</b>	<b>35,650</b>
<b>Balance at 31 March 2016 carried forward</b>	<b>10,000</b>	<b>199,654</b>	<b>21,410</b>	<b>6,825</b>	<b>3,797</b>	<b>707</b>	<b>52,126</b>	<b>5,763</b>	<b>300,282</b>

Table 7a (ii)  
Movement on Usable Reserves 2014-15

	Revenue Reserves					Capital Reserves			Total Usable Reserves
	General Fund Balance	Earmarked Reserves (including HRA Earmarked Reserves)	Housing Revenue Account (HRA)	Schools Reserves	London Residuary Body	Major Repairs Reserve	Capital Receipts Reserves	Capital Grants Unapplied	
	(Restated) £'000	£'000	(Restated) £'000	£'000	£'000	£'000	£'000	£'000	
<b>Balance at 1 April 2014</b>	<b>10,000</b>	<b>183,419</b>	<b>18,942</b>	<b>6,495</b>	<b>4,177</b>	<b>392</b>	<b>36,743</b>	<b>7,143</b>	<b>267,311</b>
Surplus or (deficit) on provision of services*	16,815	-	8,212	-	-	-	-	-	25,027
Other comprehensive expenditure and income	-	-	-	-	(234)	-	-	-	(234)
<b>Total Comprehensive Expenditure and Income</b>	<b>16,815</b>	<b>-</b>	<b>8,212</b>	<b>-</b>	<b>(234)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>24,793</b>
<i>Adjustments between accounting basis and funding basis under regulations</i>									
<b>Reversal of items debited or credited to the CIES</b>									
Depreciation of tangible non-current assets (excluding HRA depreciation)	9,715	-	-	-	-	-	-	-	9,715
Amortisation of intangible non-current assets (excluding HRA amortisation)	653	-	-	-	-	-	-	-	653
HRA depreciation / amortisation	-	-	2,992	-	-	-	-	-	2,992
Impairment / revaluation losses (charged to the CIES)	15,513	-	13,255	-	-	-	-	-	28,768
Capital grants and contributions applied*	(1,582)	-	(97)	-	-	-	-	-	(1,679)
Revenue Expenditure Funded from Capital Under Statute	8,036	-	279	-	-	-	-	-	8,315
Movement in the market value of investment property*	(40,362)	-	(2,477)	-	-	-	-	-	(42,839)
Amounts of non-current assets written off on disposal or sale as part of the gain / loss on disposal to the CIES*	4,977	-	1,065	-	-	-	-	-	6,042
Capital grants and contributions unapplied credited to the CIES	(674)	-	-	-	-	-	-	674	-
Transfer of sale proceeds credited as part of the gain / loss on disposal to the CIES*	(832)	-	(11,658)	-	-	-	12,490	-	-
Use of capital receipts reserve to finance capital expenditure	-	-	-	-	-	-	(20,207)	-	(20,207)
Reversal of items relating to retirement benefits debited or credited to the CIES	25,997	-	-	-	-	-	-	-	25,997
Amount by which council tax income and residual community charge adjustment included in the CIES is different from the amount taken to the General Fund in accordance with regulations	(230)	-	-	-	-	-	-	-	(230)
Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	118	-	-	-	-	-	-	-	118
Amount by which finance costs calculated in accordance with the Code are different from the amount of finance costs calculated in accordance with statutory requirements	(56)	-	-	-	-	-	-	-	(56)
<b>Insertion of items not debited or credited to the CIES</b>									
Statutory provision for the repayment of debt - Minimum Revenue Provision	(984)	-	-	-	-	-	-	-	(984)
Statutory repayment of debt (finance lease liabilities)	(20)	-	-	-	-	-	-	-	(20)
Voluntary provision above the Minimum Revenue Provision	(310)	-	-	-	-	-	-	-	(310)
Contribution to disposal costs of capital sales	290	-	-	-	-	-	(290)	-	-
HRA capital receipts to housing central pool*	-	-	1,033	-	-	-	(1,033)	-	-
Revenue contribution to finance capital	(19,872)	-	-	-	-	-	-	-	(19,872)
Employers' contributions to pension schemes	(14,008)	-	-	-	-	-	-	-	(14,008)
Reversal of Major Repairs Allowance credited to the HRA	-	-	(10,092)	-	-	10,092	-	-	-
Use of the Major Repairs Reserve to finance new capital expenditure	-	-	-	-	-	(9,876)	-	-	(9,876)
<b>Total adjustment between accounting basis and funding basis under regulations</b>	<b>(13,631)</b>	<b>-</b>	<b>(5,700)</b>	<b>-</b>	<b>-</b>	<b>216</b>	<b>(9,040)</b>	<b>674</b>	<b>(27,481)</b>
<b>Net increase / decrease before transfers to earmarked reserves</b>	<b>3,184</b>	<b>-</b>	<b>2,512</b>	<b>-</b>	<b>(234)</b>	<b>216</b>	<b>(9,040)</b>	<b>674</b>	<b>(2,688)</b>
<b>Transfers to / from earmarked reserves (see Note 8)</b>	<b>(3,184)</b>	<b>3,509</b>	<b>45</b>	<b>(370)</b>	<b>-</b>	<b>-</b>	<b>8</b>	<b>-</b>	<b>8</b>
<b>Increase / decrease (movement) in-year</b>	<b>-</b>	<b>3,509</b>	<b>2,557</b>	<b>(370)</b>	<b>(234)</b>	<b>216</b>	<b>(9,032)</b>	<b>674</b>	<b>(2,680)</b>
<b>Balance at 31 March 2015 carried forward</b>	<b>10,000</b>	<b>186,928</b>	<b>21,499</b>	<b>6,125</b>	<b>3,944</b>	<b>608</b>	<b>27,711</b>	<b>7,817</b>	<b>264,631</b>



Table 7b (i)  
Movement in Unusable Reserves 2015-16

	Revaluation Reserve £000	Pensions Reserve £000	CAA £000	Deferred Capital Receipts £000	FIAA £000	AFS FI Reserve £000	CFAA £000	STACA Reserve £000	Unusable Reserves £'000	Total Usable Reserves £'000	All Reserves £'000
<b>Balance at 1 April 2015</b>	<b>677,685</b>	<b>(265,556)</b>	<b>669,049</b>	<b>21</b>	<b>(743)</b>	<b>(965)</b>	<b>540</b>	<b>(1,866)</b>	<b>1,078,166</b>	<b>264,632</b>	<b>1,342,797</b>
<b>Movement in reserves during 2015-16</b>											
Surplus or (deficit) on provision of services	-	-	-	-	-	-	-	-	-	67,251	67,251
Revaluation gains and losses	89,831	-	-	-	-	-	-	-	89,831	-	89,831
Impairment losses (chargeable to the Revaluation Reserve)	(56,260)	-	-	-	-	-	-	-	(56,260)	-	(56,260)
Movement in Available for Sale Financial Instruments	-	-	-	-	-	436	-	-	436	-	436
Movement in the Pensions Reserve	-	65,536	-	-	-	-	-	-	65,536	-	65,536
Other comprehensive expenditure and income	-	-	-	-	-	-	-	-	-	(147)	(147)
<b>Total Comprehensive Expenditure and Income</b>	<b>33,571</b>	<b>65,536</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>436</b>	<b>-</b>	<b>-</b>	<b>99,543</b>	<b>67,104</b>	<b>166,647</b>
<b>Adjustments between accounting basis and funding basis under regulations</b>											
<b>Reversal of items debited or credited to the CIES</b>											
Depreciation of tangible non-current assets (excluding HRA depreciation)	-	-	(10,115)	-	-	-	-	-	(10,115)	10,115	-
Amortisation of intangible non-current assets (excluding HRA amortisation)	-	-	(764)	-	-	-	-	-	(764)	764	-
HRA depreciation / amortisation	-	-	(2,648)	-	-	-	-	-	(2,648)	2,648	-
Impairment / revaluation losses (charged to the CIES)	-	-	(1,264)	-	-	-	-	-	(1,264)	1,264	-
Capital grants and contributions applied	-	-	7,381	-	-	-	-	-	7,381	(7,381)	-
Revenue Expenditure Funded from Capital Under Statute	-	-	(5,536)	-	-	-	-	-	(5,536)	5,536	-
Movement in the market value of investment property	-	-	25,237	-	-	-	-	-	25,237	(25,237)	-
Amounts of non-current assets written off on disposal or sale as part of the gain / loss on disposal to the CIES	-	-	(5,903)	-	-	-	-	-	(5,903)	5,903	-
Use of capital grants to finance capital expenditure	-	-	3,721	-	-	-	-	-	3,721	(3,721)	-
Use of capital receipts reserve to finance capital expenditure	-	-	14,602	-	-	-	-	-	14,602	(14,602)	-
Reversal of items relating to retirement benefits debited or credited to the CIES	-	(32,511)	-	-	-	-	-	-	(32,511)	32,511	-
Amount by which council tax income and residual community charge adjustment included in the CIES is different from the amount taken to the General Fund in accordance with regulations	-	-	-	-	-	-	42	-	42	(42)	-
Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	-	-	-	-	-	-	-	49	49	(49)	-
Amount by which finance costs calculated in accordance with the Code are different from the amount of finance costs calculated in accordance with statutory requirements	-	-	-	-	56	-	-	-	56	(56)	-
<b>Insertion of items not debited or credited to the CIES</b>											
Statutory provision for the repayment of debt - Minimum Revenue Provision	-	-	938	-	-	-	-	-	938	(938)	-
Statutory repayment of debt (finance lease liabilities)	-	-	81	-	-	-	-	-	81	(81)	-
Voluntary provision above the Minimum Revenue Provision	-	-	316	-	-	-	-	-	316	(316)	-
Revenue contribution to finance capital	-	-	6,879	-	-	-	-	-	6,879	(6,879)	-
Employers' contributions to pension schemes	-	13,313	-	-	-	-	-	-	13,313	(13,313)	-
Use of the Major Repairs Reserve to finance new capital expenditure	-	-	17,588	-	-	-	-	-	17,588	(17,588)	-
Adjustment between the CAA and Revaluation Reserve for the difference between current cost depreciation and historic cost depreciation	(2,108)	-	2,108	-	-	-	-	-	-	-	-
Adjustment between the CAA and Revaluation Reserve in respect of assets disposed of or scrapped	(2)	-	2	-	-	-	-	-	-	-	-
<b>Total adjustment between accounting basis and funding basis under regulations</b>	<b>(2,110)</b>	<b>(19,198)</b>	<b>52,623</b>	<b>-</b>	<b>56</b>	<b>-</b>	<b>42</b>	<b>49</b>	<b>31,462</b>	<b>(31,462)</b>	<b>-</b>
<b>Net increase / decrease before transfers to earmarked reserves</b>	<b>31,461</b>	<b>46,338</b>	<b>52,623</b>	<b>-</b>	<b>56</b>	<b>436</b>	<b>42</b>	<b>49</b>	<b>131,005</b>	<b>35,642</b>	<b>166,647</b>
<b>Transfers to / from earmarked reserves (see Note 8)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(7)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(7)</b>	<b>7</b>	<b>-</b>
<b>Increase / decrease (movement) in-year</b>	<b>31,461</b>	<b>46,338</b>	<b>52,623</b>	<b>(7)</b>	<b>56</b>	<b>436</b>	<b>42</b>	<b>49</b>	<b>130,998</b>	<b>35,649</b>	<b>166,647</b>
<b>Balance at 31 March 2016 carried forward</b>	<b>709,146</b>	<b>(219,218)</b>	<b>721,672</b>	<b>14</b>	<b>(687)</b>	<b>(529)</b>	<b>582</b>	<b>(1,817)</b>	<b>1,209,163</b>	<b>300,282</b>	<b>1,509,445</b>

Table 7b (ii)  
Movement in Unusable Reserves 2014-15

	Revaluation Reserve £000	Pensions Reserve £000	CAA £000	Deferred Capital Receipts £000	FIAA £000	AFS FI Reserve £000	CFAA £000	STACA Reserve £000	Unusable Reserves £'000	Total Usable Reserves £'000	All Reserves £'000
<b>Balance at 1 April 2014</b>	611,037	(198,790)	624,812	28	(799)	15	312	(1,748)	1,034,867	267,311	1,302,178
<b>Movement in reserves during 2014-15</b>											
Surplus or (deficit) on provision of services	-	-	-	-	-	-	-	-	-	25,027	25,027
Revaluation gains and losses	71,678	-	-	-	-	-	-	-	71,678	-	71,678
Impairment losses (chargeable to the Revaluation Reserve)	(94)	-	-	-	-	-	-	-	(94)	-	(94)
Movement in Available for Sale Financial Instruments	-	-	-	-	-	(980)	-	-	(980)	-	(980)
Movement in the Pensions Reserve	-	(54,777)	-	-	-	-	-	-	(54,777)	-	(54,777)
Other comprehensive expenditure and income	-	-	-	-	-	-	-	-	-	(234)	(234)
<b>Total Comprehensive Expenditure and Income</b>	71,584	(54,777)	-	-	-	(980)	-	-	15,827	24,793	40,620
<b>Adjustments between accounting basis and funding basis under regulations</b>											
<b>Reversal of items debited or credited to the CIES</b>											
Depreciation of tangible non-current assets (excluding HRA depreciation)	-	-	(9,715)	-	-	-	-	-	(9,715)	9,715	-
Amortisation of intangible non-current assets (excluding HRA amortisation)	-	-	(653)	-	-	-	-	-	(653)	653	-
HRA depreciation / amortisation	-	-	(2,992)	-	-	-	-	-	(2,992)	2,992	-
Impairment / revaluation losses (charged to the CIES)	-	-	(28,768)	-	-	-	-	-	(28,768)	28,768	-
Capital grants and contributions applied	-	-	1,679	-	-	-	-	-	1,679	(1,679)	-
Revenue Expenditure Funded from Capital Under Statute	-	-	(8,316)	-	-	-	-	-	(8,316)	8,316	-
Movement in the market value of investment property	-	-	42,839	-	-	-	-	-	42,839	(42,839)	-
Amounts of non-current assets written off on disposal or sale as part of the gain / loss on disposal to the CIES	-	-	(6,042)	-	-	-	-	-	(6,042)	6,042	-
Use of capital receipts reserve to finance capital expenditure	-	-	20,207	-	-	-	-	-	20,207	(20,207)	-
Reversal of items relating to retirement benefits debited or credited to the CIES	-	(25,997)	-	-	-	-	-	-	(25,997)	25,997	-
Amount by which council tax income and residual community charge adjustment included in the CIES is different from the amount taken to the General Fund in accordance with regulations	-	-	-	-	-	-	230	-	230	(230)	-
Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	-	-	-	-	-	-	-	(118)	(118)	118	-
Amount by which finance costs calculated in accordance with the Code are different from the amount of finance costs calculated in accordance with statutory requirements	-	-	-	-	56	-	-	-	56	(56)	-
<b>Insertion of items not debited or credited to the CIES</b>											
Statutory provision for the repayment of debt - Minimum Revenue Provision	-	-	984	-	-	-	-	-	984	(984)	-
Statutory repayment of debt (finance lease liabilities)	-	-	20	-	-	-	-	-	20	(20)	-
Voluntary provision above the Minimum Revenue Provision	-	-	310	-	-	-	-	-	310	(310)	-
Revenue contribution to finance capital	-	-	19,872	-	-	-	-	-	19,872	(19,872)	-
Employers' contributions to pension schemes	-	14,008	-	-	-	-	-	-	14,008	(14,008)	-
Use of the Major Repairs Reserve to finance new capital expenditure	-	-	9,876	-	-	-	-	-	9,876	(9,876)	-
Adjustment between the CAA and Revaluation Reserve in respect of assets disposed of or scrapped	(4,936)	-	4,936	-	-	-	-	-	-	-	-
<b>Total adjustment between accounting basis and funding basis under regulations</b>	(4,936)	(11,989)	44,237	-	56	-	230	(118)	27,480	(27,480)	-
<b>Net increase / decrease before transfers to earmarked reserves</b>	66,648	(66,766)	44,237	-	56	(980)	230	(118)	43,307	(2,687)	40,620
<b>Transfers to / from earmarked reserves (see Note 8)</b>	-	-	-	(8)	-	-	-	-	(8)	8	-
<b>Increase / decrease (movement) in-year</b>	66,648	(66,766)	44,237	(8)	56	(980)	230	(118)	43,299	(2,679)	40,620
<b>Balance at 31 March 2015 carried forward</b>	677,685	(265,556)	669,049	21	(743)	(965)	540	(1,866)	1,078,166	264,632	1,342,797

## 8. Transfers to and from Earmarked Reserves and Usable Reserves

This note summarises the Council's usable reserves. It sets out the amounts set aside from the General Fund and HRA balances in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund and HRA expenditure. A description of the purpose of the earmarked reserves has been provided in the glossary.

The Council has two capital reserves: the Usable Capital Receipts Reserve and the Capital Grants Unapplied Account. These two reserves totalled £57.9 million at 31 March 2016. All other reserves are revenue reserves. Capital grants may be applied to certain items of revenue where regulations and statute permit.

### 8a. Summary of Usable Reserves

	1 April 2014 £'000	Transfers Out 2014-15 £'000	Transfers In 2014-15 £'000	31 March 2015 £'000	Transfers Out 2015-16 £'000	Transfers In 2015-16 £'000	31 March 2016 £'000
General Fund	10,000	-	-	10,000	-	-	10,000
Earmarked Reserves (General Fund) [see 8c]	183,064	(67,587)	71,140	186,617	(49,032)	61,725	199,310
Schools' reserves	6,494	(1,426)	1,057	6,125	(744)	1,443	6,825
London Residuary Body balance	4,177	(234)	-	3,944	(147)	-	3,797
Housing Revenue Account	19,689	(9,984)	12,713	22,417	(17,677)	17,721	22,461
Usable Capital Receipts	36,743	(20,207)	11,175	27,711	(14,602)	39,017	52,126
Capital Grants Unapplied	7,143	(10,912)	11,586	7,817	(3,329)	1,275	5,763
<b>Total Usable Reserves</b>	<b>267,311</b>	<b>(110,350)</b>	<b>107,671</b>	<b>264,631</b>	<b>(85,530)</b>	<b>121,181</b>	<b>300,282</b>

### 8b. Transfer to and from Housing Revenue Account Reserves

	1 April 2014 £'000	Transfers Out 2014-15 £'000	Transfers In 2014-15 £'000	31 March 2015 £'000	Transfers Out 2015-16 £'000	Transfers In 2015-16 £'000	31 March 2016 £'000
Housing Revenue Account	18,942	-	2,557	21,499	(88)	-	21,410
Major Repairs Reserve	392	(9,892)	10,108	608	(17,588)	17,687	707
HRA Controlled Repairs (Earmarked Reserves)	263	-	48	311	-	33	344
HRA Lancaster West Estate Management Board (Earmarked Reserves)	92	(92)	-	-	-	-	-
<b>Total Housing Revenue Account Reserves</b>	<b>19,689</b>	<b>(9,984)</b>	<b>12,713</b>	<b>22,417</b>	<b>(17,677)</b>	<b>17,721</b>	<b>22,461</b>

### 8c. Transfer to and from General Fund Earmarked Reserves

	1 April 2014 £'000	Transfers Out 2014-15 £'000	Transfers In 2014-15 £'000	31 March 2015 £'000	Transfers Out 2015-16 £'000	Transfers In 2015-16 £'000	31 March 2016 £'000
Better City Life	2,824	(53)	300	3,071	(41)	300	3,330
Budget Carry Forward	6,277	(4,320)	1,587	3,544	(1,870)	2,187	3,861
Capital Expenditure	61,881	(18,997)	25,340	68,224	(6,335)	19,583	81,472
Car Parking	22,948	(32,854)	32,582	22,676	(33,641)	33,810	22,846
Community Safety	857	(25)	-	832	(30)	-	802
Corporate Information Systems (IS) Initiatives	457	(32)	126	551	-	126	677
Cost Reduction (Transformation Fund)	11,517	(2,206)	6,506	15,817	(5,728)	3,000	13,089
Demand Growth	5,297	-	-	5,297	-	-	5,297
Economic Development	383	-	251	633	-	107	740
Excellence All Round	2,770	-	-	2,770	-	-	2,770
General Services Building Maintenance	85	(331)	976	730	-	611	1,341
Insurance	5,006	(250)	608	5,364	(432)	633	5,565
Lead Flood Authority	262	-	-	262	-	-	262
Licensing and Planning Costs	250	-	-	250	-	-	250
Local Elections	298	-	75	373	-	75	448
Local Initiatives (Transformation Fund)	4,771	-	-	4,771	-	-	4,771
Planning and Borough Development Resources	573	-	-	573	-	-	573
Property Strategy	2,223	(355)	1,000	2,868	(92)	500	3,276
Repairs and Renewals	3,647	(237)	511	3,922	(56)	391	4,256
Service Risks	4,003	-	-	4,003	-	-	4,003
Service Risks Housing	3,543	-	-	3,543	-	-	3,543
Severance (Transformation Fund)	8,919	(145)	325	9,099	(670)	325	8,754
Specific Grant Loss	4,172	-	-	4,172	-	-	4,172
Strategic Regeneration	14,158	(42)	-	14,116	-	-	14,116
Supporting People	4,706	-	-	4,706	-	-	4,706
Value Added Tax (VAT) Liability	2,200	-	911	3,111	(62)	-	3,049
Other Earmarked Reserves (<£250k balance)	9,038	(7,740)	42	1,339	(74)	76	1,341
<b>Total General Fund Earmarked Reserves</b>	<b>183,064</b>	<b>(67,587)</b>	<b>71,140</b>	<b>186,617</b>	<b>(49,032)</b>	<b>61,725</b>	<b>199,310</b>

