

# Royal Borough of Kensington and Chelsea Statement of Accounts 2018/19



THE ROYAL BOROUGH OF  
KENSINGTON  
AND CHELSEA

[www.rbkc.gov.uk](http://www.rbkc.gov.uk)

# CONTENTS

Contents	Page
Narrative Report	5
Independent External Auditor's Report	20
Statement of Responsibilities	24
Annual Governance Statement	25
Comprehensive Income and Expenditure Statement (CIES)	40
Movement in Reserves Statement (MIRS)	41
Balance Sheet	42
Cash Flow Statement (CFS)	43
Notes to the Financial Statements	
1. Accounting policies	44
2. Accounting standards issued not yet adopted	59
3. Critical judgements in applying accounting policies	59
4. Assumptions made about the future and other major sources of estimation uncertainty	60
5. Material items of income and expense	60
6. Events after the Balance Sheet date	61
7. Expenditure and Funding Analysis	62
8. Expenditure and income analysed by nature	63
9. Adjustments between accounting basis and funding basis – EFA	63
10. Adjustments between accounting basis and funding basis – usable reserves	66
11. Movements in earmarked reserves	68

# CONTENTS

12. Movements in unusable reserves	71
13. Other operating income and expenditure	73
14. Financing and investment income and expenditure	74
15. Taxation and non-specific grant income and expenditure	74
16. Property, plant and equipment	75
17. Heritage assets	78
18. Investment properties	78
19. Financial instruments	79
20. Nature and extent of risks arising from financial instruments	82
21. Debtors	86
22. Debtors for Local Taxation	87
23. Cash and cash equivalents	87
24. Creditors	87
25. Provisions	87
26. Cash Flow Statement – operating activities	88
27. Cash Flow Statement – investing activities	88
28. Cash Flow Statement – financing activities	88
29. Trading operations	88
30. Pooled budgets	89
31. Officer remuneration	90
32. Members allowances	94
33. External audit costs	94
34. Dedicated Schools Grant	94
35. Grant income	95

# CONTENTS

36. Related parties	95
37. Capital expenditure and financing	97
38. Leases	98
39. Defined benefit pension schemes	99
40. Pension schemes accounted for as defined contribution schemes	105
41. Contingent liabilities	105
42. Prior Period Adjustment - PPE	106
Supplementary Financial Statements	
- Housing Revenue Account and Notes	107
- Collection Fund Statements and Notes	112
- Pension Fund	
▪ Audit Opinion	115
▪ Accounts and Notes	118
Glossary of Terms	137

# NARRATIVE REPORT



**Report of the Chief Financial Officer - Mike Curtis, Executive Director for Resources and Assets**

## 1) About the Royal Borough of Kensington and Chelsea

The Royal Borough of Kensington and Chelsea is one of only eight Royal Boroughs in England and Wales, one of four in London and also one of the 32 London Boroughs, along with the City of London. Kensington and Chelsea is a unique central London borough, home to places of great cultural importance, diverse communities and attractive streets and squares.

The Borough has the smallest population of any London borough at 160,000 and will see limited population growth over the next 10 years but has the third highest population density in London. High density brings challenges around traffic congestion, air pollution and noise nuisance, and these are important issues to communities.

This is a part of London where not all of the people here are residents. A further 85,000 people come into the borough every day to work in the 15,000 businesses, the many public sector agencies or the very many social and voluntary sector enterprises that are based here. In addition, some 56,000 visitors travel into the borough every day. More people come through South Kensington Tube station each year than through Heathrow Terminal 5.

The borough has many of the financial challenges that are evident across London - supporting around 2,000 vulnerable adults and children who need support and safeguarding, the 6,000 children living in poverty, the 2,500 households living in temporary accommodation, as well as those 10,000 tenants and leaseholders who live in homes owned by the Council.

The events of 14<sup>th</sup> June 2017 cast a long shadow over the Council. The Grenfell Tower fire has impacted the residents of the borough in many and diverse ways and will have a long term and lasting impact on the way that the Council operates and how it interacts with its residents.

We serve a culturally and ethnically diverse range of communities. Over half our residents were born outside of the UK. Our communities come from all over the world and include significant North American, European, Asian, African, Middle Eastern, South American and Caribbean populations who have profoundly shaped the character of the area. Residents value that diversity and we will continue to foster inclusiveness.

The Council consists of 50 Councillors, who are elected for four year terms. The Council is split into 18 wards; 14 represented by 3 councillors and 4 represented by 2 councillors.

Following the May 2018 elections, the political structure is as follows:

- Conservative 36
- Labour 13
- Liberal Democrats 1

The Council sets the policy and budgetary framework and the Council's executive key decisions are made by the Leadership Team: the Leader and nine Lead Members, each of whom is responsible for a portfolio of services.

# NARRATIVE REPORT

## Our priorities

During Autumn 2018, consultation was carried out with residents through the Council's Let's Talk Priorities consultation and the Stronger Communities engagement. The Council spoke to over 2,000 people and received over 5,000 comments, priorities and ideas. In addition, between September 2018 and November 2018 the Council engaged with residents in the north of the borough: over 300 people attended events and 844 suggestions were received and the main themes informed the development of the Grenfell Recovery Strategy. The Recovery Strategy was agreed by Council in January 2019 and the new Council Plan was published in April 2019, setting out the five priorities for the next four years:

1. Grenfell recovery
2. A great place to live, work and learn
3. Supporting and safeguarding vulnerable residents
4. Healthy, clean and safe
5. A place of culture to visit and explore

## Grenfell Recovery

Since June 2017, the Council's primary focus has been the response to the tragedy, particularly the rehousing of former residents of Grenfell Tower and Grenfell Walk and the provision of practical, emotional and humanitarian support to the bereaved, survivors and others affected.

In June 2019, the Council agreed a strategy to support the long term recovery for all those affected. Plans are now being developed with those affected to deliver the strategy. The Council recognises that the work of the Grenfell Tower Inquiry and the criminal investigation will be vital to the recovery process. The Council is adopting the Charter for Families Bereaved through Public Tragedy which is the commitment to ensure that Kensington and Chelsea Council learns lessons from the Hillsborough

disaster and its aftermath.

## A Great Place to Live, Work and Learn

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

## Supporting and Safeguarding Vulnerable Residents

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

## Healthy, Clean and Safe

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

# NARRATIVE REPORT

## A Place of Culture to Visit and Explore

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

These five priorities are underpinned by three cross cutting themes – community involvement, narrowing the gap and prevention and early intervention.

Full details of these, and the five priorities including the approach for delivering the plan, are set out on the Council’s website. [Click here for Link to Council Plan.](#)

Outside of Grenfell, in common with the rest of local government, the Council has continued to manage its services on a reducing level of central government support which, with the impact of Grenfell, has led to a reduced level of reserves since 2017.

## Governance

The Council commissioned the Centre for Public Scrutiny (CfPS), a national centre of expertise on effective decision-making, to conduct an independent review of our governance. The subsequent Change at the Council report, published in March 2018, made recommendations on the way the Council makes decisions, who is involved in making those decisions and outlined 12 principles of good governance that should be embedded within the Council.

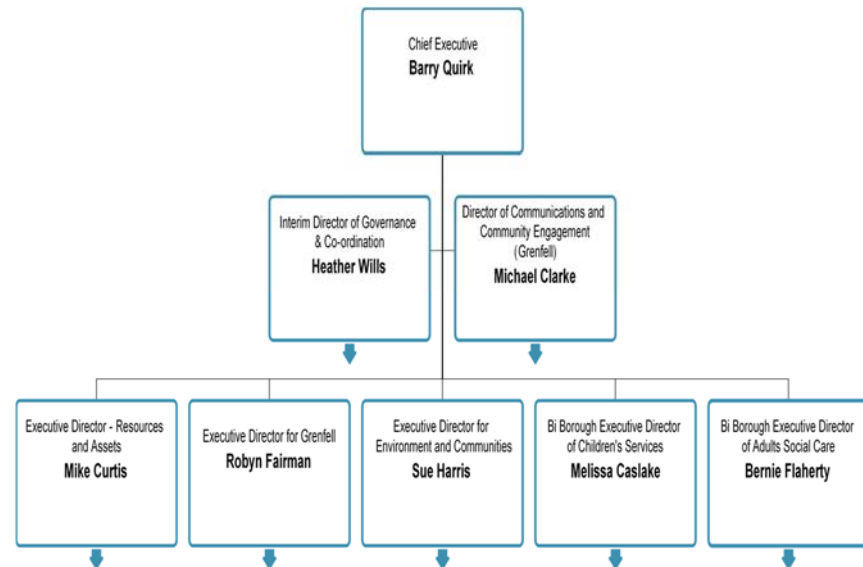
The Executive and Corporate Services Scrutiny Committee holds the Council to account on its action plan for the change at the Council and regular update reports are presented to the Committee at public meetings.

The Council is embedding the 12 principles of good governance into the Constitution, the way we work and governance processes. The Annual Governance Statement includes a more detailed analysis of governance issues.

## 2) Organisational overview and operational model

Supporting the work of elected members is the Council’s Executive Management Team (EMT), which is led by Barry Quirk, Chief Executive.

This structure consolidates a number of services into the following five operational directorates:



# NARRATIVE REPORT

The chart of the above management structure, produced at April 2019, includes the re-establishment of an in house housing management service taken back from the Tenant Management Organisation (TMO) with effect from 1<sup>st</sup> March 2018.

Across these five Executive Directorates, the Council employs 2,017 staff (1,967 FTE). These figures include shared services.

The Council operates a number of shared services with Westminster City Council in respect of Adult Social Care, Public Health and Children's Services. During 2018/19, shared service arrangements were also in place with Hammersmith and Fulham Council for environmental services but a decision taken by both Councils has led to the disaggregation of these services from 1<sup>st</sup> April 2019. By December 2019, all services within the Environment and Communities portfolio will be operated on a sovereign basis except for Libraries which will remain Bi-Borough with Westminster City Council. Tri-Borough arrangements are still in place for some services, such as Audit, Risk and Assurance, Pensions and Treasury.

Across the five Executive Directorates, a summary of the demographic characteristics of staff is as follows:

- 28% of the workforce is from a Black, Asian or Ethnic Minority (BAME) background. This compares to 29% of the local population who identified as BAME in the 2011 census.
- The proportion of top 5% of senior managers who are: BAME 6.3%; Women 44%; Disabled 0%; LGBT 1.1%
- 2.5% of the workforce is aged under 25 while 21% are aged over 55.
- Gender pay gap mean hourly rate 7.9% - a positive reduction from 11.1% in 2017.

## 3) Risks

A risk management strategy is in place to identify and evaluate risks. Within the strategy, there are clearly defined steps to support better decision making through the understanding of risk, the potential impact and the actions taken to mitigate the risk. The risk management process was audited in 2016 and satisfied all assurance requirements. Processes are subject to regular review and updating and is scrutinised regularly by the Council's Audit and Transparency Committee. All strategic risks across the Council are managed through the Corporate Risk Register and managed through the Risk and Control Board, which is a dedicated EMT session once a month to focus solely on risk management.

Councillors considered a risk analysis of the Council's proposed budget for 2019/20 when setting the Budget at Full Council, in March 2019. The key risks for the organisation which have budget and funding implications are set out below:

### Local authority funding for future years

Local government will have substantial funding reductions year-on-year going forward. There is now a greater reliance on income generated locally which means greater control for the Council in terms of its spending power but there are risks associated with these local sources which can be volatile to changes in economic conditions.

The financial year 2019/20 is the final year of the current four-year Local Government Finance Settlement. From 2020 onwards, local authorities are expecting a new national funding distribution system to be in place. The Government is currently consulting on the different components that will make up the new formula. Although the details were not expected until Autumn 2019, which is already late in the financial planning timetable, indications are that due to the focus on Brexit negotiations, this could be



# NARRATIVE REPORT

further delayed. Under the new funding formula, the Council is likely to see a reduction in its baseline funding. It is extremely difficult to quantify and therefore, at this stage, no significant reduction in funding has been built into financial plans which itself creates a risk.

At the same time, Government is proposing changes to the Business Rates Scheme. Although the Council is part of the existing London Pilot, which is of a financial benefit, the financial impact of introducing the 75% retention scheme across the country and the prospect of a full reset is currently being modelled and will need to be built into financial plans.

In addition, there are changes in Government legislation which affect the scope of services and have cost implications; some of these will be unfunded burdens.

## **Better Care Fund**

Better Care Funds were established in 2013/14 as a mechanism to further integration between Health and Social Care. Discussions are underway with West London CCG to shape the future of the Better Care Fund. There is a risk this will reduce funding to the Council but while these discussions continue the financial impact remains a risk.

## **Demographic Growth**

The Council faces pressures on both spending and income budgets, including demographic and demand led pressures, particularly in social care, housing and homelessness and supporting children with high needs. As part of financial planning processes, work will take place to forecast these demands over the next three to four years to identify any mitigating actions but also to ensure these pressures are recognised in financial plans.

## **Delivery of savings**

The Council has set a balanced budget for 2019/20 which includes £8.4m of budget reductions identified during the budget review process. The Council is confident these can be achieved but the identification and delivery of savings beyond 2019/20 is more challenging. There is currently a budget gap of £40m over the next three years and although work has started, budget reductions of this magnitude require a fundamental change in the way services are delivered. There are risks associated with our capacity to deliver these savings to planned timescales.

## **Economic Conditions**

The impact of economic conditions, including increases in inflation and rising interest rates, can be a cost driver. For every 1% increase in inflation, this can mean a £1m increase in staff costs and around £2.2m increase in contract costs. Increasing interest rates make investment more attractive but the need for capital investment means borrowing is more likely over the next three to four years.

## **Brexit**

The potential impact of Brexit cannot be forecast with great certainty and the terms under which the UK will leave the EU can have a potential impact on local and wider economy and Local Government – including the ability to generate revenue, the supply and cost of staff, higher prices, local property values, changes to legislation and many more. The delay in negotiations and the UK's exit from the EU has extended this level of uncertainty. The Local Government Finance Settlement announced up to an additional £0.210m for each local authority over the next two years but without the knowledge of the impact it remains uncertain if this is sufficient funding.

# NARRATIVE REPORT

## Grenfell

Although the 2019/20 budget includes £50m over the next five years to deliver the Grenfell Recovery Strategy, this is a key priority for the Council and high risk and therefore it is inevitable that some uncertainty still remains.

Until the Grenfell public enquiry has been completed and the police have completed their investigation into possible charges of corporate manslaughter arising from the fire, the Council is unable to quantify what further long term costs in terms of liability, if any, may arise from the fire. No provision has been made in the Council's accounts for any potential costs. The report covering Phase 1 of the Public Inquiry is now expected to be released in the autumn of 2019 with Phase 2 due to commence in early 2020. The police have indicated that it is unlikely that their investigations will conclude before the latter part of 2021.

There are two ways in which the Council will manage the financial and budget implications of the above risks. The first is through effective financial management to identify, manage and mitigate these risks. The second is in the use of reserves or contingency to manage any risks that may materialise.

The Council holds a General Fund Balance to help mitigate against strategic financial risks such as interest rates, inflation and demographic spending pressures. Given the likelihood of all the risks materialising in full being low, the General Fund Balance of £10m to help mitigate strategic financial risks is considered to be sufficient. In addition, the Budget for 2019/20 also includes a central contingency of £5.5m to provide a resource for in year pressures and the budget has provided for growth and pressures of £11.1m.

The General Fund usable reserves stand at £145.4m at March 2019. The level of reserves remains sufficient to provide the Council with financial resilience.

## 4) General Fund

The General Fund (GF) is the main account from which the majority of the Council's services to its residents and businesses are funded.

## 5) Schools

The Dedicated Schools Grant (DSG) is a separate ring fenced fund for schools and has a cumulative overspend of £4.263m at the end of 2018/19 mainly due to spending pressures relating to pupils with Special Educational Needs and Disabilities (SEND). A high needs review group is reviewing all related expenditure and is expecting to reduce the in-year overspend to £0.750m in 2019/20. Under additional requirements introduced by the Department for Education (DfE) the Council is preparing its Deficit Recovery Plan for submission at the end of June but it is proving challenging in meeting the target of recovering the deficit position in a period of three years. The Council will continue to lobby Government for increased funding in high needs.

## 6) Housing Revenue Account

The costs of managing and maintaining the Council's Housing stock must be charged to a ring-fenced account – the Housing Revenue Account (HRA). Day-to-day management of the stock was previously undertaken by the Kensington and Chelsea Tenant Management Organisation (KCTMO), However, from 1<sup>st</sup> March 2018, responsibility for managing the stock transferred back to the Council's Housing Management service.

The Council now directly manages approximately 10,000 dwellings,

# NARRATIVE REPORT

including leaseholders. Annual income from these dwellings is in the region of £50m.

From 1 April 2019, functions previously undertaken by Repairs Direct, a former subsidiary of the TMO, were transferred back to the Council.

In line with Government legislation, dwelling rents have been reducing over a four-year period. This has created additional pressures on the HRA, at a time when inflation is increasing costs. From April 2020, Councils will be permitted to increase rents by inflation plus 1%, This change in rent policy will improve the financial outlook for the HRA.

## 7) Pension Fund

The RBKC Pension Fund collects contributions from employers and current members and makes pension payments to retired members. The fund manages £1.189 billion of investments (as at 31<sup>st</sup> March 2019) and as per the last quarterly valuation at 31<sup>st</sup> December 2018 is estimated to be 130.9% funded. The Fund's actuaries, Barnett Waddingham, are currently working on the triennial actuarial valuation as at 31<sup>st</sup> March 2019 and will report on preliminary results around October 2019. The most recent funding level puts the Fund in the top decile of local authority pension funds by funding.

## 8) Fire Safety

There are 20 Council housing blocks of 10 storeys or more in the borough. The safety of residents is an absolute priority and the Council is committed to delivering the highest possible standards that it can in relation to health and safety matters, including fire safety.

The Housing Department has created a dedicated team to deal with all aspects of strategic and operational fire safety. Over the next 3 years, the

Capital Programme contains provision of over £12m to cover the replacement of fire doors and other fire related works.

An independent audit of existing Fire Risk Assessments (FRA) has been undertaken and a programme of 700 new independent assessments were carried out, including a feasibility study to determine the need for enhanced safety measures, such as sprinklers. Investment of more than £5m has been made available for fire safety works following the Grenfell fire. The Council is anticipating fire safety regulations arising from the Hackitt Review and these will be considered once the outcomes are known.

In relation to non-housing, the Council is committed to ensuring that its corporate buildings are safe for staff, contractors and members of the public. The Council has revised its fire safety management systems, reviewing fire evacuation plans and auditing both passive and active fire safety arrangement across its stock. The Council is currently transferring all FRA and certifications on to a new online system to improve transparency and reporting to staff, management and Members. The Council continues to roll out fire safety awareness training to all staff.

## 9) Financial Performance - Revenue

### General Fund

On 7<sup>th</sup> March 2018, the Council agreed its 2018/19 budget, resulting in a basic amount of band D council tax of £828.84 (a council tax increase of 2.99% plus a 3% additional precept for social care) and a total amount of band D council tax (including GLA precept) of £1,123.07. The local element of Council tax of £828.84 in 2018/19 was the 5<sup>th</sup> lowest of the 33 London Boroughs (including the City of London).

# NARRATIVE REPORT

A substantial budget of £36.8m was included in the 2018/19 budget for the Council's response to the Grenfell tragedy; this was largely funded by transfers from the Council's reserves and specific grants and contributions.

The outturn for the overall GF budget in 2018/19 was an underspend of £9.737m, of which £3.043m relating to the parking account has been transferred to the Parking Reserve and £6.694m transferred to the Budget Stabilisation Reserve. A full outline of the expenditure variations against budget will be set out in the outturn report that will be published on the Council's website on 10<sup>th</sup> July as part of the Leadership Team agenda. The outturn for 2018/19 also enabled the working balance to be maintained at £10 million – the Council's agreed minimum level.

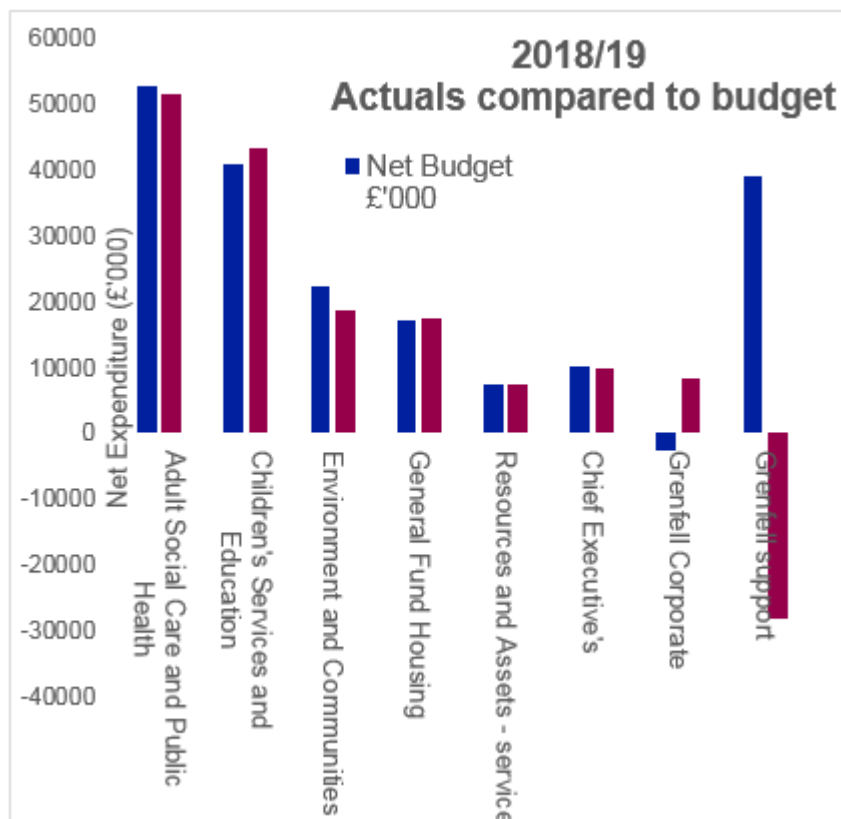
## 2018/19 Outturn

Directorate	Budget	Outturn	Variation	Reserve transfers	Other adjusts	Variation
	£'000	£'000	£'000	£'000	£'000	£'000
Adult Social Care and Public Health	52,741	58,023	5,282	(6,068)	(173)	(959)
Children's Services and Education	40,935	46,766	5,831	(2,250)	(1,238)	2,343
Environment and Communities	22,409	17,183	(5,226)	1,417	0	(3,809)
General Fund Housing	17,317	17,700	383	(131)	0	252
Resources and Assets - service	7,416	8,916	1,500	(1,317)	0	183
Chief Executive's	10,111	9,763	(347)	205	0	(142)
Grenfell Corporate	(2,440)	8,317	10,757	(10,462)		295
Grenfell Support	39,288	(16,169)	(55,457)	55,091	0	(366)
	<b>187,776</b>	<b>150,499</b>	<b>(37,277)</b>	<b>36,485</b>	<b>(1,411)</b>	<b>(2,203)</b>
Levies & Corporate Items	(1,049)	(6,123)	(5,074)	0	1,494	(3,580)
Funding	(153,151)	(157,105)	(3,954)	0	0	(3,954)
	<b>33,576</b>	<b>(12,729)</b>	<b>(46,305)</b>	<b>36,485</b>	<b>83</b>	<b>(9,737)</b>
Transfer to/from reserves						
-Parking reserve						3,043
-Budget stabilisation						6,694
General Fund Surplus/deficit						0

The Council has maintained a prudent position in relation to the risks it faces by maintaining a healthy but not excessive level of earmarked reserves. A number of reserves were released at the year end to defray expenditure incurred on purposes for which reserves were set aside. In total £1.6m of expenditure to be carried forward into 2019/20 will be put forward for approval by Leadership Team on 10<sup>th</sup> July 2019.

Service expenditure against budget can be presented graphically as set out in the following chart:

# NARRATIVE REPORT



## Housing Revenue Account

Following the transfer of functions from the Tenant Management Organisation (TMO), the 2018/19 revenue budget for the HRA was revised in July 2018 to an overall in-year deficit of £17m. The outturn position was an in-year deficit of £5.182m. The key reason for this change was the decision to fund capital expenditure from uncommitted capital receipts rather than the planned use of revenue funding.

## Financial Performance - Capital

The Council's Capital Strategy, approved by Leadership Team in December 2018 provides a framework for the allocation of resources to fund capital projects.

Capital Expenditure is defined as spending on the purchase, improvement or enhancement of fixed assets. The total capital expenditure incurred for the year was £76.5m and is analysed in the following table.

Service	Budget £000	Outturn £000	Variation £000
Adult Social Care	622	196	(426)
Children's Services & Education	13,957	7,993	(5,964)
Chief Executive's	4,178	3,144	(1,034)
Environment and Communities	14,166	3,329	(10,837)
Resources and Assets	19,010	8,765	(10,245)
Grenfell	45,512	27,308	(18,204)
Housing Revenue Account	18,283	25,816	7,533
<b>Total</b>	<b>115,728</b>	<b>76,551</b>	<b>(39,177)</b>

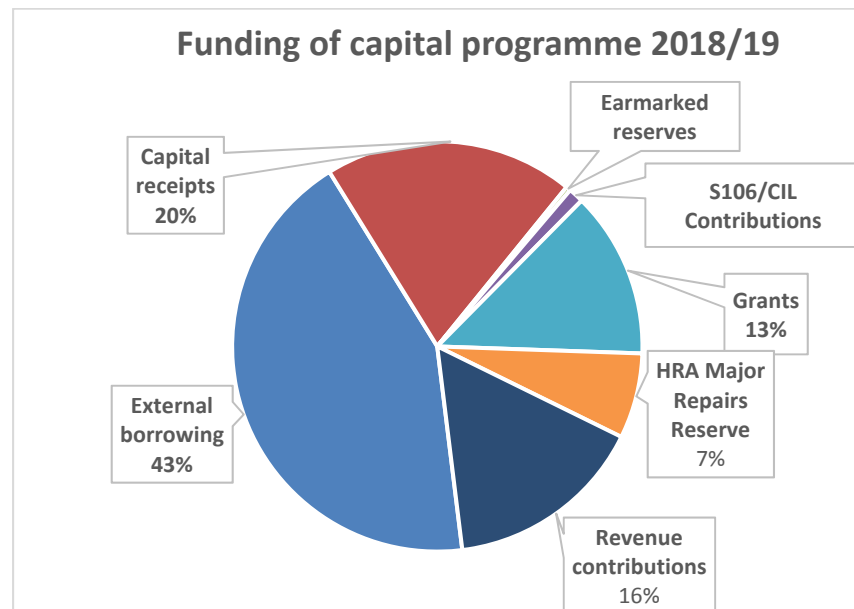
In addition to Grenfell related expenditure of £27.3m, work has continued on a wide range of other projects including £5m on Chelsea Old Town Hall as well as a range of highway related improvements and essential repairs to operational assets and acquisition of temporary accommodation. Expenditure on these other areas totals £23.4m along with £25.8m HRA spend as summarised in the table above.

A full outline of the expenditure against budget for the capital programmes is set out in the outturn report that will be published on the Council's website on 10<sup>th</sup> July as part of the Leadership Team agenda.

