The Royal Borough of Kensington and Chelsea Statement of Accounts

2012-13

Financial Year End: 31 March 2013

THE ROYAL BOROUGH OF
KENSINGTON
AND CHELSEA

Statement of Accounts

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FOREWORD

INTRODUCTION

The Statement of Accounts sets out details of the Council's income and expenditure for the financial year 2012-13 and its Balance Sheet at 31 March 2013. This covers the General Fund, Housing Revenue Account, Pension Fund and all the other accounts for which the Council is responsible.

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

- The **Movement in Reserves Statement** (MiRS) is a summary of the changes to the Council's reserves during the course of the financial year. The reserves represent the Council's net worth and are analogous to the equity of a private company. Reserves are divided into 'usable' and 'unusable' reserves. Usable reserves can be used to fund expenditure or reduce the council tax; unusable reserves cannot.

- The **Comprehensive Income and Expenditure Statement** (CIES) reports all of the Council's gains and losses during the financial year. The CIES is prepared in accordance with International Financial Reporting Standards and the detail will therefore differ from the Council's management accounts and revenue budgets. However, the Council's financial position i.e. the working balance and reserves, will be the same.

- The **Balance Sheet** is a 'snapshot' of the Council's assets, liabilities and reserves on 31 March 2013. The reserves are always equal to the Council's assets less the Council's liabilities. Assets represent everything owned by the Council and money owed to it. Liabilities are the sums that the Council owes to others.

- The **Cash Flow Statement** shows the changes to the Council's cash and 'cash equivalents' during the financial year. Cash equivalents are assets that can be readily converted into cash and have a low likelihood of a change in value. The statement shows cash flows from: 'operating' activities, which are the cash flows from the Council's services; 'investing' activities, which are the cash flows from the Council's capital investment, investments and asset sales; and 'financing' activities, which are primarily the cash flows relating to the Council's borrowings.

- The **Notes** provide more detail about the items contained in the key financial statements, the Council's accounting policies and other information that help interpretation and understanding of the key financial statements and accounts.

- The **Supplementary Financial Statements** provide details of the Housing Revenue Account, Collection Fund, London Residuary Body and Pension Fund. These are provided to aid interpretation and understanding of the key financial statements and notes, to provide additional statutory information and to disclose information of use to other parties.

The outturn for 2012-13 includes:

- a General Fund under-spend of £24.3 million;
- the working balance confirmed at £10 million – the Council's agreed minimum;
- usable reserves at 31 March 2013 of £241 million (£224 million at 31 March 2012); and
- a stable balance sheet.

2012-13 BUDGET

Annually, the Cabinet has set out its financial and service plans in its Budget Proposals document, the latest of which can be found at Budget Proposals. Full details are set out in the relevant financial year's Revenue Budget and Capital Programme.

In brief, the 2012-13 budget included:

- a council tax freeze;
- savings of over £13 million offsetting cost pressures and grant losses; which produced
- a gross budget of £394 million with a council tax requirement of £78 million; and
- a final capital budget of £71 million.

REVENUE SPENDING

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

The net underspend on the General Fund was £24.3 million. This is 5 per cent of the Council's total gross budget. After agreed budget carry forwards to 2013-14 of £2.4 million, the balance of the underspend has been transferred to the Pension Fund, the VAT Liability Reserve, Property Strategy Reserve, Capital Expenditure Reserve and the Council's Transformation Fund.

	£m
Working balance 1 April 2012	**10.0**
Add 2012-13 General Fund underspend	24.3
Less 2012-13 underspend carried forward to 2013-14	(2.4)
Transfer to Pension Fund	(6.0)
Transfer to VAT Liability Reserve	(0.7)
Transfer to Property Strategy Reserve	(0.5)
Transfer to Capital Expenditure Reserve	(11.0)
Transfer to Transformation Fund	(3.7)
Working balance 31 March 2013	**10.0**

The summary outturn position is as set out below:

DESCRIPTION	Budget 2012-13	Actual 2012-13	Variance 2012-13
Service Budgets	**£'000**	**£'000**	**£'000**
Adult Social Care	61,010	52,857	(8,153)
Children's Services	38,883	37,319	(1,564)
Environment, Leisure and Residents' Services	35,717	34,409	(1,308)
Housing Services	10,548	10,057	(491)
Library, Archive and Heritage Services	5,951	5,624	(327)
Planning and Borough Development	4,608	3,891	(717)
Transport and Technical Services	(8,521)	(13,191)	(4,670)
Corporate Services	16,947	14,995	(1,952)
Adult and Family Learning Services	114	114	-
Service Total	**165,257**	**146,075**	**(19,182)**
Contingency and Central Budgets	2,740	-	(2,740)
Net Cost of Services	**167,997**	**146,075**	**(21,922)**
External Interest	56	56	-
Pension Fund Liabilities	12,106	11,139	(968)
Interest and Investment Income	(500)	(1,067)	(567)
Capital Adjustment Account	(12,566)	(12,590)	(24)
Transfer to/from reserves (revenue)	10,483	9,619	(864)
Levies	3,239	3,239	-
Council Tax Freeze Grant	(1,947)	(1,951)	(4)
Net Spending	**178,868**	**154,520**	**(24,348)**
Transfer to Budget Carry Forward Reserve	-	2,379	2,379
Transfer to Pension Fund	-	6,000	6,000
Transfer to VAT Liability Reserve	-	730	730
Transfer to Property Strategy Reserve	-	500	500
Transfer to Capital Expenditure Reserve	-	11,000	11,000
Transfer to Transformation Fund	-	3,739	3,739
TOTAL ROYAL BOROUGH EXPENDITURE	**178,868**	**178,868**	-