## 9. Other Operating Expenditure

	2015-16 £'000	2014-15 £'000
Levies	3,400	3,345
Payments to the Government Housing Capital Receipts Pool	5,625	1,033
(Gains) / losses on the disposal of non-current assets	(38,732)	(6,159)
<b>Total</b>	<b>(29,707)</b>	<b>(1,781)</b>

## 10. Financing and Investment Income and Expenditure

	2015-16 £'000	2014-15 £'000
Interest payable and similar charges	9,644	10,519
Interest payable on finance leases	5	5
Net interest on the net defined benefit liability	8,540	8,569
Interest receivable and similar income	(1,402)	(1,081)
Income and expenditure in relation to investment properties	(6,888)	(5,827)
Changes to fair value of investment properties	(25,237)	(42,839)
Other investment income – (surplus) / deficit on trading operations that are not allocated back to services	1,654	35
<b>Total</b>	<b>(13,684)</b>	<b>(30,619)</b>

## 11. Taxation and Non-Specific Grant Income

	2015-16 £'000	2014-15 £'000
National Non Domestic Rates	(80,411)	(80,338)
Business rates tariff	35,735	35,065
Non-ring fenced Government grants	(48,047)	(61,014)
<b>Total Government funding</b>	<b>(92,723)</b>	<b>(106,287)</b>
Council tax income	(75,364)	(72,349)
Capital grants and contributions	(9,047)	(2,353)
<b>Total</b>	<b>(177,134)</b>	<b>(180,989)</b>

## 12. Property, Plant and Equipment

### 12a. Movement on Balances

Movements in 2015-16	Council Dwellings	Other Land and Buildings	Vehicles, Equipment Plant and Furniture	Infrastructure Assets	Community Assets	Surplus Assets	Assets Under Construction	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Cost or Valuation</b>								
<b>At 1 April 2015</b>	<b>700,562</b>	<b>575,804</b>	<b>13,538</b>	<b>71,175</b>	<b>9,372</b>	-	<b>2,572</b>	<b>1,373,022</b>
Additions and enhancement	18,653	12,972	330	-	610	-	5,265	37,830
Revaluation increases recognised in the Revaluation Reserve	28,862	(54)	-	-	-	-	-	28,808
Revaluation decreases recognised in the Surplus on the Provision of Services	(6,440)	2,074	-	-	-	-	-	(4,366)
Derecognition – disposals	(963)	-	-	-	-	-	(414)	(1,377)
Reclassifications within Property, Plant and Equipment	(5,848)	5,848	-	-	-	-	-	-
Assets reclassified from Held for Sale	-	-	-	-	-	-	-	-
Other reclassifications	-	(30,882)	-	-	-	-	17,196	(13,686)
<b>At 31 March 2016</b>	<b>734,826</b>	<b>565,762</b>	<b>13,868</b>	<b>71,175</b>	<b>9,982</b>	-	<b>24,619</b>	<b>1,420,231</b>
<b>Accumulated Depreciation and Impairment</b>								
<b>At 1 April 2015</b>	-	-	<b>6,867</b>	<b>27,827</b>	-	-	-	<b>34,694</b>
Depreciation charge	2,638	5,149	856	3,960	-	-	-	12,603
Depreciation / Impairment written out to the revaluation reserve	(2,252)	(2,428)	-	-	-	-	-	(4,680)
Depreciation / Impairment written out to the Surplus on the Provision of Services	(373)	(2,721)	-	-	-	-	-	(3,094)
Disposals	(13)	-	-	-	-	-	-	(13)
Reclassifications	-	-	-	-	-	-	-	-
Other reclassifications	-	-	-	-	-	-	-	-
<b>At 31 March 2016</b>	-	-	<b>7,723</b>	<b>31,787</b>	-	-	-	<b>39,510</b>
<b>Net Book Value</b>								
<b>At 31 March 2016</b>	<b>734,826</b>	<b>565,762</b>	<b>6,145</b>	<b>39,388</b>	<b>9,982</b>	-	<b>24,619</b>	<b>1,380,721</b>
At 31 March 2015	700,562	575,804	6,671	43,348	9,372	-	2,572	1,338,328

**Comparative Movements in 2014-15**

	<b>Council Dwellings</b>	<b>Other Land and Buildings</b>	<b>Vehicles, Equipment Plant and Furniture</b>	<b>Infrastructure Assets</b>	<b>Community Assets</b>	<b>Surplus Assets</b>	<b>Assets Under Construction</b>	<b>Total</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b><u>Cost or Valuation</u></b>								
<b>At 1 April 2014</b>	<b>640,186</b>	<b>550,704</b>	<b>15,081</b>	<b>70,751</b>	<b>8,981</b>	-	<b>11,442</b>	<b>1,297,145</b>
Additions and enhancement	13,236	29,654	374	423	391	-	1,238	45,317
Revaluation increases recognised in the Revaluation Reserve	48,162	3,792	-	-	-	-	-	51,954
Revaluation decreases recognised in the Surplus on the Provision of Services	-	(15,208)	-	-	-	-	-	(15,208)
Derecognition – disposals	(1,003)	(3,057)	(1,917)	-	-	-	(209)	(6,186)
Reclassifications within Property, Plant and Equipment	(20)	9,919	-	-	-	-	(9,899)	-
Assets reclassified from Held for Sale	-	-	-	-	-	-	-	-
Other reclassifications	-	-	-	-	-	-	-	-
<b>At 31 March 2015</b>	<b>700,562</b>	<b>575,804</b>	<b>13,538</b>	<b>71,175</b>	<b>9,372</b>	-	<b>2,572</b>	<b>1,373,022</b>
<b><u>Accumulated Depreciation and Impairment</u></b>								
<b>At 1 April 2014</b>	-	<b>2</b>	<b>6,728</b>	<b>23,905</b>	-	-	-	<b>30,635</b>
Depreciation charge	2,666	4,791	1,140	3,922	-	-	-	12,519
Depreciation / Impairment written out to the revaluation reserve	(15,818)	(4,337)	-	-	-	-	-	(20,155)
Depreciation / Impairment written out to the Surplus on the Provision of Services	13,236	(61)	-	-	-	-	-	13,175
Disposals	(84)	(394)	(1,001)	-	-	-	-	(1,479)
Reclassifications	-	-	-	-	-	-	-	-
Other reclassifications	-	-	-	-	-	-	-	-
<b>At 31 March 2015</b>	-	-	<b>6,867</b>	<b>27,827</b>	-	-	-	<b>34,694</b>
<b>Net Book Value</b>								
<b>At 31 March 2015</b>	<b>700,562</b>	<b>575,804</b>	<b>6,671</b>	<b>43,348</b>	<b>9,372</b>	-	<b>2,572</b>	<b>1,338,328</b>
At 31 March 2014	640,186	550,702	8,353	46,846	8,981	-	11,442	1,266,510

## **12b. Depreciation rates**

### **Council Dwellings:**

Council dwelling buildings are depreciation on a straight line basis using their 1<sup>st</sup> of April valuation and over their estimated useful lives in line with Government guidance. The most recent valuation of the housing stock estimated the remaining useful lives of individual dwellings at between 50 and 100 years. Land is not depreciated because it has an indefinite useful life.

### **Other Land and Buildings:**

With the exception of assets that are not yet available for use and thus are not being depreciated; buildings are depreciated on a straight line basis over their estimated useful lives, generally between 12 and 47 years. Land is not depreciated because it has an indefinite useful life.

### **Vehicles, Plant, Furniture & Equipment:**

Depreciation is calculated on a straight line basis over the anticipated useful life of the asset. Vehicles are normally depreciated over 7 years; furniture over 7 years; plant between 9 and 30 years; and equipment: 2 to 10 years.

### **Infrastructure:**

Infrastructure is normally on a straight line basis over the anticipated useful life of the asset which is between 15 and 50 years, but normally 21 years.

## **12c. Capital Commitments**

Outstanding capital commitments:

	31 March 2016		31 March 2015	
	General <sup>1</sup> Fund	Housing Revenue Account <sup>2</sup>	General Fund	Housing Revenue Account
	£m	£m	£m	£m
Schemes contracted for	47.6	2.9	7.5	7.6
Schemes not contracted for	272.7	-	185.6	-
<b>Total</b>	<b>320.2</b>	<b>2.9</b>	<b>193.1</b>	<b>7.6</b>

The ability to carry out schemes planned, but not contracted for, will depend on the availability of capital resources at the appropriate time.

<sup>1</sup> Figures for the General Fund are estimates based in the Capital Budget 2016-17 to 2018-19 excluding schools that have converted to Academies. An assumption is made that specific named schemes having spent more than 10 per cent of the budget are contracted.

<sup>2</sup> For the Housing Revenue Account, schemes are not treated as capital commitments until firm funding has been allocated.



Significant outstanding capital commitments at **31 March 2016** and **31 March 2015** are / were as follows:

	2016		2015	
	Total Cost £m	Total Outstanding £m	Total Cost £m	Total Outstanding £m
<b>GENERAL FUND:</b>				
Kensington Leisure Centre	29.4	1.6	29.4	1.8
Central Library Condition Works	4.7	1.2	4.5	1.7
Office Accommodation (SPACE)	24.3	0.3	24.3	0.4
Fox Primary School Redevelopment	9.8	8.1	-	-
Marlborough Primary School and Denyer Street	36.3	29.0	-	-
<b>HOUSING REVENUE ACCOUNT:</b>				
Grenfell Tower Regeneration	10.3	0.4	10.3	6.4
Silchester Garages	2.9	1.0	-	-

### **12d. Effects of Changes in Estimates**

In 2011-12, the Council undertook a full revaluation of its operational, museums within Heritage Assets and “other” properties. The work was undertaken by Jones Lang LaSalle, whose staff are qualified surveyors with the Royal Institution of Chartered Surveyors (RICS). The revaluation included a reassessment of the estimated useful lives of the assets, revisited the valuation basis of each asset and considered the assumptions used in calculating the value of specialised buildings valued under the Depreciated Replacement Cost (DRC) methodology.

The revaluations and attendant revisions to the estimated useful lives of the properties had no material impact on the overall depreciation charges; reductions in asset values were largely offset by reductions in the estimated useful lives. Overall, depreciation charges, excluding dwellings, increased from £10.7 million to £10.9 million on a like-for-like basis.

### **12e. Revaluations**

The Council carries out a rolling programme that ensures that all Property, Plant and Equipment required to be measured at fair value is revalued at least every five years and reviewed as appropriate. All valuations of dwellings and other land and buildings have been undertaken by external surveyors who are fully qualified with the 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 the RICS, except for Council Dwellings, which are valued in accordance with Government Guidance *Stock Valuation for Resource Accounting: Guidance for Valuers - 2010*. Associated plant is held under the current cost model as a component of its parent building and therefore has no associated historic cost.

The Council has not yet undertaken valuations of its vehicles, furniture and equipment, but when required to do so, these will be based on current prices where there is an active second-hand market or the latest list prices adjusted for the condition of the asset.

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.

	<b>Council Dwellings</b>	<b>Other Land and Buildings</b>	<b>Plant</b>	<b>Vehicles, Furniture and Equipment</b>	<b>Heritage Assets held under Current Cost Model</b>	<b>Surplus Assets</b>	<b>Total</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Carrying amount if assets had been carried under the cost model</b>	<b>406,959</b>	<b>233,566</b>	<b>30</b>	<b>2,524</b>	<b>28,968</b>	<b>-</b>	<b>672,047</b>
Valued at fair value as at:							
31 March 2016	734,826	-	-	-	-	-	-
1 April 2014	-	-	-	-	-	-	-
1 April 2013	-	-	-	-	-	-	-
1 April 2012	-	-	-	-	-	-	-
1 April 2011	-	526,504	5,742	-	18,683	-	-
<b>Current carrying value</b>	<b>734,826</b>	<b>565,762</b>	<b>3,620</b>	<b>2,524</b>	<b>44,416</b>	<b>-</b>	<b>1,351,148</b>

## 13. Heritage Assets

### 13a. Reconciliation of the Carrying Value of Heritage Assets Held by the Council

<b>Cost or Valuation</b>	<b>Heritage Properties £'000</b>	<b>Museum Collections £'000</b>	<b>Art in Parks £'000</b>	<b>Total Assets £'000</b>
<b>1 April 2014</b>	20,800	22,753	1,963	45,516
Additions	-	-	-	-
Disposals	-	-	-	-
Revaluation increases / (decreases) and impairments recognised in the Revaluation Reserve	(526)	-	-	(526)
Revaluation increases / (decreases) and impairments recognised in the surplus / deficit on the provision of services	(386)	-	-	(386)
Depreciation	(188)	-	-	(188)
<b>31 March 2015</b>	<b>19,700</b>	<b>22,753</b>	<b>1,963</b>	<b>44,416</b>
<b>Cost or Valuation</b>				
<b>1 April 2015</b>	19,700	22,753	1,963	44,416
Additions	68	-	-	68
Disposals	-	-	-	-
Revaluation increases / (decreases) and impairments recognised in the Revaluation Reserve	-	-	-	-
Revaluation increases / (decreases) and impairments recognised in the surplus / deficit on the provision of services	91	-	-	91
Depreciation	(159)	-	-	(159)
<b>31 March 2016</b>	<b>19,700</b>	<b>22,753</b>	<b>1,963</b>	<b>44,416</b>

The heritage properties (the museums: Leighton House and 18 Stafford Terrace) are valued and accounted for at fair value in accordance with the Council's accounting policies on property, plant and equipment.

The museum collections and the art in parks are reported in the balance sheet at their insurance valuation (based on market values provided by valuers Christie, Manson and Woods Ltd and Stancliff and Glover Ltd). These valuations are reviewed periodically as deemed appropriate for insurance purposes. Acquisitions are recognised at cost. These 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 require no balance sheet disclosure 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. FRS 102 does not require the Council to obtain valuations of heritage assets where none exists.

The Council's heritage asset holdings were largely static with no disposals and only £68,000 enhancement to properties in 2015-16.

## Further Information

The Council operates two museums: Leighton House Museum and 18 Stafford Terrace (also known as Linley Samborne 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.

From 1875, 18 Stafford Terrace was the home of Punch cartoonist Edward Linley Sambourne, his wife Marion, their two children and their live-in servants. Today, the house 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.

Within the two museums are the related collections of art works and other relevant artefacts. Details of the museums themselves and their collections can be found on the Council's website at **Leighton House** and **18 Stafford Terrace**.

## Art in Parks

The Council displays artworks in a range of settings around the Royal Borough, mainly in Holland Park. More details can be found on the Council's website - **Sculpture and Art Around The Borough**. Please note that the artworks detailed in this publication are not all owned by the Council.

### 13b. Five Year Movements

Museums held at current cost	2011-12 £'000	2012-13 £'000	2013-14 £'000	2014-15 £'000	2015-16 £'000
<b>Opening carrying value</b>	13,336	18,518	19,883	20,800	19,700
Additions and enhancements	2	-	-	-	68
Revaluations	5,347	1,533	1,094	(912)	91
Depreciation	(167)	(167)	(177)	(188)	(159)
<b>Closing carrying value</b>	<b>18,518</b>	<b>19,883</b>	<b>20,800</b>	<b>19,700</b>	<b>19,700</b>

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

Prior to 2011-12, there was only one transaction that affected either the museum collections or art in parks. In 2008-09, with the support of a £310,000 Heritage Lottery Fund grant, £82,500 Arts Fund grant, £5,000 from the Friends of Leighton House and £5,000 public donations, topped up by £17,500 from the Council's revenue resources, the Council purchased the second Clytie painting by Frederic Lord Leighton for its museum collection.

In 2011-12, the Council, with the aid of a £22,308 grant from the Arts Fund and £10,000 from the Friends of Leighton House, purchased for the museum collection the Colour Sketch: Cimabue's Celebrated Madonna by Frederic Lord Leighton for £50,490.

In 2013-14, the Council acquired the painting, Nymphs in a Landscape, for the Leighton House Museum at a cost of £50,000 and the Working Man statue for Holland Park at a cost of £60,000.

## 14. Investment Properties

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

	2015-16 £'000	2014-15 £'000
Rental income from investment property	14,017	11,658
Direct operating expenses arising from investment property	(7,129)	(5,831)
<b>Net gain / (loss)</b>	<b>6,888</b>	<b>5,827</b>

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:

	2015-16 £'000	2014-15 £'000
<b>Balance at start of the year</b>	<b>201,621</b>	<b>159,451</b>
<b>Additions:</b>		
Purchases	-	-
Construction	-	-
Subsequent expenditure	4,027	631
Disposals	-	(1,300)
Net gains / (losses) from fair value adjustments	25,237	42,839
<b>Transfers:</b>		
(To) / from Inventories	-	-
(To) / from Property, Plant and Equipment	13,686	-
Other changes	-	-
<b>Balance at end of the year</b>	<b>244,571</b>	<b>201,621</b>

In 2011-12, the Council undertook a full revaluation of its investment properties, including an inspection of each property. The work was undertaken by Deloitte Real Estate (formerly Drivers Jonas Deloitte), whose staff are qualified surveyors with the Royal Institution of Chartered Surveyors (RICS). In accordance with IAS 40, the valuation of the investment properties is updated each year to reflect movements in their market value. Jones Lang LaSalle undertook this work for 2015-16.

## 15. Intangible Assets

The Council's intangible assets consist of purchased licenses and internally generated software. The Council accounts for software as an intangible asset where it provides economic benefit to the Council for a period greater than one year and if sourced from an external supplier, is licensed for a period greater than one year. Therefore, where a license is not purchased from a supplier, but a right to use software is granted in return for an annual fee, that software is not capitalised.

All capitalised software is given a finite useful life of seven years, unless the software is expected to be of use to the Council for a shorter period. The intangible asset is amortised on a straight line basis over its anticipated useful life. The Council has not capitalised any major software suites for a period other than seven years.

In 2015-16, amortisation was charged to services under the Service Reporting Code of Practice (SeRCOP) as follows:

Support Service and Management Costs within Children's and Education Services	£158,589
Support Service and Managements Costs within Adult Social Care	£151,389
Regulatory Services within Environmental and Regulatory Services	£54,781
Libraries Service within Cultural and Related Services	£27,923
Service Management and Support Services within Planning Services	£371,596
<b>Total amortisation charged to services under SeRCOP</b>	<b>£764,278</b>

The movement on intangible asset balances during the year is as follows:

	2015-16			2014-15		
	Internally Generated Assets	Other Assets	Total	Internally Generated Assets	Other Assets	Total
	£'000	£'000	£'000	£'000	£'000	£'000
<b>Balance at start of year:</b>						
Gross carrying amounts	400	6,826	7,225	372	6,638	7,010
Accumulated amortisation	(174)	(4,898)	(5,072)	(115)	(4,362)	(4,477)
<b>Net carrying amount at start of year</b>	<b>226</b>	<b>1,927</b>	<b>2,153</b>	<b>257</b>	<b>2,276</b>	<b>2,533</b>
<b>Additions:</b>						
Internal development	-	-	-	28	-	28
Purchases	-	413	413	-	279	279
Disposals	-	-	-	-	(34)	(34)
Impairment losses <sup>1</sup>	-	-	-	-	-	-
Amortisation for the period	(65)	(700)	(765)	(59)	(594)	(653)
<b>Net carrying amount at end of year</b>	<b>161</b>	<b>1,641</b>	<b>1,802</b>	<b>226</b>	<b>1,927</b>	<b>2,153</b>
<b>Comprising:</b>						
Gross carrying amounts	400	7,239	7,639	400	6,826	7,225
Accumulated amortisation	(239)	(5,598)	(5,837)	(174)	(4,898)	(5,072)

<sup>1</sup> recognised in the Surplus / Deficit on the Provision of Services

## 16. Financial Instruments

### 16a. Financial Instruments - Balances

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

	31 March 2016		31 March 2015	
	Long Term £'000	Current £'000	Long Term £'000	Current £'000
<b>Borrowings</b>				
Financial liabilities (principal amount)	(133,864)	(7,511)	(141,373)	(8,573)
Accrued interest (all short term)	-	(1,884)	-	(2,221)
<b>Total borrowings</b>	<b>(133,864)</b>	<b>(9,395)</b>	<b>(141,373)</b>	<b>(10,793)</b>
<b>Debtors</b>				
Long term debtors	87	-	95	-
Current debtors (4)	-	46,129	-	25,424
<b>Total debtors</b>	<b>87</b>	<b>46,129</b>	<b>95</b>	<b>25,424</b>
<b>Cash</b>				
Cash and cash equivalents	-	32,010	-	34,869
<b>Creditors</b>				
Short term creditors (4)	-	(50,532)	-	(31,665)
<b>Investments</b>				
Loans and receivables (principal amount)	-	109,674	-	45,257
Accrued interest	-	37	-	10
Loans and receivables at amortised cost (1)	-	109,711	-	45,267
Available-for-Sale financial assets	-	159,646	-	171,578
Accrued interest	-	228	-	133
Financial assets held at fair value through the CIES (2)	-	-	-	-
Other investments	-	-	23	-
<b>Total investments (3)</b>	<b>-</b>	<b>269,584</b>	<b>23</b>	<b>216,978</b>

**Note 1** – Under accounting requirements the carrying value of the financial instruments is shown in the Balance Sheet including the principal amount borrowed or lent together accrued interest.