# NARRATIVE REPORT

The Council's capital funding includes borrowing in the long-term to finance capital expenditure and the principal source of long term borrowing is the Public Works Loans Board (PWLB). At 31<sup>st</sup> March 2019, the Council's external borrowing totalled £218.8m. (£226.3m at 31<sup>st</sup> March 2018). The Council's 2018/19 Treasury Management Strategy had anticipated £10m of new borrowing during the year, with £7.5m of PWLB debt being repaid. However, cash balances remained relatively stable during 2018/19 and therefore no new external borrowing was undertaken in during the year.

The funding of the capital programme in 2018/19 was as follows, showing that 43% (£33m) was funded by external borrowing.

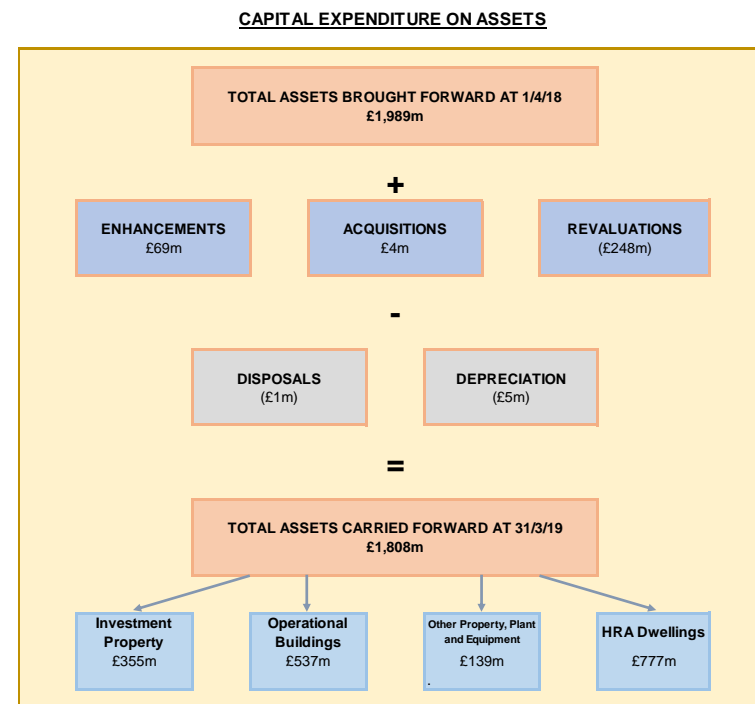


New capital investment is focused around the ongoing support for

managing the response to the Grenfell Tower fire, health and safety requirements, rolling maintenance programmes, investment to support the transport infrastructure, support to develop the Council's digital infrastructure and investment that generates revenue cost reductions or increased income

Overall the revised General Fund Capital programme for the years 2018 to 2022 is £271.790m, with a further £173.981m of capital investment on the Council's housing stock in the period 2018 to 2022.

An overall summary of the movement in assets between 1<sup>st</sup> April 2018 and 31<sup>st</sup> March 2019 is set out as follows:



# NARRATIVE REPORT

## Net Assets £1,532m (£1,667m at 31<sup>st</sup> March 2018)

The Council's balance sheet shows what the Council owns and owes at the end of the financial year. As at 31<sup>st</sup> March 2019 it shows net assets of £1.532 billion. The Council maintains a strong balance sheet despite the financial challenges, with usable reserves standing at £298.7m (£295.8m at 31<sup>st</sup> March 2018)

Net Assets at 31st March 2019	£m
Long term assets (property and long term investments)	1,809
Net current assets (debtors, stock and cash less creditors and current liabilities)	149
Long term liabilities	(426)
<b>Total</b>	<b>1,532</b>
<b>Funded by:</b>	
Usable reserves	299
Unusable reserves	1,233
<b>Total</b>	<b>1,532</b>

## 10) The Council's Performance

The Royal Borough of Kensington and Chelsea is responsible for managing assets exceeding £2.3 billion.

The Council:

- Collected business rates of £363m from 9,114 properties for 2018/19. The amount collected was split between the Greater London Authority, the Government and the Council with the Council retaining £72m.

- Collected 97.98 per cent of the council tax due from the borough's 89,153 domestic properties.
- Remained one of the top authorities in London when it comes to paying housing and council tax benefits on time.
- Is responsible for managing the £1.189 billion RBKC Pension Fund which provides pensions to >2,500 pensioners and has >3,000 active members.

Some key outcomes that the Council has delivered over the past year include:

### Education and Children's Services

- 100% of our schools rated "good" or "outstanding" by Ofsted
- Supporting 13,435 children to be educated across 39 nursery, primary, secondary, alternative provision and special schools. Raising standards and supporting students, including those with special educational needs and disabilities and providing children with complex needs a local service that meets their needs and supports family resilience and outcomes
- Supporting 623 children who have Education, Health and Care Plans.
- Providing transport for 168 children with disabilities to access their education.
- Care and Support to 92 Looked After Children
- Support to 184 young people Leaving Care and ensuring they receive the correct support until they are 25 where they want supporting.
- Supporting 7 Children and Young People whose families cannot access the benefits system and therefore have No Recourse to Public Funds
- Supporting 25 Unaccompanied Asylum Seeking Children
- Provision of youth services across the Borough

# NARRATIVE REPORT

- Emergency Duty Team, providing access to social care out of office hours and handling on average 422 contacts per month for RBKC.
- Early Help support to 348 children in addition to 527 Children in Need provided Social Care support.

## Adult Social Care

- 605 People supported to live at home receiving home care
- 120 People to access day care provision and reduce the risk of isolation
- 387 customers with direct payments
- 382 people supported in Residential / Nursing Placements
- 110 people in Supported Living placements.

## Public Health:

- Over 5,500 health checks.
- Over 6,500 health reviews for young children.
- Around 23,000 STI screenings.
- Supporting 2,500 people through the 'stop smoking' service.
- Supporting over 800 people accessing drug treatment services.

## Housing General Fund

- Supporting over 2,000 households in temporary accommodation
- Supporting over 700 tenants in Supporting People services
- Approximately 60 private sector adaptations.

## Environment and Communities

- Collecting waste and recycling from 93,000 households twice a week
- Maintaining 188km of roads and highways and 376km of footways
- Maintaining and enhancing 26 parks and open spaces and 2 cemeteries
- Carrying out over 1500 inspections of food safety each year

- Dealing with over 13,000 noise and nuisance complaints;
- Over 330 referrals to Trading Standards.
- The provision of 63 community kitchen gardens and 17 school food growing gardens
- Processing over 2,200 licensing applications
- Operating two museums with around 35,000 visitors annually
- Offering our residents the chance to read, learn and connect in our six libraries with over 850,000 visits annually, 30,000 resident library card holders, and 21,000 virtual visitors to our digital resources.
- Providing a first class registration service for 8000 births and deaths, performing over 1,600 marriage and civil partnership ceremonies, 1,900 British citizenship ceremonies.
- Delivering a diverse arts and cultural Programme, supporting young artists and the Notting Hill Carnival.

## Planning and Regulation

- Providing advice on developments and decisions on 5,500 planning applications a year.

## Community Safety

- The Council spent £3.908m on Community Safety in the borough in 2018/19 including police officers and a range of community safety projects.

## Corporate Services

- Managing over 350 investment properties in the commercial portfolio, and managing the Council's operational properties.
- In conjunction with the Housing Department the identification of new homes delivery programme of over 600 residential units including the securing of a £33.6m grant from GLA for social housing.



# NARRATIVE REPORT

- Corporate Grant Scheme of £2.3 million funding 29 organisations to deliver advice and information services and community centre activities to our residents.
- Managing an average of £263m of cash investments with treasury management investment returns exceeding the industry benchmark of 0.51% by 0.14%.

## 11) Outlook

Since 2010, Central Government support to local government has significantly reduced and this has continued to the final year of the four-year settlement to 2019/20. The Government is proposing to consult on a new fair funding formula that will be implemented from 2020 but at this stage there is no indication on how this will directly impact the Council. The assumption is that funding will reduce but the scale and magnitude remains unclear.

The Council has set a balanced budget for 2019/20 but with a budget gap of £40m over the next three years and for the level of uncertainty and risks, the financial outlook is challenging. Although the Council holds reserves, any use of reserves to balance the budget is not sustainable over the medium to longer term and therefore a different approach to service delivery is going to be required. The recently published Council Plan sets out the priorities for the next four years and the challenge for Council is to set the financial framework that underpins the delivery of the plan whilst also ensuring a balanced budget is set.

The current funding regime means that the Council, even after an increase in council tax of 2.99% in each year, will be looking for budget savings over the next three years of around £40m.

The Council's budgetary strategy focuses on:

- maintaining council tax in the bottom quartile for London;
- improving cost effectiveness, efficiency and income generation through reviews, particularly change programmes, and notably bearing down on the high costs of provision through the public sector;
- managing and mitigating future budget risks by forward planning;
- monitoring income and expenditure and making adequate contingencies and provisions;
- redirecting resources from lower priorities to higher priorities;
- protecting services by funding the costs of inflation;
- using external financing and cost sharing opportunities where possible;
- procuring goods and services in ways that achieve good value;
- planning for the medium term, taking into account the projection of future Government grants over the long term; and
- speaking out for the interests of the residents of the Council on issues of strategic importance for the finances of the Council.

From April 2018, all London boroughs and the Greater London Authority (GLA) entered into an arrangement to pool business rate growth across London. The result is that in 2018/19, around £397m of business rates income was retained in the capital and shared between the 32 boroughs, City of London and the GLA in accordance with an agreed formula. The financial benefit to the Council is expected to be £8m. The pooling arrangement has continued into 2019/2020 but with a 75% retention scheme. A revised business rates retention with a new funding formula is expected to be rolled out across the country – albeit there still remains some uncertainty regarding the timing of both these changes and the implementation of the new National Funding Formula.

The Council's Medium Term Financial Strategy contains the most up to date information at the time of drafting but the Council's financial position is dynamic. The Strategy will be refreshed and published in July 2019.

# NARRATIVE REPORT

## 12) Financial Statements

The Statement of Accounts sets out the Council's income and expenditure for the year, and its financial position at 31<sup>st</sup> March 2019. It comprises core and supplementary statements, together with disclosure notes. This covers the GF, HRA, Pension Fund and all the other accounts for which the Council is responsible.

The format and content of the financial statements are prescribed by the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, which in turn is underpinned by International Financial Reporting Standards.

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

- The **Comprehensive Income and Expenditure Statement** (CIES) records all of the Council's income and expenditure for the year. The top part of the table presents an analysis by service area and includes expenditure on both statutory services and discretionary services. The bottom part of the reports deals with corporate accounting transactions and funding. The expenditure reports the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation (GF) or rents (HRA). The Council raises taxation (or rents) to cover expenditure in accordance with statutory requirements; this may be different from the accounting cost. The taxation position is shown in both the EFA and the Movement in Reserves Statement.
- The **Movement in Reserves Statement** (MIRS) shows the movement from the start to the end of the year on the different reserves held by

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

- The **Balance Sheet** is a "snapshot" of the Council's assets, liabilities, cash balances and reserves at the year-end date. It shows the value as at 31<sup>st</sup> March of the assets and liabilities recognised by the Council. The Council's net assets are matched by its reserves. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those reserves that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use. For example, the Capital Receipts Reserve may only be used to fund capital expenditure or repay debt. The second category of reserves is those that the Council is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the MIRS line 'Adjustments between accounting basis and funding basis under regulations'.
- The **Cash Flow Statement** shows the changes in cash and cash equivalents of the Council during the reporting period. The statement shows how the Council generates and uses cash and cash equivalents by classifying cash flows as operating activities, new investment and financing activities (such as the repayment of borrowing and long term liabilities). The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Council are funded by way of taxation and grant income or through

# NARRATIVE REPORT

fees and charges from the recipients of services provided by the Council. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Council's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Council.

- The **Notes** to the Accounts provide more detail about the items contained in the key financial statements, the Council's accounting policies and other information that help with the interpretation and understanding of the key financial statements and accounts.
- The **Supplementary Financial Statements** provide details of the HRA, Collection Fund and Pension Fund. These are provided to aid interpretation and understanding of the key financial statements and notes, to provide additional statutory information and to disclose information of use to other parties.
- The Supplementary Financial Statements are:
  - The Annual Governance Statement – this sets out the governance structures of the Council and its key internal controls.
  - The Housing Revenue Account (HRA) – this account separately identifies the Council's statutory landlord function as a provider of social housing under the Local Government and Housing Act 1989.
  - The Collection Fund – this summarises the collection of council tax and business rates, and the redistribution of some of that money to the GLA and Central Government.
  - The Pension Fund Account – this reports the contributions received, payments to pensioners and the value of net assets

invested in the Local Government Pension Scheme on behalf of Council employees.

Copies of these financial statements can be obtained by contacting:

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

Telephone: 020 7745 6651

Email: [FinalAccounts@rbkc.gov.uk](mailto:FinalAccounts@rbkc.gov.uk)

# INDEPENDENT AUDITOR'S REPORT

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

### Report on the Audit of the Financial Statements

#### Opinion

We have audited the financial statements of the Royal Borough of Kensington and Chelsea (the 'Authority') for the year ended 31 March 2019 which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, the Collection Fund Statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2019 and of its expenditure and income for the year then ended;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

#### Basis for opinion

We conducted our audit in accordance with International Standards on

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

#### Conclusions relating to going concern

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

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

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

# INDEPENDENT AUDITOR'S REPORT

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge of the Authority obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

Under the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with the 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls. We have nothing to report in this regard.

## **Opinion on other matter required by the Code of Audit Practice**

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

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

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

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

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

Responsibilities of the Authority, the Chief Financial Officer and Those Charged with Governance for the financial statements.

As explained more fully in the Statement of Responsibilities, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Chief Financial Officer. The Chief Financial Officer 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

# INDEPENDENT AUDITOR'S REPORT

Kingdom 2018/19, for being satisfied that they give a true and fair view, and for such internal control as the Chief Financial Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

## **Auditor's responsibilities for the audit of the financial statements**

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

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

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

We cannot formally conclude the audit and issue an audit certificate in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed our work to give our conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources. We are satisfied that this matter does not have a material effect on the financial statements for the year ended 31 March 2019.

In addition, we are required to give an opinion on the consistency of the pension fund financial statements of the Authority included in the Pension Fund Annual Report with the pension fund financial statements included in the Statement of Accounts. The Local Government Pension Scheme Regulations 2013 require authorities to publish the Pension Fund Annual Report by 1 December 2019. As the Authority has not prepared the Pension Fund Annual Report at the time of this report we have yet to issue our report on the consistency of the pension fund financial statements. Until we have done so, we are unable to certify that we have completed the audit of the financial statements in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

## **Use of our report**

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

# INDEPENDENT AUDITOR'S REPORT

Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

*Paul Grady*

Paul Grady, Key Audit Partner

for and on behalf of Grant Thornton UK LLP,

Local Auditor London

23 September 2019

# STATEMENT OF RESPONSIBILITIES

## The Council's Responsibilities

The Council is required to:

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

## The Chief Financial Officer's Responsibilities

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

In preparing this Statement of Accounts, the CFO has:

- selected suitable accounting policies and then applied them consistently;
- made judgments and estimates that were reasonable and prudent;
- complied with the Code;
- kept proper accounting records that were up to date;
- taken reasonable steps for the prevention and detection of fraud and other irregularities;
- assessed the Council's ability to continue as a going concern and, where applicable, disclosed related matters;

- used the going concern basis of accounting on the assumption that the functions of the Council will continue in operational existence for the foreseeable future;
- maintained such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

I certify that the Statement of Accounts for 2018/19 (set out on pages 40 to 114 and 118 to 136) gives a true and fair view of the financial position of the Council as at 31<sup>st</sup> March 2019 and its income and expenditure for the year ended 31<sup>st</sup> March 2019.



Mike Curtis  
Executive Director of Resources and Assets (CFO)



Cllr Ian Wason  
Chairman, Audit and Transparency Committee

17<sup>th</sup> September 2019



# ANNUAL GOVERNANCE STATEMENT

## Introduction and purpose of the Annual Governance Statement

This Annual Governance Statement summarises the Council's key governance mechanisms and records, where applicable, the significant governance issues that need to be addressed over the coming year. No new significant governance issues have been identified for 2018/19, while the document provides progress updates for two areas identified in the 2017/18 statement where further actions are being taken in 2018/19. The full *Code of Corporate Governance* can be found on the Council's website and forms part of the Royal Borough's Constitution (available at <https://www.rbkc.gov.uk/Council-and-democracy/how-Council-works/constitution> – Part 5 E).

During 2018/19 a review of the Code of Corporate Governance was undertaken and the Council approved and adopted a new Code of Corporate Governance ("the Code"), which is consistent with the principles of the CIPFA/SOLACE Framework Delivering Good Governance in Local Government.

This statement explains how the Council has complied with the Code and meets the requirements of Accounts and Audit Regulations 2015, regulation 6(b), which requires all relevant bodies to prepare an annual governance statement.

A governance framework, as set out in the Code, has been in place for the year ended 31 March 2019 and remained in place up to the date of approval of the Statement of Accounts.

## 1. Scope of responsibility

The Council is responsible for ensuring a sound system of governance; that

its business is conducted in accordance with the law and proper standards; and that public money is safeguarded, properly accounted for and used economically, efficiently and effectively.

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

## 2. The Governance framework

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

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

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

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

# ANNUAL GOVERNANCE STATEMENT

Following the Grenfell Tower fire, the Council commissioned an independent review of its governance by the Centre for Public Scrutiny (CfPS). This review was published on 7<sup>th</sup> March 2018 and the Council's response, including a detailed action plan, was approved by the Leadership Team in July 2018.

### 3. 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.

### 4. The Council

In 2018/19, the Council comprised fifty Councillors, across eighteen Wards of which fourteen were three-member Wards and four were two-member Wards. Following elections in May 2018, the composition of the Council was: Conservative 36, Labour 13 and Liberal Democrat 1. In 2018/19, full Council meetings took place seven times in the year. During 2019/20, eight meetings are planned.

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

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

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

### 5. How the Council operates

The Council is a large organisation and is responsible for providing or commissioning many separate services. In 2018/19 spending on the day to date running of these services was over £862m and the capital programme invested a further £77mm to deliver a wide range of projects, including £27.3m of Grenfell related expenditure, £5m on Chelsea Old Town Hall as well as a range of highway related improvements and essential repairs to operational assets and acquisition of temporary accommodation. Expenditure on these other areas totals £23.4m along with £25.8m within the Housing Revenue Account.

An independent financial resilience review focussing on the General Fund, Housing Revenue Account and Pension Fund (reported to the Committee in February 2019) recognised that in the light of recent financial pressures "action has been taken to place the Council in a good position to navigate these pressures to ensure it remains on a secure financial footing. The spotlight and level of external scrutiny triggered by the Grenfell disaster is likely to continue, and compliance with robust financial management disciplines will need to be sustained and reinforced given the size, level of uncertainty and intensity of effort required to meet the challenge.

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

# ANNUAL GOVERNANCE STATEMENT

decisions are made and the procedures that are followed to ensure that these are efficient, transparent and accountable to local people. Some of these processes are required by law, while others are for the Council to determine.

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

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

The Head of Paid Service (Chief Executive) is Barry Quirk and Councillor Elizabeth Campbell is the Council Leader. Following the tragic fire at Grenfell Tower in June 2017 the Grenfell Team (directorate) was created to provide a range of support to those affected by the fire and a senior management restructure, which led to the creation of five Executive Director posts, two of which are shared, on a Bi-Borough basis with Westminster City Council, was put in place in early 2018.

The Council's executive key decisions are made by the Leadership Team (previously termed the Cabinet). During 2018/19, six scrutiny committees were operating and providing scrutiny over Council decisions (Adult Social Care and Health, Executive and Corporate Services, Family and Children's Services, Grenfell Recovery Scrutiny, Housing and Property Scrutiny and Public Realm)

Following an [independent review of governance by the Centre for Public Scrutiny \(CfPS\)](#), the Council agreed [an action plan in July 2018](#). A number of actions have already been implemented across the 10 action plan themes with all actions due to be completed by December 2019.

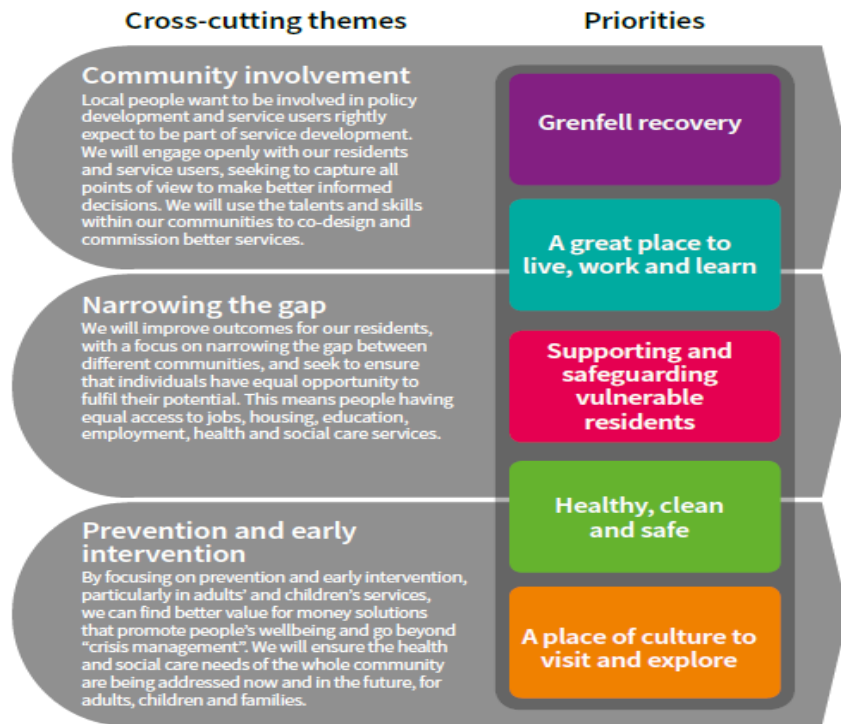
One action arising was a review of Borough and Area Governance Full Council considered and approved the [recommendations of the review panel](#) in May 2019 and it is planned that changes to the Council's scrutiny arrangements will be implemented in July 2019.

The Grenfell Recovery Taskforce continues to provide scrutiny and support to the Council and issued its third report in December 2018. Shortly after this, the Grenfell Recovery Strategy was presented to the Leadership Team and approved. The Strategy set out the Council's plans to support long-term recovery for those affected, including survivors, the bereaved and members of the wider community.

## 6. Strategic plans and policies

The Council Plan adopted in March 2019 sets out the Council's key priorities over the next four years and demonstrates how we are changing as an organisation. The Plan represents a new direction for the Council and its work across the borough. It is the key document which will guide what we do. Based on what we have heard from residents and the challenges we face, the Plan sets out the Council's five priorities to help achieve its vision and a new approach, based on three cross-cutting themes, demonstrating the Council's commitment to work with communities in new ways, as set out in the following diagram:

# ANNUAL GOVERNANCE STATEMENT



The annual revenue and capital budgets are prepared, consulted upon and notice given in the Forward Plan. The budget is considered and approved by full Council in March each year. This sets the level of Council Tax and capital investment for the forthcoming financial year.

## 7. How we ensure our arrangements are working effectively

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

# ANNUAL GOVERNANCE STATEMENT

## 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 procedure, 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> <li>•Risk and Control Board</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 reports</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>

# ANNUAL GOVERNANCE STATEMENT

## Audit and Transparency Committee - Seeking assurance

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

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

- Housing Management following the transfer in of housing management functions to the Council; and,
- Independent Financial Review covering the General Fund, Housing Revenue Account and Pension Fund.

The Committee continued to receive regular assurance updates up to and following the successful implementation of the new Finance, HR and Payroll system and managed service provided by Hampshire County Council and the exit from the previous managed service provided. The following table provides a summary of the matters which the Committee considered in 2018/19:

<p><b>Jul 2018</b></p>	<ul style="list-style-type: none"> <li>• Grants Annual Report</li> <li>• Statement of Accounts &amp; Annual Governance Statement 2017/18</li> <li>• External Auditor's Report and Management Representations</li> <li>• Risk Management Update and Strategic Risk Register</li> <li>• Annual Report on Internal Audit &amp; Internal Control</li> <li>• Annual Anti-Fraud Report</li> <li>• Annual Treasury Report</li> <li>• Managed Services Programme Update</li> <li>• Code of Conduct Complaint Report</li> </ul>	<p><b>Nov 2018</b></p>	<ul style="list-style-type: none"> <li>• Risk Management update - Housing Management</li> <li>• Managed Services Programme Update</li> <li>• Internal Audit Progress Update</li> <li>• Treasury Management Activity Report</li> <li>• Anti-Fraud Strategy and Fraud Response Plan</li> <li>• Whistleblowing, Anti-Bribery and Anti-Money Laundering Policies</li> <li>• Anti-Fraud Half-year Report</li> <li>• Audit and Transparency Committee Chairman's Annual Report</li> </ul>
<p><b>Sep 2018</b></p>	<ul style="list-style-type: none"> <li>• Managed Services Programme Update</li> <li>• Risk Management update</li> <li>• Strategic Risk Register</li> <li>• Internal Audit Charter</li> <li>• Internal Audit Progress Updated</li> <li>• Treasury Management Activity Report</li> </ul>	<p><b>Feb 2019</b></p>	<ul style="list-style-type: none"> <li>• Risk Management update – Independent Financial Review</li> <li>• Managed Services Programme Update</li> <li>• Treasury Management Activity Report</li> <li>• External Audit Plans (Council/Pension Fund Accounts) for 2018/19</li> <li>• Internal Audit Plan for 2019/20</li> <li>• Internal Audit Progress Update</li> <li>• Code of Corporate Governance</li> <li>• Chairman's Report – pan-London Chairs forum</li> </ul>

# ANNUAL GOVERNANCE STATEMENT

## Scrutiny Arrangements

During 2018/19, the following arrangements were in place. Lead Members make up the Executive and are responsible for undertaking all the Council's functions not reserved to full Council or delegated to Committees or officers. Lead Members take key decisions, either individually or collectively as the Leadership Team. The Executive is held to account by six Scrutiny Committees. Each has a specific remit and can:

- Ask the Leadership Team to think again about a decision, either through pre-decision scrutiny or call-in;
- Summon Lead 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 Leadership Team 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 political representation of the Council. The Chairman of each Scrutiny Committee sits on the Executive and Corporate Services Scrutiny Committee, which helps to coordinate scrutiny work across all five Committees and to develop a programme of work for the coming year, to ensure that the committees scrutinise the most important topics and issues falling within their remit. Residents, Councillors and officers participate in this programme of work. The committees can 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.

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

## Ethics Panel

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

Following external advertisement and interviews the Council appointed three independent persons to the Panel at its meeting on 17 October 2018.

## Director Assurance Statements

Executive Directors have completed their annual assurance statements detailing their confidence in arrangements for managing their recognised core risk areas, which have been subject to independent review. This reflects the Directors' responsibilities, including the management of strategic and operational risk, the effectiveness of controls, financial management, service delivery and continuity, information governance and compliance with other legislation relevant to their areas.