HOUSING REVENUE ACCOUNT (HRA)

The Statement of Accounts also includes the ring-fenced Housing Revenue Account for the provision of social housing. The Housing Revenue Account showed a surplus of £2.6 million and increased its working balance by the same amount. Full details are set out in the Statement of Accounts.

LONDON RESIDUARY BODY (LRB)

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

31 MARCH 2013 BALANCE SHEET

The balance sheet as at 31 March is summarised below. Aside from pension liabilities that are volatile and re-estimated each year, the overall position is substantially stable.

	31-Mar-13	31-Mar-12
	£m	£m
Long term assets	1,469	1,481
Current assets less current liabilities	104	119
Net Pension liabilities	(241)	(263)
Other long term liabilities	(178)	(181)
Net Assets	**1,154**	**1,156**
Represented by		
Usable reserves	241	224
Unusable reserves	913	932
Total Reserves	**1,154**	**1,156**

The breakdown of the usable reserves is set out below:

	31-Mar-13	31-Mar-12
	£m	£m
General Fund	211	194
Schools Reserves	9	9
Housing Revenue Account	17	16
London Residuary Body	4	4
Total	**241**	**224**

CAPITAL SPENDING AND FUNDING

The Council invests in its property assets and makes capital investments in services. The Council budgeted to spend £71 million on capital projects in 2012-13:

Service	Budget £'000	Actual £'000	Variance £'000	Variance %
Adult Social Care	2,024	1,591	(433)	(21%)
Children's Services	29,862	28,485	(1,377)	(5%)
Environment, Leisure and Residents' Services	8,050	4,230	(3,820)	(47%)
Housing General Fund	1,417	658	(759)	(54%)
Housing Revenue Account	11,049	10,161	(888)	(8%)
Library, Archive and Heritage Services	920	778	(142)	(15%)
Planning and Borough Development	60	-	(60)	(100%)
Transport and Technical Services	3,945	2,927	(1,018)	(26%)
Corporate Services	13,897	11,230	(2,667)	(19%)
Total 2012-13 Capital Programme	**71,224**	**60,060**	**(11,164)**	**(16%)**

Of the £11 million under-spend on capital schemes, £9.3 million is expected to slip into 2013-14.

Capital expenditure in 2012-13 was funded mainly from the Council's own resources with £7 million of external grants and contributions.

Funding Source	£'000
Capital Grants and Contributions	7,428
Capital Expenditure Reserve	11,363
Capital Receipts	949
Internal borrowing	24,639
Other Reserves	15,631
Direct Revenue Financing	50
Total Funding	**60,060**

FUTURE OUTLOOK

For 2013-14 the Council once again froze council tax. Funding reductions and cost pressures were matched by £13 million in budget reductions – bringing total budget reductions to £46 million over three years. The Council is also planning to fund an ambitious capital programme - £170 million over three years - without any additional external borrowing.

The national economic outlook remains grim. The Government has delivered substantial cuts to local government funding and is likely to announce more as part of the next national

Spending Review. Major changes to the system of local government financing were introduced from 1 April 2013 (localisation of business rates and Council Tax Support).

The Council remains well positioned to meet these challenges. It is planning for substantial budget reductions for 2014-15 and future years both as an individual authority and as part of tri-borough and bi-borough working on delivery of shared services with the neighbouring boroughs of the City of Westminster and the London Borough of Hammersmith & Fulham.

ACCOUNTING POLICIES

The 2012-13 accounts are compliant with International Financial Reporting Standards (IFRS). They comply with the Chartered Institute of Public Finance and Accountancy (CIPFA) / Local Authority (Scotland) Accounts Advisory Committee (LASAAC) *Code of Practice on Local Authority Accounting in the United Kingdom 2012/13* (the Code) which is based on IFRS.

The accounting policies adopted by the Council comply with the Code and are set out on pages 37 to 54. These are substantially unchanged from 2011-12.

Nicholas Holgate
Town Clerk and Executive Director of Finance

STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

The Council's Responsibilities

The Council is required to:

- Make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs, who is often referred to as the 'Chief Finance Officer'. The Council's Chief Finance Officer is the Town Clerk and Executive Director of Finance;

- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets; and

- Approve the Statement of Accounts.