**Note 2** – Fair value has been measured by direct reference to published price quotations in an active market.

**Note 3** – The long term investment figure in the Balance Sheet relates to monies invested to maintain graves in perpetuity. These are not included within the table above. The investment instruments held were redeemed by the Government in July 2015.

**Note 4** – The balances of debtors and creditors disclosed in the above note differ from the balance sheet because they include balances that only relate to contractual arrangements (i.e. trade receivables & payables).

The balance of short term debtors excludes £27.364 million (£25.991 million in 2014-15).

The balance of short term creditors excludes £70.036 million (£67.182 million in 2014-15).

## 16b. Financial Instruments – Gains / Losses

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

	2015-16					2014-15				
	Financial Liabilities	Financial Assets			Total	Financial Liabilities	Financial Assets			Total
	Liabilities measured at amortised cost £'000	Loans and receivables £'000	Available-for-Sale assets(1) £'000	At fair value through CIES £'000	£'000	Liabilities measured at amortised cost £'000	Loans and receivables £'000	Available-for-Sale assets(1) £'000	At fair value through CIES £'000	£'000
Interest expenses	(9,644)	-	-	-	(9,644)	(10,518)	-	-	-	(10,518)
Losses on derecognition	-	-	-	-	-	-	-	-	-	-
Impairment losses	-	-	-	-	-	-	-	-	-	-
<b>Interest payable and similar charges</b>	<b>(9,644)</b>	-	-	-	<b>(9,644)</b>	<b>(10,518)</b>	-	-	-	<b>(10,518)</b>
Interest income	-	218	1,339	-	1,557	-	250	770	3	1,023
Gains on derecognition	-	-	-	-	-	-	-	-	-	-
Losses on derecognition	-	-	-	-	-	-	-	-	(17)	(17)
<b>Interest and investment income</b>	<b>-</b>	<b>218</b>	<b>1,339</b>	<b>-</b>	<b>1,557</b>	<b>-</b>	<b>250</b>	<b>770</b>	<b>(14)</b>	<b>1,007</b>
Gains on revaluation	-	-	155	-	155	-	-	-	-	-
Losses on revaluation	-	-	(436)	-	(436)	-	-	(965)	-	(965)
Amounts recycled to the CIES after impairment	-	-	-	-	-	-	-	-	-	-
Surplus arising on revaluation of financial assets	-	-	(281)	-	(281)	-	-	(965)	-	(965)
<b>Net gain / (loss) for the year</b>	<b>(9,644)</b>	<b>218</b>	<b>1,058</b>	<b>-</b>	<b>(8,368)</b>	<b>(10,518)</b>	<b>250</b>	<b>(195)</b>	<b>(14)</b>	<b>(10,477)</b>

(1) Available-for-Sale financial instruments consist of the Council's holdings in UK Treasury Bills, Gilts, Transport for London commercial paper, Network Rail bonds and European Investment Bank bonds. These are valued at the year-end by the Council's custodian with reference to the price quoted on the relevant markets at the close of business on 31 March. Any gains or losses on revaluation have been recognised in the Comprehensive Income and Expenditure Statement.



## **16c. Financial Instruments – Fair Value of Assets and Liabilities Carried at Amortised Cost**

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

- 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 2016.
- No early repayment or impairment is recognised.
- Where an instrument will mature in the next 12 months the carrying amount is assumed to approximate to fair value.

The fair values are calculated as follows:

	31 March 2016		31 March 2015	
	Carrying Amount £'000	Fair Value £'000	Carrying Amount £'000	Fair Value £'000
<b>PWLB Debt</b>	<b>133,864</b>	<b>180,406</b>	<b>141,373</b>	<b>191,615</b>
<b>Loans and receivables</b>				
Money market loans <1 year	109,711	109,711	45,267	45,267
Money market loans > 1 year	-	-	-	-
Available-for-Sale < 1 year	159,873	159,873	171,712	171,712
Available-for-Sale > 1 year	-	-	-	-
<b>Total loans and receivables</b>	<b>269,584</b>	<b>269,584</b>	<b>216,979</b>	<b>216,979</b>

The fair value for financial liabilities is greater than the carrying amount because the Council's portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the rates available for similar loans in the market at the Balance Sheet Date. The commitment to pay interest above current market rates increases the amount that the Council would have to pay if the lender requested or agreed to early repayment of the loans. The calculation above uses the PWLB new borrowing certainty rate as the discount factor. If the premature redemption rate were to be used, the fair value would be £197,454 (£209,931 as at 31 March 2015).

The fair values for financial liabilities have been determined by reference to the PWLB redemption rules and prevailing PWLB loan rates at each Balance Sheet Date. They include accrued interest.

At 31 March 2016, all money market loans and receivables are repayable within one year. Therefore, the carrying amount is assumed to approximate fair value; the figures for both years include accrued interest. The prevailing comparator market rates have been taken from indicative investment rates at the Balance Sheet Date. In practice, rates will be determined by the size of the transaction and the counterparty, but it is impractical to use these figures and the difference is not likely to be material.

## 17. Debtors

### 17a. Current Debtors

	2016 £'000	2015 £'000
Government bodies	13,669	13,783
Other local authorities	26,593	9,406
NHS bodies	3,572	1,503
Public corporations and trading funds	-	-
Other entities and individuals	29,659	26,723
<b>Total</b>	<b>73,493</b>	<b>51,415</b>

### 17b. Long Term Debtors

	2016 £'000	2015 £'000
Advances - housing	36	44
Advances - other	51	51
<b>Total</b>	<b>87</b>	<b>95</b>

## 18. Cash and Cash Equivalents

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

	2016 £'000	2015 £'000
Cash held by the Council	18,329	8,258
Bank current accounts	(55)	3,198
Short-term deposits	13,736	23,413
<b>Total</b>	<b>32,010</b>	<b>34,869</b>

## 19. Assets Held for Sale

	2015-16 £'000	2014-15 £'000
<b>Balance at Start of the Year</b>	<b>4,538</b>	<b>4,538</b>
<i>Assets newly classified as Held for Sale:</i>		
Property, Plant and Equipment	-	-
Intangible assets	-	-
Other assets	-	-
Revaluation losses	-	-
Revaluation gains	-	-
Impairment losses	-	-
<i>Assets declassified as Held for Sale:</i>		
Property, Plant and Equipment newly classified as Held for Sale	-	-
Intangible assets	-	-
Other assets	-	-
Assets sold	(4,538)	-
Other movements	-	-
<b>Balance at year-end</b>	<b>-</b>	<b>4,538</b>

## 20. Creditors

	2016 £'000	2015 £'000
Government bodies	29,736	30,243
Other local authorities	19,694	10,374
NHS bodies	5,512	3,960
Public corporations and trading funds	-	-
Other entities and individuals	65,626	54,270
<b>Total</b>	<b>120,568</b>	<b>98,847</b>

## 21. Provisions

	Insurance	Mental Health Act	Termination Benefits	Single Status	Non Domestic Rates Appeal	Kensington Town Hall Business Rates	Other Provisions	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Balance at 1 April 2015</b>	<b>2,860</b>	<b>309</b>	<b>1,506</b>	<b>151</b>	<b>5,477</b>	<b>721</b>	<b>413</b>	<b>11,435</b>
Additional provisions made in 2015-16	1,181	-	318	-	5,266	575	124	<b>7,464</b>
Amounts used in 2015-16	(681)	-	(1,225)	-	(3,991)	-	-	<b>(5,897)</b>
Unused amounts reversed in 2015-16	(620)	-	-	(151)	-	-	-	<b>(771)</b>
<b>Balance at 31 March 2016</b>	<b>2,740</b>	<b>309</b>	<b>599</b>	<b>-</b>	<b>6,752</b>	<b>1,296</b>	<b>537</b>	<b>12,233</b>
<i>Of which:</i>								
Next twelve months	755	309	599	-	6,752	1,296	-	<b>9,711</b>
Over twelve months	1,985	-	-	-	-	-	537	<b>2,522</b>
<b>Balance at 31 March 2016</b>	<b>2,740</b>	<b>309</b>	<b>599</b>	<b>-</b>	<b>6,752</b>	<b>1,296</b>	<b>537</b>	<b>12,233</b>

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 and the additional levy in relation to the settlement of Municipal Mutual Insurance (MMI).

The Mental Health Act Provision is to provide for the estimated costs of payments under Section 117 of the Mental Health Act.

Termination benefits and the costs of single status provide for known and quantifiable liabilities which will fall due during the next twelve months.

Following the introduction of the new Business Rates Retention Scheme on 1 April 2013, the Council must account for its share of National Non-Domestic Rates assets and liabilities. Under the scheme, the Council is exposed to the outcome of outstanding ratings appeals. An estimate of the Council's liability has been provisioned for and is disclosed here.

The Council has reviewed the Valuation Office Agency appeals data and, as a result of the increased numbers of appeals yet to be settled compared to last year, it has increased the provision for Non Domestic Rates appeals.

Kensington Town Hall Business Rates is a provision based on an estimated higher valuation of the Council's offices following the completion of the major SPACE refurbishment programme.

Other provisions include a provision for the London Residuary Body's public liability insurance claims and various small immaterial provisions such as banked leave.

## 22. Usable Reserves

Movements in the Council's usable reserves are detailed in the Movement in Reserves Statement and Notes 7 and 8.

## 23. Unusable Reserves

### 23a. Total Unusable Reserves

	2015-16 £'000	2014-15 £'000
Revaluation Reserve	709,146	677,685
Pensions Reserve	(219,218)	(265,556)
Capital Adjustment Account	721,672	669,049
Deferred Capital Receipts	14	21
Financial Instruments Adjustment Account	(687)	(743)
Available-for-Sale Financial Instruments Reserve	(529)	(965)
Collection Fund Adjustment Account	582	540
Short-term Accumulating Compensated Absences Account	(1,817)	(1,866)
<b>Total Unusable Reserves</b>	<b>1,209,163</b>	<b>1,078,166</b>

### 23b. Revaluation Reserve

The Revaluation Reserve contains the gains made by the Council arising from increases in the value of its Property, Plant and Equipment. 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.

	2015-16 £'000	2014-15 £'000
<b>Balance at 1 April</b>	<b>677,685</b>	<b>611,037</b>
Upward revaluations to assets	89,831	101,529
Downward revaluation of assets	(56,260)	(29,852)
Impairments written off to the revaluation reserve	-	(94)
<i>Sub total surplus / (deficit) on revaluation of non-current assets*</i>	<i>33,571</i>	<i>71,584</i>
Difference between current cost depreciation and historic cost depreciation	(2,108)	(2,833)
Accumulated gains on assets sold or scrapped	(2)	(2,102)
Movement in year	31,461	66,648
<b>Closing balance at 31 March</b>	<b>709,146</b>	<b>677,685</b>

\*As reported in the CIES: surplus or deficit on revaluation of non-current assets

### **23c. 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 Comprehensive Income and Expenditure Statement as: the benefits are earned by employees; the liabilities are updated to recognise inflation; the assumptions changed; and 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.

	2015-16 £'000	2014-15 £'000
<b>Balance at 1 April</b>	<b>(265,556)</b>	<b>(198,790)</b>
Remeasurements of the net defined benefit liability / asset	65,536	(54,777)
Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	(32,511)	(25,997)
Employers' contributions payable to scheme	13,313	14,008
Movement in year	46,338	(66,766)
<b>Closing balance at 31 March</b>	<b>(219,218)</b>	<b>(265,556)</b>

### **23d. Capital Adjustment Account**

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement, with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis. The Account is credited with the amounts set aside by the Council as finance for the costs of acquisition, construction and enhancement.

The Account contains accumulated gains and losses on Investment Properties and gains recognised on donated assets that have yet to be consumed by the Council. The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.

**Note 7** provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve:

	2015-16 £'000	2014-15 £'000
<b>Balance at 1 April</b>	<b>669,049</b>	<b>624,812</b>
<i>Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:</i>		
Impairment / Revaluation charged to the CIES	(1,264)	(28,769)
Charges for depreciation	(10,124)	(10,041)
Reversal of depreciation charged in respect of dwellings	(2,638)	(2,666)
Amortisation of intangible assets	(764)	(653)
Revenue expenditure funded from capital under statute	(5,536)	(8,315)
Amounts of non current assets written off on disposal or sale as part of the gain / loss on disposal to the CIES	(5,903)	(6,042)
<i>Adjusting amounts written out of the Revaluation Reserve:</i>		
Accumulated revaluation gains on assets sold or scrapped	2	2,102
Difference between fair value depreciation and historic cost depreciation	2,108	2,833
<i>Capital financing applied in the year:</i>		
Use of the Capital Receipts Reserve to finance new capital expenditure	14,602	20,207
Use of the Major Repairs Reserve to finance new capital expenditure	17,588	9,876
Capital grants and contributions credited to the CIES that have been applied to capital financing	7,380	1,679
Application of grants to capital financing from the Capital Grants Unapplied Account	3,721	-
Statutory provision for the repayment of debt - Minimum Revenue Provision	1,254	1,315
Capital expenditure charged against the General Fund and HRA balances	6,879	19,872
<i>Other Movements:</i>		
Finance cost adjustments (Leases & PFI)	81	20
Movements in the market value of investment properties	25,237	42,839
Movement in the Donated Assets Account	-	-
Movement in year	52,623	44,237
<b>Closing balance at 31 March</b>	<b>721,672</b>	<b>669,049</b>

### **23e. Deferred Capital Receipts and credits**

The Deferred Capital Receipts Reserve holds the gains recognised on the disposal of non-current assets, but for which cash settlement has yet to take place. Under statutory arrangements, the Council does not treat these gains as usable for financing new capital expenditure until they are backed by cash receipts. When the deferred cash settlement eventually takes place, amounts are transferred to the Capital Receipts Reserve.

<b>Deferred Credits</b>	<b>2015-16 £'000</b>	<b>2014-15 £'000</b>
<b>Balance at 1 April</b>	<b>21</b>	<b>28</b>
Transfer to the Capital Receipts Reserve upon receipt of cash	(7)	(7)
<b>Closing balance at 31 March</b>	<b>14</b>	<b>21</b>

### **23f. Financial Instruments Adjustment Account**

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions. The Council uses the Account to manage premiums paid on the early redemption of loans. Premiums are debited to the Comprehensive Income and Expenditure Statement when they are incurred, but reversed out of the General Fund to the Account in the Movement in Reserves Statement. Over time, the expense is posted back to the General Fund in accordance with statutory arrangements for spreading the burden on Council Tax. In the Council's case, this period is the unexpired term that was outstanding on the loans when they were redeemed. As a result, the balance on the Account at 31 March 2016 will be charged to the General Fund over the next 12 years.

	<b>2015-16 £'000</b>	<b>2014-15 £'000</b>
<b>Balance at 1 April</b>	<b>(743)</b>	<b>(798)</b>
Premiums incurred in the year and charged to the CIES	-	-
Proportion of premiums incurred in previous financial years to be charged against the General Fund balance in accordance with statutory requirements	56	56
Amount by which finance costs charged to the CIES are different from finance costs chargeable in the year in accordance with statutory requirements	-	-
<b>Closing balance at 31 March</b>	<b>(687)</b>	<b>(743)</b>

### **23g. Available-for-Sale Financial Instruments Reserve**

The Available-for-Sale Financial Instruments Reserve contains the gains made by the Council arising from increases in the value of its investments that have quoted market prices or otherwise do not have a fixed or determinable payments. The balance is reduced when investments with accumulated gains are:

- revalued downwards or impaired and the gains are lost; and
- disposed of and the gains are realised.

	<b>2015-16 £'000</b>	<b>2014-15 £'000</b>
<b>Balance at 1 April</b>	<b>(965)</b>	<b>15</b>
Upward / (downward) movement in book cost	436	(980)
<b>Closing balance at 31 March</b>	<b>(529)</b>	<b>(965)</b>



### **23h. Collection Fund Adjustment Account**

The Collection Fund Adjustment Account manages the differences arising from the recognition of Council Tax income in the Comprehensive Income and Expenditure Statement as it falls due from council taxpayers compared with the statutory arrangements for transferring amounts to the General Fund from the Collection Fund.

	2015-16 £'000	2014-15 £'000
<b>Balance at 1 April</b>	<b>540</b>	<b>312</b>
Amount by which Council Tax income credited to the CIES is different from Council Tax income calculated for the year in accordance with statutory and expenditure requirements	42	229
<b>Closing balance at 31 March</b>	<b>582</b>	<b>540</b>

### **23i. Short-term Accumulating Compensated Absences Account**

The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund Working Balance from accruing for compensated absences earned, but not taken in the year. For example, annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the General Fund Working Balance is neutralised by transfers to or from the account.

	2015-16 £'000	2014-15 £'000
<b>Balance at 1 April</b>	<b>(1,866)</b>	<b>(1,748)</b>
Settlement or cancellation of accrual made at the end of the preceding year	1,866	1,748
Amounts accrued at the end of the current year	(1,817)	(1,866)
<b>Closing balance at 31 March</b>	<b>(1,817)</b>	<b>(1,866)</b>

## 24. Net Cash Flow from Operating Activities

	2015-16 £'000	2014-15 £'000
Net Surplus / (Deficit) on the Provision of Services	67,251	25,027
London Residuary Body	(147)	(234)
<b>Net Surplus / (Deficit)</b>	<b>67,104</b>	<b>24,793</b>
<b>Net Surplus or Deficit on the Provision of Services for non-cash movements</b>		
<i>Adjust net surplus or deficit on the provision of services for noncash movements:</i>		
Depreciation, amortisation, impairment and downward valuations	14,791	42,128
Increase / (decrease) in creditors	17,577	(10,812)
Increase / (decrease) in interest creditors	(337)	(197)
(Increase) / decrease in debtors	(23,945)	(8,852)
(Increase) / decrease in interest debtors	208	(70)
(Increase) / decrease in impairment for bad debts	1,574	2,216
(Increase) / decrease in inventories	39	(93)
Movement in pension liability	19,198	11,989
Carrying amount of non-current assets and non-current assets held for sale, sold or derecognised	5,903	6,042
<i>Other non-cash items charged to the net Surplus or Deficit on the Provision of Services:</i>		
Increase / (decrease) in Provisions	797	3,069
(Increase) / decrease in value of investment properties	(25,237)	(42,839)
Increase / (decrease) in Accumulated absences	(49)	118
<b>Sub-Total</b>	<b>10,519</b>	<b>2,699</b>
<b>Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities</b>		
Proceeds from short-term (not considered to be cash equivalents) and long-term investments (includes investments in associates, joint ventures and subsidiaries)	-	-
Proceeds from the sale of property plant and equipment, investment property and intangible assets	(44,635)	(12,200)
<i>Any other items for which the cash effects are investing or financing cash flows:</i>		
Grants for the financing of capital expenditure	(9,047)	(2,353)
<b>Sub-Total</b>	<b>(53,682)</b>	<b>(14,553)</b>
<b>Cash flow from revenue activities</b>	<b>23,941</b>	<b>12,939</b>

The 2014-15 comparatives were amended since the 2014-15 audited accounts due to changes in presentational changes to follow the CIPFA Code of Practice.

## 25. Investing Activities

Investing Activities comprise cash outflows relating to the Council's: purchases and sales of non-current assets, including enhancements to existing assets; sales and purchases of both short and long term investments; and, as per CIPFA guidance, capital grants received in year.

	2015-16 £'000	2014-15 £'000
Purchase of non-current assets	(39,258)	(48,137)
(Purchase) / disposal of short-term and long-term investments	(52,355)	38,217
Other long term loans (granted) / repaid	8	7
Proceeds from the sale of non-current assets	44,635	12,200
Capital grants for the year	27,221	12,427
<b>Net cash flows from investing activities</b>	<b>(19,749)</b>	<b>14,714</b>

The 2014-15 comparatives were amended since the 2014-15 audited accounts due to changes in presentational changes to follow the CIPFA Code of Practice.