# ANNUAL GOVERNANCE STATEMENT

## 8. Partnership Governance

During 2018/19, the Council shared a number of services with Westminster City Council and the London Borough of Hammersmith and Fulham. Each Council retained its own sovereignty and staff who work within the shared service arrangement do so through an agreement under section 113 of the Local Government Act 1972.

From 1 April 2018, the Council, continued with the co-operation agreements to operate shared services with Westminster City Council (WCC) for Children's Services, Adult Social Care and Public Health, IT and Legal. A small number of services continued to be shared with both WCC and LBHF where economies of scale or quality of service indicate this is the best way forward and there is agreement to do so. However, further disaggregation of services shared with Hammersmith and Fulham, in particular in respect of Environment, Leisure and Residents Services, began towards the end of 2018/19. The Council's governance, oversight and scrutiny arrangements apply to all sovereign and shared services.

A Strategic Grenfell Response Board, chaired by the Chief Executive, oversees the response, on a partnership basis, to the Grenfell Tower fire tragedy. Membership of the Board includes the Clinical Commissioning Group, the local mental health foundation trust (CNWL) and London Resilience.

The Council entered into a partnership agreement with Hampshire County Council in December 2017 for the provision of a managed HR, Payroll and Finance service, with the new service and system becoming operational in December 2018. All partners are subject to a partnership agreement which sets out governance arrangements and how partners will proportionately share costs, benefits and liabilities of the joint services. All partners,

including the Council, are engaged in taking forward the strategic governance and oversight of the partnership through their membership of either the Strategic Direction Board or the Operational Forum. Programme governance arrangements were put in place to successfully manage the implementation of the new systems and to transition from the former arrangement with BT.

## 9. Managing Key Risks

### Strategic Approach to Risk and Assurance

Since the Grenfell fire the Council has been reflecting on its organisational culture and governance to ensure it is fit for new purposes and outward facing. The risk strategy and strategic risk register is a key part of the Council's decision-making approach and culture.

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

The Council also has a duty to improve outcomes for communities and citizens and make the most of opportunities that add value locally. The risks that the public face are not the same as risks that public organisations face in delivering public services. In a rapidly changing world that means thinking about what the main threats and opportunities to citizens' outcomes are, what impact they will have and the role the Council can play – i.e. helping communities develop resilience to social and economic changes. This requires us to look both inwardly (to ensure we have effective governance and controls) but also more importantly outwardly at risk (e.g. to the risk to citizens, to protect citizens and build resilience).



# ANNUAL GOVERNANCE STATEMENT

## Risk and Control Board

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

The Risk and Control Board is responsible for providing sufficient assurance against risks and opportunities that affect (or impact upon) the Council and its citizens and communities. It sets the standards and ensures the Council has the right policies, practices and behaviours in place for effective assurance and risk management. The Board is also responsible for ensuring that new and emerging risks are identified, captured and appropriate mitigations are put in place.

## Strategic Risk Register

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

## Risk Management Strategy

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

acceptable level; and opportunities are seized.

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

The Risk Management Strategy Statement in place during 2018/19 set out the approach to risk management for shared and sovereign services to respond to risk and opportunities in the delivery of both strategic and operational objectives. The five-step process to identifying and managing risk is shown below:



## 10. Managing the risk of fraud

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

# ANNUAL GOVERNANCE STATEMENT

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

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

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

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

-

## 11. Anti-Bribery and Corruption

The Officer Code of Conduct was reviewed and updated in 2018/19 and sets out the conduct required of officers, including officers of gifts and hospitality. Offers of gifts and hospitality need to be dealt with in an appropriate way so that the Council and its staff are seen to be honest, fair

and open at all times. All officers and staff have a responsibility to declare any offer of a gift, hospitality, benefit or service with a value in excess of £20, even if the offer is not accepted. Offers must be recorded on the Gifts and Hospitality Register System, and any action discussed with the line manager. The Members' Code of Conduct requires Members to notify the Monitoring Officer of any gifts or hospitality accepted or declined with a value excess of £20 or more.

## 12. Information Governance and Freedom of Information (FOI)

Information Governance is the overall process of analysing, evaluating, assessing and mitigating the impact of risks to the Council's information and information systems. Information Governance includes physical, personnel and information security and is an essential enabler towards making the Council work efficiently. Information risks must be managed effectively, collectively and proportionately, to achieve a secure and confident working environment.

The Council is aware that risks can never be eliminated fully and it has in place a strategy that provides a structured, systematic and focused approach to managing risk. Information risk is managed by assigning roles and responsibilities and co-ordinating the implementation of this policy and all supporting documentation. Together these measures form the Information Governance lifecycle and apply across the Council and in its dealings with all partners and third parties.

Information governance policies and standards are in place, which, if complied with by officers and Members, provide the necessary assurance about the security of the Council's information assets and data handling procedures. The Local Public Services Data Handling Guidelines 2008 and the Local Public Services Data Handling Guidelines 2012 introduced some

# ANNUAL GOVERNANCE STATEMENT

specific responsibilities in relation to Information Governance shown below together with their Council roles as follows:

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

These specific roles together with the Data Protection Officer and the IT Security Officer work together with senior management to ensure compliance with best practice with the overriding objective to keep the residents and customers' information safe. A Caldicott Guardian is responsible for ensuring that health and social care information is managed appropriately, and that our annual Information Governance Toolkit submission meets the required levels of compliance.

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

## 13. Chief Financial Officer

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

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

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

## 14. Monitoring Officer

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

# ANNUAL GOVERNANCE STATEMENT

On 5th March 2019 the Local Government and Social Care Ombudsman made a finding of maladministration in connection with a complaint about the way in which the Council dealt with a homelessness application. The Monitoring Officer reported the LGSCO's findings to the Leadership team meeting on 1 May 2019 and the Leadership Team accepted all the LGSCO's recommendations.

The Monitoring Officer received one complaint alleging a breach of the Members' Code of Conduct. This complaint, which concerned comments made at a meeting of the full Council, was investigated and heard by the Audit and Transparency Committee. The Committee upheld the complaint and the Councillor apologised to the complainant.

## 15. Internal and External Audit Assurance

The Council receives a substantial amount of assurance from the work that is undertaken by its Internal Audit team and external auditors, Grant Thornton LLP.

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

## 16. 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 2018-19 a self-assessment of compliance was undertaken; 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 2018-19 is that the Council's internal control systems in the areas audited were adequate.

## 17. External Audit

KPMG LLP issued an unqualified opinion on the Council's 2017/18 financial statements and concluded that the financial statements gave a true and fair view of the financial position of the Council and of its expenditure and income for the year. The financial statements also include those of the Pension Fund. However, they were unable to issue an opinion on the Council's value for money conclusion for 2017/18. This was consistent with the previous year where they identified areas of further work they needed to undertake, recognising that following the Grenfell Tower fire a number of investigations and inquiries had commenced and that matters they needed to consider were potentially included in the inquiries and investigations commissioned by central government and other regulatory bodies.

KPMG LLP reviewed the 2017/18 Annual Governance Statement as part of its work on auditing the Council's accounts and concluded that it complies with *Delivering Good Governance in Local Government: A Framework*

# ANNUAL GOVERNANCE STATEMENT

published by CIPFA/SOLACE. There were no areas for improvement noted.

## 18. Reviews of governance

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

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

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

This includes planned changes designed to ensure that scrutiny adds real value through in-depth consideration of priority issues, leading to recommendations to the Executive, partners and Full Council. The changes will include a more proactive approach to the involvement of the public in scrutiny reviews. A new Overview and Scrutiny Committee will ensure that the Executive is held to account and scrutiny's statutory responsibilities are met.

## 19. Significant Governance Issues

Matters reported in the 2017/18 Annual Governance Statement, with the

exception of two items identified as other significant issues arising have been addressed during 2018/19 and are considered resolved. No new significant governance issues have been identified during 2018/19.

## 20. Update on Other Significant Issues Arising in 2017/18

### Grenfell

As set out earlier in the statement, the Council signed up to the recommendations in the Hillsborough Charter in 2018 and continues to review and change its governance arrangements in line with this commitment. Following the Grenfell Tower fire in June 2017, a number of significant issues arose, in response to which the Council is implementing a range actions, some of which will continue into 2019/20:

- The Tenant Management Organisation (TMO) was brought back in house on 1 March 2018. Management have reviewed all aspects of the housing management functions which transferred to the Council and are implementing a wide range of improvement actions (which are included in the Council's Strategic Risk Register). On 1 April 2019 the Council took direct control of housing repairs and maintenance from Repairs Direct, a company previously owned by KCTMO. Staff from Repairs Direct transferred across to the Council to join a new repairs service.
- The Council is a core participant in the Grenfell Public Inquiry and a suspect in the corporate manslaughter investigation being undertaken by the Metropolitan Police Service. The Council adopted the Charter for Families Bereaved through Public Tragedy and continues to support the Public Inquiry through the retention and provision of documents covering all aspects of the Inquiry's terms of reference.

# ANNUAL GOVERNANCE STATEMENT

- The Council is also under an ongoing duty to retain and disclose documentation and electronic records for the police investigation. Management of the Grenfell site continues to be provided through an independent Site Management Group under the London Local Authority Gold arrangements. Ownership of the Tower site is due to transfer to the Ministry for Housing, Communities and Local Government in mid-2019. In September 2018, the Government announced plans to establish a Grenfell Tower Memorial Commission to decide the long-term future of the site. This is expected to lead to a fitting memorial to those who lost their lives in the Grenfell tragedy, as agreed in the *Principles governing consultations on the future of the Grenfell Tower site*.
- The Grenfell Recovery Strategy approved by the Council in January 2019 is being implemented and includes:
  - Plans for a dedicated service for the bereaved and survivors;
  - Plans to support the wider community, including ongoing support to those affected and a community programme for the local area focused on building community capacity;
  - A range of wider initiatives across the Council which will support recovery.
- A number of actions arising from the CfPS independent governance review are in progress and due to be implemented during 2019/20.
- The Council continues to receive support and scrutiny from the Grenfell Recovery Taskforce. On 17 July 2019 the Secretary of State for Housing, Communities and Local Government published the fourth report of the Independent Grenfell Recovery Taskforce,

based on their assessment to June 2019. Further recommendations were made in the report which the Council is considering: the Taskforce is expected to report again in September 2019.

## Health and Safety

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

## **21. Conclusion of this review**

The Council is implementing a range of actions to strengthen governance, scrutiny and oversight arrangements as a result of the review conducted by the Centre for Public Scrutiny (CfPS) and through the Borough and Area Governance Review Panel. Under the leadership of the Chief Executive the Council is also putting in place appropriate strategies and plans, including the new Council Plan, which set a clear vision, direction and approach for how the Council meets the needs of its residents. This together with the review set out in this statement confirms that the Council is satisfied that arrangements continue to be regarded as fit for purpose in accordance with the governance framework. A satisfactory level of assurance has been achieved following the conclusion of the Review. This includes the areas

# ANNUAL GOVERNANCE STATEMENT

already addressed from the previous year and those to be specifically identified in section 18 above which are the subject of ongoing action during 2019/20.

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

Signed:



**Barry Quirk, Chief Executive**



**Cllr Elizabeth Campbell, Leader**

24<sup>th</sup> July 2019

# COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

Comprehensive Income and Expenditure Statement	2018/19			2017/18*		
	Gross Expenditure	Gross Income	Net Expenditure	Gross Expenditure	Gross Income	Net Expenditure
	£'000	£'000	£'000	£'000	£'000	£'000
Adult Social Care and Public Health	101,645	(53,483)	48,162	106,937	(50,120)	56,817
Children's Services and Education	150,740	(97,768)	52,972	151,390	(100,120)	51,270
Environment and Communities	87,420	(76,452)	10,968	96,620	(71,621)	24,999
General Fund Housing	54,008	(38,253)	15,755	48,966	(32,779)	16,187
Resources and Assets	232,719	(140,774)	91,945	185,040	(140,252)	44,788
Chief Executive's	21,291	(4,654)	16,637	14,918	(6,771)	8,147
Grenfell - Corporate	95,467	(713)	94,754	0	0	0
Grenfell - Recovery	41,504	(24,482)	17,022	85,940	(1,599)	84,341
Housing Revenue Account	80,672	(53,935)	26,737	72,203	(51,747)	20,456
<b>Cost of Services</b>	<b>865,466</b>	<b>(490,514)</b>	<b>374,952</b>	<b>762,014</b>	<b>(455,009)</b>	<b>307,005</b>
Other operating income and expenditure (Note 13)			(513)			(61,780)
Financing and investment income and expenditure (Note 14)			20,860			(28,098)
Taxation and non-specific grant income and expenditure (Note 15)			(216,727)			(230,131)
LRB (Surplus) / deficit			83			(115)
<b>(Surplus) or Deficit on Provision of Services</b>			<b>178,655</b>			<b>(13,119)</b>
(Surplus) / deficit on revaluation of non current assets (Note 12)			63,882			(49,911)
(Surplus) / deficit on revaluation of available for sale financial assets			0			(1,460)
Remeasurement of net defined benefit liability (Note 12)			(99,691)			(65,726)
<b>Other Comprehensive Income and Expenditure</b>			<b>(35,809)</b>			<b>(117,097)</b>
<b>Total Comprehensive Income and Expenditure</b>			<b>142,846</b>			<b>(130,216)</b>

\*Restated to include Grenfell within Cost of Services. During 2018/19, reporting for Grenfell changed to distinguish between income and expenditure relating to Corporate items and Recovery related items; for 2017/18 all spend was shown as reported throughout the year i.e. under Recovery.



## MOVEMENT IN RESERVES STATEMENT

Movement in Reserves Statement	General Fund	Housing Revenue Account	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves	Total Reserves
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Balance at 31st March 2018</b>	<b>(135,737)</b>	<b>(20,449)</b>	<b>(125,946)</b>	<b>(1,925)</b>	<b>(11,729)</b>	<b>(295,786)</b>	<b>(1,371,283)</b>	<b>(1,667,069)</b>
<b><u>Movement in reserves during 2018/19</u></b>								
Total Comprehensive Income and Expenditure	155,971	22,684	0	0	0	178,655	(35,809)	142,846
Adjustments between accounting basis and funding basis under regulations (Note 10)	(165,708)	(17,914)	10,350	1,925	(10,239)	(181,586)	181,586	0
<b>Net (increase) / decrease in 2018/19</b>	<b>(9,737)</b>	<b>4,770</b>	<b>10,350</b>	<b>1,925</b>	<b>(10,239)</b>	<b>(2,931)</b>	<b>145,777</b>	<b>142,846</b>
<b>Balance at 31st March 2019 carried forward</b>	<b>(145,474)</b>	<b>(15,679)</b>	<b>(115,596)</b>	<b>0</b>	<b>(21,968)</b>	<b>(298,717)</b>	<b>(1,225,506)</b>	<b>(1,524,223)</b>
<b>Balance at 31st March 2017</b>	<b>(181,271)</b>	<b>(21,322)</b>	<b>(72,873)</b>	<b>(1,285)</b>	<b>(6,402)</b>	<b>(283,153)</b>	<b>(1,253,700)</b>	<b>(1,536,853)</b>
<b><u>Movement in reserves during 2017/18</u></b>								
Total Comprehensive Income and Expenditure	(34,196)	21,077	0	0	0	(13,119)	(117,097)	(130,216)
Adjustments between accounting basis and funding basis under regulations (Note 10)	79,730	(20,204)	(53,073)	(640)	(5,327)	486	(486)	0
<b>Net (increase) / decrease in 2017/18</b>	<b>45,534</b>	<b>873</b>	<b>(53,073)</b>	<b>(640)</b>	<b>(5,327)</b>	<b>(12,633)</b>	<b>(117,583)</b>	<b>(130,216)</b>
<b>Balance at 31st March 2018 carried forward</b>	<b>(135,737)</b>	<b>(20,449)</b>	<b>(125,946)</b>	<b>(1,925)</b>	<b>(11,729)</b>	<b>(295,786)</b>	<b>(1,371,283)</b>	<b>(1,667,069)</b>

# BALANCE SHEET

Balance Sheet	Note	31st March 2019 £'000	31st March 2018 £'000
Property, Plant and Equipment	16	1,404,244	1,549,816
Heritage Assets	17	44,709	44,694
Investment Property	18	355,145	393,116
Intangible Assets		3,739	955
Long Term Debtors	21	1,154	809
<b>Long Term Assets</b>		<b>1,808,991</b>	<b>1,989,390</b>
Short Term Investments	19	138,513	119,421
Inventories		117	546
Debtors	21	107,602	119,713
Cash and Cash Equivalents	23	78,888	103,198
<b>Current Assets</b>		<b>325,120</b>	<b>342,878</b>
Short Term Borrowing	19	(7,301)	(9,943)
Creditors	24	(127,927)	(136,448)
Capital Grants Receipts in Advance	35	(3,399)	(2,188)
Revenue Grants Receipts in Advance	35	(2,356)	(6,961)
Provisions	25	(34,911)	(12,041)
<b>Current Liabilities</b>		<b>(175,894)</b>	<b>(167,581)</b>
Provisions	25	(1,828)	(1,970)
Long Term Borrowing	19	(213,836)	(218,853)
Long Term Creditors	19	(620)	0
Other Long Term Liabilities	19	(184,257)	(248,461)
Capital Grants Receipts in Advance	35	(33,453)	(28,334)
<b>Long Term Liabilities</b>		<b>(433,994)</b>	<b>(497,618)</b>
<b>Net Assets</b>		<b>1,524,223</b>	<b>1,667,069</b>
Usable Reserves	10/11	(298,717)	(295,786)
Unusable Reserves	12	(1,225,506)	(1,371,283)
<b>Total Reserves</b>		<b>(1,524,223)</b>	<b>(1,667,069)</b>

# CASH FLOW STATEMENT

Cash Flow Statement	Note	2018/19 £'000	2017/18 £'000
Net Surplus or (Deficit) on Provision of Services - RBKC		(178,572)	13,004
Net Surplus or (Deficit) on Provision of Services - LRB		(83)	115
<b>Total Net Surplus or (Deficit) on Provision of Services</b>		<b>(178,655)</b>	<b>13,119</b>
Adjustments to net surplus or deficit on the provision of services for non-cash movements	26	217,131	87,521
Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	26	(39,315)	(114,694)
<b>Net cash flows from Operating Activities</b>		<b>(839)</b>	<b>(14,054)</b>
Investing Activities	27	(39,713)	8,527
Financing Activities	28	16,242	100,000
<b>Net (increase) or decrease in cash and cash equivalents</b>		<b>(24,310)</b>	<b>94,473</b>
Cash and cash equivalents at the beginning of the reporting period		103,198	8,725
<b>Cash and cash equivalents at the end of the reporting period</b>	<b>23</b>	<b>78,888</b>	<b>103,198</b>

# NOTES TO THE CORE STATEMENTS

## 1. Accounting Policies

### 1.1 General Principles

The Statement of Accounts summarises the Council's financial transactions for the 2018/19 financial year and its position at 31<sup>st</sup> March 2019. 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 2018/19* (the Code), supported by International Financial Reporting Standards (IFRS).

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

### 1.2 Accruals of Income and Expenditure

The Council accounts for income and expenditure in the year that the effects of the transactions are experienced, not simply when the cash payments are made or received, subject to a de minimis of £10k for capital and £5k for revenue, although manager's discretion may be used.

### 1.3 Cash and Cash Equivalents

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

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Council's cash management.

### 1.4 Charges to Revenue for Non-Current Assets

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

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

The Council is not required to raise Council Tax to fund capital charges. 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). Capital charges are therefore replaced by the MRP in the GF Balance, by way of an adjusting transaction with the Capital Adjustment Account in the MIRS for the difference between the two.

### 1.5 Collection Fund

The Council acts as agent in relation to the Collection Fund (Billing Authority), collecting council tax and non-domestic rates (NDR) on behalf of the major preceptors (including central government for NDR) and, as principal, collecting council tax and NDR for themselves. The Council is required by statute to maintain a separate Collection Fund for the

# NOTES TO THE CORE STATEMENTS

collection and distribution of amounts due in respect of Council Tax and NDR. Under the legislative framework for the Collection Fund, the Council, major preceptors and central government share proportionately the risks and rewards that the amount of Council Tax and NDR collected could be less or more than predicted.

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

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

## 1.6 Community Infrastructure Levy (CIL)

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

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

## 1.7 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. 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 charged in the CIES, but then reversed out via the MIRS so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

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

### 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

## NOTES TO THE CORE STATEMENTS

normal retirement date, or an employee's decision to accept voluntary redundancy. The benefits are charged on an accruals basis to the CIES at the point that the Council is demonstrably committed to termination of employment.

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

### Post-Employment Benefits

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

- The Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education (DfE); or
- The Local Government Pension Scheme (LGPS), which for 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 Services line in the CIES 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 for Public Health was transferred to the Council on 1<sup>st</sup> 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 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 adopts an approach that reflects national auditor preferences.

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

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

# NOTES TO THE CORE STATEMENTS

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

**Re-measurements**, comprising:

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

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

The 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.

## 1.8 Events after the Balance Sheet Date

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

- **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

# NOTES TO THE CORE STATEMENTS

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.

## 1.9 Fair Value Measurement

The Council measures some of its non-financial assets such as surplus assets and investment properties and some of its financial instruments at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

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

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

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

The Council uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use

of relevant observable inputs and minimising the use of unobservable inputs.

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

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the Council can access at the measurement date;
- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly;
- Level 3 – unobservable inputs for the asset or liability.

## 1.10 Financial Instruments

### Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of the financial instrument. Financial liabilities are initially measured at fair value and are carried at their amortised cost.

Interest is charged to the Financing and Investment Income and Expenditure line in the CIES, based on the carrying amount of the liabilities, multiplied by the effective rate of interest for the instruments. For most of the financial liabilities held by the Council, this means that:

- The amount included in the Balance Sheet is the outstanding principal repayable, plus accrued interest; and
- Interest charged to the CIES is the amount payable for the year according to the loan agreement.



# NOTES TO THE CORE STATEMENTS

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

## Financial Assets

Financial assets are classified based on a classification and measurement approach that reflects the business model for holding the financial assets and their cash flow characteristics. There are three main classes of financial assets measured at:

- Amortised cost;
- Fair value through profit or loss (FVPL); and
- Fair value through other comprehensive income (FVOCI).

The Council's business model is to hold investments to collect contractual cash flows. Financial assets are therefore classified as amortised cost, except for those where contractual payments are not solely payment of principal and interest (i.e. where the cash flows do not take the form of a basic debt instrument).

### Financial Assets Measured at Amortised Cost

Financial assets measured at amortised cost are recognised on Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost.

Interest is credited to the Financing and Investment Income and Expenditure line in the CIES, based on the carrying amount of the assets, multiplied by the effective rate of interest for the instruments. For most of the financial assets held by the Council, this means that:

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

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

### Expected Credit Loss (ECL) Model

The Council recognises expected credit losses on all of its financial assets held at amortised cost, either on a 12-month or lifetime basis. The ECL model also applies to lease receivables and contract assets. Only lifetime losses are recognised for trade receivables (debtors) held by the Council.

Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. Credit risk plays a crucial part in assessing losses. Where risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of 12-month expected losses.

### 1.11 Government Grants and Contributions

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

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

# NOTES TO THE CORE STATEMENTS

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

Where capital grants are credited to the CIES, they are reversed out of the GF in the MIRS. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied Reserve. Where it is applied, it is posted 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.

## 1.12 Heritage Assets

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

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

The museum collections and the art in parks are reported in the Balance Sheet at insurance valuation (based on market values). 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.

## 1.13 Intangible Assets

Expenditure on intangible assets 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.

# NOTES TO THE CORE STATEMENTS

Intangible assets are measured initially at cost and then carried at amortised cost. Intangible assets are amortised over their useful life to the relevant service line(s) in the CIES. An asset is tested for impairment whenever there is an indication that the asset might be impaired and any losses recognised are posted to the relevant service line(s) in the CIES. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the CIES.

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

## 1.14 Interests in companies and other entities

The Council undertakes an annual assessment of joint arrangements and interests in other companies. It has deemed group accounts not to be required in respect of these as the consolidated position would not be materially different to the single entity accounts.

The Council has one active wholly owned subsidiary, Repairs Direct, which came under Council control in March 2018. Group accounts are not prepared as the consolidated position would not be materially different to the single entity accounts.

## 1.15 Investment Property

Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's-length. As a non-financial asset, investment properties are measured at highest and best use. Properties

are not depreciated, but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the CIES. The same treatment is applied to gains and losses on disposal.

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

## 1.16 Leases

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

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

PPE held under a finance lease is recognised on the Balance Sheet at the commencement of the lease either at its fair value, measured at the inception date of the lease, or if lower, the present value of the minimum lease payments. The asset recognised is matched by a liability representing

## NOTES TO THE CORE STATEMENTS

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 CIES.

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

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

### **The Council as Lessor**

Where the Council grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet (whether PPE or Assets Held for Sale) is

written off to the Other Operating Expenditure line in the CIES as part of the gain or loss on disposal. A gain, representing the Council's net investment in the lease, is also credited to the same line in the CIES as part of the gain or loss on disposal i.e. netted off against the carrying value of the asset at the time of disposal, matched by a lease asset, a long-term debtor, in the Balance Sheet.

Lease rentals receivable are apportioned between:

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

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

The written-off value of disposals is not a charge against Council Tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are therefore appropriated to the Capital Adjustment Account from the GF via the MIRS.

# NOTES TO THE CORE STATEMENTS

## Operating Leases

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

### 1.17 Overheads and Support Services

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

### 1.18 Prior Period Adjustments (PPA), 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.

### 1.19 Property, Plant and Equipment

These are tangible assets that have a physical substance and are held for operational reasons i.e. in the production or supply of goods and services or for administrative purposes. This category excludes properties which are held solely for the purpose of generating financial return (Investment Properties and Assets for Sale) and those held primarily for their contribution to knowledge and culture (Heritage Assets).

#### Recognition

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

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

#### Measurement

Assets are initially measured at cost, comprising:

# NOTES TO THE CORE STATEMENTS

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

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

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

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

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

- infrastructure, community assets and assets under construction – depreciated historical cost
- dwellings at fair value, determined using the basis of existing use value for social housing (EUV-SH)
- school buildings – current value but because of their specialist nature, are measured at depreciated replacement cost which is

used as an estimate of current value

- surplus assets at fair value estimated at highest and best use from a market participant's perspective
- all other assets at fair value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

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

## Subsequent changes in value

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

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

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

The Revaluation Reserve contains revaluation gains recognised since 1<sup>st</sup>

# NOTES TO THE CORE STATEMENTS

April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the capital adjustment account.

## Impairment

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

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

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

## Depreciation

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

Depreciation is calculated, after the year of acquisition or enhancement, on the bases disclosed in note 16.

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

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

## Componentisation of valuations

Where beneficial to the accuracy of the accounts the Council may opt to recognise each of the component parts of a material asset in their own right. This may be necessary to reflect the fact that some components may have an appreciably shorter useful life than the wider asset and will therefore need replacing sooner. Where assets are recognised as their component parts then each element is considered independently for future valuations, depreciation, replacement and disposal accounting. This Council will recognise the Structure, Roof, Heating & associated systems, Electrical, Lift and Externals as components.

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

# NOTES TO THE CORE STATEMENTS

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

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

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

## **Disposals and non-current assets held for sale**

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

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of

their carrying amount before they were classified as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable amount at the date of the decision not to sell. Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.