## 26. Financing Activities

	2015-16 £'000	2014-15 £'000
Cash receipts / (repayments) of short-term and long-term borrowing	(8,569)	(7,796)
Cash payments for the reduction of outstanding finance lease liabilities	(81)	(20)
Cash receipts / (repayments) of other short-term and long-term liabilities	28	-
Billing authority collection fund adjustments	1,571	4,833
<b>Net cash flows from financing activities</b>	<b>(7,051)</b>	<b>(2,983)</b>

The 2014-15 comparatives were amended since the 2014-15 audited accounts due to changes in presentational changes to follow the CIPFA Code of Practice.

## 27. Segmental Reporting - Amounts Reported for Resource Allocation Decisions

This note explains the difference between the Services' management accounts and amounts included in the year-end financial accounts.

### 27a. Analysis of Service Income and Expenditure

<b>Service Income and Expenditure</b>	Adult and Family Learning Services	Adult Social Care	Children's Services	Environment Leisure and Resident's Services	Housing General Fund	Library and Heritage Services	Planning and Borough Development	Public Health	Transport, and Technical Services	Corporate Services	Total
<b>2015-16</b>											
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Fees, charges and other service income	-	(2,552)	(8,474)	(11,217)	(26,980)	(140)	(4,717)	-	(48,952)	(15,818)	(118,850)
Government grants	(1,331)	(1,126)	(80,938)	-	(226)	(42)	(218)	(18,271)	(1,451)	(145,898)	(249,501)
Other grants and contributions	(5)	(18,410)	(20,976)	(1,755)	(826)	(477)	(483)	(135)	(2,218)	(14,304)	(59,589)
<b>Total Income</b>	<b>(1,336)</b>	<b>(22,088)</b>	<b>(110,388)</b>	<b>(12,972)</b>	<b>(28,032)</b>	<b>(659)</b>	<b>(5,418)</b>	<b>(18,406)</b>	<b>(52,621)</b>	<b>(176,020)</b>	<b>(427,940)</b>
Employee expenses	302	14,091	88,517	5,530	6,414	2,555	5,628	559	9,560	33,335	166,491
Other service expenses	1,013	60,440	60,641	40,595	34,859	2,088	1,451	16,274	22,648	186,103	426,112
Support service recharges	68	3,723	7,139	3,365	874	2,383	2,106	1,573	5,218	(27,083)	(634)
<b>Total Expenditure</b>	<b>1,383</b>	<b>78,254</b>	<b>156,297</b>	<b>49,490</b>	<b>42,147</b>	<b>7,026</b>	<b>9,185</b>	<b>18,406</b>	<b>37,426</b>	<b>192,355</b>	<b>591,969</b>
<b>Net Expenditure</b>	<b>47</b>	<b>56,166</b>	<b>45,909</b>	<b>36,518</b>	<b>14,115</b>	<b>6,367</b>	<b>3,767</b>	<b>-</b>	<b>(15,195)</b>	<b>16,335</b>	<b>164,029</b>

<b>Service Income and Expenditure</b>	Adult and Family Learning Services	Adult Social Care	Children's Services	Environment Leisure and Resident's Services	Housing General Fund	Library and Heritage Services	Planning and Borough Development	Public Health	Transport, and Technical Services	Corporate Services	Total
<b>2014-15</b>											
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Fees, charges and other service income	-	(5,112)	(12,138)	(11,338)	(843)	(188)	(5,783)	(31)	(50,036)	(19,060)	(104,529)
Government grants	(1,262)	(450)	(86,243)	-	-	-	(83)	(17,249)	(1,633)	(148,916)	(255,837)
Other grants and contributions	(6)	(17,207)	(14,759)	(1,508)	(26,214)	(520)	(2)	(109)	(1,111)	(8,484)	(69,919)
<b>Total Income</b>	<b>(1,268)</b>	<b>(22,769)</b>	<b>(113,140)</b>	<b>(12,846)</b>	<b>(27,057)</b>	<b>(708)</b>	<b>(5,868)</b>	<b>(17,389)</b>	<b>(52,780)</b>	<b>(176,460)</b>	<b>(430,285)</b>
Employee expenses	298	16,281	88,117	5,849	5,767	2,498	5,528	179	9,102	32,312	165,932
Other service expenses	990	59,509	61,012	37,032	33,399	2,918	1,801	17,444	22,032	189,945	426,082
Support service recharges	64	3,469	6,837	2,515	1,679	1,259	1,881	876	6,045	(24,143)	481
<b>Total Expenditure</b>	<b>1,352</b>	<b>79,258</b>	<b>155,966</b>	<b>45,396</b>	<b>40,844</b>	<b>6,675</b>	<b>9,210</b>	<b>18,499</b>	<b>37,179</b>	<b>198,114</b>	<b>592,494</b>
<b>Net Expenditure</b>	<b>84</b>	<b>56,489</b>	<b>42,826</b>	<b>32,550</b>	<b>13,787</b>	<b>5,967</b>	<b>3,342</b>	<b>1,110</b>	<b>(15,601)</b>	<b>21,654</b>	<b>162,209</b>

## **27b. Reconciliation of directorate income and expenditure to the Comprehensive Income and Expenditure Statement**

	2015-16 £'000	2014-15 £'000
Net expenditure in the Service Analysis	<b>164,029</b>	<b>162,209</b>
<i>Net expenditure of services and support services not included in the Analysis:</i>		
<b>Amounts in the Comprehensive Income and Expenditure Statement Cost of Services not reported in the Service Analysis:</b>		
General Fund Revenue Expenditure Funded from Capital Under Statute	4,483	8,036
General Fund impairments / revaluations	(4,775)	15,513
Employee benefits – leave accrual	(49)	118
Pension Fund deficit recovery	2,379	2,379
Non-distributed pension costs	1,119	(40)
Revenue in support of capital expenditure	-	363
Academy transfer	-	1,291
<b>Amounts included in the Service Analysis not included in the Cost of Services in the Comprehensive Income and Expenditure Statement:</b>		
General Fund investment property income and expenditure	4,258	3,303
Finance lease principal	(81)	(20)
Interest payable on finance leases	(5)	(5)
Transfer (to) / from Schools Reserves	(699)	-
Trading Accounts	(1,654)	(35)
	<b>169,005</b>	<b>193,113</b>
(Surplus) / deficit on the Housing Revenue Account	(15,731)	(4,751)
<b>Total Cost of Services per Comprehensive Income and Expenditure Statement</b>	<b>153,274</b>	<b>188,362</b>

Continued overleaf

**Amounts in the Comprehensive Income and Expenditure Statement  
Surplus / Deficit on Provision of Services not reported in the Cost of  
Services per Comprehensive Income and Expenditure Account:**

	<b>2015-16 £'000</b>	<b>2014-15 £'000</b>
Levies	3,400	3,346
Payments to the Government Housing Capital Receipts Pool	5,625	1,033
(Gains) / losses on the disposal of non-current assets	(38,732)	(6,159)
Interest payable and similar charges	9,644	10,519
Net pension interest cost	8,540	8,569
Interest receivable and similar income	(1,402)	(1,081)
Changes in fair value of investment properties	(25,237)	(42,839)
Council Tax income	(75,364)	(72,349)
National non-domestic rates	(80,411)	(81,662)
Business rates tariff	35,735	35,065
Non-ring fenced Government grants	(48,047)	(59,691)
Capital grants and contributions	(9,047)	(2,353)
Income and expenditure in relation to investment properties	(6,888)	(5,827)
Interest payable on finance leases	5	5
Other investment income – (surplus) / deficit on trading accounts	1,654	35
	<b>(220,525)</b>	<b>(213,389)</b>
<b>Total (Surplus) / Deficit on Provision of Services per Comprehensive Income and Expenditure Statement</b>	<b>(67,251)</b>	<b>(25,027)</b>

## 28. Trading Operations

The services shown below operate as Trading Accounts as defined in the SeRCOP. There are six main types of trading operation that may be run by local authorities:

- Trading services or undertakings with the public or with other third parties.
- External trading organisations that have won contracts from other public bodies.
- Continuing Compulsory Competitive Tendering arrangements.
- Work carried out by internal trading organisations arising from voluntary competitive tendering exercises.
- Support services provided in a free internal market.
- Support services provided in a limited internal market.

The figures shown below are included as surplus / (deficit) on trading operations in the Comprehensive Income and Expenditure Statement (see Note 10):

	2015-16			2014-15		
	Income £'000	Exp £'000	Net £'000	Income £'000	Exp £'000	Net £'000
<b>Trading Operation</b>						
<b>Children's Services</b>						
Pupil support services	190	(252)	(62)	245	(286)	(41)
<b>Environment, Leisure and Resident's Services</b>						
Street trading	833	(828)	5	814	(815)	(1)
Holland Park Opera	2,139	(3,674)	(1,535)	2,303	(3,393)	(1,090)
<b>Corporate Services</b>						
Cash collection	493	(522)	(29)	485	(510)	(25)
Legal Services	4,170	(4,170)	-	4,277	(4,287)	(10)
<b>Planning and Borough Development</b>						
Building Control	541	(574)	(33)	603	(632)	(29)
<b>Total surplus / (deficit)</b>	<b>8,366</b>	<b>(10,020)</b>	<b>(1,654)</b>	<b>8,727</b>	<b>(9,923)</b>	<b>(1,196)</b>

### Pupil Support Services

The provision of pupil support services to schools and for looked after children.

### Street Trading

Income is derived mainly from permanent and temporary street trading lettings. Under present legislation, the Council is limited to recovering specific associated costs from the income. Any surplus / deficit on the Street Trading Account is transferred to/from the Street Trading Account Reserve.

### Holland Park Opera

This covers the 2015 season staffing and other costs of operating Opera Holland Park, which runs from June to August each year. The income is mainly from ticket sales and sponsorship.

For the 2016 season onwards, Opera Holland Park will be operating as an arm's length, independent charitable body.



### Cash Collection

Contract with the London Borough of Hammersmith & Fulham for the daily collection, counting and banking of cash from pay and display machines within its area.

### Legal Services

This is an internal trading account for the provision of legal services to the rest of the Council. The trading account was set up from 1 April 2012.

### Building Control

The Building Control Team ensures that construction undertaken within the Royal Borough is in accordance with Building Regulations and other relevant local requirements. It achieves this by checking proposals submitted and carrying out site inspections of building work. When necessary it also undertakes enforcement action to ensure compliance with Building Regulations.

## 29. Members' Allowances

	2015-16 £'000	2014-15 £'000
Basic Allowance	538	533
Special Responsibility Allowance	573	556
Expenses	18	21
<b>Total</b>	<b>1,129</b>	<b>1,110</b>

## 30. Officer Remuneration

### 30a. Disclosure of remuneration for senior employees 2015-16

The remuneration, paid through the Council's payroll to the Council's Town Clerk, members of the Town Clerk's senior management team, and senior employees earning £50,000 or more in 2015-16, is as follows:

Job Title	Name	Notes	Salary, Fees and Allowances £	Bonuses £	Expenses Allowances £	Compensation for Loss of Employment £	Total Remuneration (excluding pension contribution) £	Employer's Pension Contribution £	Total Remuneration (including pension contribution) £
Town Clerk	Nicholas Holgate	1	186,000	9,075	1,265	-	196,340	17,401	213,741
Bi-borough Director of Transport and Highways	Mahmood Siddiqi	2	88,700	6,805	1,482	-	96,987	14,011	110,998
Tri-borough Executive Director of Children's Services	Andrew Christie	3	163,400	16,180	-	-	179,580	26,578	206,158
Executive Director of Planning and Borough Development	Jonathan Bore	4	24,480	10,978	-	-	35,458	5,248	40,706
Executive Director of Planning and Borough Development	Graham Stallwood	4	90,075	7,310	1,556	-	98,941	14,413	113,354
Director of Strategy and Local Services	Tony Redpath		105,900	5,170	1,263	-	112,333	16,438	128,771
Director of Corporate Property	Michael Clark		154,593	29,125	1,175	-	184,893	-	184,893

### 30a. Disclosure of remuneration for senior employees 2014-15

Job Title	Name	Notes	Salary, Fees and Allowances £	Bonuses £	Expenses Allowances £	Compensation for Loss of Employment £	Total Remuneration (excluding pension contribution) £	Employer's Pension Contribution £	Total Remuneration (including pension contribution) £
Town Clerk	Nicholas Holgate	1	181,375	-	1,229	-	182,604	32,285	214,889
Bi-borough Director of Transport and Highways	Mahmood Siddiqi	2	86,156	8,360	1,249	-	95,765	16,789	112,554
Tri-borough Executive Director of Children's Services	Andrew Christie	3	161,613	15,650	-	-	177,263	31,553	208,816
Executive Director of Planning and Borough Development	Jonathan Bore	4	109,850	8,169	1,151	-	119,170	20,958	140,128
Director of Strategy and Local Services	Tony Redpath		115,257	5,020	1,223	-	121,500	21,409	142,909

#### Notes

1. Nicholas Holgate, the Town Clerk, was shared with the London Borough of Hammersmith & Fulham (LBHF) up to October 2014. The share was 58 (RBKC): 42 (LBHF).
2. Mahmood Siddiqi, the Bi-borough Director of Transport and Highways is shared equally with LBHF from October 2014 onwards.
3. Andrew Christie, the Tri-borough Executive Director of Children's Services, is shared equally with LBHF and City of Westminster (COW).
4. Jonathan Bore, the Executive Director of Planning and Borough Development, left this post on June 2015 and Graham Stallwood was appointed in July 2015.

### **30a. Disclosure of remuneration for senior employees (continued)**

#### **Details of Senior Officer Shared Posts Employed by Other Local Authorities**

The following senior officers are employed by LBHF and shared:

- Elizabeth Bruce, the Tri-borough Executive Director of Adult Social Care, is shared with LBHF and COW. The share was 21.2 (RBKC): 46.3 (LBHF): 32.5 (COW).
- Nick Austin, the Bi-borough Director of Environmental Health, is shared equally with LBHF. Prior to October 2014, both the Bi-borough Director of Environmental Health and the Bi-borough Director of Highways and Transport roles were covered by a single post, the Bi-borough Executive Director of Transport and Technical Services, held by Nigel Pallace which was shared 25 (RBKC): 75 (LBHF).
- Sue Harris, the Bi-borough Director of Cleaner, Greener and Cultural Services, is shared 65 (RBKC): 35 (LBHF).
- Dave Page, the Bi-borough Director of Safer Neighbourhoods, is shared 20 (RBKC): 80 (LBHF).
- Prior to September 2015, both the Bi-borough Director of Cleaner, Greener and Cultural Services and the Bi-borough Director of Safer Neighbourhoods roles were covered by a single post, the Bi-borough Executive Director of Environment, Leisure and Residents' Services, held by Lyn Carpenter which was shared equally with LBHF.
- Tasnim Shawkat, the Bi-borough Director of Law, is shared equally with LBHF.
- Deborah Morris, the Bi-borough Director of Human Resources, is shared equally with LBHF.
- Jane West, the Bi-borough Executive Director of Corporate Services, was shared equally with COW from March 2015 to November 2015.

Details of the salaries paid by LBHF can be found in the LBHF 2015-16 Statement of Accounts: <https://www.lbhf.gov.uk/councillors-and-democracy/about-hammersmith-fulham-council/statement-accounts>.

The following senior officer is employed by COW and shared:

- Mike Robinson, the Tri-borough Director of Public Health, is shared with LBHF and COW. The post was held by Andrew Burnett from January 2015 to November 2015 and by Meradin Peachey up to January 2015. The share is 30.9 (RBKC): 29.1 (LBHF): 40.0 (COW).

Details of the salary paid by COW can be found in the COW 2015-16 Statement of Accounts: <https://www.westminster.gov.uk/2015-2016-annual-accounts>

#### **Officers Paid Over £50,000**

In addition the salaries of all staff employed directly by the Royal Borough of Kensington and Chelsea and paid over £50,000 are also disclosed at: <http://www.rbkc.gov.uk/councilanddemocracy/transparencyinthecouncil/seniorstaffinformation.aspx>

### **30b. Officer Remuneration in Bands**

The number of employees in each salary band is set out below. Calculations are 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. Pension contributions payable by either employee or employer are excluded. Voluntary Aided schools are not included in this analysis.

	<b>2015-16</b>	<b>2014-15</b>
	<b>Number of</b>	<b>Number of</b>
	<b>Employees</b>	<b>Employees</b>
£50,000 - £54,999	113	116
£55,000 - £59,999	74	77
£60,000 - £64,999	31	32
£65,000 - £69,999	27	19
£70,000 - £74,999	28	19
£75,000 - £79,999	19	19
£80,000 - £84,999	5	4
£85,000 - £89,999	8	9
£90,000 - £94,999	6	7
£95,000 - £99,999	8	4
£100,000 - £104,999	4	2
£105,000 - £109,999	1	1
£110,000 - £114,999	1	1
£115,000 - £119,999	2	3
£120,000 - £124,999	1	-
£125,000 - £129,999	-	-
£130,000 - £134,999	-	-
£135,000 - £139,999	-	-
£140,000 - £144,999	-	-
£145,000 - £149,999	-	-
£150,000 - £154,999	-	-
£155,000 - £159,999	-	-
£160,000 - £164,999	-	-
£165,000 - £169,999	-	-
£170,000 - £174,999	-	-
£175,000 - £179,999	1	1
£180,000 - £184,999	1	1
£185,000 - £189,999	-	-
£190,000 - £194,999	-	-
£195,000 - £199,999	1	-
<b>Total</b>	<b>331</b>	<b>315</b>

This note discloses officers on the Council's payroll who may be shared via Tri-borough and Bi-borough arrangements.

### **30c. Costs of Staff Departures - All Administrations Disclosure Note for 2015-16**

#### **Accounts**

The costs include: termination benefits; all relevant redundancy costs including compulsory and voluntary redundancy costs; pension contributions in respect of added years; ex gratia payments; and other departure costs.

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

Cost Band (including special payments)	Number of compulsory redundancies		Number of other departures agreed		Total number of departures by cost band		Total cost of departures in each band	
	2015-16	2014-15	2015-16	2014-15	2015-16	2014-15	2015-16	2014-15
£0-£20,000	40	21	15	5	55	26	606,923	185,539
£20,001-£40,000	10	6	3	3	13	9	349,983	248,014
£40,001-£60,000	1	2	3	-	4	2	197,237	98,948
£60,001-£80,000	1	1	-	2	1	3	65,710	209,319
£80,001-£100,000	1	-	4	-	5	-	443,163	-
£100,001-£200,000	3	-	2	1	5	1	610,717	121,251
<b>Total</b>	<b>56</b>	<b>30</b>	<b>27</b>	<b>11</b>	<b>83</b>	<b>41</b>	<b>2,273,733</b>	<b>863,071</b>

The increase in exit packages agreed in 2015-16 was partly due to implementation of the Managed Services Programme on 1 April 2015.

#### **31. External Audit Costs**

	2015-16 £'000	2014-15 £'000
Fees payable to external auditors in respect of:		
- External audit services carried out by the appointed auditor for the year	121	162
- The certification of grant claims and returns for the year	33	34
- Additional audit fees payable with regard to an objection with the 2014-15 accounts	15	-
- Other services	4	-
<b>Total</b>	<b>173</b>	<b>196</b>

## 32. Dedicated Schools Grant

The council's expenditure on schools is funded primarily by grant monies provided by the Department for Education, the Dedicated Schools Grant (DSG). DSG is ringfenced and can only be applied to meet expenditure properly included in the Schools Budget, as defined in the School Finance (England) Regulations 2011. The Schools Budget includes elements for a range of educational services provided on an authority-wide basis and for the Individual Schools Budget, which is divided into a budget share for each maintained school.

Details of the deployment of Dedicated Schools Grant receivable for 2015-16 are as follows:

<b>2015-16</b>	<b>Central Expenditure £'000</b>	<b>Individual School Budgets £'000</b>	<b>Total £'000</b>
Final DSG for 2015-16 before academy recoupment			89,007
Academy figure recouped for 2015-16			(21,713)
<b>Total DSG after academy recoupment for 2015-16</b>			<b>67,294</b>
Brought forward from 2014-15			3,604
Carry-forward to 2016-17 agreed in advance			(3,604)
<b>Agreed initial budgeted distribution in 2015-16</b>	<b>8,794</b>	<b>58,500</b>	<b>67,294</b>
In-year adjustments	(139)	-	(139)
<b>Final budgeted distribution for 2015-16</b>	<b>8,655</b>	<b>58,500</b>	<b>67,155</b>
Less actual central expenditure	(11,557)	-	(11,557)
Less actual ISB* deployed to schools	-	(58,898)	(58,898)
Plus local authority contribution for 2015-16	-	-	-
<b>2015-16 DSG Contribution / (Drawdown)</b>	<b>(2,902)</b>	<b>(398)</b>	<b>(3,300)</b>
<b>TOTAL DSG Carried Forward</b>	<b>-</b>		<b>304</b>

<b>2014-15</b>	<b>Central Expenditure £'000</b>	<b>Individual School Budgets £'000</b>	<b>Total £'000</b>
Final DSG for 2014-15 before academy recoupment			81,639
Academy figure recouped for 2014-15			(9,481)
<b>Total DSG after academy recoupment for 2014-15</b>			<b>72,158</b>
Brought forward from 2013-14			5,351
Carry-forward to 2015-16 agreed in advance			(5,351)
<b>Agreed initial budgeted distribution in 2014-15</b>	<b>12,366</b>	<b>59,792</b>	<b>72,158</b>
In-year adjustments	-	1,395	1,395
<b>Final budgeted distribution for 2014-15</b>	<b>12,366</b>	<b>61,187</b>	<b>73,553</b>
Less actual central expenditure	(12,718)	-	(12,718)
Less actual ISB* deployed to schools	-	(61,187)	(61,187)
Plus local authority contribution for 2014-15	-	-	-
<b>2014-15 DSG Contribution / (Drawdown)</b>	<b>(352)</b>	<b>-</b>	<b>(352)</b>
<b>TOTAL DSG Carried Forward</b>	<b>-</b>	<b>-</b>	<b>3,604</b>

<sup>1</sup> ISB stands for Individual Schools Budget.