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

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. A proportion of receipts relating to housing disposals (75% for dwellings, 50% for land and other assets, net of statutory deductions and allowances) is payable to the Government. The balance of receipts remains within the Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the Council's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Reserve from the General Fund Balance in the MIRS. From April 2012 a proportion of receipts arising from additional RTB sales, following an increase in the maximum cash cap on discounts, is retained by the Council where it agrees to spend a sufficient level of resources on replacement social housing. The same applies to non-RTB sales where the agreement is to spend on provision of additional affordable housing or regeneration projects.

The written-off value of disposals is not a charge against Council Tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the



# NOTES TO THE CORE STATEMENTS

Capital Adjustment Account from the General Fund Balance in the MIRS.

## Schools

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

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

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

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

Schools' non-current assets (school buildings and playing fields) are recognised on the Council's Balance Sheet where the Council directly owns the assets, where the Council holds the balance of control of the assets or where the school or the school governing body owns the assets or have

had rights to use the assets transferred to them through licence arrangement.

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

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

## 1.20 Provisions, Contingent Liabilities and Contingent Assets

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

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

Estimated settlements are reviewed at the end of each financial year. The Council does not unwind any discount on provision balances. Where it becomes less than probable that a transfer of economic benefits will be

# NOTES TO THE CORE STATEMENTS

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 assets and liabilities are not recognised in the Balance Sheet, but disclosed in notes to the accounts. Contingent liabilities are disclosed when an outflow is possible and contingent assets are disclosed where it is probable that there will be an inflow of economic benefits or service potential.

## 1.21 Provision for redemption of debt

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

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

- For capital expenditure prior to 1st April 2008, it is proposed that the Council adopts 'the regulatory method' (Option 1). Option 1 leads to a lower level of MRP than Option 2, and avoids the Council having to make complex calculations for all its assets which it

would have to do if Options 3 or 4 were adopted for supported borrowing.

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

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

## 1.22 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 GF in the MIRS. When expenditure to be financed from a reserve is incurred it is charged in the CIES to the appropriate service in

# NOTES TO THE CORE STATEMENTS

that year. The reserve is then appropriated back into the GF in the MIRS 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.

## 1.23 Revenue expenditure funded from capital under statute (REFCUS)

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 CIES. Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer via the MIRS from the GF to the Capital Adjustment Account reverses out the amounts charged so that there is no impact on the level of council tax.

## 1.24 VAT

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

## 2. Accounting standards issued not yet adopted

As at the Balance Sheet date, the following new accounting standards and amendments had not yet been adopted by the Code of Practice on Local Authority Accounting in the United Kingdom. None of the below standards are expected to have any significant impact for the Council.

- Amendments to IAS 40 Investment Property: Transfers on Investment Property
- Amendments to IFRS 9 Financial Instruments: Prepayment Features with Negative Compensation
- IFRIC 22 Foreign Currency Transactions and Advance Consideration
- IFRIC 23 Uncertainty over Income Tax Treatments.

## 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 regarding future levels of funding for local government and the impact of the decision for Britain to leave the European Union remains unclear. The Council, however, takes the view that this uncertainty is not yet sufficient indication that the value of the its assets might need to be impaired due to reduced levels of service provision or the need to close facilities.
- In 2011, the Council entered into a Tri-Borough working arrangement with neighbouring local authorities, Westminster City Council (WCC) and the London Borough of Hammersmith and Fulham (LBHF). On 27th March 2017, RBKC and WCC agreed to serve notice on LBHF of their intention to withdraw from service sharing arrangements in the areas of Adult Social Care, Children's Services and Public Health. This took effect from 1st April 2018. Since this date, a decision has been taken by LBHF to disaggregate services within the Environment and Communities portfolio and these services will become sovereign services during 2019/20, with the first services disaggregating from 1st April 2019.

# NOTES TO THE CORE STATEMENTS

Other Tri-Borough shared services, including treasury and pensions and audit, risk and assurance are not expected to change. The Council does not believe it is necessary to impair any non-current asset in light of Tri-Borough 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 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 Academies, Voluntary Aided or Free schools as it is of the view that these school assets are - to varying degree - beyond the control of the Council.
- In January 2018, the Government published the outcome of its Indexation and equalisation of GMP in public service pension schemes consultation following the High Court's Lloyds ruling on Guaranteed Minimum Pension (GMP) between genders. No adjustments have been made to the value placed on the IAS 19 Net Pension Liability as a result of this outcome.

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

##### Business Rates

Since the introduction of the Business Rates Retention Scheme in 2013/14, Local Authorities are liable for successful appeals against business rates charged to businesses in 2018/19 and earlier financial years in their proportionate share. Therefore, a provision has been recognised for the best estimate of the amount that the Council will need to repay to businesses up to 31<sup>st</sup> March 2019. The estimate has been calculated using the latest Valuation Office (VAO) ratings list of appeals and the analysis of

successful appeals to date when providing the estimate of total provision up to and including 31<sup>st</sup> March 2019.

##### Pensions Liability

During 2018/19, the Council's actuaries advised that the net pension liability had decreased by £64.204 million as a result of estimates being revised and the updating of the assumptions. These estimates are complex and are subject to a number of interdependencies. The liability held on the Balance Sheet is subject to actuarial estimation; some of the detail behind the estimates used by the actuary is shown in note 39.

##### Property, Plant and Equipment

Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Council will be able to sustain its current spending on repairs and maintenance bringing into doubt the useful lives assigned to assets. If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls. It is estimated that the annual depreciation charge for buildings would increase in these circumstances.

##### BREXIT

The Council has determined that the level of uncertainty over BREXIT is not sufficient to indicate any course of action e.g. closure of facilities due to reduced funding streams.

#### 5. Material items of income and expense

On 14<sup>th</sup> June 2017, a tragic fire at the Grenfell Tower resulted in 72 deaths. The Council worked with the London Gold command, other local authorities and central government departments, particularly what is now the Ministry of Housing, Communities and Local Government, to provide

# NOTES TO THE CORE STATEMENTS

immediate relief and on-going support to those affected by these events. Support has been provided in various forms ranging from emergency, temporary and permanent housing for those rendered homeless to social care and mental health support for those traumatised by the fire.

In accounting terms, the Council views the expenditure incurred directly and indirectly in alleviating the effects of the fire as material expenditure which merits separate disclosure, since it is expenditure over and above what the authority would normally incur in delivering its day-to-day services. This note provides an analysis of this net expenditure showing the types of service provided and any contribution received to defray the Council's costs. The note also shows the Council's capital expenditure relating to the Grenfell fire.

<b>Included within Grenfell Cost of Services</b>	<b>2018/19</b>	<b>2017/18</b>
	£'000	£'000
<u>Revenue Expenditure</u>		
Housing Costs	17,429	39,074
Social Care and Wellbeing	17,542	23,666
Site and Premises Management	4,712	6,379
Support Services	5,173	13,235
Corporate Services	3,605	3,988
<b>Total revenue expenditure</b>	<b>48,461</b>	<b>86,342</b>
<u>Revenue Income</u>		
Government Grant - Section 31	(28,280)	(41,600)
<b>Total revenue income</b>	<b>(28,280)</b>	<b>(41,600)</b>

There was a transfer of £16.5 million in 2018/19 to the Grenfell Reserve. £10 million of this will be released back to the Grenfell revenue budget in 2019/20 to fund registered provider compensation.

Grenfell Corporate expenditure in the CIES includes a £68 million revaluation loss. This reflects the downward revaluation from market

value to the existing use value for social housing and the general house price falls in central London.

	<b>2018/19</b>	<b>2017/18</b>
	£'000	£'000
<u>Capital Expenditure</u>		
Acquisition and renovation of property for social housing	23,459	142,532
Site costs*	14,155	12,579
Leaseholder compensation packages	453	10,108
<b>Total capital expenditure</b>	<b>38,067</b>	<b>165,219</b>

\*£12.081 million of these costs in 2018/19 (£11.046 million in 2017/18) were paid for by MHCLG grant.

<b>Included within Children's Cost of Services</b>	<b>2018/19</b>	<b>2017/18</b>
	£'000	£'000
<u>Grenfell Education Fund</u>		
Expenditure managed by Children's Services and Education	1,298	739

## 6. Events after the Balance Sheet date

There was one significant event affecting the 2018/19 accounts that occurred between 1<sup>st</sup> April and 22<sup>nd</sup> July 2019, when these financial statements were approved by the Audit and Transparency Committee.

The Council transferred the freehold of the Grenfell Tower site to the Ministry of Housing, Communities and Local Government (MHCLG) on 15<sup>th</sup> July. The transfer is part of the journey towards establishing a fitting memorial to those who lost their lives in the Grenfell tragedy. The Tower was transferred for nominal consideration.

# NOTES TO THE CORE STATEMENTS

## 7. Expenditure and Funding Analysis (EFA)

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

Expenditure and Funding Analysis	2018/19			2017/18		
	Expenditure chargeable to GF and HRA balances	Adjustments between Accounting and Funding Basis (Note 9)	Net Expenditure in the CIES	Expenditure chargeable to GF and HRA balances	Adjustments between Accounting and Funding Basis (Note 9)	Net Expenditure in the CIES
	£'000	£'000	£'000	£'000	£'000	£'000
Adult Social Care and Public Health	57,662	(9,500)	48,162	54,789	2,028	56,817
Children's Services and Education	45,413	7,559	52,972	44,868	6,402	51,270
Environment and Communities	12,073	(1,105)	10,968	16,075	8,924	24,999
General Fund Housing	17,646	(1,891)	15,755	15,172	1,015	16,187
Resources and Assets	16,761	75,184	91,945	20,985	23,803	44,788
Chief Executive's	9,868	6,769	16,637	6,152	1,995	8,147
Grenfell - Corporate	8,317	86,437	94,754	0	0	0
Grenfell - Recovery	10,208	6,814	17,022	84,082	259	84,341
Housing Revenue Account	(1,092)	27,829	26,737	(4,185)	24,641	20,456
<b>Net Costs of Services</b>	<b>176,856</b>	<b>198,096</b>	<b>374,952</b>	<b>237,938</b>	<b>69,067</b>	<b>307,005</b>
Other income and expenditure (GF)	(187,768)	(4,558)	(192,326)	(196,474)	(124,156)	(320,630)
Other income and expenditure (HRA)	5,862	(9,916)	(4,054)	5,058	(4,437)	621
LRB (Surplus) / Deficit	83	0	83	(115)	0	(115)
<b>(Surplus) / Deficit on Services</b>	<b>(4,967)</b>	<b>183,622</b>	<b>178,655</b>	<b>46,407</b>	<b>(59,526)</b>	<b>(13,119)</b>

Movement on GF and HRA balances	2018/19			2017/18		
	GF	HRA	Total	GF	HRA	Total
	£'000	£'000	£'000	£'000	£'000	£'000
<b>Opening Balance:</b>	<b>(135,737)</b>	<b>(20,449)</b>	<b>(156,186)</b>	<b>(181,271)</b>	<b>(21,322)</b>	<b>(202,593)</b>
(Surplus) / Deficit on Balance in Year	(9,737)	4,770	(4,967)	45,534	873	46,407
<b>Closing Balance:</b>	<b>(145,474)</b>	<b>(15,679)</b>	<b>(161,153)</b>	<b>(135,737)</b>	<b>(20,449)</b>	<b>(156,186)</b>

# NOTES TO THE CORE STATEMENTS

## 8. Expenditure and income analysed by nature

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

	2018/19	2017/18
	£'000	£'000
<u>Expenditure</u>		
Employee benefits expenses	197,650	186,813
Other service expenses	501,567	527,978
Depreciation, amortisation and impairment	175,104	66,712
Interest Payments	11,776	10,343
Net interest on net defined benefit liability	6,156	7,695
Payments to the Government Housing Capital		
Receipts Pool	1,161	1,349
Precepts and Levies	4,986	5,643
<b>Total expenditure</b>	<b>898,400</b>	<b>806,533</b>
<u>Income</u>		
Fees, charges and other service income	(264,452)	(239,573)
Gains on disposal of non-current assets	(5,034)	(66,574)
Government grants & contributions	(312,189)	(351,538)
Interest Income	(2,950)	(1,769)
Net income from Council Tax and Business Rates	(149,603)	(123,457)
Change in Fair Value of Investment Properties	14,483	(36,741)
<b>Total income</b>	<b>(719,745)</b>	<b>(819,652)</b>
<b>(Surplus) or Deficit on Provision of Services</b>	<b>178,655</b>	<b>(13,119)</b>

## 9. Adjustments between accounting and funding bases – EFA

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

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

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

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

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

## NOTES TO THE CORE STATEMENTS

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

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

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



# NOTES TO THE CORE STATEMENTS

	2018/19				2017/18			
	Adjustments for capital purposes	Net change for pension adjustments	Other differences	Total adjustments	Adjustments for capital purposes	Net change for pension adjustments	Other differences	Total adjustments
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Adult Social Care and Public Health	49	2,226	(11,775)	(9,500)	299	1,729	0	2,028
Children's Services and Education	11,290	5,022	(8,753)	7,559	1,305	5,097	0	6,402
Environment and Communities	5,440	3,936	(10,481)	(1,105)	5,255	3,669	0	8,924
General Fund Housing	54	1,243	(3,188)	(1,891)	39	976	0	1,015
Resources and Assets	42,473	12,773	19,938	75,184	11,986	11,243	574	23,803
Chief Executive's	459	2,023	4,287	6,769	603	1,392	0	1,995
Grenfell - Corporate	86,652	(1)	(214)	86,437	0	0	0	0
Grenfell - Recovery	95	959	5,760	6,814	0	259	0	259
Housing Revenue Account	26,721	1,150	(42)	27,829	24,528	113	0	24,641
<b>Net Cost of Services</b>	<b>173,233</b>	<b>29,331</b>	<b>(4,468)</b>	<b>198,096</b>	<b>44,015</b>	<b>24,478</b>	<b>574</b>	<b>69,067</b>
Other income and expenditure (GF)	(11,737)	5,790	1,389	(4,558)	(131,839)	8,385	(702)	(124,156)
Other income and expenditure (HRA)	(10,435)	366	153	(9,916)	(4,437)	0	0	(4,437)
<b>Difference between EFA (Surplus) or Deficit and CIES (Surplus) or Deficit on Provision of Services</b>	<b>151,061</b>	<b>35,487</b>	<b>(2,926)</b>	<b>183,622</b>	<b>(92,261)</b>	<b>32,863</b>	<b>(128)</b>	<b>(59,526)</b>

## NOTES TO THE CORE STATEMENTS

### 10. Adjustments between accounting and funding bases – usable reserves

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

#### GF Balance

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

#### HRA Balance

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

#### Capital Receipts Reserve (CRR)

The CRR holds the proceeds from the disposal of land or other assets, which are restricted by statute from being used other than to fund new

capital expenditure or to be set aside to finance historical capital expenditure. The balance on the reserve shows the resources that have yet to be applied for these purposes at the year-end.

#### Major Repairs Reserve (MRR)

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

#### Capital Grants Unapplied Reserve (CGUR)

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

# NOTES TO THE CORE STATEMENTS

<b>Movement on Usable Reserves during 2018/19</b>	<b>GF</b>	<b>HRA</b>	<b>CRR</b>	<b>MRR</b>	<b>CGUR</b>
	£'000	£'000	£'000	£'000	£'000
<b>Adjustments to Revenue Resources</b>					
<u>Amounts by which income and expenditure included in the CIES are different from revenue for the year calculated in accordance with statutory requirements</u>					
- Pensions costs (transferred to / from the Pensions Reserve)	(33,971)	(1,516)	0	0	0
- Financial instruments (transferred to the Financial Instruments Adjustments Account)	56	0	0	0	0
- Council Tax and NDR (transfers to or from the Collection Fund)	2,991	0	0	0	0
- Holiday pay (transferred to the Accumulated Absence Reserve)	(11)	(111)	0	0	0
- Reversal of entries included in the (Surplus) or Deficit on Provision of Services in relation to capital expenditure (charged to the Capital Adjustment Account)	(136,186)	(23,779)	0	0	(33,305)
<b>Total Adjustments to Revenue Resources</b>	<b>(167,121)</b>	<b>(25,406)</b>	<b>0</b>	<b>0</b>	<b>(33,305)</b>
<b>Adjustments between Revenue and Capital Resources</b>					
- Transfer of non-current asset sale proceeds from revenue to the CRR	1,456	4,563	(6,019)	0	0
- Administrative costs of non-current asset disposals (funded by contribution from the CRR)	0	(151)	151	0	0
- Payments to the government housing receipts pool (funded by a transfer from the CRR)	(1,161)	0	1,161	0	0
- Posting of HRA resources from revenue to the MRR	0	3,080	0	(3,080)	0
- Statutory provision for the repayment of debt (transfer from the CAA)	834	0	0	0	0
- Capital expenditure financed from revenue balances (transfer to the CAA)	284	0	0	(144)	0
<b>Total Adjustments between Revenue and Capital Resources</b>	<b>1,413</b>	<b>7,492</b>	<b>(4,707)</b>	<b>(3,224)</b>	<b>0</b>
<b>Adjustments to Capital Resources</b>					
- Use of the CRR to finance capital expenditure	0	0	15,059	0	0
- Use of the MRR to finance capital expenditure	0	0	0	5,149	0
- Application of capital grants to finance capital expenditure	0	0	0	0	23,066
- Cash payments in relation to deferred capital receipts	0	0	(2)	0	0
<b>Total Adjustments between Revenue and Capital Resources</b>	<b>0</b>	<b>0</b>	<b>15,057</b>	<b>5,149</b>	<b>23,066</b>
<b>Total Adjustments during 2018/19</b>	<b>(165,708)</b>	<b>(17,914)</b>	<b>10,350</b>	<b>1,925</b>	<b>(10,239)</b>

# NOTES TO THE CORE STATEMENTS

<b>Movement on Usable Reserves during 2017/18</b>	<b>GF</b>	<b>HRA</b>	<b>CRR</b>	<b>MRR</b>	<b>CGUR</b>
	£'000	£'000	£'000	£'000	£'000
<b>Adjustments to Revenue Resources</b>					
<u>Amounts by which income and expenditure included in the CIES are different from revenue for the year calculated in accordance with statutory requirements</u>					
- Pensions costs (transferred to / from the Pensions Reserve)	(32,750)	(113)	0	0	0
- Financial instruments (transferred to the Financial Instruments Adjustments Account)	56	0	0	0	0
- Council Tax and NDR (transfers to or from the Collection Fund)	646	0	0	0	0
- Holiday pay (transferred to the Accumulated Absence Reserve)	(574)	0	0	0	0
- Reversal of entries included in the (Surplus) or Deficit on Provision of Services in relation to capital expenditure (charged to the Capital Adjustment Account)	26,904	(37,031)	0	0	(35,791)
<b>Total Adjustments to Revenue Resources</b>	<b>(5,718)</b>	<b>(37,144)</b>	<b>0</b>	<b>0</b>	<b>(35,791)</b>
<b>Adjustments between Revenue and Capital Resources</b>					
- Transfer of non-current asset sale proceeds from revenue to the CRR	72,830	5,940	(78,770)	0	0
- Administrative costs of non-current asset disposals (funded by contribution from the CRR)	(132)	(110)	242	0	0
- Payments to the government housing receipts pool (funded by a transfer from the CRR)	0	(1,349)	1,349	0	0
- Posting of HRA resources from revenue to the MRR	0	12,459	0	(12,459)	0
- Statutory provision for the repayment of debt (transfer from the CAA)	0	0	0	0	0
- Voluntary additional provision for the repayment of debt	869	0	0	0	0
- Capital expenditure financed from revenue balances (transfer to the CAA)	11,881	0	0	0	0
<b>Total Adjustments between Revenue and Capital Resources</b>	<b>85,448</b>	<b>16,940</b>	<b>(77,179)</b>	<b>(12,459)</b>	<b>0</b>
<b>Adjustments to Capital Resources</b>					
- Use of the CRR to finance capital expenditure	0	0	24,109	0	0
- Use of the MRR to finance capital expenditure	0	0	0	11,819	0
- Application of capital grants to finance capital expenditure	0	0	0	0	30,464
- Cash payments in relation to deferred capital receipts	0	0	(3)	0	0
<b>Total Adjustments between Revenue and Capital Resources</b>	<b>0</b>	<b>0</b>	<b>24,106</b>	<b>11,819</b>	<b>30,464</b>
<b>Total Adjustments during 2017/18</b>	<b>79,730</b>	<b>(20,204)</b>	<b>(53,073)</b>	<b>(640)</b>	<b>(5,327)</b>

## 11. Movements in earmarked reserves

This note shows the amounts set aside from the GF and HRA balances in earmarked reserves to provide financing for future expenditure plans and the

# NOTES TO THE CORE STATEMENTS

amounts posted back from earmarked reserves to meet GF and HRA expenditure.

	Note	Balance at 31st March 2017	Transfer Out 2017/18	Transfer In 2017/18	Balance at 31st March 2018	Transfer Out 2018/19	Transfer In 2018/19	Balance at 31st March 2019
		£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>General Fund:</b>								
Grenfell	i	0	50,225	(89,885)	(39,660)	45,576	(54,629)	(48,713)
Special Projects	ii	0	245	(33,849)	(33,604)	11,305	0	(22,299)
Car Parking	iii	(21,220)	1,114	(1,521)	(21,627)	284	(3,043)	(24,386)
Budget Carry Forward	iv	(4,406)	4,406	(906)	(906)	0	(1,611)	(2,517)
Budget Stabilisation	v	0	0	(4,788)	(4,788)	0	(6,694)	(11,482)
Reorganisation	vi	0	0	0	0	0	(10,000)	(10,000)
Schools Reserves	vii	(5,175)	691	(925)	(5,409)	809	(865)	(5,465)
Insurance	viii	(6,066)	557	0	(5,509)	242	0	(5,267)
Public Health	ix	(13,029)	1,553	0	(11,476)	6,568	0	(4,908)
London Residuary Body	x	(3,952)	0	(115)	(4,067)	83	0	(3,984)
Notting Hill Carnival	xi	0	0	(375)	(375)	0	0	(375)
Street Trading	xii	0	0	(237)	(237)	0	(104)	(341)
Dedicated Schools Grant	xiii	0	2,368	0	2,368	1,895	0	4,263
Capital Expenditure	xiv	(29,467)	30,161	(694)	0	0	0	0
Transformation Fund	xv	(28,430)	28,430	0	0	0	0	0
Strategic Regeneration	xvi	(14,083)	14,083	0	0	0	0	0
Grant Loss/Supporting People	xvii	(8,878)	8,878	0	(0)	0	0	(0)
Service Risks	xviii	(7,546)	7,546	0	0	0	0	0
Better City Life/Excellence All Round	xix	(6,400)	6,400	0	0	0	0	0
Economic Development/Demand Growth	xx	(6,111)	6,111	0	0	0	0	0
Building Maintenance and Repairs	xxi	(5,622)	5,622	0	0	0	0	0
Other Earmarked Reserves		(10,886)	10,645	(206)	(447)	447	0	(0)
<b>Total GF Earmarked Reserves</b>		<b>(171,271)</b>	<b>179,035</b>	<b>(133,501)</b>	<b>(125,737)</b>	<b>67,209</b>	<b>(76,946)</b>	<b>(135,474)</b>
GF Working Balance		(10,000)			(10,000)			(10,000)
<b>Total GF Reserves per MIRS</b>		<b>(181,271)</b>			<b>(135,737)</b>			<b>(145,474)</b>

# NOTES TO THE CORE STATEMENTS

Note	Balance at 31st March 2017	Transfer Out 2017/18	Transfer In 2017/18	Balance at 31st March 2018	Transfer Out 2018/19	Transfer In 2018/19	Balance at 31st March 2019
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>HRA:</b>							
HRA Controlled Repairs	(395)	0	(181)	(576)	0	(412)	(988)
HRA Working Balance	(20,927)	1,054	0	(19,873)	5,182	0	(14,691)
<b>Total HRA Reserves per MIRS</b>	<b>(21,322)</b>	<b>1,054</b>	<b>(181)</b>	<b>(20,449)</b>	<b>5,182</b>	<b>(412)</b>	<b>(15,679)</b>

- i. This reserve is held to support the Grenfell budget and any unanticipated one off expenditure.
- ii. The funds in the Special Projects Reserve are primarily available for one off costs associated with service and re-design and supporting the move to self-sufficiency.
- iii. This reserve holds the surpluses from on-street parking places and contraventions and is controlled by the provisions of Section 55 of the Road Traffic Regulation Act 1984 (as amended) including the application of any surplus income held in such an account.
- iv. This reserve contains earmarked funds for budgets carried forward from revenue underspends in prior years to meet the cost of specific projects.
- v. The Budget Stabilisation Reserve was established to provide a buffer with which to deal with the uncertainties in the forward financial planning process arising from changes in the funding for local authorities.
- vi. This reserve has been established to support the Council in delivering its Medium Term Financial Strategy.
- vii. Schools balances are held on behalf of maintained schools across the Borough.
- viii. The Insurance Fund is held to cover future insurance liabilities.
- ix. This reserve holds unspent Public Health grant income earmarked for use in future reserves.
- x. The LRB reserve contains the balance of funding transferred to the Borough to fund residual liabilities relating to the former LRB.
- xi. This reserve holds funding that will be used to support the annual Notting Hill Carnival.
- xii. Street Trading operates as a ring-fenced account and this reserve is maintained to offset any losses on that account.
- xiii. This reserve is ring-fenced for the Dedicated Schools Grant which supports provision for the Council's maintained schools.
- xiv. This reserve contains grant funding ring-fenced for specific purposes as well as funds earmarked for Supporting People.
- xv. The Transformation Funds were fully utilised during 2017/18 and related to Severance Payments, Cost Reduction and Local Initiatives.
- xvi. These funds were held to support regeneration activities funded from the Local Authority Business Growth Incentive Scheme (LABGI), a grant funding scheme which has now ended.
- xvii. The Supporting People reserve provided resources to cushion the impact of reduced grant allocation for this service.
- xviii. This reserve was held to meet any unexpected service requirements and fund the cost of reducing risks.
- xix. The Better City Life reserve provided resources for new policy priorities.
- xx. This reserve was held to finance investment in economic development and regeneration initiatives.
- xxi. This reserve was held to provide a resource to cover variable annual maintenance costs.
- xxii. This reserve provides resources for housing repair projects.

# NOTES TO THE CORE STATEMENTS

## 12. Movements in unusable reserves

	31st March 2019	31st March 2018
	£'000	£'000
Revaluation Reserve	(670,189)	(736,172)
Pensions Reserve	184,144	248,348
Capital Adjustment Account	(734,996)	(881,917)
Deferred Capital Receipts	(6)	(8)
Financial Instruments Adjustments	519	575
Collection Fund Adjustment Account	(7,462)	(4,471)
Short-term Accumulated Absences	2,484	2,362
<b>Total unusable reserves</b>	<b>(1,225,506)</b>	<b>(1,371,283)</b>

### 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.

	2018/19		2017/18	
	£'000	£'000	£'000	£'000
<b>Balance at 1st April</b>		(736,172)		(692,207)
Upward revaluations of assets	(25,804)		(80,452)	
Downward revaluation of assets	89,686		30,541	
<b>Revaluation not posted to the (Surplus) or Deficit on Provision of Services</b>		<b>63,882</b>		<b>(49,911)</b>
Difference between current and historic cost depreciation		1,909		(6,025)
Accumulated depreciation on assets sold or scrapped		192		11,971
<b>Balance at 31st March</b>		<b>(670,189)</b>		<b>(736,172)</b>

### 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 CIES, 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<sup>st</sup> April 2007, the date that the Revaluation Reserve was created to hold such gains.