### 33. Grant Income

The Council credited the following revenue grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2015-16:

#### **33a. Credited to Taxation and Non Specific Grant Income**

	<b>2015-16</b>	<b>2014-15</b>
	<b>£'000</b>	<b>£'000</b>
Council Tax	75,364	72,349
National Non-Domestic Rates	80,411	80,338
Revenue Support Grant	41,263	56,297
New Homes Bonus Scheme	2,689	1,303
National Non Domestic Rates Section 31 Grant	1,605	1,324
Education Services Grant	927	1,287
Council Tax Freeze Grant	811	805
Other Grants (under £500k)	752	-
<b>Total</b>	<b>203,822</b>	<b>213,702</b>

#### **33b. Credited to Services**

	<b>2015-16</b>	<b>2014-15</b>
	<b>£'000</b>	<b>£'000</b>
Housing Benefit Subsidy	142,586	143,945
Dedicated Schools Grant	70,454	73,905
Public Health Grant	18,271	17,249
Pupil Premium Grant	4,029	4,378
Transport for London Revenue Grant	1,414	1,633
Skills Funding Agency Grants	1,331	1,262
Housing Benefit Administration Subsidy	1,185	1,395
Discretionary Housing Payments	1,137	1,792
Universal Infant Free School Meals (UIFSM)	897	466
Unaccompanied Asylum Seeking Children (UASC) & Leaving Care (LC)	884	540
Focus in Practice Innovation Fund	867	251
Care Act	728	-
Arts Council Music Grant	628	-
Education Funding Agency Post 16 Grant	504	2,239
Demographic Growth Fund	-	2,066
Other Grants (under £500k)	4,586	4,717
<b>Total</b>	<b>249,501</b>	<b>255,837</b>

### **33c. Capital Grants Receipts in Advance**

The Council has received a number of grants and contributions that have yet to be recognised as income as they have conditions attached to them that may require the monies or property to be returned to the giver. The balances at year end are as follows:

	<b>2015-16</b>	<b>2014-15</b>
	<b>£'000</b>	<b>£'000</b>
Section 106 and private contributions	37,845	20,206
Community Capacity Grant	3,308	1,729
Section 278 contributions	595	1,144
Other Grants (under £500k)	230	559
<b>Total</b>	<b>41,978</b>	<b>23,638</b>

### **34. Related Parties**

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

The Government has effective control of all local authorities. It is responsible for the statutory framework in which the Council operates, provides the majority of the Council's funding and limits the ability of the Council to determine the level of its Council Tax. Grants received from the Government and are set out in **Note 33**.

#### **Councillors**

Councillors have direct control of the Council's policies and strategies. Day-to-day responsibility lies with the Council's executive, or "Cabinet", which in 2015-16 comprised ten Members with authority within their respective portfolios to approve decisions of a value less than £250,000. Decisions with a value greater than £250,000 are taken by Cabinet collectively or by full Council as appropriate.

No councillor has a relationship or holds a position with a company that has a material commercial relationship with the Council.

Many councillors have relationships or hold positions with other public bodies and voluntary organisations with which the Council does not have a financially material relationship, but with which the Council has a financial or influential relationship. These include Western Riverside Waste Authority, schools, charities, National Health Service trusts and commissioning groups, consultative groups, development trusts and management committees.

Some councillors have roles within Government and other public sector bodies with which the Council either has a financially material relationship or there is a possibility that such a relationship could exist in terms of monetary value and influence.

During 2015-16, the Leader of the Council, Councillor Nicholas Paget-Brown, was a member of the [London Waste and Recycling Board](#) and Managing Director of Pelham Research.

The Council can nominate up to four persons to the fifteen-strong [Board of Directors Kensington and Chelsea Tenant Management Organisation](#). Councillor Condon-Simmonds (Majority Party) and Councillor Judith Blakeman (Minority Party) are Council nominees to the Board. The other two nominees are independent.



During 2015-16 Councillor Spalding and Councillor Pat Mason were trustees of and on the board of the Westway Trust (registered charity 1123127 – details of which can be found on the [Charity Commission website](#)).

Councillor Moylan is a member of Transport for London, Chairman of Kensington and Chelsea Environmental Limited (a charity which undertakes environmental improvement projects in the Royal Borough) and co-chairman of Urban Design London.

A number of other councillors are committee members at London Councils.

### **Officers**

No officer of the Council has a relationship or holds a position with a company that has a material commercial relationship with the Council. No officer of the Council holds a position with another public body that has a material financial relationship with the Council.

### **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 **Note 33 Grant Income**. The Council has made no material financial payments to another public body.

The Council has in place joint working arrangements with neighbouring local authorities, the City of Westminster and the London Borough of Hammersmith & Fulham. These arrangements are currently referred to as Tri-borough or shared working and the bulk of these arrangements were in place from 1 April 2012. The net payments between the three authorities are not material, but the gross payments are material and will continue to be so. Whilst members retain control over how services are delivered in each borough, the Tri-borough and shared working partners will influence the service arrangements of each other.

### 35. Capital Expenditure and Capital Financing

	2015-16 £'000	2014-15 £'000
<b>Opening Capital Financing Requirement</b>	<b>244,718</b>	<b>243,096</b>
<u>Capital investment</u>		
Property, Plant and Equipment	37,830	45,318
Long Term Investments	-	-
Heritage Assets	68	-
Investment Properties	4,027	631
Intangible Assets	413	307
Assets Held for Sale	-	-
Revenue Expenditure Funded from Capital Under Statute	5,536	14,892
<u>Sources of finance</u>		
Capital receipts	(14,602)	(20,207)
Government grants and other contributions	(11,101)	(8,256)
<i>Sums set aside from revenue:</i>		
Direct revenue contributions	(6,879)	(19,872)
Direct Revenue Funding (Major Repairs Reserve)	(17,588)	(9,876)
MRP / loans fund principal	(1,335)	(1,315)
<b>Closing Capital Financing Requirement</b>	<b>241,087</b>	<b>244,718</b>
Provision to reduce the underlying need to borrow (MRP)	(1,335)	(1,315)
Decrease in underlying need to borrow (supported by capital receipts)	(2,296)	-
Increase in underlying need to borrow (unsupported by government financial assistance)	-	2,770
Assets acquired under finance leases	-	167
Assets acquired under PFI / PPP contracts	-	-
<b>Increase / (decrease) in Capital Financing Requirement</b>	<b>(3,631)</b>	<b>1,622</b>

## 36. Leases

### Council as Lessee

#### Finance Leases

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

	31 March 2016	31 March 2015
	£'000	£'000
Other Land and Buildings	2,180	2,180
Vehicles, Plant, Furniture and Equipment	134	167
<b>Total</b>	<b>2,314</b>	<b>2,347</b>

When signing the leases, the Council committed to making "minimum lease payments", comprising of two elements: payment of the lease liabilities, the "present value of the minimum lease payments", which represents the cost of the assets; and the interest costs payable on the outstanding liabilities. The minimum lease payments are made up as follows

	31 March 2016	31 March 2015
	£'000	£'000
Present value of the minimum lease payments:		
Current	34	32
Non-current	72	106
Future interests costs	18	18
Unguaranteed residual value of assets	-	-
<b>Total minimum lease payments</b>	<b>124</b>	<b>155</b>

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

	Present Value of Minimum Lease Payments		Finance Lease Liabilities	
	31 March 2016	31 March 2015	31 March 2016	31 March 2015
	£'000	£'000	£'000	£'000
Not later than one year	34	32	7	7
Later than one year and not later than five years	72	106	11	11
Later than five years	-	-	-	-
<b>Total</b>	<b>106</b>	<b>138</b>	<b>18</b>	<b>18</b>

Minimum lease payments do not include rents that are contingent on events taking place after the lease was entered into, such as rent reviews that could increase the property rentals. The Council is not paying contingent rents on any asset subject to a finance lease.

## **Operating Leases**

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

	<b>31 March 2016</b>	<b>31 March 2015</b>
	<b>£'000</b>	<b>£'000</b>
Not later than one year	177	160
Later than one year and not later than five years	472	556
Later than five years	241	316
<b>Total</b>	<b>890</b>	<b>1,032</b>

Minimum lease payments were charged to the Comprehensive Income and Expenditure Statement as follows:

	<b>31 March 2016</b>	<b>31 March 2015</b>
	<b>£'000</b>	<b>£'000</b>
Adult Social Care	84	84
Cultural and Related Services	-	-
Children's and Education	60	60
Cultural, Environmental, Regulatory and Planning Services	6	6
Housing GF Services	28	11
Allocated across service lines	-	-
<b>Total</b>	<b>178</b>	<b>160</b>

## **Council as Lessor**

### **Finance Leases**

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 990 to 1001 years and three other properties have been let on terms of 126, 150 and 200 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 land occupied by the Tesco store in Fenelon Place; the land occupied by the Great Western Studios; the land occupied by 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. In all cases other than the land at Fenelon Place, the length of the lease is such that control of the land will not revert to the Council until 2988AD or later if the leaseholder retains the lease for its full term.

## Operating Leases

The Council leases out property and equipment under operating leases to generate additional income and to provide smaller premises for small businesses and charitable organisations in the Royal Borough 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 Comprehensive Income and Expenditure Statement 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 lease payments receivable under non-cancellable leases for non-operational assets in future years are:

	<b>31 March 2016</b>	<b>31 March 2015</b>
	<b>£'000</b>	<b>£'000</b>
Not later than one year	10,982	11,635
Later than one year and not later than five years	36,186	46,538
Later than five years	90,261	96,402
<b>Total</b>	<b>137,429</b>	<b>154,575</b>

Please note that 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.

### **37. Impairment Losses**

The Council values its dwellings in accordance with the proper practice set out in the Government guidance *Stock Valuation for Resource Accounting: Guidance for Valuers - 2010*. In 2015-16, a full valuation of council dwellings was undertaken at 31 of March 2016 by Jones Lang LaSalle, whose staff are qualified surveyors with the Royal Institution of Chartered Surveyors (RICS). This resulted in an upward valuation of £34,264,022 and this was greater than the capital expenditure incurred in year. Therefore, the Council did not need to impair the value of its capital expenditure on its existing dwellings.

Other revaluation and impairment losses charged to the Housing Revenue Account included:

- Building component of four council dwellings have been valued down by £126,813 due to fire or other reasons that make them not fit for letting as at 31 March 2016.

Similarly, Jones Lang LaSalle reviewed the valuations of the Council's property assets, other than dwellings, as at the 31 March 2016, which did not result in any significant impairment to assets where capital expenditure has not resulted in an equivalent increase in value.

### **38. Termination Benefits**

There are no additional estimable termination benefit costs as at the Balance Sheet Date. The Council has an earmarked Severance Reserve held specifically to cover future termination benefit costs. The balance of the reserve at 31 March 2016 was £8.8 million.

### **39. Pension Schemes Accounted for as Defined Contribution Schemes**

In 2015-16, the Council paid £3.398 million to Teachers' Pensions in respect of teachers' retirement benefits, representing 15.7 per cent of pensionable pay. The figures for 2014-15 were £3.715 million and 14.1 per cent. There were no contributions remaining payable at the year-end.

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

### **40. Defined Benefit Pension Schemes**

#### **Participation in Pension Schemes**

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

The Council participates in two funds, both of which form part of the Local Government Pension Scheme, which 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 participates in the Kensington and Chelsea Pension Fund, which it administers and also that of the London Pension Fund Authority (LPFA).

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.

#### **Transactions Relating to Post-employment Benefits**

The Council recognises the cost of retirement benefits 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/retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year:

	RBKC Pension Scheme		LPFA Pension Scheme	
	31 March	31 March	31 March	31 March
	2016	2015	2016	2015
	£'000	£'000	£'000	£'000
<b><u>Comprehensive Income and Expenditure Statement (CIES)</u></b>				
<b>Cost of Services:</b>				
Current service cost	22,724	17,277	128	191
Past service costs	878	608	-	33
(Gain)/loss on settlements	(319)	(1,138)	-	-
<b>Financing and Investment Income and Expenditure:</b>				
Net interest expense	8,330	8,396	210	173
Administration expenses	519	417	41	40
<b>Total Post Employment Benefits Charged to the Surplus or Deficit on the Provision of Services</b>	<b>32,132</b>	<b>25,560</b>	<b>379</b>	<b>437</b>
<b>Other Post Employment Benefit Charged to the CIES:</b>				
Remeasurement of the net defined benefit liability / asset <sup>1</sup>	(64,370)	51,989	(1,166)	2,788
<b>Total Post Employment Benefit Charged to the CIES</b>	<b>(32,238)</b>	<b>77,549</b>	<b>(787)</b>	<b>3,225</b>
<b><u>Movement in Reserves Statement</u></b>				
Reversal of net charges made to the deficit for the Provision of Services for post employment benefits in accordance with the Code	(32,132)	(25,560)	(379)	(437)
<b><u>Actual amount charged against the General Fund Balance for pensions in the year</u></b>				
Employers' contributions payable to scheme	13,076	13,570	237	438

<sup>1</sup> As reported in the CIES: Remeasurements of the net defined benefit liability / asset

## Pension Assets and Liabilities Recognised in the Balance Sheet

The amount included in the Balance Sheet arising from the Council's obligation in respect of its defined benefit plans is as follows:

	RBKC Pension Scheme		LPFA Pension Scheme	
	31 March 2016	31 March 2015	31 March 2016	31 March 2015
	£'000	£'000	£'000	£'000
Present value of the defined benefit obligation	924,623	961,723	30,238	32,725
Fair value of plan assets	711,473	703,259	25,855	27,483
<b>Sub-total</b>	<b>213,150</b>	<b>258,464</b>	<b>4,383</b>	<b>5,242</b>
Present value of unfunded obligation	-	-	1,685	1,850
<b>Net liability arising from defined benefit obligation</b>	<b>213,150</b>	<b>258,464</b>	<b>6,068</b>	<b>7,092</b>

## Reconciliation of the movements in the fair value of scheme assets

	RBKC Pension Scheme		LPFA Pension Scheme	
	31 March 2016	31 March 2015	31 March 2016	31 March 2015
	£'000	£'000	£'000	£'000
<b>Opening balance at 1 April</b>	<b>703,259</b>	<b>612,682</b>	<b>27,483</b>	<b>26,893</b>
Interest on assets	23,082	27,478	804	1,106
Return on assets less interest	(6,706)	68,352	(1,012)	665
Other actuarial gains/(losses)	-	-	-	-
Administration expenses	(519)	(417)	(41)	(40)
Contributions by employer including unfunded	13,383	15,729	220	417
Contributions by scheme participants	5,498	5,369	22	39
Estimated benefits paid plus unfunded net of transfers in	(26,051)	(23,769)	(1,621)	(1,597)
Settlement prices received/(paid)	(473)	(2,165)	-	-
<b>Closing balance at 31 March</b>	<b>711,473</b>	<b>703,259</b>	<b>25,855</b>	<b>27,483</b>



## Reconciliation of present value of the scheme liabilities

	RBKC Pension Scheme		LPFA Pension Scheme	
	31 March 2016 £'000	31 March 2015 £'000	31 March 2016 £'000	31 March 2015 £'000
<b>Opening balance at 1 April</b>	<b>961,723</b>	<b>807,167</b>	<b>34,575</b>	<b>31,198</b>
Current service cost	22,724	17,277	128	191
Interest cost	31,412	35,874	1,014	1,279
Change in financial assumptions	(70,769)	122,500	(2,182)	3,424
Change in demographic assumptions	-	-	-	-
Experience less/(gain) on defined benefit obligation	-	-	(13)	8
Liabilities assumed/(extinguished) on settlements	(792)	(3,303)	-	-
Estimated benefits paid net of transfers in	(26,051)	(23,769)	(1,489)	(1,461)
Past service costs, including curtailments	878	608	-	33
Contributions by scheme participants	5,498	5,369	22	39
Unfunded pension payments	-	-	(132)	(136)
<b>Closing balance at 31 March</b>	<b>924,623</b>	<b>961,723</b>	<b>31,923</b>	<b>34,575</b>

## Local Government Pension Scheme assets comprised:

### *Royal Borough of Kensington and Chelsea Pension Fund*

	Fair value of scheme assets					
	31 March 2016			31 March 2015		
	Quoted £'000	Unquoted £'000	Total £'000	Quoted £'000	Unquoted £'000	Total £'000
UK equities	19,671	-	19,671	29,956	-	29,956
Overseas equities	154,410	-	154,410	141,315	-	141,315
Global equities	337,505	-	337,505	331,589	-	331,589
Private equity	-	40,419	40,419	-	37,017	37,017
Property	-	36,956	36,956	-	26,246	26,246
Absolute return portfolio	79,987	-	79,987	82,212	-	82,212
Cash	-	42,525	42,525	-	54,924	54,924
Gilts	-	-	-	-	-	-
<b>Total</b>	<b>591,573</b>	<b>119,900</b>	<b>711,473</b>	<b>585,072</b>	<b>118,187</b>	<b>703,259</b>

London Pension Fund Authority Pension Fund

	Fair value of scheme assets					
	31 March 2016			31 March 2015		
	Quoted £'000	Unquoted £'000	Total £'000	Quoted £'000	Unquoted £'000	Total £'000
Equities - segregated	4,690	-	4,690	5,569	-	5,569
Equities - investment funds	5,343	-	5,343	1,115	3,161	4,276
Equities - private equity	-	2,261	2,261	-	2,079	2,079
Liability driven investments	-	2,449	2,449	-	2,063	2,063
Target return	1,177	-	1,177	965	-	965
Investment funds and unit trusts	1,876	2,491	4,367	4,915	2,065	6,980
Infrastructure	88	1,739	1,827	89	1,272	1,361
Property	-	908	908	-	779	779
Commodity	57	84	141	93	162	255
Cash	2,773	-	2,773	3,222	-	3,222
Derivatives	-	(81)	(81)	-	(66)	(66)
<b>Total</b>	<b>16,004</b>	<b>9,851</b>	<b>25,855</b>	<b>15,968</b>	<b>11,515</b>	<b>27,483</b>

**Basis for Estimating Assets and Liabilities**

Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels and etc.

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 latest full valuation of the scheme as at 31 March 2013.

The principal assumptions used by the actuary are:

	RBKC		LPFA	
	Pension Scheme 2015-16	Pension Scheme 2014-15	Pension Scheme 2015-16	Pension Scheme 2014-15
<b>Mortality assumptions:</b>				
<b>Longevity at 65 for current pensioners (in years):</b>				
Men	22.5	22.4	21.5	21.4
Women	25.8	25.7	24.3	24.2
<b>Longevity at 65 for future pensioners:</b>				
Men retiring in 20 years	24.8	24.6	23.9	23.8
Women retiring in 20 years	28.1	28.0	26.7	26.5
Rate of RPI inflation	3.3%	3.2%	2.9%	3.0%
Rate of CPI Inflation	2.4%	2.4%	2.0%	2.2%
Rate of increase in salaries	4.2%	4.2%	3.8%	4.0%
Rate of increase in pensions	2.4%	2.4%	2.0%	2.2%
Rate for discounting scheme liabilities	3.7%	3.3%	3.3%	3.0%

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 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.

	Impact on the defined benefit obligation in the scheme	
	Increase in assumption £'000	Decrease in assumption £'000
Longevity (increase or decrease in 1 year)	20,792	19,770
Rate of inflation (increase or decrease in 0.1%)	19,814	20,747
Rate of increase in salaries (increase or decrease in 0.1%)	20,285	20,265
Rate of increase in pensions (increase or decrease in 0.1%)	20,743	19,818
Rate of discounting scheme liabilities (increase or decrease in 0.1%)	19,814	20,747

### Impact on the Council's cash flows

At the last triennial actuarial valuation – 31 March 2013 – the Pension Fund was 95 per cent funded. The objectives of the scheme are to keep employers' contributions at a constant rate possible. The Council has agreed a strategy with the scheme's actuary to achieve a funding level of 100 per cent over the next six years. Funding levels are monitored on an annual basis and the next triennial valuation is due on 31 March 2016.