# NOTES TO THE CORE STATEMENTS

	2018/19	2017/18
	£'000	£'000
<b>Balance at 1st April</b>	<b>(881,917)</b>	<b>(842,747)</b>
<i>Reversal of items debited or credited to the CIES:</i>		
Impairment / Revaluation charged to the CIES	161,330	52,684
Charges for depreciation	10,245	10,681
Reversal of depreciation charged in respect of dwellings	3,080	2,818
Amortisation of intangible assets	448	528
Revenue expenditure funded from capital under statute	2,994	3,911
Amounts written off on disposal or sale as part of the gain / loss on disposal to the CIES	834	11,952
<i>Adjusting amounts written out of the Revaluation Reserve:</i>		
Accumulated revaluation gains on assets sold or scrapped	(192)	(11,971)
Difference between fair value depreciation and historic cost depreciation	(1,909)	6,025
<i>Capital financing applied in the year:</i>		
Use of the Capital Receipts Reserve to finance new capital expenditure	(15,059)	(24,109)
Use of the MRR to finance new capital expenditure	(5,149)	(11,734)
Capital grants and contributions credited to the CIES that have been applied to capital financing	(21,150)	(23,591)
Application of grants to capital financing from the Capital Grants Unapplied Account	(1,916)	(6,873)
Statutory provision for the repayment of debt - MRP	(834)	(869)
Capital expenditure charged against the General Fund and HRA balances	(284)	(11,881)
<i>Other Movements:</i>		
Finance cost adjustments (Leases & PFI)	0	0
Movements in the market value of investment properties	14,483	(36,741)
<b>Movement in year</b>	<b>146,921</b>	<b>(39,170)</b>
<b>Closing balance at 31st March</b>	<b>(734,996)</b>	<b>(881,917)</b>



## NOTES TO THE CORE STATEMENTS

### Collection Fund Adjustment Account

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

	2018/19	2017/18
	£'000	£'000
<b>Balance at 1st April</b>	(4,471)	(3,825)
Amount by which council tax and non domestic rates income credited to the CIES is different from council tax and non domestic rates income calculated for the year in accordance with statutory requirements	(2,991)	(646)
<b>Balance at 31st March</b>	<b>(7,462)</b>	<b>(4,471)</b>

### Pensions Reserve

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

	2018/19	2017/18
	£'000	£'000
<b>Balance at 1st April</b>	248,348	281,211
Remeasurements recognised in Other Comprehensive Income and Expenditure	(99,691)	(65,726)
Reversal of items relating to retirement benefits debited or credited to (Surplus) or Deficit on the Provision of Services	47,638	45,282
Employers contributions payable to scheme	(12,151)	(12,419)
<b>Balance at 31st March</b>	<b>184,144</b>	<b>248,348</b>

### 13. Other operating income and expenditure

	2018/19	2017/18
	£'000	£'000
Levies	3,360	3,445
Payments to the government Housing Capital Receipts Pool	1,161	1,349
(Gains) / losses on the disposal of non-current assets	(5,034)	(66,574)
<b>Total other operating expenditure</b>	<b>(513)</b>	<b>(61,780)</b>

# NOTES TO THE CORE STATEMENTS

## 14. Financing and investment income and expenditure

	2018/19	2017/18
	£'000	£'000
Interest payable and similar charges	11,776	10,342
Net interest on the net defined benefit liability	6,156	7,695
Interest receivable and similar income	(2,930)	(1,760)
Income and expenditure in relation to investment properties	(12,394)	(8,384)
Changes in fair values of investment properties	14,483	(36,741)
Deficit on trading operations not allocated to services	1,528	750
Expected Credit Loss - impairment allowance*	2,241	0
<b>Total financing and investment income and expenditure</b>	<b>20,860</b>	<b>(28,098)</b>

\*Prior to the 2018/19 changes to IFRS 9, Expected Credit Loss impairments (previously known as bad debt provisions) were recorded in Net Cost of Services.

## 15. Taxation and non-specific grant income and expenditure

	2018/19	2017/18
	£'000	£'000
Council tax income	(82,366)	(77,463)
Non domestic rates	(218,671)	(96,033)
Business rates tariff	151,434	50,039
Non-ringfenced government grants		
- S31 Business Rate Relief	(4,837)	(1,176)
- S31 Other*	(26,471)	(43,997)
- Revenue Support Grant	0	(22,311)
- New Homes Bonus	(2,521)	(2,896)
- Other general grants	0	(370)
Capital grants and contributions		
- Community Infrastructure Levy	(7,418)	(4,700)
- Adult Social Care Support Grant	(3,276)	0
- MHCLG S31 Grenfell Grant*	(12,081)	0
- Other capital grants and contributions	(10,520)	(31,224)
<b>Total taxation and non-specific grants</b>	<b>(216,727)</b>	<b>(230,131)</b>

\*In 2017/18, the S31 grant for Grenfell received from MHCLG was all revenue. In 2018/19, £14 million was awarded as a capital grant of which £12.081 million was recognised in the CIES.

# NOTES TO THE CORE STATEMENTS

## 16. Property, plant and equipment

2018/19	Council Dwellings*	Other Land and Buildings	Plant, Furniture and Equipment	Infrastructure Assets	Community Assets	Assets Under Construction	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Cost or Valuation at 1st April 2018</b>	<b>763,042</b>	<b>605,858</b>	<b>15,955</b>	<b>72,244</b>	<b>13,147</b>	<b>129,180</b>	<b>1,599,426</b>
Additions and enhancement	26,407	12,947	2,498	865	1,438	16,186	60,341
Revaluation increases / (decreases) recognised in Revaluation Reserve	(44,868)	(24,378)	0	0	0	0	(69,246)
Revaluation increases / (decreases) recognised in (Surplus) or Deficit on Provision of Services	(131,192)	(32,949)	0	0	0	0	(164,141)
Derecognition - disposals	(557)	0	0	0	0	(15)	(572)
Other Reclassifications and transfers	164,406	(24,722)	0	0	0	(106,951)	32,733
<b>At 31st March 2019</b>	<b>777,238</b>	<b>536,756</b>	<b>18,453</b>	<b>73,109</b>	<b>14,585</b>	<b>38,400</b>	<b>1,458,541</b>
<b>Accumulated Depreciation and Impairment at 1st April 2018</b>	<b>(241)</b>	<b>(101)</b>	<b>(9,541)</b>	<b>(39,727)</b>	<b>0</b>	<b>0</b>	<b>(49,610)</b>
Depreciation charge	(2,771)	(5,444)	(788)	(4,142)	0	0	(13,145)
Depreciation on assets reclassified as investment properties	(122)	122	0	0	0	0	0
Depreciation / Impairment written out to the Revaluation Reserve	2,813	2,445	0	0	0	0	5,258
Depreciation / Impairment written out to (Surplus) or Deficit on Provision of Services	315	2,880	0	0	0	0	3,195
Derecognition - disposals	5	0	0	0	0	0	5
<b>At 31st March 2019</b>	<b>(1)</b>	<b>(98)</b>	<b>(10,329)</b>	<b>(43,869)</b>	<b>0</b>	<b>0</b>	<b>(54,297)</b>
<b>Net Book Value (NBV):</b>							
- At 31st March 2019	777,237	536,658	8,124	29,240	14,585	38,400	1,404,244
- At 31st March 2018	762,801	605,757	6,414	32,517	13,147	129,180	1,549,816

\*Council dwellings include 219 properties held within the GF with a NBV of £36.565 million.

# NOTES TO THE CORE STATEMENTS

2017/18	Council Dwellings	Other Land and Buildings	Plant, Furniture and Equipment	Infrastructure Assets	Community Assets	Assets Under Construction	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Cost or Valuation at 1st April 2017</b>	<b>755,957</b>	<b>531,495</b>	<b>15,992</b>	<b>71,468</b>	<b>10,882</b>	<b>63,096</b>	<b>1,448,890</b>
Additions and enhancement	32,102	20,103	1,788	776	2,265	129,850	<b>186,884</b>
Revaluation increases / (decreases) recognised in Revaluation Reserve	9,293	35,417	0	0	0	0	<b>44,710</b>
Revaluation increases / (decreases) recognised in (Surplus) or Deficit on Provision of Services	<b>(34,047)</b>	<b>(21,407)</b>	0	0	0	0	<b>(55,454)</b>
Derecognition - disposals	<b>(263)</b>	<b>(10,284)</b>	<b>(1,825)</b>	0	0	0	<b>(12,372)</b>
Other Reclassifications and transfers	0	50,534	0	0	0	<b>(63,766)</b>	<b>(13,232)</b>
<b>At 31st March 2018</b>	<b>763,042</b>	<b>605,858</b>	<b>15,955</b>	<b>72,244</b>	<b>13,147</b>	<b>129,180</b>	<b>1,599,426</b>
<b>Accumulated Depreciation and Impairment at 1st April 2017</b>	<b>(238)</b>	<b>(120)</b>	<b>(8,803)</b>	<b>(35,747)</b>	<b>0</b>	<b>0</b>	<b>(44,908)</b>
Depreciation charge	<b>(2,818)</b>	<b>(5,406)</b>	<b>(1,126)</b>	<b>(3,980)</b>	0	0	<b>(13,330)</b>
Depreciation on assets reclassified as investment properties	0	0	0	0	0	0	<b>0</b>
Depreciation / Impairment written out to the Revaluation Reserve	2,473	2,389	0	0	0	0	<b>4,862</b>
Depreciation / Impairment written out to (Surplus) or Deficit on Provision of Services	340	3,005	0	0	0	0	<b>3,345</b>
Derecognition - disposals	2	31	388	0	0	0	<b>421</b>
<b>At 31st March 2018</b>	<b>(241)</b>	<b>(101)</b>	<b>(9,541)</b>	<b>(39,727)</b>	<b>0</b>	<b>0</b>	<b>(49,610)</b>
<b>Net Book Value (NBV):</b>							
- At 31st March 2018	762,801	605,757	6,414	32,517	13,147	129,180	<b>1,549,816</b>
- At 31st March 2017	755,719	531,375	7,189	35,721	10,882	63,096	<b>1,403,982</b>

# NOTES TO THE CORE STATEMENTS

## Depreciation

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

- Council Dwellings – 50 to 100 years
- Other Land and Buildings – 6 to 85 years
- Vehicles – 4 to 7 years; Plant – 21 to 24 years; Equipment and Furniture – 2 to 38 years
- Infrastructure – 16 to 50 years (normally 21 years)

## Capital Commitments

As at 31<sup>st</sup> March 2019 the Council has outstanding capital commitments of £29.3 million GF (£10 million at 31<sup>st</sup> March 2018) and £1.6 million HRA (£6 million at 31<sup>st</sup> March 2018) in respect of contracted schemes.

The major commitments as at 31<sup>st</sup> March 2019 were:

- Barlby and Special Education Needs Schools - £29.3 million (no commitment as at 31<sup>st</sup> March 2018)
- HRA Lift Replacement Programme £1.6 million (no commitment as at 31<sup>st</sup> March 2018).

## Revaluations

The Council carries out a rolling programme that ensures that all operational assets required to be measured at current value are revalued at least every five years and reviewed as appropriate. The latest valuation was during 2018/19. All valuations of dwellings and other land and buildings have been undertaken by external surveyors (Jones, Laing, LaSalle IP) who are fully qualified with the Royal Institute of Chartered Surveyors (RICS) and agreed by the Council's Property Services department.

Valuations of land, buildings and associated plant are carried out in accordance with the methodologies and bases for estimation set out by RICS, except for Council Dwellings, which are valued in accordance with Government Guidance *Stock Valuation for Resource Accounting: Guidance for Valuers - 2017*. Associated plant is held under the current cost model as a component of its parent building and therefore has no associated historic cost.

The significant assumptions applied in estimating the fair values are:

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

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

In line with the Code of Practice and the Council's accounting policies, assets are assessed at each year-end as to whether there has been impairment. As part of the 2017/18 valuation process, 134 rented dwellings in Grenfell Tower and Grenfell Walk, and 7 non-dwelling assets (offices, community uses and aerial sites) were assessed by the external surveyors and revalued at nil in the Council's accounts. This is unchanged as at 31<sup>st</sup> March 2019.

# NOTES TO THE CORE STATEMENTS

## 17. Heritage assets

### Museums (heritage properties)

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

Leighton House was the former home and studio of the leading Victorian artist, Frederic, Lord Leighton (1830-1896). Built to designs by George Aitchison, it was extended and embellished over a period of thirty years to create a private palace of art.

18 Stafford Terrace, once the residence of Punch cartoonist Edward Linley Sambourne, is recognised as the best surviving example of a late Victorian middle-class home in the UK. It is remarkably well preserved and complete with its original interior decoration and contents.

### Museum Collections and Art in Parks

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

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

	Heritage Properties	Museum Collections	Art in Parks	Total
	£'000	£'000	£'000	£'000
<b>Cost or Valuation at 1st April 2018</b>	<b>19,978</b>	<b>22,753</b>	<b>1,963</b>	<b>44,694</b>
Additions	474	0	0	<b>474</b>
Revaluations	(474)	0	0	<b>(474)</b>
Depreciation	15	0	0	<b>15</b>
<b>Cost or Valuation at 31st March 2019</b>	<b>19,993</b>	<b>22,753</b>	<b>1,963</b>	<b>44,709</b>
<b>Cost or Valuation at 1st April 2017</b>	<b>19,726</b>	<b>22,753</b>	<b>1,963</b>	<b>44,442</b>
Additions	598	0	0	<b>598</b>
Revaluations	(176)	0	0	<b>(176)</b>
Depreciation	(170)	0	0	<b>(170)</b>
<b>Cost or Valuation at 31st March 2018</b>	<b>19,978</b>	<b>22,753</b>	<b>1,963</b>	<b>44,694</b>

## 18. Investment properties

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

# NOTES TO THE CORE STATEMENTS

The values at 31<sup>st</sup> March are analysed as follows:

	2018/19	2017/18
	£'000	£'000
Office units	12,427	12,427
Commercial units	324,941	356,613
Land	17,311	22,962
Other investment property	466	1,114
<b>Total fair value</b>	<b>355,145</b>	<b>393,116</b>

There were no transfers between any of the three levels of the fair value hierarchy during 2018/19 or the preceding year. During 2018/19, one property transferred from operational buildings to investment properties.

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

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

	2018/19	2017/18
	£'000	£'000
Rental income from investment property	(15,177)	(15,427)
Direct operating expenses arising from investment property	2,783	7,042
<b>Net (gain) / loss</b>	<b>(12,394)</b>	<b>(8,385)</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:

	2018/19	2017/18
	£'000	£'000
<b>Balance at start of the year</b>	<b>393,116</b>	<b>325,205</b>
Additions		
- Purchases	0	3,326
- Subsequent expenditure	9,512	14,674
Net gains / (losses) from fair value adjustments	(14,483)	36,679
Disposals	(267)	0
Transfers (to) / from Property, Plant and Equipment	(32,733)	13,232
<b>Balance at end of the year</b>	<b>355,145</b>	<b>393,116</b>

## 19. Financial instruments

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

# NOTES TO THE CORE STATEMENTS

Financial Assets	31st March 2019		31st March 2018	
	Long-term	Current	Long-term	Current
	£'000	£'000	£'000	£'000
<b>Investments</b>				
At amortised cost - principal amount	0	138,100	0	119,308
At amortised cost - accrued interest	0	413	0	113
<b>Total investments</b>	<b>0</b>	<b>138,513</b>	<b>0</b>	<b>119,421</b>
<b>Debtors</b>				
Financial assets at amortised cost	508	0	788	0
Financial assets carried at contract amounts	646	25,380	21	49,959
<b>Total included in debtors</b>	<b>1,154</b>	<b>25,380</b>	<b>809</b>	<b>49,959</b>
<b>Cash and Cash Equivalents (CCE)</b>				
At amortised cost - principal amount	0	78,841	0	103,162
At amortised cost - accrued interest	0	47	0	36
<b>Total included in CCE</b>	<b>0</b>	<b>78,888</b>	<b>0</b>	<b>103,198</b>
<b>Total financial assets</b>	<b>1,154</b>	<b>242,781</b>	<b>809</b>	<b>272,578</b>
Non-financial assets*	1,807,837	82,339	1,988,581	70,300
<b>Total Assets per Balance Sheet</b>	<b>1,808,991</b>	<b>325,120</b>	<b>1,989,390</b>	<b>342,878</b>

\*2017/18 published figure for current non-financial assets has been restated to reconcile to figures on the Balance Sheet.

The Council's investments during 2018/19 were placed with the following investment types:

- Simple Deposits with the Debt Management Office, other Local Authorities and a Call Account with the Council's bankers
- Treasury Bills issued by the UK Government
- LVNAV Money Market Funds

As the Council's business model for holding all of these investment types is to collect contractual cash flows they will all be held at amortised cost. As they are all placed with low risk (AAA rated or Government backed) counterparties for 12 months or less, no impairment is required.

Financial Liabilities	31st March 2019		31st March 2018	
	Long-term	Current	Long-term	Current
	£'000	£'000	£'000	£'000
<b>Borrowings</b>				
Amortised cost - principal amount	(213,836)	(5,009)	(218,853)	(7,502)
Amortised cost - accrued interest	0	(2,292)	0	(2,441)
<b>Total borrowings</b>	<b>(213,836)</b>	<b>(7,301)</b>	<b>(218,853)</b>	<b>(9,943)</b>
<b>Creditors</b>				
Financial liabilities carried at contract amounts	(620)	(54,867)	0	(101,644)
<b>Total included in creditors</b>	<b>(620)</b>	<b>(54,867)</b>	<b>0</b>	<b>(101,644)</b>
<b>Total financial liabilities</b>	<b>(214,456)</b>	<b>(62,168)</b>	<b>(218,853)</b>	<b>(111,587)</b>
Non-financial liabilities*	(219,538)	(113,726)	(278,765)	(55,994)
<b>Total Liabilities per Balance Sheet</b>	<b>(433,994)</b>	<b>(175,894)</b>	<b>(497,618)</b>	<b>(167,581)</b>

\*2017/18 published figure for current non-financial liabilities has been restated to reconcile to figures on the Balance Sheet.

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

No Financial Instruments have been reclassified in 2018/19.

## **Income, Expenses, Gains and Losses**

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



# NOTES TO THE CORE STATEMENTS

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

2017/18	Assets at	Assets	Liabilities at	Total
	amortised	Available	amortised	financial
	cost	for Sale	cost	instruments
	£'000	£'000	£'000	£'000
Interest expense in CIES	0	0	9,396	9,396
Interest and investment income in CIES	(630)	246	0	(384)
<b>Net (gain) / loss for the year</b>	<b>(630)</b>	<b>246</b>	<b>9,396</b>	<b>9,012</b>

## Financial instruments – fair values

Financial assets classified as loans and receivables and all non-derivative financial liabilities are carried on the Balance Sheet at amortised cost. Their fair values have been estimated by calculating the net present value of the remaining contractual cash flows as at 31<sup>st</sup> March 2019, using the following methods and assumptions:

- Public Works Loan Board (PWLB) loans have been valued using the new borrowing certainty rates published by the Debt Management Office (DMO) on 31<sup>st</sup> March 2019 (shown in the table below)
- No early repayment or impairment is recognised for any financial instrument

- The fair value of short-term instruments, including trade payables and receivables, is assumed to approximate to the carrying amount.

Fair values are shown in the tables below, split by their level in the fair value hierarchy as follows:

- Level 1 – fair value is only derived from quoted prices in active markets for identical assets or liabilities e.g. bond prices
- Level 2 – fair value is calculated from inputs other than quoted prices that are observable for the asset or liability e.g. interest rates or yields for similar instruments
- Level 3 – fair value is determined using unobservable inputs e.g. non-market data such as cash flow forecasts or estimated creditworthiness.

The fair values are calculated as follows:

	Level	31st March 2019		31st March 2018	
		Fair Value	Carrying Amount	Fair Value	Carrying Amount
		£'000	£'000	£'000	£'000
PWLB loans	2	(260,290)	(221,137)	(265,421)	(228,797)
Liabilities for which fair value is not disclosed			(304,595)		(438,414)
		(260,290)	(525,732)	(265,421)	(667,211)

At 31<sup>st</sup> March 2019, all money market loans and receivables were 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

# NOTES TO THE CORE STATEMENTS

determined by the size of the transaction and the counterparty, but it is impractical to use these figures and the difference is unlikely to be material.

## 20. Nature and extent of risks arising from financial instruments

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

- Credit risk – the possibility that other parties might fail to pay amounts due to the Council
- Liquidity risk – the possibility that the Council might not have funds available to meet its commitments to make payments
- Re-financing risk – the possibility that the Council might be required to renew a financial instrument on maturity at disadvantageous interest rates or terms
- Market risk – the possibility that financial loss might arise for the Council as a result of changes in such measures as interest rates or stock market movements.

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

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

- By formally adopting the requirements of the Code of Practice on Treasury Management in the Public Services;

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

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

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

The Council's Treasury Management Policy can be found on the Council's website: <https://www.rbkc.gov.uk/committees/>

### Credit Risk

Credit risk is the possibility that other parties might fail to pay amounts due

# NOTES TO THE CORE STATEMENTS

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

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

The table below summaries the credit rating of the Council's investments as at 31<sup>st</sup> March:

	<b>Fitch Rating</b>	<b>2018/19</b>	<b>2017/18</b>
		£'000	£'000
UK Government (Treasury bills)	AA+	55,100	0
Debt Management Office	AA+	0	32,852
Other local authorities	UNRATED	83,000	86,569
Money Market Funds	AAA	70,300	100,036
Banks	BBB+	1,886	3,632
<b>Total</b>		<b>210,286</b>	<b>223,089</b>

Approximately 81% of all investments as at 31<sup>st</sup> March 2019 are with UK domiciliary institutions.

The Council's maximum exposure to credit risk in relation to its investments in banks cannot be assessed generally as the risk of an institution failing will be specific to each. Recent experience has shown that it is rare for such entities not to be able to meet their commitments. There is no evidence

that any of the institutions the Council has invested in will not be able to repay the Council's deposit.

No credit limits were exceeded during the reporting period.

The Council does not generally allow extended credit for its customers. Risk of default by customers has been assessed and, where appropriate, expected credit loss impairments are held on the Balance Sheet.

## Liquidity Risk

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

The Council has ready access to borrowings for the money market to cover any day to day cash flow needs, while the Public Works Loans Board (PWLB) provides access to long term funding. The PWLB also works as lender of last resort for Councils. In addition, the Council is also required to set an annual balanced budget in setting its Council Tax requirements for the forthcoming year (Local Government Act 1992). Thus there is minimum risk of the Council being unable to raise finance to meet its financial commitments.

All sums invested (£210.286 million) are due to be paid back to the Council in less than a year.

## Refinancing Risk

Refinancing risk is the possibility that the Council might be required to

# NOTES TO THE CORE STATEMENTS

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

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

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

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

Maturity Period	2018/19	2017/18
	£'000	£'000
Maturing in under one year	(5,009)	(7,502)
Maturing between one and two years	(11,572)	(5,000)
Maturing between two and five years	(23,000)	(34,581)
Maturing between five and ten years	(25,736)	(25,739)
Maturing after ten years	(153,529)	(153,535)
<b>Total</b>	<b>(218,846)</b>	<b>(226,357)</b>

## Market Risk

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

### *Interest Rate Risk*

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

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

Borrowings are not carried at fair value in the Council's Balance Sheet, so nominal gains and losses on fixed rate borrowings do not impact on the surplus or deficit on the CIES. Movements in the fair value of fixed rate investments that have a quoted market price will be reflected in the CIES.

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

## NOTES TO THE CORE STATEMENTS

monitors the actual levels periodically.

The Council did not enter into any variable rate borrowing or fixed rate investments in 2018/19 or the preceding year.

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

	£'000
Increase in interest receivable on variable rate investments	(957)
Impact on CIES	(957)
Share of overall impact debited to the HRA	852
Decrease in fair value of fixed rate borrowing liabilities (nil impact on CIES/MIRS)	30,689

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

### *Price Risk*

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

### Foreign Exchange Risk

The Council has no investments or liabilities denominated in foreign currencies, thus has no exposure as a result of movements in exchange rates

# NOTES TO THE CORE STATEMENTS

## 21. Debtors

Category of debt (all at amortised cost)	31st March 2019			31st March 2018		
	Gross Debtor	Expected Credit Loss	Net Debtor	Gross Debtor	Expected Credit Loss*	Net Debtor
	£000	£000	£000	£000	£000	£000
<b>Current Debtors</b>						
Trade receivables	17,639	(4,205)	13,434	31,621	(3,778)	27,843
Other receivables	2,939	(1,268)	1,671	2,759	(1,167)	1,592
Payments in advance	7,959	0	7,959	8,456	0	8,456
Central government - Grenfell related	40,626	0	40,626	41,675	0	41,675
Central government - Other	11,637	0	11,637	13,931	0	13,931
Health Authorities	1,020	0	1,020	5,132	0	5,132
Other Local Authorities	16,247	0	16,247	11,653	0	11,653
Temporary Accommodation	3,672	(1,902)	1,770	2,900	(1,342)	1,558
Commercial Waste	141	(16)	125	(92)	(16)	(108)
Housing Benefit Overpayments	9,281	(6,836)	2,445	9,199	(6,619)	2,580
Local Taxation	14,563	(9,225)	5,338	6,828	(6,334)	494
HRA Rent Payers	4,371	(2,060)	2,311	3,696	(1,965)	1,731
HRA Service Charge	2,155	(759)	1,396	2,708	(1,059)	1,649
Parking	19,500	(17,877)	1,623	11,603	(10,126)	1,477
Advances and Deposits	0	0	0	274	(224)	50
<b>Total Current Debtors</b>	<b>151,750</b>	<b>(44,148)</b>	<b>107,602</b>	<b>152,342</b>	<b>(32,629)</b>	<b>119,713</b>
<b>Long Term Debtors</b>						
Service Loans	508	0	508	121	0	121
Central government	0	0	0	688	0	688
Advances and Deposits	754	(108)	646	0	0	0
<b>Total Long Term Debtors</b>	<b>1,262</b>	<b>(108)</b>	<b>1,154</b>	<b>809</b>	<b>0</b>	<b>809</b>
<b>Total Current and Long Term Debtors</b>	<b>153,012</b>	<b>(44,256)</b>	<b>108,756</b>	<b>153,151</b>	<b>(32,629)</b>	<b>120,522</b>

\* The published debtor disclosure note for 2017/18 has been re-analysed using the IFRS 9 classifications as at 1<sup>st</sup> April 2018.

# NOTES TO THE CORE STATEMENTS

## 22. Debtors for Local Taxation

	31st March 2019	31st March 2018
	£'000	£'000
Less than one year (current)	3,755	987
More than one year (long term)	1,583	(493)
<b>Total</b>	<b>5,338</b>	<b>494</b>

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

## 23. Cash and cash equivalents

	31st March 2019	31st March 2018
	£'000	£'000
Cash held by the Council	6	102
Bank current accounts	6,649	(572)
Short-term deposits	72,233	103,668
<b>Total cash and cash equivalents</b>	<b>78,888</b>	<b>103,198</b>

## 24. Creditors

	31st March 2019		31st March 2018	
	Current	Long Term	Current	Long Term
	£'000	£'000	£'000	£'000
Trade payables	(43,478)	(620)	(42,875)	0
Receipts in advance	(23,214)	0	(23,620)	0
Central government bodies	(29,312)	0	(19,144)	0
Other local authorities	(13,234)	0	(33,494)	0
NHS bodies	(7,300)	0	(7,873)	0
Other payables	(11,389)	0	(9,442)	0
<b>Total creditors</b>	<b>(127,927)</b>	<b>(620)</b>	<b>(136,448)</b>	<b>0</b>

## 25. Provisions

	Insurance	NDR Appeals	Disputed Invoices	Other Provisions	Total
	£'000	£'000	£'000	£'000	£'000
<b>Balance at 1st April 2018</b>	<b>(2,691)</b>	<b>(10,987)</b>	0	<b>(333)</b>	<b>(14,011)</b>
Additional provisions made	(1,240)	(29,649)	(2,050)	(210)	(33,149)
Amounts used	1,093	9,318	0	0	10,411
Unused amounts reversed	0	0	0	10	10
<b>Balance at 31st March 2019</b>	<b>(2,838)</b>	<b>(31,318)</b>	<b>(2,050)</b>	<b>(533)</b>	<b>(36,739)</b>
Of which:					
<b>Long Term</b>	<b>(1,692)</b>	<b>0</b>	<b>0</b>	<b>(136)</b>	<b>(1,828)</b>

### Insurance

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

### Business Rates

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

Most appeals to the 2017 list have not been processed by the Valuation Office Agency. Additionally, following transition to the London Pool arrangement agreed with central government, the Council's share of NDR assets and liabilities increased from 30% in 2017/18 to 64% in 2018/19.

### Disputed Invoices

The Council is disputing a number of claims including £0.5 million relating

# NOTES TO THE CORE STATEMENTS

to adult homecare services and £1.5 million to HRA contractor payments.

## Other Provisions

Other provisions include the London Residuary Body's (LRB) public liability insurance claims and termination benefits.

## 26. Cash Flow Statement - Operating Activities

	2018/19	2017/18
	£'000	£'000
Net Surplus / (Deficit) on the Provision of Services - RBKC	(178,572)	13,004
Net Surplus / (Deficit) on the Provision of Services - LRB	(83)	115
<b>Total Net Surplus / (Deficit) on the Provision of Services</b>	<b>(178,655)</b>	<b>13,119</b>
<b>Remove non-cash movements from (Surplus) / Deficit on Provision of Services</b>		
Depreciation, amortisation, impairment and downward valuations	175,212	67,296
Increase / (decrease) in creditors	(47,125)	54,183
(Increase) / decrease in debtors	14,262	(45,748)
(Increase) / decrease in inventories	429	(127)
Movement in pension liability	35,487	33,100
Carrying amount of non-current assets and assets held for sale, sold or derecognised	834	11,952
Other non-cash items charged to the net (Surplus) / Deficit on Provision of Services	38,032	(33,135)
<b>Sub-total</b>	<b>217,131</b>	<b>87,521</b>
<b>Adjust (Surplus) / Deficit on Provision of Services for items that are investing and financing</b>		
Proceeds from the sale of non-current assets	(6,019)	(78,770)
Grants for the financing of capital expenditure	(33,296)	(35,924)
<b>Sub-total</b>	<b>(39,315)</b>	<b>(114,694)</b>
<b>Net cash flows from revenue activities</b>	<b>(839)</b>	<b>(14,054)</b>

## 27. Cash Flow Statement - Investing Activities

	2018/19	2017/18
	£'000	£'000
Purchase of non-current assets	(67,379)	(210,442)
(Purchase) / disposal of short-term and long-term investments	(18,792)	123,909
Other (payments) / receipts for investing activities	771	(2,990)
Proceeds from the sale of non-current assets	6,062	78,658
Capital grants and contributions received	39,625	19,392
<b>Net cash flows from investing activities</b>	<b>(39,713)</b>	<b>8,527</b>

## 28. Cash Flow Statement - Financing Activities

	2018/19	2017/18
	£'000	£'000
Cash receipts / (repayments) of borrowing	(7,509)	100,000
Cash paid for the reduction of outstanding finance lease liabilities	0	0
Cash receipts / (repayments) of other liabilities	0	0
Collection Fund adjustments	23,751	0
<b>Net cash flows from financing activities</b>	<b>16,242</b>	<b>100,000</b>

## 29. Trading operations

The services shown below operate as Trading Accounts. There are five 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;
- Work carried out by internal trading organisations arising from voluntary competitive tendering exercises;
- Support services provided in a free internal market;



# NOTES TO THE CORE STATEMENTS

- Support services provided in a limited internal market.

The figures shown below are included as (surplus) / deficit on Financing and Investment Income in the CIES.

	2018/19			2017/18		
	Expenditure	Charges Made	(Surplus) / Deficit	Expenditure	Charges Made	(Surplus) / Deficit
	£'000	£'000	£'000	£'000	£'000	£'000
Pupil Support Services	151	(146)	5	521	(600)	(79)
Street Trading	759	(863)	(104)	953	(815)	138
Parking Cash Collection	0	0	0	476	(204)	272
Legal Services	4,123	(4,112)	11	5,503	(5,227)	276
Building	540	(566)	(26)	626	(483)	143
<b>Total</b>	<b>5,573</b>	<b>(5,687)</b>	<b>(114)</b>	<b>8,079</b>	<b>(7,329)</b>	<b>750</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 or deficit on the Street Trading Account is transferred to / from the Street Trading Account Reserve.

## Parking Cash Collection

The cash collection contract with LBHF came to an end in October 2017.

## 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<sup>st</sup> April 2012.

## Building Control

The Building Control team ensures that construction undertaken within the Council 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.

## 30. Pooled budgets

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

The aim is to meet the needs of people living in RBKC. Expenditure funded from this budget includes the provision of care in residential settings, community services enabling people to remain in their own homes and a community independence service which supports the enablement of residents. This arrangement is made in accordance with Section 75 of the National Health Service Act 2006 and is funded primarily by the Better Care Fund. 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 Council or the health service. It is hosted by RBKC although some activities are not pooled and therefore not all transactions pass through the Council's accounting system.

# NOTES TO THE CORE STATEMENTS

	2018/19	2017/18
	£'000	£'000
Contributions to the Pooled Budget		
- RBKC	(33,437)	(31,217)
- WLCCG	(31,072)	(31,515)
<b>Total contributions</b>	<b>(64,509)</b>	<b>(62,732)</b>
Expenditure Met by the Pooled Budget		
- Costs relating to the reablement of residents	4,863	5,447
- Costs relating to care provided in residential settings or in community settings	46,566	49,524
- Support Services and programme management relating to the BCF	5,592	1,332
- iBCF Programme	5,329	3,948
<b>Total expenditure</b>	<b>62,350</b>	<b>60,251</b>
<b>Net in-year (surplus) / deficit on the pooled budget</b>	<b>(2,159)</b>	<b>(2,481)</b>
<b>Comprising;</b>		
Share of the net (surplus) / deficit due to RBKC	(405)	(1,054)
Share of the net (surplus) / deficit due to the WLCCG	(1,754)	(1,427)
<b>Net in-year (surplus) / deficit on the pooled budget</b>	<b>(2,159)</b>	<b>(2,481)</b>

## 31. Officers remuneration

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, excluding employer pension contributions.

	2018/19	2017/18
	No. of employees	No. of employees
£50,000 - £54,999	170	151
£55,000 - £59,999	117	90
£60,000 - £64,999	65	63
£65,000 - £69,999	42	38
£70,000 - £74,999	31	30
£75,000 - £79,999	33	27
£80,000 - £84,999	20	16
£85,000 - £89,999	10	14
£90,000 - £94,999	10	9
£95,000 - £99,999	5	5
£100,000 - £104,999	7	3
£105,000 - £109,999	6	4
£110,000 - £114,999	7	4
£115,000 - £119,999	2	2
£120,000 - £124,999	1	2
£125,000 - £129,999	1	0
£130,000 - £134,999	0	1
£135,000 - £139,999	2	1
£140,000 - £144,999	2	1
£145,000 - £149,999	1	0
£150,000 - £154,999	0	0
£155,000 - £159,999	1	0
£195,000 - £199,999	0	1
£205,000 - £209,999	1	0
<b>Total</b>	<b>534</b>	<b>462</b>

The increase in number of officers in the above table is as a result of officers reaching the £50,000 threshold in 2018/19, disaggregation of shared services resulting in recruitment to RBKC roles and some services being

## NOTES TO THE CORE STATEMENTS

brought in-house.

Included in the below total cost of exit packages is £0.501 million (£0.255 million in 2017/18) in respect of approved redundancies yet to be finalised.

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

2018/19				
Exit Package Cost Band	Compulsory redundancies	Other departures agreed	Departures by cost band	Total cost of exit packages in each band
£'000	Number	Number	Total Number	£
0 - 20	14	23	<b>37</b>	<b>382,999</b>
20 - 40	7	9	<b>16</b>	<b>478,717</b>
40 - 60	3	4	<b>7</b>	<b>340,348</b>
60 - 80	4	0	<b>4</b>	<b>263,976</b>
80 - 100	1	1	<b>2</b>	<b>170,143</b>
100 - 150	0	1	<b>1</b>	<b>136,704</b>
<b>Total</b>	<b>29</b>	<b>38</b>	<b>67</b>	<b>1,772,887</b>

2017/18				
Exit Package Cost Band	Compulsory redundancies	Other departures agreed	Departures by cost band	Total cost of exit packages in each band
£'000	Number	Number	Total Number	£
0 - 20	41	31	<b>72</b>	<b>628,589</b>
20 - 40	10	6	<b>16</b>	<b>438,272</b>
40 - 60	4	4	<b>8</b>	<b>400,693</b>
60 - 80	3	3	<b>6</b>	<b>435,602</b>
80 - 100	1	1	<b>2</b>	<b>166,730</b>
100 - 150	2	0	<b>2</b>	<b>246,360</b>
<b>Total</b>	<b>61</b>	<b>45</b>	<b>106</b>	<b>2,316,246</b>

## NOTES TO THE STATEMENTS

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

Job Title	Note	Salary, Fees and Allowances	Performance Related Pay	Expenses	Compensation: Loss of Office	Total remuneration excluding pension contributions	Employer Pension Contribution	Total Remuneration
<b>2018/19</b>		£	£	£	£	£	£	£
Chief Executive (Barry Quirk)		206,967	0	0	0	<b>206,967</b>	0	<b>206,967</b>
Executive Director of Resources and Assets (Chris Buss)	1	36,933	0	0	0	<b>36,933</b>	0	<b>36,933</b>
Executive Director of Resources and Assets (Mike Curtis)	2	112,748	8,160	1,374	0	<b>122,282</b>	19,167	<b>141,449</b>
Executive Director for Environment and Communities	3	111,397	6,658	0	0	<b>118,055</b>	18,864	<b>136,919</b>
Executive Director for Grenfell		145,000	0	0	0	<b>145,000</b>	24,650	<b>169,650</b>
Chief Solicitor		94,274	4,685	1,364	0	<b>100,323</b>	16,695	<b>117,018</b>
Bi-Borough Director of Integrated Care		62,679	0	39	88,682	<b>151,400</b>	11,551	<b>162,951</b>
Director of Communications and Community	4	142,970	0	0	0	<b>142,970</b>	0	<b>142,970</b>

### Notes

1. The post holder left in June 2018 and was working part-time. This is reflected in the remuneration shown in the above table.
2. The post holder joined in July 2018. Actual remuneration is shown in the table above.
3. The post holder joined RBKC from LBHF in June 2018. Actual remuneration is shown in the table above.
4. The services of the Director of Communications and Community were secured on an interim basis in September 2017 with WestCo. The amount disclosed above is the cost incurred by the Council and not the individual's remuneration.

### Senior Officer shared posts employed by other local authorities

- The WCC employed Bi-Borough Executive Director of Children's Services is shared 50% with RBKC.
- The WCC employed Director of Public Health is shared 43.6% RBKC and 56.4% WCC. The post holder left 30<sup>th</sup> September 2018 and the post is covered by interim staff.
- The WCC employed Executive Director of Corporate Services post ceased on 31<sup>st</sup> August 2018 and was shared 40% RBKC and 60% WCC.
- Costs of the WCC employed Bi-Borough Executive Director of Adult Social Care and Health are shared, with RBKC share being 47%
- The LBHF employed Bi-Borough Director of Environmental Health were shared 40% RBKC and 60% LBHF.

## NOTES TO THE STATEMENTS

- The LBHF employed Bi-Borough Executive Director Environment, Leisure and Residents' Service were shared 80% RBKC and 20% LBHF.
- Costs of the Executive Director for Environment and Communities were shared 80% RBKC and 20% LBHF until the end of May 2018. The original Bi-Borough role was effectively replaced by the Director of Cleaner, Greener and Cultural Services. This was interim for the rest of 2018/19 and made permanent from April 2019 as a sovereign role.

Job Title	Note	Salary, Fees and Allowances	Performance Related Pay	Expenses	Compensation: Loss of Office	Total remuneration excluding pension contributions	Employer Pension Contribution	Total Remuneration
<b><u>2017/18</u></b>								
Chief Executive (Barry Quirk)	5	£ 157,007	£ 0	£ 0	£ 0	£ 157,007	£ 0	£ 157,007
Director of Finance/Executive Director Resources and Assets (Chris Buss)		114,104	0	0	0	114,104	0	114,104
Tri-Borough Executive Director of Children's Services	6	48,839	0	0	0	48,839	9,981	58,820
Executive Director for Grenfell	7	68,068	0	0	0	68,068	10,427	78,495
Director of Strategy and Local Services		55,148	0	0	68,013	123,161	84,948	208,109
Chief Solicitor		89,328	4,505	0	0	93,833	15,662	109,495
Director of Communications and Community	8	79,406	0	0	0	79,406	0	79,406

### Notes

5. The disclosure for Barry Quirk includes £76,753 paid to the London Borough of Lewisham as reimbursement for his secondment to cover a key management personnel role on a part-time basis.
6. Claire Chamberlain was acting Tri-Borough Executive Director of Children's Services – Chief Education Officer until 8th August 2017.
7. The disclosure for Robyn Fairman includes £6,734 paid to the London Borough of Lewisham as reimbursement for her secondment, before being permanently appointed to the post.
8. The services of the Director of Communications and Community were secured on an interim basis in September 2017 with Westco. The amount disclosed is the cost incurred by the Council and not the individual's remuneration.

# NOTES TO THE STATEMENTS

## 32. Member allowances

The total of Members' Allowances paid in 2018/19 was £1.137 million (£1.111 million in 2017/18).

## 33. External audit costs

	2018/19	2017/18
	£'000	£'000
Fees payable with regard to external audit services carried out by the appointed auditor for the year	93	121
Fees payable for the certification of grant claims and returns for the year	22	37
Fees payable in respect of other services provided during the year	13	0
<b>Total audit costs</b>	<b>128</b>	<b>158</b>

## 34. Dedicated Schools Grant (DSG)

The Council's expenditure on schools is funded primarily by Dedicated Schools Grant (DSG) received from the Education Funding Agency. DSG is ring-fenced and can only be applied to meet expenditure properly included in the Schools Budget, as defined in the School Finance and Early Years (England) Regulations 2015. The Schools Budget includes elements for a range of educational services provided on a Council-wide basis and for the Individual Schools Budget (ISB), which is divided into a budget share for each maintained school.

Details of the deployment of DSG receivable for 2018/19 are below.

2018/19	Central	ISB	Total
	Expenditure		
	£'000	£'000	£'000
Final DSG for 2018/19			96,882
Less academy figure recouped for 2018/19			(28,106)
DSG after academy recoupment for 2018/19			68,776
Plus brought forward from 2017/18			(2,363)
Less carry forward to 2019/20 agreed in advance			2,363
Agreed initial budget distribution 2018/19	4,067	64,709	68,776
In year adjustments	0	(556)	(556)
Final budgeted distribution for 2018/19	4,067	64,153	68,220
Less actual central expenditure	(3,651)		(3,651)
Less actual ISB deployed to schools		(66,464)	(66,464)
<b>Net 2018/19 appropriation / (drawdown)</b>	<b>416</b>	<b>(2,311)</b>	<b>(1,895)</b>
2017/18	Central	ISB	Total
	Expenditure		
	£'000	£'000	£'000
Final DSG for 2017/18			94,315
Less academy figure recouped for 2017/18			(26,176)
DSG after academy recoupment for 2017/18			68,139
Plus brought forward from 2016/17			4
Less carry forward to 2018/19 agreed in advance			(4)
Agreed initial budget distribution 2017/18	8,094	60,045	68,139
In year adjustments	0	125	125
Final budgeted distribution for 2017/18	8,094	60,170	68,264
Less actual central expenditure	(9,617)		(9,617)
Less actual ISB deployed to schools		(61,014)	(61,014)
<b>Net 2017/18 appropriation / (drawdown)</b>	<b>(1,523)</b>	<b>(844)</b>	<b>(2,367)</b>

## NOTES TO THE STATEMENTS

Since the introduction of the Children and Families Act in 2014, which included the age range for support extending from 19 to 25 year olds, additional financial pressures have resulted as the provision of support for children with Special Educational Needs and Disabilities (SEND) has increased. This has increased spend within the High Needs Block of DSG. A deficit recovery plan is being worked on with the High Needs Review Group of the Schools Forum, and will be submitted to the ESFA by 30<sup>th</sup> June 2019.

### 35. Grant income

The following revenue grants, contributions and donations were credited to Net Cost of Services in the CIES during 2018/19.

Net Cost of Services	2018/19	2017/18
	£'000	£'000
Housing Benefit Subsidy	(125,878)	(126,890)
Dedicated Schools Grant	(68,220)	(68,376)
Public Health Grant	(20,899)	(21,451)
Flexible Homelessness Support Grant	(5,745)	(4,695)
Improved Better Care Fund	(5,329)	(1,551)
Pupil Premium Grant	(3,793)	(3,786)
Skills Funding Agency	(1,330)	(1,251)
UASC and Leaving Care Fund	(1,254)	(516)
Other Grants (under £1 million each)	(12,327)	(9,826)
Revenue contributions	(289)	(121)
<b>Total grant income credited to services</b>	<b>(245,064)</b>	<b>(238,463)</b>

The Council also 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 beneficiary. The balances at year end are as follows:

Capital	2018/19	2017/18
	£'000	£'000
<u>Current Liabilities</u>		
Community Infrastructure Levy (CIL)	(1,326)	(1,887)
MHCLG Grenfell grant	(2,073)	0
Other Grants (under £500k)	0	(301)
	<u>(3,399)</u>	<u>(2,188)</u>
<u>Long Term Liabilities</u>		
Section 106 and private contributions	(30,388)	(23,670)
Community Capacity Grant	0	(3,640)
Section 278 contributions	(1,658)	(221)
TFL Local Implementation Plan Grant	(691)	(637)
Other Grants (under £500k)	(716)	(166)
	<u>(33,453)</u>	<u>(28,334)</u>
<b>Balance as at 31st March</b>	<b>(36,852)</b>	<b>(30,522)</b>

Revenue	2018/19	2017/18
	£'000	£'000
<u>Current Liabilities</u>		
Overpaid NNDR S31 grant from MHCLG	(1,286)	(1,029)
DWP Subsidy	(77)	(4,821)
Other Grants (under £500k)	(993)	(1,111)
<b>Balance as at 31st March</b>	<b>(2,356)</b>	<b>(6,961)</b>

### 36. Related Parties

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

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

# NOTES TO THE STATEMENTS

Government and are set out in note 35.

## Councillors and Officers

Councillors have direct control of the Council's policies and strategies. Day-to-day responsibility lies with the Council's Executive Leadership Team which in 2018/19 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 Leadership Team collectively or by full Council, as appropriate.

No councillor has declared a relationship or position held with a company that has a material commercial relationship with the Council. At the time of publication, 15 Councillors had not returned their declaration.

Many councillors have relationships or hold positions with other public bodies, charities and voluntary organisations with which the Council interacts but does not have a financially material relationship. These include 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 2018/19, Councillors Anne Cyron, Monica Press and Sof McVeigh were Board Trustees of Westway Trust (registered charity 1123127 – details of which can be found on the Charity Commission website).

A number of other councillors are committee members at London Councils and/or governors / trustees of local schools.

The Council's ex-S151 Officer, who left the post of Executive Director of Resources and Assets in June 2018, is the Treasurer for the Western Riverside Waste Authority which is the statutory waste disposal authority handling the Council's waste.

At the time of publication, 9 officers had not returned their declarations; 6 of these are no longer Council employees.

## Entities Controlled or Significantly Influenced

Repairs Direct Ltd (Company reference 08375353 incorporated on 25<sup>th</sup> January 2013).

Repairs Direct Ltd was purchased by the Council for a nominal sum on 1<sup>st</sup> March 2018 and, during 2018/19, was a wholly owned subsidiary of RBKC. The following officers are Directors for Repairs Direct Ltd:

- Sue Harris, Executive Director for Environment and Communities
- Taryn Eves, Director for Financial Management
- Debbie Morris, Director for Human Resources and Organisational Development.

The company's revenue transactions, assets and liabilities are not material to require the preparation of Group Accounts, within the Council's financial statements.

Kensington and Chelsea Estates Ltd – (Company ref 05740666 incorporated 19<sup>th</sup> August 2015).

This is a Council owned company established to facilitate investment in existing housing stock. As at 31<sup>st</sup> March 2019, the Company had not started trading.



# NOTES TO THE STATEMENTS

## 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 35.

The Council has in place joint working arrangements with neighbouring local authorities, Westminster City Council and the London Borough of Hammersmith and Fulham. These arrangements are currently referred to as Tri-Borough or shared working and the bulk of these arrangements were in place from 1<sup>st</sup> April 2012. The net payments between the three Councils 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.

## 37. Capital expenditure and capital financing

	2018/19	2017/18
	£'000	£'000
<b>Opening Capital Financing Requirement</b>	<b>370,921</b>	<b>240,181</b>
<u>Capital investment</u>		
Property, Plant and Equipment	60,341	202,382
Heritage Assets	474	598
Investment Properties	9,512	18,000
Intangible Assets	3,232	406
Revenue Expenditure Funded from Capital Under Statute	2,994	3,911
<u>Sources of finance</u>		
Capital receipts	(15,059)	(39,524)
Government grants and other contributions	(23,066)	(30,464)
Sums set aside from revenue:		
- Direct revenue contributions	(284)	(11,881)
- Direct Revenue Funding (Major Repairs Reserve)	(5,149)	(11,819)
- MRP / loans fund principal	(834)	(869)
<b>Closing Capital Financing Requirement</b>	<b>403,082</b>	<b>370,921</b>
Provision to reduce the underlying need to borrow (MRP)	(834)	(869)
Increase in underlying need to borrow (supported by capital receipts)	32,995	131,609
<b>Increase / (decrease) in Capital Financing Requirement</b>	<b>32,161</b>	<b>130,740</b>

# NOTES TO THE STATEMENTS

## 38. Leases

### Council as Lessee

Assets acquired under finance leases were held as Property, Plant and Equipment (Other Land and Buildings) in the Balance Sheet at £0.850 million as at 31<sup>st</sup> March 2019 (£1.821 million as at 31<sup>st</sup> March 2018).

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

	31st March 2019	31st March 2018
	£'000	£'000
Not later than one year	77	160
Later than one year and not later than five years	243	301
Later than five years	73	92
<b>Total minimum lease payments</b>	<b>393</b>	<b>553</b>

During 2018/19, minimum lease payments of £0.160 million (£0.177 million in 2017/18) were charged to the CIES.

### Council as Lessor

The Council has let a number of properties, mostly land, on very long leases that are judged to be finance leases. Ten assets have been let on leases of 999 to 1150 years and four other properties have been let on terms of 125 and 150 years. In each case, the Council receives a peppercorn rent (if demanded) and there is no guaranteed residual value of the property. This means that the gross investment in each lease is zero and thus no financial disclosures to be made.

Properties let by the Council include five storage units leased to private individuals and companies, the land occupied by the Muslim Cultural

Heritage Centre, the Tesco store in Fenelon Place, the Great Western Studios, the Manor House Estate, a parcel of land at Henry Dickens Court, a property on Notting Hill Gate and a small parcel of land at Redcliffe Square.

The land parcels set out above have been judged to be finance leases on the basis of substance over form. In some cases, a premium has been paid to secure a long tenancy at a peppercorn rate and in others, the Council has granted favourable terms to deliver social benefit.

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

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

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

## NOTES TO THE STATEMENTS

	31st March 2019	31st March 2018
	£'000	£'000
Not later than one year	13,231	13,501
Later than one year and not later than five years	46,076	39,335
Later than five years	120,935	130,462
<b>Total future minimum lease payments</b>	<b>180,242</b>	<b>183,298</b>

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.

### 39. Defined benefit pension schemes

The Council participates in three pension schemes:

- The Local Government Pension Scheme, a fully funded defined benefits scheme, the governance of the scheme is the responsibility of the Council.
- The Local Pensions Partnership, a fully funded defined benefits scheme for a small number of the council's staff.
- The Teachers' Pension Scheme, a defined benefit scheme, administered by the Department for Education.

#### Participation in Pension Schemes

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 RBKC Pension Fund, which it administers and also that of the Local Pensions Partnership (previously London Pensions Fund Authority).

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.

#### Impact of the McCloud transitional protection pensions ruling

Following reforms to public sector pensions introduced by the Government in 2015, a legal case led by a High Court Judge (McCloud) was made and in December 2018, the Court of Appeal ruled that the reforms amounted to unlawful discrimination.

In June 2019, the Supreme Court denied the Government leave to appeal the decision. As a result, the Council's actuaries have estimated the Council's pension liability for 2018/19 should increase by £8.259 million. This change has been made to the Council's balance sheet under Other Long-Term Liabilities.

#### 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 benefits is reversed out of the GF via the MIRS.

## NOTES TO THE STATEMENTS

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

Transactions made in the CIES	2018/19	2017/18	2018/19	2017/18
	RBKC Pension Scheme	LPFA Pension Scheme	RBKC Pension Scheme	LPFA Pension Scheme
	£'000	£'000	£'000	£'000
<u>Service cost comprising:</u>				
- Current service cost	31,929	29,010	131	130
- Past service costs*	8,966	1,670	0	0
- (Gain) / loss on settlements	0	6,628	0	0
<u>Financing and Investment Income and Expenditure:</u>				
- Net interest expense	6,095	7,597	61	98
- Administration expenses	417	347	39	39
<b>Post Employment Benefits charged to the (Surplus)/Deficit on Services in the CIES</b>	<b>47,407</b>	<b>45,252</b>	<b>231</b>	<b>267</b>
<u>Remeasurement of the net defined benefit liability / asset comprising:</u>				
- Return on plan assets	(81,451)	(25,489)	(1,939)	(948)
- Actuarial gains and losses arising on changes in demographic assumptions	(75,707)	0	(967)	0
- Actuarial gains and losses arising on change in financial assumptions	58,986	(37,628)	1,146	(986)
- Changes in effect of asset ceiling	0	0	241	0
<b>Total Post Employment Benefits charged to 'Other Income and Expenditure ' in the CIES</b>	<b>(98,172)</b>	<b>(63,117)</b>	<b>(1,519)</b>	<b>(1,934)</b>
<b>Total Post Employment Benefits charged to the CIES</b>	<b>(50,765)</b>	<b>(17,865)</b>	<b>(1,288)</b>	<b>(1,667)</b>

\*Past service costs include an estimate (£8.259 million) of the impact of the McCloud / Sargeant judgement on the basis that all active members in the Fund as at 31<sup>st</sup> March 2012 are covered by the transitional protections.