The scheme will need to take account of the national changes to the scheme under the Public Pensions Services Act 2013. The Act provides for scheme regulations to be made within a

common framework, to establish new career average revalued earnings schemes to pay pensions and other benefits to certain public servants.

The Council anticipated to pay £13.9 million expected contributions to the scheme in 2016-17.

The weighted average distribution of the defined benefit obligation for members of the Council's Pension Fund was 45 years at the end of 2015-16 (45 years for 2014-15).

The weighted average distribution of the defined benefit obligation for the members of the London Pension Fund Authority was 58 years at the end of 2015-16 (58 years for 2014-15).

## 41. Contingent Liabilities

At 31 March 2016, the Council had the following contingent liabilities:

- As part of the Business Rates Retention Scheme, introduced on 1 April 2013, the Council has a share of the financial liability for any refunds relating to back-dated appeals. A crude estimate of the exposure (based on an analysis of outstanding appeals provided by the Valuation Office Agency at 30 April 2016 and assuming that the historic appeal driven reductions in rateable value are repeated) is £22.5 million for this exposure, of which the Council's share is £6.8 million. The final loss on outstanding appeals could be either more or less than this. The Council is disclosing any potential additional exposure as a contingent liability. However, the Business Rates Retention Scheme includes a safety net and the Council's maximum funding loss, if the financial impact of the settled appeals is higher than provided for, is £1.6 million.
- During 1992-93, the then Council's insurers, Municipal Mutual Insurance (MMI), ceased accepting new business. The Council is a member of a scheme of arrangement that has been put into place to try to ensure an orderly settlement of the run-off of MMI. The scheme of arrangement was triggered in 2014-15 and the Council paid a levy of £247,000 in 2014-15. The Council's maximum estimated additional exposure to future claims payments of £1.853 million (based on the current outstanding claims). The Council has sufficient funds in its Insurance Reserve to cover this exposure.
- A High Court ruling found that the London Borough of Southwark (the Borough) had overcharged its tenants for their water charges. The key issue in the case was whether the Borough 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 Borough had paid Thames Water a lump sum which had been reduced by a provision to reflect voids and a commission for undertaking the billing and collection functions including taking on the risk of non-payment by the tenant. These reductions were not reflected in tenants' water bills, i.e. tenants were charged the full rate. The ruling found that the Borough should have passed these deductions onto tenants. The Borough has now confirmed that it is not planning to appeal against the decision. The ruling is likely to affect many local authorities and housing associations, including the Royal Borough. Within the housing sector, the need for further legal advice is currently being considered. The maximum exposure is estimated to be £1.3 million and would need to be funded from the Housing Revenue Account.
- As part of the wind-up of the Greater London Council (GLC), the London Pension Fund Authority took over responsibility for the managing the pension fund of former GLC

employees. This is potentially underfunded and there may potentially be a financial call on the London boroughs, under the existing levy arrangements, for any shortfall in the fund. There is no reliable estimate of this financial exposure.

- The Council has made a public commitment to funding a Crossrail station in the north of the Royal Borough. This does not constitute a legally binding contract and the Council is awaiting a final decision by the Government.

## 42. Contingent Assets

The Council currently has no material contingent assets.

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

### Key Risks

The Council's activities expose it to a variety of financial 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 requiring 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 rate movements.

### Overall Procedures for Managing Risk

The Council's overall risk management procedures focus on the unpredictability of financial markets, and are structured to implement suitable controls to minimise these risks. 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 Government guidance.

These are required to be reported and approved when or before the Council's Council Tax is set and Revenue Budget approved. These items are reported with the *Annual Treasury Strategy*, which outlines the detailed approach to managing risk in relation to the Council's financial instrument exposure. Actual performance is also reported after each year, as is a mid-year update.

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

### **Credit Risk**

Credit risk arises from deposits with banks and financial institutions as well as credit exposure to the Council's customers.

This 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. Deposits are not made with banks and financial institutions unless they meet the minimum requirements of the investment criteria. Additional selection criteria are also applied following the application of the initial credit criteria.

The Council's maximum exposure to credit risk in relation to its investments in banks cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities not to be able to meet their commitments. A risk of irrecoverability applies to all of the Council's deposits, but there was no evidence at the 31 March 2016 that this was likely to crystallise.

No breaches of the Council's counterparty criteria occurred during the reporting period and the Council does not expect any losses from non-performance by any counterparty in relation to outstanding deposits or non investment activity related financial instrument.

### **Liquidity Risk**

The Council manages its liquidity position through the risk management procedures set out above and through cash flow management procedures required by the *Code of Practice on Treasury Management in the Public Services*. This seeks to ensure that cash is available when needed.

The Council has ready access to borrowings from the money markets to cover any day-to-day cash flow needs, while the Public Works Loans Board provides access to longer term funds. It also acts as a lender of last resort to local authorities (although it will not provide funding to an authority whose actions are unlawful). The Council is also required to provide a balanced budget through the Local Government Finance Act 1992, which ensures sufficient monies are raised to cover annual expenditure. Thus there is no significant risk that the Council will be unable to raise finance to meet its commitments under financial instruments.

## Refinancing and Maturity Risk

The Council maintains a significant debt and investment portfolio. While the cash flow procedures above are considered against the refinancing risk procedures, longer term risk to the Council relates to managing the exposure to replacing financial instruments as they mature. This risk relates to both the maturing of longer term financial liabilities and longer term financial assets.

The approved prudential indicator limits for the maturity structure of debt and the limits placed on investments for greater than one year in duration are the key parameters used to address this risk. The Council's treasury and investment strategies address the main risks and the treasury team address the operational risks within the approved parameters. This includes:

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

The maturity analysis of financial liabilities is as follows:

	<b>2015-16</b> <b>£'000</b>
Less than one year	9,395
Between one and two years	7,509
Between two and five years	24,108
Between five and ten years	45,746
Between ten and fifteen years	20,532
More than fifteen years	35,968
<b>Total</b>	<b>143,258</b>

The maturity analysis of financial assets is as follows:

	<b>2015-16</b> <b>£'000</b>
Less than one year	269,584
Between one and two years	-
Between two and three years	-
More than three years	-
<b>Total</b>	<b>269,584</b>

The above tables exclude trade payables and receivables all of which are due to be paid/received within one year.

## Market Risk

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

- *Borrowing at variable rates*: the interest expense charged to the Comprehensive Income and Expenditure Statement will rise.
- *Borrowing at fixed rates*: the fair value of the borrowing liability will fall (no impact on revenue balances).
- *Investments at variable rates*: the interest income credited to the Comprehensive Income and Expenditure Statement will rise.
- *Investments at fixed rates*: the fair value of the assets will fall (no impact on revenue balances).

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

The Council has a number of strategies for managing interest rate risk. The *Annual Treasury Strategy* draws together the Council's prudential and treasury indicators and its expected treasury operations, including an expectation of interest rate movements. The Strategy sets a treasury indicator that provides maximum and minimum limits for fixed and variable interest rate exposure. The treasury team monitors market and forecast interest rates within the year and adjusts exposure appropriately. For instance, during periods of falling interest rates and where economic circumstances make it favourable, fixed rate investments may be taken for longer periods to secure better long term returns, similarly the drawing of longer term fixed rate borrowing would be postponed.

The Council has no variable rate borrowing and no fixed rate investments. If all interest rates had been 1 per cent higher with all other variables held constant the financial effect would be:

	<b>2015-16</b> <b>£'000</b>
Increase in interest payable on variable rate borrowings	-
Increase in interest receivable on variable rate investments	(3,342)
Impact on the Comprehensive Income and Expenditure Statement	(3,342)
Increase in Government grant receivable for financing costs	
Decrease in fair value of fixed rate investment assets	-
Decrease in fair value of fixed rate borrowings liabilities (no impact on the CIES)	14,726

The approximate impact of a 1 per cent 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 note: Fair Value of Assets and Liabilities Carried at amortised cost.

**Price risk**: the Council makes investments in marketable instruments (Gilts, Treasury Bills, Corporate Bonds, Commercial Paper and Supranational Bonds) which are subject to market variations in price. These investments are bought to hold to maturity thus market fluctuations do not impact on the capital value invested. Excluding the Pension Fund the Council does not invest in equities.



**Foreign exchange risk:** the Council has no financial assets or liabilities denominated in foreign currencies. It therefore has no exposure to loss arising from movements in exchange rates.

#### 44. Long Term Liabilities

	2015-16 £'000	2014-15 £'000
Net pensions liability <sup>1</sup>	219,218	265,556
Long term lease liability	72	153
Deferred liabilities	78	50
<b>Total</b>	<b>219,368</b>	<b>265,758</b>

<sup>1</sup> This is a balance sheet date actuarial valuation (a snap shot at a point in time). Although the actuarial assessment of the fund value has increased this has been far exceeded by the obligations due (driven by the latest estimates of life expectancy and pay and price inflation).

## 45. Pooled Budgets

### Better Care Fund

The Authority has entered into a pooled budget arrangement with The West London Clinical Commissioning Group 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 the area of the Royal Borough of Kensington and Chelsea. 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 reablement of residents.

The arrangement is made in accordance with Section 75 of the National Health Service Act 2006 and 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 Better Care Fund, whether funded by the local authority or the health service.

It is hosted by the Royal Borough of Kensington and Chelsea, however, not all transactions pass through the Royal Borough's accounting system.

The balance brought forward relates to the pooled budget for Occupational Therapy Equipment which has now been absorbed within the Better Care Fund.

The following table summarises the position for 2015-16:

	<b>2015-16 £'000</b>
Balance brought forward	(206)
Contributions to the Pooled Budget	
Royal Borough of Kensington and Chelsea	(25,131)
West London Clinical Commissioning Group	(30,976)
<b>Total contributions</b>	<b>(56,107)</b>
Expenditure Met by the Pooled Budget	
Costs relating to the reablement of residents	6,099
Costs relating to supporting residents to remain in their own homes	-
Costs relating to care provided in residential settings or in community settings	45,997
Support Services and programme management relating to the BCF	992
<b>Total expenditure</b>	<b>53,088</b>
<b>Net (surplus)/deficit arising on the pooled budget in the year</b>	<b>(3,225)</b>
<b>Net (surplus) / deficit split by:</b>	
Share of the net (surplus) / deficit due to the Royal Borough of Kensington and Chelsea	(350)
Share of the net (surplus) / deficit due to the West London Clinical Commissioning Group	(2,875)

# Supplementary Financial Statements 2015-16



THE ROYAL BOROUGH OF  
KENSINGTON  
AND CHELSEA



## The Housing Revenue Account Income and Expenditure Statement

The Housing Revenue Account (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 regulations; 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 Housing Revenue Account Statement.

	31 March '16	31 March '15 (Restated)	Notes
	£'000	£'000	
<b><u>Expenditure</u></b>			
Repairs and maintenance	10,799	12,700	
Supervision and management	14,649	14,326	
Special	4,164	6,101	
Rents, rates, taxes and other charges	184	196	
Depreciation and impairment of fixed assets			
On dwellings	2,638	2,666	1a
On non-dwellings	10	326	
(Gains) / Loss as a result of Revaluation or Impairment	6,040	13,255	
Debt management costs	89	80	
Revenue Expenditure Funded from Capital Under Statute	1,054	280	
Bad debt provision made in year	183	228	7
<b>Total expenditure</b>	<b>39,810</b>	<b>50,158</b>	
<b><u>Income</u></b>			
Dwelling rents	(44,129)	(42,210)	
Non-dwelling rents	(3,968)	(3,749)	
Charges for services and facilities	(9,862)	(11,182)	
Contributions towards expenditure	(223)	(306)	
<b>Total income</b>	<b>(58,182)</b>	<b>(57,447)</b>	
<b>Net cost of HRA services as included in the Council's Income and Expenditure Statement</b>	<b>(18,372)</b>	<b>(7,289)</b>	
HRA's share of Corporate and Democratic Core	12	14	
<b>Net cost of HRA services</b>	<b>(18,360)</b>	<b>(7,275)</b>	
<i>HRA share of the operating income and expenditure included in the Comprehensive Income and Expenditure Statement:</i>			
(Gain) / Loss on sale of HRA Fixed Assets <sup>2</sup>	(12,218)	(10,593)	
Pooling payments in respect of Right to Buy disposals <sup>2</sup>	5,625	1,033	
Interest payable and similar charges <sup>1</sup>	10,569	11,280	5
Interest and investment income	(100)	(83)	
Changes to fair value of investment properties <sup>3</sup>	(4,707)	(2,477)	
Government grants applied <sup>4</sup>	(428)	(97)	
<b>(Surplus) / deficit for the year on HRA services</b>	<b>(19,619)</b>	<b>(8,212)</b>	

## Movement on the HRA Statement

	31 March '16	31 March '15 (Restated)	Notes
	£'000	£'000	
<b>(Surplus) / deficit for the year on the HRA Income and Expenditure Account</b>	<b>(19,619)</b>	<b>(8,212)</b>	
Transfers to / (from) Major Repairs Reserve <sup>5</sup>	17,687	10,092	6
Transfers to / (from) Earmarked Reserves	34	(44)	
Transfers to / (from) Capital Receipts Reserve <sup>2</sup>	7,926	10,625	4
Capital expenditure funded by the Housing Revenue Account	-	-	
Government grants applied <sup>4</sup>	428	97	
Transfers to Capital Adjustment Account			
Depreciation <sup>5</sup>	(2,648)	(2,992)	
Revenue Expenditure Funded from Capital Under Statute	(1,054)	(280)	3
Revaluation / Impairment	(6,040)	(13,255)	
Non-Current Assets written off / disposed <sup>2</sup>	(1,333)	(1,065)	
Investment Properties <sup>3</sup>	4,707	2,477	
<b>(Increase) / decrease in the Housing Revenue Account balance</b>	<b>88</b>	<b>(2,557)</b>	
Housing Revenue Account surplus brought forward	(21,499)	(18,942)	
<b>Housing Revenue Account surplus carried forward</b>	<b>(21,410)</b>	<b>(21,499)</b>	

<sup>1</sup> Interest payable and similar charges include £926,000 of additional interest charged from the General Fund.

Some of the 2014-15 comparatives in the HRA accounts were amended since the 2014-15 audited accounts. These were due to presentational changes to the accounts to follow the Code. The changes are detailed below:

<sup>2</sup> This was to recognise the gross capital receipts, Pooling payments to the Department of Communities and Local Government and fixed assets disposals which relates to the HRA.

<sup>3</sup> This was to recognise the HRA share of the 2014-15 increase in fair value of HRA investment properties.

<sup>4</sup> This was to recognise the HRA share of government grants applied.

<sup>5</sup> This was the present the gross movements of transfers to / (from) Major Repairs Reserve and Capital Adjustment Account.

The four amendments detailed above did not affect the 31 March 2015 Housing Revenue Account carry forward when compared to the 2014-15 audited accounts.

## Notes to the HRA Statement

### 1a. Movement of HRA Dwellings and Other Assets 2015-16

	Council Dwellings	Other Land and Buildings	Vehicles, Equipment Plant and Furniture	Infrastructure Assets	Community Assets	Surplus Assets	Assets Under Construction	Investment Properties	Total
<u>Cost or Valuation</u>	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>
<b>At 1 April 2015</b>	<b>700,562</b>	<b>14,825</b>	-	-	-	-	<b>936</b>	<b>55,903</b>	<b>772,226</b>
Additions and enhancement	18,653	-	-	-	-	-	1,438	143	20,234
Revaluation increases recognised in the Revaluation Reserve	28,862	1,655	-	-	-	-	-	-	30,517
Revaluation decreases recognised in the Surplus on the Provision of Services	(6,440)	114	-	-	-	-	-	4,751	(1,575)
Derecognition – disposals	(963)	-	-	-	-	-	(384)	-	(1,347)
Reclassifications within Property, Plant and Equipment	(5,848)	5,848	-	-	-	-	-	-	-
Assets reclassified from Held for Sale	-	-	-	-	-	-	-	-	-
Other reclassifications	-	-	-	-	-	-	-	-	-
<b>At 31 March 2016</b>	<b>734,826</b>	<b>22,442</b>	-	-	-	-	<b>1,990</b>	<b>60,797</b>	<b>820,055</b>
<b>Accumulated Depreciation and Impairment</b>									
<b>At 1 April 2015</b>	-	-	-	-	-	-	-	-	-
Depreciation charge	2,638	227	-	-	-	-	-	-	2,865
Depreciation / Impairment written out to the revaluation reserve	(2,252)	(134)	-	-	-	-	-	-	(2,386)
Depreciation / Impairment written out to the Surplus on the Provision of Services	(373)	(93)	-	-	-	-	-	-	(466)
Disposals	(13)	-	-	-	-	-	-	-	(13)
Reclassifications	-	-	-	-	-	-	-	-	-
Other Reclassifications	-	-	-	-	-	-	-	-	-
<b>At 31 March 2016</b>	-	-	-	-	-	-	-	-	-
<b>Net Book value</b>									
<b>At 31 March 2016</b>	<b>734,826</b>	<b>22,442</b>	-	-	-	-	<b>1,990</b>	<b>60,797</b>	<b>820,055</b>
At 31 March 2015	700,562	14,825	-	-	-	-	936	55,903	772,226

**1a. Movement of HRA Dwellings and Other Assets  
2014-15**

	<b>Council Dwellings</b>	<b>Other Land and Buildings</b>	<b>Vehicles, Equipment Plant and Furniture</b>	<b>Infrastructure Assets</b>	<b>Community Assets</b>	<b>Surplus Assets</b>	<b>Assets Under Construction</b>	<b>Investment Properties</b>	<b>Total</b>
<b>Cost or Valuation</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>At 1 April 2014</b>	<b>640,186</b>	<b>13,287</b>	<b>48</b>	-	-	-	-	<b>53,564</b>	<b>707,085</b>
Additions and enhancement	13,236	4	-	-	-	-	138	-	13,378
Revaluation increases recognised in the Revaluation Reserve	48,162	2,649	-	-	-	-	-	-	50,811
Revaluation decreases recognised in the Surplus on the Provision of Services	-	(19)	-	-	-	-	-	2,477	2,458
Derecognition – disposals	(1,003)	(317)	(48)	-	-	-	-	(138)	(1,507)
Reclassifications within Property, Plant and Equipment	(20)	(778)	-	-	-	-	798	-	-
Assets reclassified from Held for Sale	-	-	-	-	-	-	-	-	-
Other reclassifications	-	-	-	-	-	-	-	-	-
<b>At 31 March 2015</b>	<b>700,562</b>	<b>14,825</b>	-	-	-	-	<b>936</b>	<b>55,903</b>	<b>772,226</b>
<b>Accumulated Depreciation and Impairment</b>									
<b>At 1 April 2014</b>	-	<b>2</b>	<b>34</b>	-	-	-	-	-	<b>36</b>
Depreciation charge	2,666	502	7	-	-	-	-	-	3,175
Depreciation / Impairment written out to the revaluation reserve	(15,818)	(187)	-	-	-	-	-	-	(16,005)
Depreciation / Impairment written out to the Surplus on the Provision of Services	13,236	-	-	-	-	-	-	-	13,236
Disposals	(84)	(317)	(41)	-	-	-	-	-	(442)
Reclassifications	-	-	-	-	-	-	-	-	-
Other Reclassifications	-	-	-	-	-	-	-	-	-
<b>At 31 March 2015</b>	-	-	-	-	-	-	-	-	-
<b>Net Book value</b>									
<b>At 31 March 2015</b>	<b>700,562</b>	<b>14,825</b>	-	-	-	-	<b>936</b>	<b>55,903</b>	<b>772,226</b>
At 31 March 2014	640,186	13,285	14	-	-	-	-	53,564	707,050



## **1b. Value of Land and Dwellings**

In 2015-16, a full valuation of the council dwellings stock was carried out on 31 March 2016. Within the dwellings Balance Sheet category, the 31 March 2016 Net Book Value comprises £525,868,739 land and £208,956,783 dwellings. The total value of the property in other Balance Sheet categories is £85,229,594.

## **1c. Number and Types of Dwelling**

<b>MRA Archetype</b>	<b>1 April 2016</b>	<b>1 April 2015</b>	<b>Difference</b>
Houses Small Terraced <1945	-	-	-
Houses Semi Detached <1945	1	1	-
Houses Other <1945	54	56	(2)
Houses Small Terraced 1945-1964	-	-	-
Houses SD/Large Terraced 1945-1964	7	7	-
Houses 1965-1974	10	10	-
Houses 1974+	67	67	-
Houses (Non Traditional)	-	-	-
Bungalows	11	12	(1)
Low-Rise Flats <1945	210	210	-
Low-Rise Flats >1945	188	186	2
Medium	3,612	3,633	(21)
High Rise	2,633	2,633	-
Multi-Occupancy	44	44	-
<b>Total</b>	<b>6,837</b>	<b>6,859</b>	<b>(22)</b>

## **1d. Depreciation**

### **Council Dwellings:**

Dwellings are depreciated on a straight line basis over their estimated useful lives. The most recent valuation of the housing stock estimated the remaining useful lives of individual dwellings at between 50 and 100 years. Land is not depreciated because it has an indefinite useful life.