Transactions made in the MIRS	2018/19	2017/18	2018/19	2017/18
	RBKC Pension Scheme	LPFA Pension Scheme	RBKC Pension Scheme	LPFA Pension Scheme
	£'000	£'000	£'000	£'000
Reversal of net IAS 19 charges	(47,407)	(45,252)	(231)	(267)
Actual amount charged to GF/HRA	12,151	12,419	0	168

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

## NOTES TO THE STATEMENTS

Pension Assets and Liabilities recognised in the Balance Sheet	31st March 2019	31st March 2018	31st March 2019	31st March 2018
	RBKC Pension Scheme		LPFA Pension Scheme	
	£'000	£'000	£'000	£'000
Present value of the defined benefit obligation	(1,308,308)	(1,271,986)	(30,511)	(30,663)
Fair value of plan assets	1,125,404	1,026,166	31,125	29,819
<b>Sub-total</b>	<b>(182,904)</b>	<b>(245,820)</b>	<b>614</b>	<b>(844)</b>
Present value of unfunded obligation	0	0	(1,613)	(1,684)
Impact of asset ceiling	0	0	(241)	0
<b>Net liability arising from defined benefit obligation</b>	<b>(182,904)</b>	<b>(245,820)</b>	<b>(1,240)</b>	<b>(2,528)</b>

Reconciliation of Movement in the Fair Value of Scheme Assets	31st March 2019	31st March 2018	31st March 2019	31st March 2018
	RBKC Pension Scheme		LPFA Pension Scheme	
	£'000	£'000	£'000	£'000
<b>Opening balance at 1st April</b>	<b>1,026,166</b>	<b>918,778</b>	<b>29,819</b>	<b>29,644</b>
Interest on assets	26,068	25,566	729	666
Return on assets less interest	81,451	25,489	1,939	948
Administration expenses	(417)	(347)	(39)	(39)
Contributions - employer	14,683	13,163	182	168
Contributions - scheme participants	6,121	5,464	21	20
Estimated benefits paid plus unfunded net of transfers in	(28,668)	(30,101)	(1,526)	(1,588)
Settlement prices received / (paid)	0	68,154	0	0
<b>Closing balance at 31st March</b>	<b>1,125,404</b>	<b>1,026,166</b>	<b>31,125</b>	<b>29,819</b>

# NOTES TO THE STATEMENTS

Reconciliation of Present Value of Scheme Liabilities	31st March 2019	31st March 2018	31st March 2019	31st March 2018
	RBKC Pension Scheme		LPFA Pension Scheme	
	£'000	£'000	£'000	£'000
<b>Opening balance at 1st April</b>	<b>(1,271,986)</b>	<b>(1,195,626)</b>	<b>(32,347)</b>	<b>(34,007)</b>
Current service cost	(31,929)	(29,010)	(131)	(130)
Interest cost	(32,163)	(33,163)	(790)	(764)
Change in financial assumptions	(61,518)	37,628	(1,328)	986
Change in demographic assumptions	75,707	0	967	0
Liabilities assumed / (extinguished) on settlements	0	(74,782)	0	0
Estimated benefits paid net of transfers in	28,668	30,101	1,394	1,456
Past service costs and curtailments	(8,966)	(1,670)	0	0
Contributions - scheme participants	(6,121)	(5,464)	(21)	(20)
Unfunded pension payments	0	0	132	132
<b>Closing balance at 31st March</b>	<b>(1,308,308)</b>	<b>(1,271,986)</b>	<b>(32,124)</b>	<b>(32,347)</b>

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

	31st March 2019			31st March 2018		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
	£'000	£'000	£'000	£'000	£'000	£'000
UK equities	0	142	142	34,890	0	34,890
Overseas equities	444,338	0	444,338	211,390	0	211,390
Property	0	42,998	42,998	0	42,073	42,073
Absolute return portfolio	98,440	0	98,440	95,433	0	95,433
Global Equity Pooled Fund	306,246	0	306,246	517,188	0	517,188
Private equity	0	58,753	58,753	0	50,282	50,282
LGIM Sterling Liquidity	169,717	0	169,717	0	0	0
Cash / Temporary Investments	4,770	0	4,770	6,157	0	6,157
Gilts	0	0	0	68,753	0	68,753
<b>Total</b>	<b>1,023,511</b>	<b>101,893</b>	<b>1,125,404</b>	<b>933,811</b>	<b>92,355</b>	<b>1,026,166</b>

## NOTES TO THE STATEMENTS

Fair value of Local Pension Fund Authority assets comprised:

	31st March 2019			31st March 2018		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Equities - segregated	12,513	0	12,513	13,240	0	13,240
Equities - private	0	3,174	3,174	0	3,161	3,161
Target return / Fixed Income	1,463	0	1,463	3,310	1,312	4,622
Investment funds and unit trusts	4,357	0	4,357	0	1,312	1,312
Infrastructure	0	1,867	1,867	0	0	0
Property	0	2,926	2,926	0	2,147	2,147
Cash (including liability driven investments)	2,304	62	2,366	2,624	2,117	4,741
Credit	0	2,459	2,459	0	0	0
Derivatives	0	0	0	596	0	596
<b>Total</b>	<b>20,637</b>	<b>10,488</b>	<b>31,125</b>	<b>19,770</b>	<b>10,049</b>	<b>29,819</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<sup>st</sup> March 2016. The next actuarial valuation of the Fund will be carried out as at 31<sup>st</sup> March 2019 and will set contribution rates for the period 1<sup>st</sup> April 2020 to 31<sup>st</sup> March 2023.

The principal assumptions used by the actuary are as follows:

# NOTES TO THE STATEMENTS

	31st March 2019	31st March 2018	31st March 2019	31st March 2018
	RBKC Pension Scheme		LPFA Pension Scheme	
<b>Mortality assumptions:</b>				
Longevity at 65 for current pensioners (in years):				
- Men	23.4	24.5	19.9	20.9
- Women	24.8	26.1	22.8	23.8
Longevity at 65 for future pensioners (in years):				
- Men retiring in 20 years	25.0	26.8	21.7	23.2
- Women retiring in 20 years	26.6	28.4	24.4	26.1
<b>Other assumptions</b>				
Rate of RPI inflation	3.40%	3.30%	3.50%	3.35%
Rate of CPI Inflation	2.40%	2.30%	2.50%	2.35%
Rate of increase in salaries	3.90%	3.80%	4.00%	3.85%
Rate of increase in pensions	2.40%	2.30%	2.50%	2.35%
Rate for discounting scheme liabilities	2.40%	2.55%	2.30%	2.50%

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.

	RBKC Pension Scheme		LPFA Pension Scheme	
	Increase in assumption	Decrease in assumption	Increase in assumption	Decrease in assumption
<b>Projected service cost: sensitivity analysis</b>	£'000	£'000	£'000	£'000
Life expectancy (increase or decrease of 1 year): Present value of total obligation	1,356,938	1,261,476	33,275	31,012
Life expectancy (increase or decrease of 1 year): Projected service cost	33,533	31,493	135	127
Long term increase in salaries (increase or decrease of 0.1%): Present value of total obligation	1,310,454	1,306,176	32,129	32,118
Long term increase in salaries (increase or decrease of 0.1%): Projected service cost	32,497	32,497	131	131
Increase in pensions (increase or decrease of 0.1%): Present value of total obligation	1,331,309	1,285,743	32,519	31,733
Increase in pensions (increase or decrease of 0.1%): Projected service cost	33,289	31,723	133	129
Adjustment to discount rate (increase or decrease of 0.1%): Present value of total obligation	1,283,635	1,333,480	31,727	32,525
Adjustment to discount rates (increase or decrease of 0.1%): Projected service cost	31,724	33,290	129	133



# NOTES TO THE STATEMENTS

## Impact on the Council's cash flows

The last triennial actuarial valuation, as at 31<sup>st</sup> March 2016, indicated that the RBKC Pension Fund was 103% funded with an average required employer contribution of 17.5%. One of the objectives of the scheme is to keep employers' contributions at a reasonably constant rate and the improvement in funding means that contributions have remained stable as there is no longer a deficit to fund.

The Council will agree a strategy with the scheme's actuary to achieve a funding level of 100% over the coming years. Funding levels are monitored on an annual basis and the next triennial valuation is due on 31<sup>st</sup> March 2019.

At 31<sup>st</sup> March 2019, the Council anticipated paying contributions of £14.460 million to the scheme for the year to 31<sup>st</sup> March 2020 (£12.589 million estimated at 31<sup>st</sup> March 2018).

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

## 40. Pension schemes accounted for as defined contribution schemes

Although the Teachers, Pension Scheme is unfunded, the Department for Education (DfE) uses a notional fund as the basis for calculating the employer's contributions rate paid by the education authorities. It is not possible for the Council to identify a share of the underlying liabilities in the scheme attributable to its own employees. The scheme is accounted for on the same basis as a defined contributions scheme. The Council is responsible for the costs of any additional benefits awarded upon retirement outside of the terms of the teachers' scheme.

In 2018/19, the Council paid £3.461 million to Teachers' Pensions in respect of teachers' retirement benefits, representing 16.4% of pensionable pay. The figures for 2017/18 were £3.514 million and 16.5%. 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.

## 41. Contingent liabilities

At 31<sup>st</sup> March 2019, the Council had the following contingent liabilities:

- The Council entered into a contract in 2002, whereby it collected water charges from its tenants on behalf of Thames Water and was paid a commission. The High Court has found that a similar contract between LB Southwark and Thames Water is a contract for resale of water under which the recovery of commission is limited by law. The key issue in the case was whether LB Southwark 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.

A number of local authorities, including RBKC, have been seeking advice as part of a collective under the umbrella of the Local Government Association. It is anticipated that this issue will take some time to resolve and the budget for 2019/20 does not include any provision for any refunds. If a decision is taken to make refunds in 2019/20, this will be financed from the HRA working balance.

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

## NOTES TO THE STATEMENTS

by the Government. It is unlikely that a decision will be made before 2020.

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

### 42. Prior Period Adjustment - PPE

Marlborough Primary School became operational in August of 2017. At 31<sup>st</sup> March 2018, the property was held as Assets Under Construction (AUC) in note 16 of the 2017/18 accounts audited by KPMG. This should have transferred to operational (Other Land and Buildings (OLB)) during the year but was transferred during 2018/19 instead, once notification of completion was received.

This has been corrected to reflect the transfer from AUC to OLB in the 2017/18 disclosure note. The change is summarised below.

Other reclassifications and transfers	Published 2017/18	Restated 2017/18	Net Change
	£'000	£'000	£'000
OLB	10,919	50,534	39,615
AUC	(24,151)	(63,766)	(39,615)

# HOUSING REVENUE ACCOUNT AND NOTES

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

<b>HRA Income &amp; Expenditure Statement</b>	<b>Notes</b>	<b>31st March 2019</b>	<b>31st March 2018</b>
		£'000	£'000
<b>Expenditure</b>			
Repairs and maintenance		17,251	16,490
Supervision and management		33,235	23,282
Rents, rates, taxes and other charges		276	371
Depreciation and impairment of non-current assets			
- Dwellings		2,771	2,818
- Other non current assets		309	346
- (Gains) / Losses as a result of revaluation or impairment		26,721	33,738
Debt Management Costs		100	90
Revenue Expenditure Funded from Capital Under Statute		0	1,000
Movement in the allowance for bad debts*	9	0	498
<b>Total Expenditure</b>		<b>80,663</b>	<b>78,633</b>
<b>Income</b>			
Dwelling rents		(40,961)	(40,459)
Non-dwelling rents		(1,749)	(4,872)
Charges for services and facilities		(11,133)	(9,348)
Contributions towards expenditure		(92)	(217)
<b>Total Income</b>		<b>(53,935)</b>	<b>(54,896)</b>
<b>Net Cost of HRA Services as included in the CIES</b>		<b>26,728</b>	<b>23,737</b>
Special dispensation from MHCLG		0	(6,400)
HRA service share of Corporate and Democratic Core		10	11
<b>Net (Income) / Cost for HRA Services</b>		<b>26,738</b>	<b>17,348</b>

# HOUSING REVENUE ACCOUNT AND NOTES

HRA Income & Expenditure Statement (continued)	Notes	31st March 2019 £'000	31st March 2018 £'000
<b>Net (Income) / Cost for HRA Services (carried forward from above)</b>		26,738	17,348
<b>HRA share of operating income and expenditure included in the CIES</b>			
(Gain) or loss on sale of HRA non-current assets		(3,860)	(5,570)
Interest payable and similar charges		9,420	10,566
Movement in Expected Credit Loss (ECL) impairment provision*	9	153	0
Interest and net investment income		(99)	(52)
Changes to fair value of investment properties		(9,367)	(1,217)
Capital grants and contributions receivable		(301)	0
<b>HRA share of operating income and expenditure</b>		<b>(4,054)</b>	<b>3,727</b>
<b>(Surplus) or deficit for the year on HRA services</b>		<b>22,684</b>	<b>21,075</b>

\*Prior to the 2018/19 changes to IFRS 9, Expected Credit Loss impairments (previously known as bad debt provisions) were recorded in Net Cost of Services.

# HOUSING REVENUE ACCOUNT AND NOTES

Movement on the HRA Statement	Notes	31st March 2019	31st March 2018
		£'000	£'000
<b>HRA balance at the end of the previous year</b>		<b>(19,873)</b>	<b>(20,927)</b>
(Surplus) or deficit for the year on the HRA Income and Expenditure Statement		22,684	21,075
<b>Adjustments between accounting basis and funding basis under statute</b>			
- Difference between interest payable and similar charges determined in accordance with the Code and those determined in accordance with statute		(1,516)	(1,434)
- Difference between any other item of income and expenditure determined in accordance with the Code and determined in accordance with statutory HRA requirements		(657)	(113)
- Reversal of gain or (loss) on sale of HRA non-current assets		3,860	5,570
- Transfer to / (from) Major Repairs Reserve		3,080	12,459
- Transfer to / (from) Capital Adjustment Account		(22,681)	(36,684)
<b>Net (increase) or decrease before transfers to or from reserves</b>		<b>4,770</b>	<b>873</b>
<b>Transfers to / (from) reserves</b>			
- HRA Controlled Repairs Reserve		412	181
<b>(Increase) or decrease in year on the HRA</b>		<b>5,182</b>	<b>1,054</b>
<b>HRA balance at the end of the year</b>		<b>(14,691)</b>	<b>(19,873)</b>
HRA general balance		(14,691)	(19,873)
HRA earmarked reserves		(988)	(576)
<b>Total HRA reserves at the end of the year</b>		<b>(15,679)</b>	<b>(20,449)</b>

# HOUSING REVENUE ACCOUNT AND NOTES

## 1. Value of assets held on the Balance Sheet

	31st March 2019	31st March 2018
	£'000	£'000
Council dwellings	740,672	762,801
Other land and buildings	12,729	11,002
Assets under construction	2,598	4,377
Investment properties	65,418	62,015
<b>Total</b>	<b>821,417</b>	<b>840,195</b>

## 2. Number and types of dwelling

Archetype description	1st April 2019	1st April 2018	Movement
Houses Semi Detached <1945	1	1	0
Houses Other <1945	54	54	0
Houses SD/Large Terraced 1945-1964	7	7	0
Houses 1965-1974	10	10	0
Houses >1974	67	67	0
Bungalows	11	11	0
Low-Rise Flats <1945	209	210	-1
Low-Rise Flats >1945	188	188	0
Medium	3,600	3,608	-8
High Rise	2,510	2,513	-3
Multi-Occupancy	44	44	0
<b>Total</b>	<b>6,701</b>	<b>6,713</b>	<b>-12</b>

## 3. Depreciation

HRA non-current assets are depreciated in line with the estimated useful lives disclosed in note 16 of the Council's main accounts.

## 4. Vacant Possession Value and Valuation Basis

Council dwellings are valued in accordance with Government guidance: *Stock Valuation for Resource Accounting: Guidance for Valuers - 2017* using the "beacon principle" to reach a valuation known as the "Existing Use Value-Social Housing" (EUV-SH).

As at 31<sup>st</sup> March 2019 the vacant possession value of dwellings within the HRA was £2,962.688 million (£3,052.020 million as at 31<sup>st</sup> March 2018). The difference of £2,222.016 million between vacant possession value and the Balance Sheet value of dwellings within the HRA shows the economic cost to Government of providing Council housing at less than open market rents, net of the impairment to the value of the Housing Stock.

## 5. Impairment charges

The Council incurred a material impairment in respect of the Grenfell Tower due to a tragic fire during 2017/18. There were no HRA impairments during 2018/19.

## 6. Capital Expenditure

	2018/19	2017/18
	£'000	£'000
<b>Capital expenditure</b>		
- dwellings	26,268	22,834
- assets under construction	0	135
- Revenue Expenditure Funded from Capital Under Statute	0	1,000
	<b>26,268</b>	<b>23,969</b>
<b>Funded by:</b>		
Usable capital receipts	(8,423)	(1,104)
Capital grants and contributions	(12,243)	(11,046)
Major Repairs Reserve	(5,149)	(11,819)
Borrowing	(453)	0
	<b>(26,268)</b>	<b>(23,969)</b>

# HOUSING REVENUE ACCOUNT AND NOTES

## 7. Capital Receipts in Year

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

	2018/19	2017/18
	£'000	£'000
Dwellings (net of sale expenses)	(4,175)	(2,334)
Other property	(237)	(3,606)
<b>Total</b>	<b>(4,412)</b>	<b>(5,940)</b>

## 8. Cost of Borrowing

The HRA paid interest on borrowing of £9.054 million during 2018/19 (£9.217 million in 2017/18).

## 9. 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.

Tenant Arrears	2018/19	2017/18
	£'000	£'000
<b>Gross arrears</b>	<b>4,439</b>	<b>3,826</b>
<b>Net arrears (including credit balances)</b>		
- Former tenants	980	1,116
- Current tenants	1,649	695
<b>Net arrears at 31st March</b>	<b>2,629</b>	<b>1,811</b>

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

Other Arrears	2018/19	2017/18
	£'000	£'000
<b>Gross arrears</b>	<b>3,142</b>	<b>3,383</b>
<b>Net arrears (including credit balances)</b>		
- Leaseholder charges	1,545	1,980
- Commercial properties	843	843
<b>Net arrears at 31st March</b>	<b>2,388</b>	<b>2,823</b>

The total provision included in the Balance Sheet in respect of all HRA uncollectable debts is £2.996 million (£3.201 million at 31<sup>st</sup> March 2018).

# COLLECTION FUND AND NOTES

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

	2018/19				2017/18			
	BRS £'000	NNDR £'000	Council Tax £'000	Total £'000	BRS £'000	NNDR £'000	Council Tax £'000	Total £'000
<b>Income</b>								
Council Tax Receivable	0	0	(111,583)	(111,583)	0	0	(105,099)	(105,099)
Business Rates Receivable	0	(357,990)	0	(357,990)	0	(343,460)	0	(343,460)
Business Rates Supplement	(11,125)	0	0	(11,125)	(11,556)	0	0	(11,556)
Transactional Protection Payments	0	(6,800)	0	(6,800)	0	(18,230)	0	(18,230)
	<b>(11,125)</b>	<b>(364,790)</b>	<b>(111,583)</b>	<b>(487,498)</b>	<b>(11,556)</b>	<b>(361,690)</b>	<b>(105,099)</b>	<b>(478,345)</b>
<b>Expenditure</b>								
<b>Precepts, Demands and Shares</b>								
Central Government	0	0	0	0	0	106,045	0	106,045
Greater London Authority	0	119,204	28,345	147,549	0	118,899	26,805	145,704
Billing Authority	0	211,917	81,421	293,338	0	96,405	76,381	172,786
	<b>0</b>	<b>331,121</b>	<b>109,766</b>	<b>440,887</b>	<b>0</b>	<b>321,349</b>	<b>103,186</b>	<b>424,535</b>
<b>Apportionment of PY Surplus / (Deficit)</b>								
Central Government	0	2,569	0	2,569	0	(2,359)	0	(2,359)
Greater London Authority	0	1,603	(380)	1,223	0	(943)	521	(422)
Billing Authority	0	1,788	(1,083)	705	0	(1,415)	1,479	64
	<b>0</b>	<b>5,960</b>	<b>(1,463)</b>	<b>4,497</b>	<b>0</b>	<b>(4,717)</b>	<b>2,000</b>	<b>(2,717)</b>
<b>BRS - Payment to Levying authorities</b>	<b>11,079</b>	<b>0</b>	<b>0</b>	<b>11,079</b>	<b>11,460</b>	<b>0</b>	<b>0</b>	<b>11,460</b>
<b>Charges to Collection Fund</b>								
Write Offs of uncollectable amounts	0	0	0	0	0	77	28	105
Increase / (Decrease) in Impairment	26	2,635	538	3,199	0	1,272	428	1,700
Increase / (Decrease) in Provision for Appeals	0	26,099	0	26,099	0	39,657	0	39,657
Cost of Collection	20	655	0	675	20	650	0	670
	<b>46</b>	<b>29,389</b>	<b>538</b>	<b>29,973</b>	<b>20</b>	<b>41,656</b>	<b>456</b>	<b>42,132</b>
<b>(Surplus) / Deficit arising during the year</b>	<b>0</b>	<b>1,680</b>	<b>(2,742)</b>	<b>(1,062)</b>	<b>(76)</b>	<b>(3,402)</b>	<b>543</b>	<b>(2,935)</b>
<b>(Surplus) / Deficit at start of year*</b>	<b>0</b>	<b>(2,311)</b>	<b>(5,101)</b>	<b>(7,412)</b>	<b>0</b>	<b>1,173</b>	<b>(5,650)</b>	<b>(4,477)</b>
<b>(Surplus) / Deficit at end of year</b>	<b>0</b>	<b>(631)</b>	<b>(7,843)</b>	<b>(8,474)</b>	<b>(76)</b>	<b>(2,229)</b>	<b>(5,107)</b>	<b>(7,412)</b>

\*2017/18 closing position has been reanalysed between NDR and council tax to correctly reconcile to statutory returns for Collection Fund.



# COLLECTION FUND AND NOTES

## 1. Analysis of (Surplus) / Deficit

The surplus at 31<sup>st</sup> March 2019 is attributable to:

	31st March 2019	31st March 2018
	£'000	£'000
RBKC	(7,462)	(4,470)
Greater London Authority	(2,214)	(2,181)
Central Government	1,202	(761)
<b>Total</b>	<b>(8,474)</b>	<b>(7,412)</b>

## 2. Non-Domestic Rates (NDR)

The Council collects Non-Domestic rates for the local authority area that are based on commercial property rateable values set by the Valuation Office Agency multiplied by rate poundage set nationally by government. The Council entered a pooling arrangement with all other London Councils from 1<sup>st</sup> April 2018. The total amount collected, less reliefs and deductions, is divided between the Council (64%) and the Greater London Authority (36%). The Pool has entered a no detriment guarantee agreement with MHCLG.

Following the 2017 Revaluation, the Non Domestic Rateable Value was £813 million (£811m at 31<sup>st</sup> March 2018) at 31<sup>st</sup> March 2019. The standard NDR multiplier for 2018/19 was 49.3 pence (47.9 pence in 2017/18). The Small Business Rate Relief multiplier for 2018/19 was 48.0 pence (46.6 pence for 2017/18).

## 3. Business Rate Supplement (BRS)

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

behalf it is collected.

The Business Rate Supplement Rateable Value at 31<sup>st</sup> March 2019 was £666 million (£665 million at 31<sup>st</sup> March 2018). The standard BRS multiplier for 2018/19 was 2 pence, unchanged from previous years.

## 4. Council Tax

In 2018/19 the tax base for the Council was 96,336 properties (95,725 in 2017/18) which was used to calculate the Band D council tax of £1,123.07 (£1,062.02 in 2017/18), excluding Garden Squares. This includes the GLA Band D precept of £294.23 (£280.02 in 2017/18).

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

## COLLECTION FUND AND NOTES

Band	Ranges from/to		No. Of Chargeable Dwellings		Band Ratio	Band D Equivalent No.	
	£	£	2018/19	2017/18		2018/19	2017/18
A	up to	40,000	767	756	0.67	511	520
B	40,001	52,000	1,644	1,615	0.78	1,279	1,291
C	52,001	68,000	5,406	5,298	0.89	4,806	4,651
D	68,001	88,000	8,869	8,670	1.00	8,819	8,609
E	88,001	120,000	9,862	9,591	1.22	12,053	11,872
F	120,001	160,000	9,720	9,404	1.44	14,040	13,809
G	160,001	320,000	17,169	16,525	1.67	28,615	28,611
H	320,001	and above	14,190	13,551	2.00	28,380	28,268
O					-	50	48
			<b>67,627</b>	<b>65,410</b>		<b>98,553</b>	<b>97,679</b>
			Collection rate after allowance for non-collection			97.8%	98.0%
			<b>Council Tax base used to calculate Band D</b>			<b>96,336</b>	<b>95,725</b>

# PENSION FUND AUDIT OPINION

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

### **Opinion**

We have audited the financial statements of Kensington and Chelsea Pension Fund (the 'pension fund') administered by the Royal Borough of Kensington and Chelsea (the 'Authority') for the year ended 31 March 2019 which comprise the Fund Account, the Net Assets Statement and notes to the pension fund financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19.

In our opinion, the financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2019 and of the amount and disposition at that date of the fund's assets and liabilities;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Authority in accordance with the ethical requirements

that are relevant to our audit of the pension fund's financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Conclusions relating to going concern**

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

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

### **Other information**

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

In connection with our audit of the pension fund's financial statements, our responsibility is to read the other information and, in doing so, consider

# PENSION FUND AUDIT OPINION

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

We have nothing to report in this regard.

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

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

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

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

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

of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;

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

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

## **Responsibilities of the Authority, the Chief Financial Officer and Those Charged with Governance for the financial statements**

As explained more fully in the Statement of Responsibilities, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Chief Financial Officer. The Chief Financial Officer is responsible for the preparation of the Statement of Accounts, which includes the pension fund's financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19, for being satisfied that they give a true and fair view, and for such internal control as the Chief Financial Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

# PENSION FUND AUDIT OPINION

longer be provided.