### **Other Land and Buildings:**

With the exception of assets that are being redeveloped and are not yet available for use and thus are not being depreciated, buildings are depreciated on a straight line basis over their estimated useful lives, generally between 25 and 50 years. Land is not depreciated because it has an indefinite useful life.

### **Vehicles, Equipment, Plant and Furniture:**

Depreciation is calculated on a straight line basis over the anticipated useful life of the asset: vehicles are normally depreciated over 7 years; furniture over 7 years; plant between 9 and 30 years; and equipment between 2 and 10 years.

### **Assets Under Construction:**

In line with proper practice, Assets Under Construction are not depreciated.

## Investment Properties:

In line with proper practice, Investment Properties are not depreciated.

### 1e. Vacant Possession Value and Valuation Basis

Council dwellings are valued in accordance with Government guidance *Stock Valuation for Resource Accounting: Guidance for Valuers - 2010* using the “beacon principle” to reach a valuation known as the “Existing Use Value-Social Housing” (EUV-SH).

The “beacon principle” divides dwellings into: archetypes, which share similar characteristics such as design, age, type or construction; and asset groups, which broadly reflect the location of the dwellings. A sample of properties from each archetype within each asset group is visited and valued to provide a representative market price that is used as the open market valuation for every dwelling within that archetype for each asset group. The valuation assumes the dwelling is vacant and is based on a price that would be agreed between a willing buyer and a willing seller in an arms length transaction that is freely entered into.

EUV-SH discounts the open market valuation to take into account that a Council dwelling is worth less than its open market value because:

- a) The sitting tenants enjoy occupation at less than open market rentals.
- b) Rentals increase at a rate that is less than the Retail Price Index over time.
- c) The sitting tenants have greater rights than the norm, such as Right to Buy.
- d) The Landlord (the Council) has greater liabilities than the norm, such as insurance, repairs, maintenance and statutory obligations.

The difference between the open market price and the EUV-SH valuation is known as the “Adjustment Factor” and is the economic cost of providing social housing. The Council uses an adjustment factor of 75 per cent. The gross Balance Sheet value of the Council's dwellings and the land they occupy is therefore 25 per cent of the open market price. The table below sets out the value of the Council's dwellings and the land they occupy based on the historic cost model, their market value, EUV-SH valuation and current carrying value. The current carrying value is the EUV-SH valuation after depreciation, disposals, capital investment, revaluations and impairments that took place from 2011-12 to 2015-16.

	<b>Council Dwellings £'000</b>
Carrying amount if assets had been carried under the cost model	406,959
Market value as at 1 April 2010	2,560,744
Gross EUV-SH valuation as at 1 April 2010	585,712
Current carrying value	734,826

*\*Please note that prior to 1 April 2007, local authorities did not use the current cost model when accounting for non-current assets. Therefore, the carrying amount of the dwellings category if the assets were carried under the historic cost model, as required by IFRS, is based upon the carrying value of the assets as at 1 April 2007.*

### 1f. Impairments

The Council values its dwellings in accordance with the proper practice set out in the Government guidance *Stock Valuation for Resource Accounting: Guidance for Valuers - 2010*. In 2015-16, a full valuation of council dwellings was undertaken at 31 March 2016 by Jones Lang LaSalle, whose staff are qualified surveyors with the Royal Institution of

Chartered Surveyors (RICS). This resulted in an upward valuation of £34,264,022 and this was greater than the capital expenditure incurred in year. Therefore, the Council did not need to impair the value of its capital expenditure on its existing dwellings.

Other revaluation and impairment losses charged to the Housing Revenue Account included:

- Building component of 4 council dwellings have been valued down by £126,813 due to fire or other reasons that make them not fit for Letting as at 31 March 2016.

## **2. Capital Expenditure**

<b>Capital Expenditure</b>	<b>£'000</b>	<b>Funding Sources</b>	<b>£'000</b>
Dwellings	18,653	Capital grants and contributions	428
Other land and buildings		Usable capital receipts	3,128
Assets Under Construction	1,438	Major Repairs Reserve	17,589
REFCUS	1,054		
<b>Total</b>	<b>21,145</b>		<b>21,145</b>

## **3. Revenue Expenditure Funded from Capital Under Statute (REFCUS)**

REFCUS comprises: capital expenditure on non-asset related items; maintenance that is capital expenditure under statute, but revenue expenditure under accounting rules; and expenditure below the de minimis threshold. REFCUS is charged to the Comprehensive Income and Expenditure Statement, although there is no effect on the bottom line of the Housing Revenue Account.

	<b>2015-16 Net Expenditure £'000</b>	<b>2014-15 Net Expenditure £'000</b>
Capital expenditure written to revenue	1,054	280

## **4. Capital Receipts in Year**

A summary of the total capital receipts within the HRA is shown below:

	<b>2015-16 £'000</b>	<b>2014-15 £'000</b>
Land	-	-
Dwellings (net of sale expenses)	3,771	7,717
Other property	4,155	2,908
<b>Total</b>	<b>7,926</b>	<b>10,625</b>

## 5. Interest on Borrowing in the HRA

Interest on borrowing paid by the HRA as follows:

	2015-16 £'000	2014-15 £'000
Interest on borrowing	10,569	11,280
Value of amortised premia	-	-
<b>Total</b>	<b>10,569</b>	<b>11,280</b>

## 6. Major Repairs Reserve

	2015-16		2014-15	
	£'000	£'000	£'000	£'000
<b>Balance at 1 April</b>		<b>608</b>		<b>392</b>
<i>Income:</i>				
Contribution from the HRA	17,687		10,092	
<i>Expenditure:</i>				
Dwellings	(17,588)		(9,876)	
Surplus / (deficit) for year		99		216
<b>Balance at 31 March</b>		<b>707</b>		<b>608</b>

## 7. Rent Arrears and Provision for Bad or Doubtful Debts

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

<b>Tenant Arrears</b>	2015-16 £'000	2014-15 £'000
Gross arrears	2,720	2,271
Net arrears		
Former tenants <sup>1</sup>	811	694
Current tenants <sup>1</sup>	(1,775)	(1,436)
<b>Net arrears at 31 March</b>	<b>(964)</b>	<b>(742)</b>

<sup>1</sup> Also includes credit balances representing receipts in advance

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.

<b>Other Arrears</b>	<b>2015-16 £'000</b>	<b>2014-15 £'000</b>
Gross arrears	3,731	3,066
Net arrears		
Leaseholder charges <sup>1</sup>	2,380	2,358
Commercial properties	637	404
<b>Net arrears at 31 March</b>	<b>3,017</b>	<b>2,762</b>

<sup>1</sup> Also includes credit balances representing receipts in advance

Provision for bad debts has been made as follows:

<b>Provision</b>	<b>2015-16 £'000</b>	<b>2014-15 £'000</b>
<b>Provision at 1 April</b>	<b>2,281</b>	<b>2,293</b>
Provision made in year	218	192
Write-on/(off) during year	24	(204)
<b>Provision at 31 March</b>	<b>2,523</b>	<b>2,281</b>

## Collection Fund Accounts

The Collection Fund Account is an agent's statement that reflects the statutory obligation for billing authorities to maintain a separate Collection Fund. The statement shows the transactions of the Council as billing authority in relation to the collection from taxpayers and distribution to local authorities and the Government of Council Tax and National Non-Domestic Rates (NNDR).

	2015-16			2014-15			Notes
	Business Rates	Council Tax	TOTAL	Business Rates	Council Tax	TOTAL	
	£'000	£'000	£'000	£'000	£'000	£'000	
<b>Income</b>							
Income from Council Tax	-	(103,567)	(103,567)	-	(102,518)	(102,518)	1
Income Collectable from Business Ratepayers	(290,757)	-	(290,757)	(276,305)	-	(276,305)	2
Income Collectable from Business Ratepayers - Business Rate Supplement (BRS)	(9,338)	-	(9,338)	(9,370)	-	(9,370)	
<b>Total Income</b>	<b>(300,095)</b>	<b>(103,567)</b>	<b>(403,662)</b>	<b>(285,675)</b>	<b>(102,518)</b>	<b>(388,193)</b>	
<b>Expenditure</b>							
<i>Precepts &amp; Demands:</i>							
Central Government (DCLG)	137,707	-	137,707	133,896	-	133,896	
Greater London Authority (GLA)	55,083	27,370	82,453	53,558	27,395	80,953	
Local Demand (RBKC)	82,624	72,606	155,230	80,338	71,702	152,040	
<i>Business Rate Supplement:</i>							
Greater London Authority (GLA)	9,249	-	9,249	9,336	-	9,336	3
Costs of Collection - Business Rates Supplement (BRS)	28	-	28	34	-	34	
<i>Bad &amp; Doubtful Debts:</i>							
Write Offs	166	26	192	1,748	124	1,872	
Increase / (Decrease) in Bad Debt Provision	1,813	(177)	1,636	(324)	2,402	2,078	
<i>Appeals:</i>							
Write Offs	-	-	-	-	-	-	
Increase / (Decrease) in Provision for Appeals	17,552	-	17,552	5,898	-	5,898	
Costs of Collection - NNDR	609	-	609	616	-	616	
<i>Contributions:</i>							
Towards previous year's Collection Fund surplus:							
Central Government (DCLG)	-	-	-	-	-	-	
Greater London Authority (GLA)	-	192	192	-	162	162	
Local Demand (RBKC)	-	503	503	-	418	418	
Transitional Protection Payment	2,487	-	2,487	1,052	-	1,052	
Payments of Interest	153	-	153	7	-	7	
Deferrals	-	-	-	(484)	-	(484)	
<b>Total Expenditure</b>	<b>307,471</b>	<b>100,520</b>	<b>407,991</b>	<b>285,675</b>	<b>102,203</b>	<b>387,878</b>	
Movement on Fund Balance: (Surplus)/Deficit for the Year	7,376	(3,047)	4,329	-	(315)	(315)	
(Surplus)/Deficit brought Forward	-	(746)	(746)	-	(431)	(431)	
<b>(Surplus)/Deficit Carried Forward</b>	<b>7,376</b>	<b>(3,793)</b>	<b>3,583</b>	<b>-</b>	<b>(746)</b>	<b>(746)</b>	6

### **1. General**

The Collection Fund Account is an agent's statement that reflects the statutory obligation of billing authorities to maintain a separate Collection Fund. The statement shows the transactions of the Council - the billing authority - in relation to both the collection and redistribution of Council Tax and National Non-Domestic Rates (including the Business Rates Supplement).

### **2. National Non-Domestic Rates (NNDR)**

The Council collects National 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 poundages set nationally by government. The total amount collected, less reliefs and deductions, is divided between the Council (30 per cent), the Greater London Authority (20 per cent) and the government (50 per cent).

The National Non Domestic Rateable Value at 31 March 2016 was £644 million. The standard NNDR multiplier for 2015-16 was 49.3 pence (48.2 pence in 2014-15). The Small Business Rate Relief multiplier for 2015-16 was 48.0 pence (47.1 pence for 2014-15).

### **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 £55,000 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 2016 was £528 million. The standard BRS multiplier for 2015-16 was 2 pence, unchanged from previous years.

## 4. Council Tax

The tax base for the Financial Year 2015-16 was calculated as follows:

Band	Number of Dwellings	Band Ratio	100 Per Cent Tax Base	Less Exemptions Disregards Discounts	Total Band D Equivalents	Less Council Tax Support	Band D Equivalent 2015-16 Forecast	Band D Equivalent 2014-15 Forecast
A	1,868	6/9	1,245	(482)	763	(217)	546	555
B	3,558	7/9	2,767	(598)	2,169	(981)	1,188	1,154
C	9,448	8/9	8,398	(1,479)	6,919	(2,564)	4,355	4,175
D	13,641	1	13,691	(2,436)	11,255	(3,049)	8,206	8,057
E	13,185	11/9	16,115	(2,432)	13,683	(2,168)	11,515	11,395
F	11,871	13/9	17,147	(2,375)	14,772	(1,257)	13,515	13,422
G	19,534	15/9	32,557	(3,656)	28,901	(762)	28,139	27,865
H	14,764	18/9	29,528	(1,788)	27,740	(97)	27,643	27,299
<b>Class O</b>					50		50	50
<b>Sub-Total</b>	<b>87,869</b>		<b>121,449</b>	<b>(15,247)</b>	<b>106,252</b>	<b>(11,095)</b>	<b>95,157</b>	<b>93,972</b>
						<b>Collection Loss</b>		
							(2,379)	(2,349)
						<b>Net Tax Base</b>	<b>92,778</b>	<b>91,622</b>

The 2015-16 Council Tax Base was 92,778. The Council set a 2015-16 Band D charge of £767.33 and the Greater London Authority's Band D precept for 2015-16 was £295.00, making a total Band D Council Tax charge for 2015-16 of £1,062.33.

## 5. Council Tax Precept Adjustments

In January 2015 as part of 2015-16 budget setting, the surplus was estimated for 31 March 2016 at £694,605 of which £191,989 was paid to the precepting body during the financial year. The actual surplus on the Collection Fund was £3,793,677 at the 31 March 2016 of which £998,084 is due to the precepting body. The difference is adjusted for in the Collection Fund.

## 6. Collection Fund Balance

A proportion of the Collection Fund balance is attributable to the Greater London Authority and the Government and thus should not be wholly taken to the net worth component of the Council's Balance Sheet. Therefore, an element calculated pro rata appears as an asset in the Balance Sheet in the net worth section of the Balance with the remainder treated as a liability.

	2015-16			2014-15		
	Business Rates £000	Council Tax £000	Total £000	Business Rates £000	Council Tax £000	Total £000
Royal Borough of Kensington and Chelsea	2,213	(2,795)	(582)	-	(540)	(540)
Greater London Authority	1,475	(998)	477	-	(206)	(206)
Central Government (CLG)	3,688	-	3,688	-	-	-
<b>(Surplus)/Deficit Carried Forward</b>	<b>7,376</b>	<b>(3,793)</b>	<b>3,583</b>	<b>-</b>	<b>(746)</b>	<b>(746)</b>



## The Pension Fund

### The Pension Fund Account

	2015-16	2014-15	Notes
Dealings with members, employers and others directly involved in the fund	£'000	£'000	
Contributions	(23,685)	(24,664)	7
Individual Transfers in from other pension funds	(2,741)	(1,240)	
	<b>(26,426)</b>	<b>(25,904)</b>	
Benefits	26,861	26,028	8
Payments to and on account of leavers	26	54	
Individual transfers out to other pension funds	1,689	2,279	
	<b>28,576</b>	<b>28,361</b>	
<b>Net (Additions)/withdrawals with members</b>	<b>2,150</b>	<b>2,457</b>	
<b>Management expenses</b>	<b>4,692</b>	<b>3,733</b>	9
<b>Returns on investments</b>			
Investment income	(7,785)	(8,410)	10
Other income	(2)	(30)	
Taxes on income	71	102	
Profit and loss on disposal of investments and changes in the market value of investments	(14,245)	(128,086)	
<b>Net return on investments</b>	<b>(21,961)</b>	<b>(136,424)</b>	
<b>Net (increase) / decrease in the net assets available for benefits during the year</b>	<b>(15,119)</b>	<b>(130,234)</b>	
<b>Opening Net Assets of the Scheme</b>	<b>(825,896)</b>	<b>(695,662)</b>	
<b>Closing Net Assets of the Scheme</b>	<b>(841,015)</b>	<b>(825,896)</b>	

### The Pension Fund Net Assets Statement

	31 March 2016	31 March 2015	
	£'000	£'000	
Investment Assets	822,325	808,111	12
Cash	10,543	9,469	12
<b>Net value of investment assets</b>	<b>832,868</b>	<b>817,580</b>	
Current assets	10,417	9,530	21
Current liabilities	(2,270)	(1,214)	22
<b>Net assets of the fund available to fund benefits at the period end</b>	<b>841,015</b>	<b>825,896</b>	

\* The Fund's financial statements do not take account of liabilities to pay pensions and other benefits after the period end. The actuarial present value of promised retirement benefits is disclosed in Note 20.

## Notes to the Pension Fund Account

### 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 The Royal Borough of Kensington and Chelsea Council. The Council is the reporting entity for this pension fund.

The following description of the fund is a summary only. For more detail, reference should be made to the RBKC Pension Fund Annual Report 2015-16.

#### (a) General

The Fund is governed by the Public Service Pensions Act 2013. The fund is administered in accordance with the following secondary legislation:

- The Local Government Pension Scheme Regulations 2013 (as amended);
- The Local Government Pension Scheme (Transitional Provision, Savings and Amendment) Regulations 2014 (as amended); and
- The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (as amended).

It is a contributory defined benefits scheme established in accordance with statute, which provides pensions and other benefits to employees and former employees of the Council and the admitted and scheduled bodies to the Fund.

#### (b) Membership

Membership of the LGPS is 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:

	31 March 2016	31 March 2015
	No.	No.
Active members	3,255	3,271
Pensioners receiving benefits	2,798	2,693
Deferred Pensioners	4,990	4,421
<b>Total</b>	<b>11,043</b>	<b>10,385</b>

#### (c) Funding

The Fund is financed by 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 per cent to 12.5 per cent of pensionable pay. Employer contributions are set based on the triennial actuarial funding valuation and the current contribution rates range from 12 per cent to 27 per cent 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 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 Investment Committee (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 Town Clerk and, as necessary, from the Fund's appointed investment advisers, managers and actuary.

##### **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 twice a year and has its own Terms of Reference. Board members are independent of the Investment Committee.

#### **(f) Investment Policy**

The *Local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 2009 as amended* require administering authorities to prepare and review from time to time a written statement of Investment Principles. This statement provides details of the Fund's investment policies including the types of investment to be held, Risk measurement and management and compliance with the Myner's principles of investment management.

The latest *Statement of Investment Principles* (SIP) was approved in February 2015 by the Investment Committee and is available on Council's website at:

<https://www.rbkc.gov.uk/council/how-council-manages-money/council-spending-and-finances/pension-fund-2014-15>

The Fund's investment objective is to ensure that its assets are invested in a way that maximises the likelihood that benefits will be paid to members as they fall due and to ensure the continued long-term financial support from the sponsoring employers.

The Committee has delegated the management of the Fund's investments to seven professional investment managers (see Note 11) 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 the Preparation of the Financial Statements**

The Statement of Accounts summarises the Fund's transactions for 2015-16 and its position at year end as at 31 March 2016. The Statement of Accounts has been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom 2015/16* (The Code) issued by the Chartered Institute of Public Finance and Accountancy ("CIPFA") which is based on International Financial Reporting Standards (IFRS) as amended for the UK public sector.

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.

## **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.

**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**

The Code does not require a breakdown of management expenses, however disclosure of expenses in accordance with the CIPFA guidance “Accounting for Local Government Pension Scheme Management costs” is provided in the interests of greater transparency.

All expenses are accounted for on an accruals basis to ensure costs for the full accounting period are accounted for in the Fund account. Staff costs associated with the running of the Fund (including administration and oversight and governance) are charged to the Fund along with an element of management, accommodation and overhead charges.

The fees of the Fund’s external investment managers reflect their differing mandates. Management fees are usually linked to the market value of the Fund’s investments and therefore may increase or reduce as the value of the investment changes. Fees are also payable to the Fund’s custodian and other advisers.

## 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. Quoted securities and Pooled Investment Vehicles have been valued at the bid price ruling on the final day of the accounting period. Quoted securities are valued by Northern Trust, the Fund's custodian.

The values of the private equity investments are based on valuations provided by the general partners to the private equity funds. Valuations are usually undertaken annually at the end of December. Cash flow adjustments are used to roll forward the valuations to 31 March as appropriate.

### (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 2009 . They are disclosed in Note 23.

## 4. Critical Judgements in Applying Accounting Practices

In applying the accounting policies set out in Note 3 above, 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 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 £48.8 million (£45.8 million on 31 March 2015).

## **5. 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 taking into account 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 2016 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows.

<b>Item</b>	<b>Uncertainties</b>	<b>Effect if actual results differ from assumptions</b>
Actuarial present value 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, <ul style="list-style-type: none"> <li>a 0.5 per cent increase in the discount rate assumption would result in a decrease in the pension liability of £90.9 million.</li> <li>a 0.2 per cent increase in assumed earnings would increase the value of liabilities by approximately £4.3 million.</li> <li>a one-year increase in assumed life expectancy would increase the liability by approximately £30.8 million.</li> </ul>
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.	The value of private equity investments at the balance sheet date was £48.8m. There is a risk that this investment may be under or overstated in the accounts.

## 6. Events after the Balance Sheet Date

The result of the referendum on EU membership held on 23<sup>rd</sup> June 2016 was in favour of the UK to leave the EU. The long term financial impacts of "Brexit" cannot, as yet, be easily ascertained, however given that this condition did not exist at the balance sheet date, any such impacts insofar as they could be ascertained, constitute a non-adjusting event. In the shorter term, at 31st July 2016, the market value of the investments of the Fund had increased to approximately £932 million compared to the value placed on the net assets statement as at the reporting date of 31 March 2016. This mainly reflects global equity market movements.