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

## **Auditor's responsibilities for the audit of the financial statements**

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

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

## **Use of our report**

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted

by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

*Paul Grady*

Paul Grady, Key Audit Partner

for and on behalf of Grant Thornton UK LLP,

Local Auditor London

23 September 2019

# PENSION FUND ACCOUNTS

Fund Account	Note	2018/19 £000	2017/18 £000
<b>Dealings with members, employers and others directly involved in the fund</b>			
Contributions	8	(23,773)	(23,020)
Individual transfers in from other pension funds		(7,641)	(1,682)
Other income		(277)	278
		<u>(31,691)</u>	<u>(24,424)</u>
Benefits	9	31,551	29,026
Payments to and on account of leavers			
- Refunds to members leaving scheme or fund		28	20
- Individual transfers out to other pension funds		5,612	5,085
- Bulk transfers		0	340
		<u>37,191</u>	<u>34,471</u>
<b>Net (additions) / withdrawals from dealings with members</b>		<b><u>5,500</u></b>	<b><u>10,047</u></b>
Management expenses	10	2,900	3,497
<b>Net (additions) / withdrawals including fund management expenses</b>		<b><u>8,400</u></b>	<b><u>13,544</u></b>
<b>Returns on Investments:</b>			
Investment Income	11	(7,079)	(6,828)
Other income		(275)	0
Profit and losses on disposal of investments and changes in market value of investments	12	(108,052)	(36,897)
Taxes on income		195	272
<b>Net return on investments</b>		<b><u>(115,211)</u></b>	<b><u>(43,453)</u></b>
<b>Net (increase) / decrease in the net assets available for benefits during the year</b>		<b><u>(106,811)</u></b>	<b><u>(29,909)</u></b>
Opening net assets of the scheme		(1,081,774)	(1,051,865)
<b>Closing net assets of the scheme</b>		<b><u>(1,188,585)</u></b>	<b><u>(1,081,774)</u></b>

## PENSION FUND ACCOUNTS

Net Assets Statement	Notes	31st March 2019	31st March 2018
		£000	£000
Investment assets	12	1,186,808	1,079,557
Investment liabilities		(1,525)	(391)
<b>Total net investments</b>		<b>1,185,283</b>	<b>1,079,166</b>
Current assets	15/21	6,404	4,156
Current liabilities	15/22	(3,102)	(1,548)
<b>Net assets of the fund available to fund benefits at the reporting period end</b>		<b>1,188,585</b>	<b>1,081,774</b>

# PENSION FUND ACCOUNTS

## 1. Description of the Fund

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

### (a) General

The Pension Fund (the Fund) is part of the Local Government Pension Scheme (LGPS) and is administered by RBKC. It is a contributory defined benefits scheme established in accordance with statute, which provides for the payment of benefits to employees and former employees of the Council and the admitted and scheduled bodies in the Fund. These benefits include retirement pensions and 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 1st 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 1st April 2014 are based on an employee’s final salary and the number of years’ eligible service. Pensions are increased each year in line with the Consumer Price Index.

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

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

### (b) Membership

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

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

The following table summarises the membership numbers of the scheme:

	2018/19	2017/18
Active members	3,884	3,559
Pensioners receiving benefits	3,118	2,986
Deferred pensioners*	4,389	4,333
<b>Total</b>	<b>11,391</b>	<b>10,878</b>

\* in 2018/19 there were an additional 974 leavers (855 in 2017/18) who had not yet decided whether to defer their pension or to obtain a refund.

### (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



# PENSION FUND ACCOUNTS

Regulations 2013 and range from 5.5% to 12.5% of pensionable pay. Employer contributions are set based on the triennial actuarial funding valuation and the current contribution rates range from 16.2% to 23.4% of pensionable pay. Employer contributions are set based on the triennial actuarial funding valuation, as detailed in note 18.

## **(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<sup>st</sup> 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<sup>st</sup> 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 Tri-Borough Director of Treasury and Pensions, the

Executive Director of Resources and Assets 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 three times a year and has its own Terms of Reference. Board members are independent of the Investment Committee.

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

In accordance with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 the Committee approved an Investment Strategy on 27<sup>th</sup> June 2017 (available on the Council's website). The Statement shows the Council's compliance with the Myner's principles of investment management.

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

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

## **2. Basis of preparation**

The Statement of Accounts summarises the Fund's transactions for 2018/19 and its position at the year-end as at 31<sup>st</sup> March 2019. The accounts have been prepared in accordance with the Code of Practice on Local Authority

# PENSION FUND ACCOUNTS

Accounting in the United Kingdom 2018/19 (the Code) issued by the Chartered Institute of Public Finance and Accountancy (“CIPFA”) which is based upon International Financial Reporting Standards (IFRS) as amended for the UK public sector.

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

The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year, nor do they take into account the actuarial present value of promised retirement benefits. The Code gives administering authorities the option to disclose this information in the Net Assets Statement, in the notes to the accounts or by appending an actuarial report prepared for this purpose. The Council has opted to disclose this information in a note to the accounts (Note 14). The Pension Fund Accounts have been prepared on a going concern basis.

### 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.

# PENSION FUND ACCOUNTS

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

## Fund Account – expense items

### **(d) Benefits Payable**

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

### **(e) Taxation**

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

### **(f) Management Expenses**

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

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

Oversight and governance expenses are accounted for on an accruals basis.

All staff costs associated with governance and oversight are charged to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund.

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

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

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

## Net Assets statement

### **(g) Financial Assets**

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

The values of investments as shown in the net asset statement have been determined at fair value in accordance with the requirements of the Code and IFRS 13 (see note 14).

### **(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

# PENSION FUND ACCOUNTS

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 19.

## (l) Additional Voluntary Contributions

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

## (m) Rounding

The accounts have been rounded to the nearest thousand throughout.

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

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities at the year-end and the amounts reported for income and expenditure during the year. Estimates and assumptions are made 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<sup>st</sup> March 2019 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows.

<b>Uncertainties in actuarial PV of promised retirement benefits</b>	<b>Effect if actual results differ from assumptions</b>
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.	<p>The effects on the net pension liability of changes in assumptions can be measured. For instance,</p> <ul style="list-style-type: none"> <li>• a 0.5% increase in the discount rate assumption would result in a decrease in the pension liability of £130.9 million.</li> <li>• a 0.2% increase in assumed earnings would increase the value of liabilities by approximately £4.6 million.</li> <li>• a one-year increase in assumed life expectancy would increase the liability by approximately £50.9 million.</li> </ul>

# PENSION FUND ACCOUNTS

<b>Uncertainties in Private Equity Investments</b>	<b>Effect if actual results differ from assumptions</b>
The fair value of private equity investments is unavoidably subjective. The valuations are based on forward-looking estimates and judgments involving many factors. Unquoted private equity assets are valued by the investment managers in accordance with industry standards.	There is a risk that these investments, totalling £61.063 million, may be under or overstated in the accounts. If these assets are under or over valued by 1%, this would affect the overall value of the fund by £0.610 million.

The recent McCloud case age discrimination ruling (see note 5) could result in increases to the Pension Fund liability.

The Pension Fund's private equity investments (see note 5) contain an element of estimation uncertainty due to the unavoidable subjective nature of obtaining fair value.

## 5. Critical judgements in applying accounting practices

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

### Pension Fund Liability

The Pension Fund liability is calculated triennially by the appointed actuary with annual updates in the intervening years. The methodology used in the intervening years follows generally agreed guidelines and is in accordance with IAS19. These assumptions are summarised in note 19. The estimates are sensitive to changes in the underlying assumptions underpinning the valuations.

Management has agreed a reasonable set of assumptions in consultation with the actuary which derives the total liability, including an estimated adjustment for the recent McCloud ruling on a prudent basis (pay growth equals CPI plus 1.5%) which may not materialise.

### 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 £61.063 million (£52.942 million on 31<sup>st</sup> March 2018). Management have taken the valuations of the Fund Manager (Adams Street) which has been corroborated with the Fund's custodian, Northern Trust. Assurance on valuation is placed on the Manager's Audited annual accounts as at 31<sup>st</sup> December 2018 rolled forward to 31<sup>st</sup> March with a market value adjustment.

## 6. Events after the Balance Sheet date

There have been no material events after the Balance Sheet date.

## 7. Accounting Standards issued but not yet adopted

At the Balance Sheet date, there were new standards and amendments to existing standards that had been published but not yet adopted by the Code of Practice on Local Authority Accounting in the United Kingdom. See the Council's main accounts, note 2 for further information.

# PENSION FUND ACCOUNTS

## 8. Contributions receivable

By category	2018/19	2017/18
	£000	£000
<b>Employee contributions</b>	<b>(6,936)</b>	<b>(6,636)</b>
Employer contributions		
- Normal contributions	(16,151)	(15,611)
- Deficity recovery contributions	(10)	(9)
- Augmentation contributions	(676)	(764)
<b>Total employers' contributions</b>	<b>(16,837)</b>	<b>(16,384)</b>
<b>Total</b>	<b>(23,773)</b>	<b>(23,020)</b>

By authority	2018/19	2017/18
	£000	£000
Administering authority	(20,816)	(18,691)
Scheduled bodies	(2,142)	(2,013)
Admitted bodies	(815)	(2,316)
<b>Total</b>	<b>(23,773)</b>	<b>(23,020)</b>

## 9. Benefits payable

By category	2018/19	2017/18
	£000	£000
Pensions	25,744	24,332
Commutation and lump sum retirement benefits	4,955	4,232
Lump sum death benefits	852	462
<b>Total</b>	<b>31,551</b>	<b>29,026</b>

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

By authority	2018/19	2017/18
	£000	£000
Administering authority	28,686	26,229
Scheduled bodies	471	282
Admitted bodies	2,394	2,515
<b>Total</b>	<b>31,551</b>	<b>29,026</b>

## 10. Management expenses

	2018/19	2017/18
	£000	£000
Administrative costs	490	559
Investment management expenses		
- management fees	1,919	2,691
- transaction costs	193	0
- custody fees	58	66
Oversight and governance costs	240	181
<b>Total</b>	<b>2,900</b>	<b>3,497</b>

## 11. Investment income

	2018/19	2017/18
	£000	£000
Equity dividends	(5,121)	(4,983)
Pooled property investments	(1,701)	(1,626)
Other investment income	(8)	(170)
Private equity income	(175)	0
Interest on cash deposits	(73)	(49)
<b>Total</b>	<b>(7,078)</b>	<b>(6,828)</b>
Taxes on income	195	272
<b>Total</b>	<b>(6,883)</b>	<b>(6,556)</b>

## PENSION FUND ACCOUNTS

### 12. Movements in investments

Market value	Changes in				Changes in				31st March
	1st April 2017	Purchases	Sales	market value	31st March 2018	Purchases	Sales	market value	2019
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Equities	245,229	81,146	(68,314)	540	258,601	61,445	(130,202)	35,908	225,752
Pooled investments	686,805	254,383	(253,664)	30,902	718,426	145,041	(83,337)	60,342	840,472
Pooled property investments	41,607	0	0	2,905	44,512	0	(713)	462	44,261
Private equity/infrastructure	56,076	4,464	(10,442)	2,844	52,942	8,670	(11,728)	11,179	61,063
<b>Sub-total</b>	<b>1,029,717</b>	<b>339,993</b>	<b>(332,420)</b>	<b>37,191</b>	<b>1,074,481</b>	<b>215,156</b>	<b>(225,980)</b>	<b>107,891</b>	<b>1,171,548</b>
Investment income due	708			0	464			0	352
Amount receivable for sales of investments	544			1	0			4	488
Spot FX contracts	3			(65)	0			(325)	0
Cash deposits	13,587			(230)	4,612			497	14,420
Amounts payable for purchases of investments	0			0	(391)			(13)	(1,525)
<b>Net investment assets</b>	<b>1,044,559</b>	<b>339,993</b>	<b>(332,420)</b>	<b>36,897</b>	<b>1,079,166</b>	<b>215,156</b>	<b>(225,980)</b>	<b>108,054</b>	<b>1,185,283</b>

# PENSION FUND ACCOUNTS

## 13. Investments by Fund Manager

Fund Manager (market value)	31st March 2019		31st March 2018	
	£'000	%	£'000	%
L and G Liquidity	179,056	15.1	72,786	6.7
Baillie Gifford	234,461	19.8	249,532	23.1
Longview	234,328	19.8	263,092	24.4
L and G Equities	292,574	24.7	295,729	27.4
L and G Multi Factor	30,524	2.6	0	0.0
Pyrford	103,857	8.8	100,379	9.3
CBRE	28,081	2.4	28,382	2.6
KAMES	17,283	1.5	16,139	1.5
Adams Street	61,986	5.2	52,942	4.9
London CIV	150	0.0	150	0.0
<b>Total Fund Managers</b>	<b>1,182,300</b>	<b>100.0</b>	<b>1,079,131</b>	<b>100.0</b>
Cash held at custody	2,983		35	
<b>Total Investments</b>	<b>1,185,283</b>		<b>1,079,166</b>	

## 14. Investments exceeding 5% of Net Assets

Fund Manager (market value)	31st March 2019		31st March 2018	
	£'000	%	£'000	%
L and G Liquidity	179,056	15.1	72,786	6.7
Baillie Gifford	234,461	19.8	249,532	23.1
Longview	234,328	19.8	263,092	24.4
L and G Equities	292,574	24.7	295,729	27.4
Adams Street	61,986	5.2	52,942	4.9
Pyrford	103,857	8.8	100,379	9.3
<b>Total Fund Managers</b>	<b>1,106,262</b>	<b>93.4</b>	<b>1,034,460</b>	<b>95.8</b>

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

## 15. Classification of Financial Instruments

Financial liabilities (creditors) at amortised cost totalled £3.102 million (£1.548 million at 31<sup>st</sup> March 2018) and those designated as fair value through profit and loss totalled £1.525 million (£0.391 million at 31<sup>st</sup> March 2018).

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

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



# PENSION FUND ACCOUNTS

Financial assets at 31st March 2018	Designated as fair value through profit and loss	Loans and receivables	Total
	£'000	£'000	£'000
- UK quoted	36,322	0	<b>36,322</b>
- UK unquoted	150	0	<b>150</b>
- Overseas	222,129	0	<b>222,129</b>
<b>Sub-total</b>	<b>258,601</b>	<b>0</b>	<b>258,601</b>
<b>Pooled funds - investment vehicles</b>			
-UK pooled liquidity fund	72,786	0	<b>72,786</b>
-Pooled global equities	545,261	0	<b>545,261</b>
-Pooled global absolute return fund	100,379	0	<b>100,379</b>
-Pooled property investments	44,512	0	<b>44,512</b>
-Pooled private equity funds (unquoted)	52,942	0	<b>52,942</b>
-Investment income due	0	464	<b>464</b>
-Cash with investment managers	0	4,612	<b>4,612</b>
-Cash with administering authority	0	2,096	<b>2,096</b>
-Debtors	0	2,060	<b>2,060</b>
<b>Total financial assets</b>	<b>815,880</b>	<b>9,232</b>	<b>825,112</b>

## 16. Valuation of Financial Instruments carried at fair value

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

### Level 1 – Quoted market price

Fair values are derived from unadjusted quoted prices in active markets for identical assets and liabilities. Examples are quoted equities, quoted index linked securities and unit trusts. All level 1 investments are shown at bid

prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

### Level 2 – Using observable inputs

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

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

### Level 3 – With significant unobservable inputs

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

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

If the Valuation of the underlying companies within the private equity portfolio was out by 10% this would alter the value of the Fund's investment assets in this class by £6.1m

# PENSION FUND ACCOUNTS

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

31st March 2018	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
<b>Financial assets</b>				
- at fair value through profit and loss	258,451	762,938	53,092	<b>1,074,481</b>
<b>Total financial assets</b>	<b>258,451</b>	<b>762,938</b>	<b>53,092</b>	<b>1,074,481</b>
<b>Financial liabilities</b>				
- at fair value through profit and loss	0	(391)	0	<b>(391)</b>
<b>Total financial liabilities</b>	<b>0</b>	<b>(391)</b>	<b>0</b>	<b>(391)</b>
<b>Net financial assets</b>	<b>258,451</b>	<b>762,547</b>	<b>53,092</b>	<b>1,074,090</b>

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

31st March 2019	Market Value	Purchases	Sales	Change in MV	Total
	£'000	£'000	£'000	£'000	£'000
London LGPS CIV	150	0	0	0	<b>150</b>
Overseas VC	52,942	8,670	(11,728)	11,179	<b>61,063</b>
<b>Total</b>	<b>53,092</b>	<b>8,670</b>	<b>(11,728)</b>	<b>11,179</b>	<b>61,213</b>

Description of asset	Valuation hierarchy 18/19	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
<b>Segregated UK Equities</b>	Level 1	Equity Live Prices close of business 31 <sup>st</sup> March	Equity bid prices	Not Required
<b>Pooled Investments - Equity Funds UK and Overseas Managed Funds</b>	Level 2	The NAV for each share class is calculated based on the market value of the underlying equity assets.	Evaluated price feeds	Not required
<b>UK and Overseas Bonds</b>	Level 2	Fixed income securities are priced based on evaluated prices provided by independent pricing services.	Evaluated price feeds	Not required
<b>Pooled Property Funds</b>	Level 2	The Pension Fund's Property Funds are priced on a Single Swinging Price.	In house evaluation of market data	Not required
<b>Private Equity</b>	Level 3	Comparable valuation of similar companies in accordance with International Private and Venture Capital Valuation Guidelines 2012	Earnings before interest, tax, depreciation and amortisation (EBITDA) multiple Revenue multiple	Valuations could be affected by changes to expected cashflows, cost of replacing key business assets, or by any differences between the audited and unaudited accounts

# PENSION FUND ACCOUNTS

## Sensitivities of Level 3 Assets

	Valuation Range	Value 31 March	Value in increase	Value on Decrease
	%	£'000	£'000	£'000
Overseas Venture Capital	6%	61,063	64,727	57,607
<b>Total</b>	<b>6%</b>	<b>61,063</b>	<b>64,727</b>	<b>57,607</b>

The 6% valuation sensitivity represents the estimate for movement in valuation from the audited accounts as at 31<sup>st</sup> December to an estimated value as at 31<sup>st</sup> March. This valuation is carried out by the Fund's Custodian, who adjusts for all capital calls and distributions and provide a market value adjustment based on market movements over the period.

## 17. Nature of Risk Arising from Financial Instruments

### Risk and Risk Management

The Fund's primary long-term risk is that the Fund's assets will fall short of its liabilities. 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.

The Fund had achieved fully funded status by the 2016 valuation.

### (a) Market Risk

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

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

#### Price Risk

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

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

# PENSION FUND ACCOUNTS

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

<b>Assets exposed to price risk</b>	<b>Value</b>	<b>Value on increase</b>	<b>Value on decrease</b>
	£'000	£'000	£'000
At 31st March 2019	992,341	1,065,774	918,908
At 31st March 2018	1,002,545	1,102,800	902,291

## 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 below.

<b>Assets exposed to interest rate risk</b>	<b>Value</b>	<b>Value on increase</b>	<b>Value on decrease</b>
	£'000	£'000	£'000
At 31st March 2019	193,475	195,410	191,540
At 31st March 2018	77,005	77,775	76,235

## Currency Risk

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

Overseas equities, overseas index linked securities, cash in foreign currencies, and some elements of the pooled investment vehicles are exposed to currency risk. The table below shows the value of these assets at the Balance Sheet date and what the value would have been if currencies had been 10% higher or 10% lower.

<b>Assets exposed to currency risk</b>	<b>Value</b>	<b>Value on 10% increase</b>	<b>Value on 10% decrease</b>
	£'000	£'000	£'000
At 31st March 2019	890,157	979,173	801,141
At 31st March 2018	908,993	999,892	818,094

## **(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.

# PENSION FUND ACCOUNTS

## (c) Liquidity Risk

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

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

## 18. Contractual Commitments

As at 31<sup>st</sup> March 2019, the Fund had a commitment to invest a further \$47.5 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.

## 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<sup>st</sup> March 2016 in accordance with the Funding Strategy Statement of the Fund and Regulation 62 of the Local Government Pension Scheme Regulations 2013. The results were published in the triennial valuation report which is available on the Council's website at the link below. The next valuation will take place as at 31<sup>st</sup> March 2019.

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

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

During 2018/19, the common contribution rate is 17.5% 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:

<b>Financial assumptions</b>	<b>March 2016</b>	<b>March 2013</b>
	%	%
Consumer Price Index (CPI) increases	2.4	2.7
Salary increases	3.9	4.5
Pension increases	2.4	2.7
Discount rate	4.9	5.9

Other assumptions:

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

# PENSION FUND ACCOUNTS

- Mortality Projection – Long term rate of improvement of 1.5% per annum.

The actuary's smoothed market value of the scheme's assets at 31<sup>st</sup> March 2013 was £630 million and the actuary assessed the present value of the funded obligation at £663 million on indicating a net liability of £33 million, resulting in a funding level of 95%. This was the basis for the contribution rates during 2017/18 and 2018/19.

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

The next actuarial valuation of the Fund will be as at 31<sup>st</sup> March 2019 and will be published in 2020.

## 20. Actuarial Present Value of Promised Retirement Benefits

The table below shows the total net liability of the Fund as at 31<sup>st</sup> March 2019. The figures have been prepared by the Fund's actuary, only for the purposes of providing the information required by IAS 26 (Accounting and Reporting by Retirement Benefit Plans). In particular, they are not relevant for calculations undertaken for funding purposes or for other statutory purposes under UK pensions legislation.

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

	31st March 2019	31st March 2018
	£'000	£'000
Present value of promised retirement benefits		
- Vested obligation	(1,346,135)	(1,302,103)
- Non vested obligation	(37,294)	(39,199)
Fair value of scheme assets (bid value)	1,187,333	1,080,781
<b>Net liability</b>	<b>(196,096)</b>	<b>(260,521)</b>

### Financial assumptions

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

Financial assumptions	31st March 2019	31st March 2018
	%	%
Retail Price Index (RPI) increases	3.4	3.3
Consumer Price Index (CPI) increases	2.4	2.3
Salary increases	3.9	3.8
Pension increases	2.4	2.3
Discount rate	2.4	2.6

### Demographic Assumptions

The post mortality tables adopted are the S1PA tables with a multiplier of 80% for males and 85% for females. These base tables are then projected using the CMI 2018 Model allowing for a long term rate of improvement of 1.5% per annum.

# PENSION FUND ACCOUNTS

Life expectancy from age 65 years	31st March 2019	31st March 2018
	Years	Years
Retiring today		
- Males	23.4	24.5
- Females	24.8	26.1
Retiring in 20 years		
- Males	25.0	26.8
- Females	26.6	28.4

## Other Assumptions

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

## 21. Current Assets

	31st March 2019	31st March 2018
	£'000	£'000
Debtors		
- Contributions due - employers	1,929	321
- Contributions due - employees	526	105
- Sundry debtors	1,904	1,634
<b>Sub-total</b>	<b>4,359</b>	<b>2,060</b>
Cash balances	2,045	2,096
<b>Total</b>	<b>6,404</b>	<b>4,156</b>

Analysis of debtors	31st March 2019	31st March 2018
	£000	£000
Central government bodies	679	448
RBKC	2,090	61
Other entities and individuals	1,590	1,551
<b>Total</b>	<b>4,359</b>	<b>2,060</b>

## 22. Current Liabilities

	31st March 2019	31st March 2018
	£'000	£'000
Creditors		
- Sundry creditors	(3,102)	(1,548)
- Benefits payable	0	0
<b>Sub-total</b>	<b>(3,102)</b>	<b>(1,548)</b>
Cash overdrawn	0	0
<b>Total</b>	<b>(3,102)</b>	<b>(1,548)</b>

Analysis of creditors	31st March 2019	31st March 2018
	£'000	£'000
Central government bodies	(334)	(1,028)
Other local authorities	(405)	0
RBKC	(262)	(278)
Other entities and individuals	(2,101)	(242)
<b>Total</b>	<b>(3,102)</b>	<b>(1,548)</b>

## 23. Additional Voluntary Contributions (AVC)

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 AVC to be paid into the Fund, so they are

## PENSION FUND ACCOUNTS

not included in these accounts.

During 2018/19, AVC contributions of £0.624 million (£0.546 million in 2017/18) were paid to the provider, Prudential. The market value of these funds at 31<sup>st</sup> March 2019 is £3.511 million (£3.783 million at 31<sup>st</sup> March 2018).

### 24. Related Party Transactions

The Fund is administered by RBKC. The Council incurred, and was reimbursed for, costs of £0.420 million in the financial year 2018/19 (£0.323 million in 2017/18) in relation to administration costs.

In year, and in total, the Council contributed £12.159 million to the Fund compared to £13.209 million in 2017/18. At 31<sup>st</sup> March 2019 the Council owed the Pension Fund a net amount of £2.090 million (£0.061 million at 31<sup>st</sup> March 2018).

The key management personnel of the Fund are the Members of the Investment Committee, the Executive Director of Resources and Assets and the Tri-Borough Director of Pensions and Treasury. No remuneration was payable to key management personnel by the Pension Fund during the year.

### 25. Agency Services

The Fund pays discretionary awards to the former employees of the Council. The amounts are not included within the Fund Account as they are not expenses or income related to the Pension Fund but are provided as a service and fully reclaimed from the Council. During 2018/19 the Fund paid the gross sum of £0.240 million (£0.248 million in 2017/18) on behalf of RBKC.

### 26. External Audit Costs

The external audit fee payable to Fund's external auditors, Grant Thornton, was £0.016 million (£0.021 million to KPMG LLP in 2017/18).

### 27. Contingent liabilities

The Pension Fund had no contingent liabilities for 2018/19.



# GLOSSARY

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

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

**ACTUARIAL GAINS AND LOSSES** arise where actual events do not coincide with the actuarial assumptions made for the latest valuations (known as experience gains and losses) or where the actuarial assumptions have been changed.

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

**CAPITAL ADJUSTMENT ACCOUNT** is an account recording financing transactions relating to capital expenditure. This account is not available for general use to fund capital expenditure.

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

**CAPITAL RECEIPTS** represent income received from the sale of fixed assets or the repayment of capital advances, subject to the Council's de minimis of £10,000.

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

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

**CONTINGENT ASSETS** arise where an event has taken place that gives rise to a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly in the Council's control.

**CONTINGENT LIABILITIES** arise where an event has taken place that gives the Council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the Council's control. They may also arise in circumstance where a

provision would otherwise be made, but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

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

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

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

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

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

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

**GENERAL DATA PROTECTION REGULATION (GDPR) 2016/679** is a regulation in EU law on data protection and privacy for all individual citizens of the European Union and the European Economic Area. It also addresses the export of personal data outside the EU and EEA areas.

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

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

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

**INTANGIBLE ASSETS** are a class of non-financial fixed assets that do not have physical substance, but are identifiable and are controlled by the Council as a result of past events (e.g. software licences).

**INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)** are a set of

## GLOSSARY

accounting standards developed by an independent, not-for-profit organisation called the International Accounting Standards Board (IASB). Those specifically for use in the public sector are termed **INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS (IPSAS)**.

**INVESTMENT PROPERTIES** are properties that are used solely to earn rental income and/or for capital appreciation. This definition does not apply if the property is used for the delivery of services or the production of goods. Under IFS, an investment property that is likely to be sold is not classified as an Asset Held for Sale.

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

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

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

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

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

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

**REVENUE SUPPORT GRANT** is a generally usable grant from central government which can be used for any purpose from central government. It is allocated as part of the local authority grant distribution system alongside a share of Business Rates.

**REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE (REFCUS)** is a type of expenditure which statutory law requires to be classified as capital for funding purposes, when it does not result in the

expenditure being carried on the Balance Sheet as a fixed asset. Examples include works on property owned by other parties, renovation grants and capital grants to other organisations.

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