## 7. Contributions Receivable

By category:	2015-16 £'000	2014-15 £'000
<b>Employees' contributions</b>	<b>6,523</b>	<b>6,374</b>
<b>Employer's contributions:</b>		
Normal Contributions	13,211	13,346
Deficit recovery contributions	2,888	4,568
Augmentation Contributions	1,063	376
<b>Total Employer's contributions</b>	<b>17,162</b>	<b>18,290</b>
<b>Total</b>	<b>23,685</b>	<b>24,664</b>

By authority	2015-16 £'000	2014-15 £'000
Administering authority	19,453	19,362
Scheduled bodies	1,866	1,289
Admitted bodies	2,366	4,013
<b>Total</b>	<b>23,685</b>	<b>24,664</b>

## 8. Benefits Payable

By category:	2015-16 £'000	2014-15 £'000
Pensions	22,150	21,391
Commutation and lump sum retirement benefits	3,797	4,104
Lump sum death benefits	914	533
<b>Total</b>	<b>26,861</b>	<b>26,028</b>

The Fund paid benefits to members of the scheme who were previously employed by the bodies set out below (the summary excludes lump sum retirement benefits and death benefits for 2014-15 as this information is not held at employer level).

By authority	2015-16 £'000	2014-15 £'000
Administering authority	24,844	19,740
Scheduled bodies	341	175
Admitted Bodies	1,676	1,476
<b>Total</b>	<b>26,861</b>	<b>21,391</b>



## 9. Management Expenses

	2015-16 £'000	2014-15 £'000
Administrative costs	598	233
Investment management expenses (see below)	3,885	3,277
Oversight and governance costs	209	223
<b>Total</b>	<b>4,692</b>	<b>3,733</b>

	2015-16 £'000	2014-15 £'000
Management fees	3,786	3,213
Transaction costs	60	23
Custody fees	39	41
<b>Total</b>	<b>3,885</b>	<b>3,277</b>

## 10. Investment Income

	2015-16 £'000	2014-15 £'000
Equity dividends	5,538	7,259
Pooled property investments	2,210	1,095
Private equity income	-	3
Interest on cash deposits	37	53
<b>Total</b>	<b>7,785</b>	<b>8,410</b>

## 11. Investments Analysed by Fund Manager

Fund Manager	31 March 2016		31 March 2015	
	Market Value £'000	%	Market Value £'000	%
L and G Liquidity	30,286	3.6	30,118	3.7
Baillie Gifford	174,080	20.9	176,326	21.6
Longview	223,011	26.8	213,867	26.2
L and G Equities	219,041	26.3	218,302	26.7
Pyrford	94,316	11.3	92,702	11.3
CBRE	27,217	3.3	25,660	3.1
KAMES	15,788	1.9	14,616	1.8
Adams Street	48,798	5.9	45,901	5.6
London CIV	150	-	-	-
<b>Total Fund Managers</b>	<b>832,687</b>	<b>100</b>	<b>817,492</b>	<b>100</b>
Investment income due	181		88	
<b>Total Investments</b>	<b>832,868</b>		<b>817,580</b>	

Although several allocations exceed 5 per cent of the Fund's value, all of the allocations to pooled funds are made up of underlying investments, each of which represents substantially less than 5 per cent.

## 12. Reconciliation in Movements in Investments

Market Value	1 April 2015	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Net assets / liabilities movement	Changes in market value during the year	31 March 2016
2015-16	£'000	£'000	£'000	£'000	£'000	£'000
Sterling liquidity pooled fund (Legal & General)	30,118	-	-	-	168	30,286
Pooled active global equities (Baillie Gifford)	176,326	-	(55)	-	(2,191)	174,080
Active global equities (Longview)	213,867	48,602	(44,555)	-	5,097	223,011
Pooled passive global equities (Legal and General)	218,302	-	-	-	739	219,041
Pooled active global absolute return fund (Pyrford)	92,702	868	-	-	746	94,316
Pooled UK property fund (CBRE)	25,660	3	-	-	1,554	27,217
Pooled UK property fund (Kames)	14,616	439	-	-	733	15,788
Global private equity fund (Adams Street)	45,901	3,981	(8,267)	-	7,183	48,798
London CIV	-	150	-	-	-	150
Investment income due	88	-	-	93	-	181
<b>Sub-Total</b>	<b>817,580</b>	<b>54,043</b>	<b>(52,877)</b>	<b>93</b>	<b>14,029</b>	<b>832,868</b>
Current assets	142	-	-	2,799	-	2,941
Current liabilities	(1,214)	-	-	(556)	-	(1,770)
Cash deposits	9,388	-	-	(2,128)	216	7,476
Cash Overdraft	-	-	-	(500)	-	(500)
<b>Net Investment Assets</b>	<b>825,896</b>	<b>54,043</b>	<b>(52,877)</b>	<b>(292)</b>	<b>14,245</b>	<b>841,015</b>

Market Value	1 April 2014	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Net assets / liabilities movement	Changes in market value during the year	31 March 2015
2014-15	£'000	£'000	£'000	£'000	£'000	£'000
Sterling liquidity pooled fund (Legal & General)	-	45,000	(15,000)	-	118	30,118
Pooled active global equities (Baillie Gifford)	145,279	-	-	-	31,047	176,326
Active global equities (Longview)	166,624	19,954	(16,222)	-	43,511	213,867
Pooled passive global equities (Legal and General)	139,979	45,000	-	-	33,323	218,302
Pooled active global absolute return fund (Barings)	89,656	35	(92,273)	-	2,582	-
Pooled active global absolute return fund (Pyrford)	86,607	3,385	(417)	-	3,127	92,702
Pooled UK property fund (CBRE)	22,781	-	-	-	2,879	25,660
Pooled UK property fund (Kames)	-	15,025	-	-	(409)	14,616
Global private equity fund (Adams Street)	33,500	8,563	(8,070)	-	11,908	45,901
Investment income due	103	-	-	(15)	-	88
<b>Sub-Total</b>	<b>684,529</b>	<b>136,962</b>	<b>(131,982)</b>	<b>(15)</b>	<b>128,086</b>	<b>817,580</b>
Current assets	1,540	-	-	(1,398)	-	142
Current liabilities	(451)	-	-	(763)	-	(1,214)
Cash deposits	10,044	-	-	(656)	-	9,388
<b>Net Investment Assets</b>	<b>695,662</b>	<b>136,962</b>	<b>(131,982)</b>	<b>(2,832)</b>	<b>128,086</b>	<b>825,896</b>

### 13. Classification of Financial Instruments

The following table shows the classification of the Fund's financial instruments and also shows the split between UK and overseas. All investments are quoted unless otherwise stated.

	31 March 2016			31 March 2015		
	Designated as fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost	Designated as fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost
<b>Financial Assets</b>						
<b>Equities</b>						
United Kingdom quoted	23,658			35,873		
United Kingdom unquoted	150			-		
Overseas	189,677			168,642		
<b>Pooled funds - investment vehicles</b>						
UK pooled liquidity fund	30,286			30,118		
Pooled global equities	393,121			394,628		
Pooled global absolute return funds	94,316			92,702		
Pooled property investments	42,138			40,251		
Pooled private equity funds (unquoted)	48,798			45,809		
Investment income due	181			88		
Cash		18,019			18,857	
Debtors		2,941			142	
<b>Financial Liabilities</b>						
Creditors			(1,770)			(1,214)
Cash Overdraft			(500)			-
<b>Subtotal</b>	<b>822,325</b>	<b>20,960</b>	<b>(2,270)</b>	<b>808,111</b>	<b>18,999</b>	<b>(1,214)</b>
<b>Total</b>		<b>841,015</b>			<b>825,896</b>	

The carrying value is the same as the fair value for all financial instruments held by the Fund.

### 14. Net Gains and Losses on Financial Instruments

	31 March 2016	31 March 2015
	£'000	£'000
<b>Financial Assets</b>		
Designated at fair value through profit and loss	14,096	128,104
Loans and Receivables	149	(18)
<b>Net Gains and Losses</b>	<b>14,245</b>	<b>128,086</b>

### 15. 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.

### 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 cashflow adjustments are used to roll forward the valuations to 31 March as appropriate.

	31 March 2016			31 March 2015		
	Quoted market price	Using observable inputs	With significant unobservable inputs	Quoted market price	Using observable inputs	With significant unobservable inputs
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
<b>Financial Assets</b>						
Financial assets at fair value through profit and loss	731,238	42,139	48,948	722,051	40,251	45,809
Loans and receivables	20,960	-	-	18,999	-	-
<b>Total Financial Assets</b>	<b>752,198</b>	<b>42,139</b>	<b>48,948</b>	<b>741,050</b>	<b>40,251</b>	<b>45,809</b>
<b>Financial Liabilities</b>						
Financial liabilities at amortised cost	(2,270)	-	-	(1,214)	-	-
<b>Total Financial Liabilities</b>	<b>(2,270)</b>	<b>-</b>	<b>-</b>	<b>(1,214)</b>	<b>-</b>	<b>-</b>
<b>Net Financial Assets</b>	<b>749,928</b>	<b>42,139</b>	<b>48,948</b>	<b>739,836</b>	<b>40,251</b>	<b>45,809</b>
<b>Total</b>		<b>841,015</b>			<b>825,896</b>	

## 16. 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. 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 Investment Committee and is reviewed on a regular basis, along with the Pension Fund Risk Register.

In order to meet the Fund's objective of being fully funded within 7 years of the 2013 actuarial valuation, the fund managers have been set differing targets appropriate to the types of assets they manage. The overall target for the scheme is to outperform a weighted average of these benchmarks by 2.3 per cent on a rolling three-year basis.

### (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 with the exception of cash, other investment balances, debtors and creditors are exposed to price risk. The value of the assets exposed to price movements along with what the value would have been if prices had been 10 per cent higher or 10 per cent lower is shown below.

<b><u>Assets exposed to price risk</u></b>	<b>Value £000</b>	<b>+ 10% £000</b>	<b>-10% £000</b>
At 31 March 2016	821,994	904,193	739,795
At 31 March 2015	808,023	888,825	727,221

#### 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 Investment 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 overleaf.

<b><u>Assets exposed to interest rate risk</u></b>	<b>Value £000</b>	<b>+ 1% £000</b>	<b>-1% £000</b>
At 31 March 2016	107,507	108,582	106,432
At 31 March 2015	114,357	115,501	113,213

### **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 per cent higher or 10 per cent lower.

<b><u>Assets exposed to currency risk</u></b>	<b>Value £000</b>	<b>+ 10% £000</b>	<b>-10% £000</b>
At 31 March 2016	642,709	706,980	578,438
At 31 March 2015	611,786	672,965	550,607

### **(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.

In essence the Fund's entire investment portfolio is 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 which amounted to £48.8 million at 31 March 2016 (£45.8 million at 31 March 2015).

## 17. Contractual Commitments

As at 31 March 2016, the Fund had a commitment to invest a further £14.8 million into the Adams Street private equity funds of funds. It is anticipated that these commitments will be spread over the next 10 years and will be largely offset by cash distributions from the investments made since 2007.

## 18. Stock Lending

The Fund does not participate in stock lending.

## 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 2013 in accordance with the Funding Strategy Statement of the Fund and Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008. 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 2016.

<https://www.rbkc.gov.uk/council/how-council-manages-money/council-spending-and-finances/pension-fund-2014-15>

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

- 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 to
- Build up the required assets in such a way that employer contribution rates are kept as low and stable as possible.

To reach the funding level of 100 per cent over a period of 7 years, the common contribution rate is 17.8 per cent of pensionable pay to be paid by each employing body participating in the Fund. In addition, each employing body has to 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 2013
RPI Increases	3.5%
CPI Increases	2.7%
Salary Increases	4.5%
Pension Increases	2.7%
Discount Rate	5.9%



Other assumptions:

- Commutation – An allowance is included for future retirements to elect to take 50 per cent of the maximum additional tax-free cash up to HMRC limits.
- 50/50 Scheme Allowance – It is assumed that 5 per cent of active members will opt to pay 50 per cent of contributions for 50 per cent of benefits under the new scheme.
- Mortality Projection – Long term rate of improvement of 1.5 per cent 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 indicating a net liability of £33 million, resulting in a funding level of 95 per cent.

The next actuarial valuation of the Fund will be as at 31 March 2016 and will be published in 2017.

## 20. Actuarial Present Value of Promised Retirement Benefits

The table below shows the total net liability of the Fund as at 31 March 2016. The figures have been prepared by the Fund's actuary, only for the purposes of providing the information required by IAS26. In particular, they are not relevant for calculations undertaken for funding purposes or for other statutory purposes under UK pensions legislation.

In calculating the required numbers the actuary adopted methods and assumptions that are consistent with IAS19. In conducting the 2016 actuarial valuation referred to in Note 19, the Actuary will take into account the investment policy when determining the assumptions to be used.

	31 March 2016 £'000	31 March 2015 £'000
Present value of promised retirement benefits <sup>1</sup>	1,027,282	1,066,149
Fair value of scheme assets (bid value)	(841,015)	(825,896)
<b>Net Liability</b>	<b>186,267</b>	<b>240,253</b>

<sup>1</sup> Present value of promised retirement benefits comprises £991,170,000 in respect of vested obligation and £36,112,000 in respect of non-vested obligations.

The assumptions applied by the actuary are set out below:

### Financial Assumptions

	31 March 2016	31 March 2015
RPI Increases	3.3%	3.2%
CPI Increases	2.4%	2.4%
Salary Increases	4.2%	4.2%
Pension Increases	2.4%	2.4%
Discount Rate	3.7%	3.3%

### Demographic Assumptions

The post mortality tables adopted are the S1PA tables with a multiplier of 105 per cent for males and 95 per cent for females. These base tables are then projected using the CMI 2012 Model allowing for a long term rate of improvement of 1.5 per cent per annum.

Life expectancy from age 65		31 March 2016	31 March 2015
Retiring today	Males	22.5	22.4
	Females	25.8	25.7
Retiring in 20 years	Males	24.8	24.6
	Females	28.1	28.0

### 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 per cent of active members will take up the option under the new LGPS to pay 50 per cent of contributions for 50 per cent of benefits.

### 21. Current Assets

	31 March 2016 £'000	31 March 2015 £'000
Debtors:		
Contributions due - employers	346	100
Contributions due - employees	130	42
Sundry debtors	2,465	-
Cash balances	7,476	9,388
<b>Total</b>	<b>10,417</b>	<b>9,530</b>

Analysis of debtors	31 March 2016 £'000	31 March 2015 £'000
Central government bodies	131	-
Other local authorities	26	-
Royal Borough of Kensington and Chelsea	2,506	-
Other entities and individuals	278	142
<b>Total</b>	<b>2,941</b>	<b>142</b>

### 22. Current Liabilities

	31 March 2016 £'000	31 March 2015 £'000
Creditors:		
Sundry creditors	1,700	793
Benefits payable	70	421
Cash overdrawn	500	-
	<b>2,270</b>	<b>1,214</b>

Analysis of creditors	31 March 2016 £'000	31 March 2015 £'000
Central government bodies	313	-
Other local authorities	129	-
Royal Borough of Kensington and Chelsea	403	280
Other entities and individuals	925	934
<b>Total</b>	<b>1,770</b>	<b>1,214</b>

### 23. Additional Voluntary Contributions

The Council has made arrangements 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 Additional Voluntary Contributions (AVCs) to be paid into the Fund, so they are not included in these accounts.

During 2015-16, AVC contributions of £481,000 were paid to the provider (2014-15 £516,000).

	Market Value 31 March 2016 £'000	Market Value 31 March 2015 £'000
Prudential	2,919	2,853 <sup>1</sup>
<b>Total</b>	<b>2,919</b>	<b>2,853</b>

<sup>1</sup> The valuation as at 31 March 2015 has been amended to reconcile to the opening figures of the 2016 valuation provided by the AVC provider.

### 24. Related Party Transactions

The Fund is administered by the Royal Borough of Kensington and Chelsea. The Council incurred costs of £0.242 million in the financial year 2015-16 (2014-15 £0.302 million) in relation to the administration of the Fund and was reimbursed by the Fund for the expenses.

In year, and in total, the Council contributed £14.043 million to the Fund compared to £14.196 million in 2014-15. In addition £15,000 was owed by a Council maintained school in respect of March 2016 contributions.

As at 31 March 2016 the Council owed the Pension Fund a net amount of £2.103 million.

The Council has a significant relationship with one admitted body, the Kensington and Chelsea Tenant Management Organisation (TMO). The Fund received £1.187 million in employer contributions, deficit and early retirement costs from the TMO.

#### Key management personnel

The Code exempts local authorities from the key management personnel disclosure requirements of IAS24, on the basis that the disclosure requirements for officer remuneration and members' allowances detailed in section 3.4 of the Code satisfy the key management personnel disclosure requirements of IAS24. This applies in equal measure to the accounts of the RBKC Pension Fund.

The disclosure required by the legislation can be found in the main account of the Royal Borough of Kensington and Chelsea.

### 25. Agency Services

The Fund pays discretionary awards to the former employees of the Royal Borough of Kensington and Chelsea. The amounts are not included within the Fund Account but are provided as a service and fully reclaimed from the council. The gross sum paid out is disclosed below.

	2015-16 £'000	2014-15 £'000
Payments on behalf of Royal Borough of Kensington and Chelsea	264	-
<b>Total</b>	<b>264</b>	<b>-</b>

## The London Residuary Body Transferred Functions Income and Expenditure Statement

	Gross Expenditure £'000	2015-16 Gross Income £'000	Net Expenditure £'000	2014-15 Net Expenditure £'000	Notes
<b>Income and expenditure on services</b>					
General costs	38	-	38	10	1
Adjustment to provisions	125	-	125	239	2
Adjustment to assets and liabilities	-	-	-	-	
Interest	-	16	(16)	(15)	4
<b>Total expenditure on services</b>	<b>163</b>	<b>16</b>	<b>147</b>	234	
<b>Surplus / (deficit) for the year</b>			<b>(147)</b>	(234)	

## Statement of Movement on the London Residuary Body Balance

	2015-16 £'000	2014-15 £'000
<b>Balance brought forward at 1 April</b>	<b>3,943</b>	<b>4,177</b>
Surplus / (deficit) for the year on Income and Expenditure Account	(147)	(234)
<b>Total assets</b>	<b>3,796</b>	<b>3,943</b>

## London Residuary Body Transferred Functions Balance Sheet

	2015-16 £'000	2014-15 £'000	Notes
<b>Current assets</b>			
Current debtors	-	-	
Temporary investment with the Council	4,324	4,346	
<b>Total assets</b>	<b>4,324</b>	<b>4,346</b>	
<b>Current liabilities</b>			
Creditors	-	-	
<b>Total assets less current liabilities</b>	<b>4,324</b>	<b>4,346</b>	
<b>Long term liabilities</b>			
Provisions	(527)	(403)	2
<b>Net Assets</b>	<b>3,796</b>	<b>3,943</b>	
Represented by:			
London Residuary Body balance	3,796	3,943	
<b>Total net worth</b>	<b>3,796</b>	<b>3,943</b>	

## Introduction

The Council inherited inner-London functions from the London Residuary Body as follows:

Education Awards	from 1 August 1992
Property (Capital Receipts)	from 1 April 1992
Late Rating Claims	from 31 March 1994
Other Functions	from 1 October 1992.

Other functions included administration of leases, collection of outstanding debts and Higher Education Funding Council for England debt management.

The Council was given endowments for education awards, late rating claims, and other functions, from which the net spending has been met. The Council is required to determine whether the sum left is sufficient to meet future expenditure and whether it is possible to distribute any projected excess of this to the other inner-London boroughs or, if it is not sufficient, to request funds from those boroughs. These accounts show the position on these endowments. At the present time and in order to meet potential future third party liability claims, it is considered prudent to retain the current level of balances. The position will continue to be kept under review.

## Notes

1. There has been a further reduction in claims payments during 2015-16.

### 2. Provisions

Exposure to **public liability claims** has increased during 2015-16 and the amounts set aside for these are included in the table below.

	2015-16 £'000	2014-15 £'000
Balance at 31 March		
Public liability claims	527	403
MMI legacy Scheme levy	-	-
<b>Total Provision</b>	<b>527</b>	<b>403</b>

### 3. Contingent Liabilities

During 1992-93, the London Residuary Body's insurers, MMI ceased accepting new business. The LRB is a member, through the Council, of a scheme of arrangement that has been put in place to try and ensure an orderly settlement of the run-off of MMI. Following the triggering of the (MMI) scheme of arrangement, LRB will be required to fund 15 per cent of all future MMI payments and it is assumed that this exposure will be covered by the cash the Council holds on behalf of the LRB transferred functions.

4. **Interest on the endowment** has been calculated at money market rates.

## Other Useful Information

Website address: [www.rbkc.gov.uk](http://www.rbkc.gov.uk)

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