The Town Clerk and Executive Director of Finance's Responsibilities

The Town Clerk and Executive Director of Finance is responsible for the preparation of the Council's Statement of Accounts in accordance with proper practices as set out in the Code. In preparing this Statement of Accounts, the Town Clerk and Executive Director of Finance has:

- selected suitable accounting policies and then applied them consistently;

- made judgments and estimates that were reasonable and prudent; and

- complied with the local authority Code.

The Town Clerk and Executive Director of Finance has also:

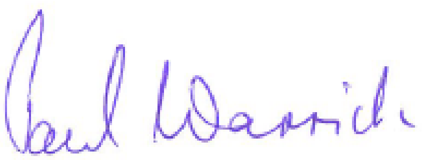
- kept proper accounting records that are up to date; and

- taken reasonable steps for the prevention and detection of fraud and other irregularities.

I certify that the Statement of Accounts 2012-13 gives a true and fair view of the financial position of the Council as at 31 March 2013 and its income and expenditure for the year ended 31 March 2013.

Nicholas Holgate
Town Clerk and Executive Director of Finance

I certify on behalf of the Council that the Statement of Accounts 2012-13 was reviewed in draft by Audit and Transparency Committee on 25 June 2013 and has been considered and approved in final form by the Audit and Transparency Committee on 23 September 2013.



Councillor Paul Warrick
Chairman of the Audit and Transparency Committee

THE ROYAL BOROUGH OF KENSINGTON AND CHELSEA

ANNUAL GOVERNANCE STATEMENT 2012-13

(i) Scope of responsibility

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

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

The Council has approved and adopted a *Local Code of Corporate Governance*, which is consistent with the principles of the CIPFA/SOLACE Framework *Delivering Good Governance in Local Government*. A copy of the code is on the Council’s website *Council and Democracy>The Constitution>Constitution Table of Contents>Part5 D* or can be obtained from Governance Services, Kensington Town Hall, Hornton Street, London W8 7NX. This statement explains how the Council complies with the Code and also meets the requirements of regulation 4(3) of the Accounts and Audit (England) Regulations 2011 in relation to the publication of an annual governance statement.

(ii) The purpose of the governance framework

The governance framework comprises: the systems and processes, culture and values by which the authority is directed and controlled; and its activities, through which it accounts to, engages with and leads the community. It enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council’s policies, aims and objectives, to evaluate the likelihood of those risks being realised, the impact should they be realised and to manage them efficiently, effectively and economically.

The governance framework has been in place at the Council for the year ended 31 March 2013 and up to the date of approval of the Statement of Accounts.

(iii) The governance framework

The governance framework is set out in the **Annex** to this statement. This sets out the key documents and processes that determine the way the Council is directed and controlled to meet the six core principles of the CIPFA/SOLACE Framework. The key elements of the processes and systems that comprise the authority’s governance arrangements are set out in the following sections.

a) Identifying, communicating and reviewing the Council's vision of its purpose and outcomes for citizens and service users.

Through its leadership of the Kensington and Chelsea Partnership, the Council comes together with voluntary and community groups, the Metropolitan Police Service, local NHS trusts and commissioning groups, the Kensington and Chelsea Chamber of Commerce and others with a common goal: to improve the quality of life in the Royal Borough. The Partnership has published the Community Strategy (*The Future of our Community 2008-2018), w*hich sets out the long-term priorities and the challenges for the whole of the Royal Borough and identified eight shared goals that the Council and its partners will all work to achieve.

b) Reviewing the Council's vision and its implications for the Council's governance arrangements.

In February 2011 the Council announced plans for combined services with the London Borough of Hammersmith & Fulham and Westminster City Council. The vision of the tri-borough programme is *"*combining services to tackle common problems, improve people's lives and make public money go further*."* The overall savings target is £33.4 million by 2015-16.

In February 2012 the Leader of the Council approved a refreshed set of strategic aims for the Council (Ambitious, Responsive, Trusted: Our Mission for the Place and the Council) that take into account national policy changes and the public finances. These set out six ambitions for the Royal Borough and six aims for the Council.

c) Translating the vision into objectives for the Council and its partnerships.

The Council's objectives are delivered through an annual business and financial planning process, which results in three-year budget proposals, departmental service delivery plans and personal targets for individuals. The revenue budget and capital programme are subject to full consultation and review by the Scrutiny Committees before recommendation by Cabinet and formal adoption by full Council. However, in the move to bi- and tri- borough working, service delivery plans were not consistently produced by all services during 2012-13.

d) Measuring the quality of services for users to ensure that they are delivered in accordance with the Council's objectives and represent best use of resources and value for money.

The quality of services is assessed through the Council's performance management system. This includes the setting of targets and reporting of the achievement of key performance indicators and other initiatives and reviews. The Cabinet Member for Civil Society had responsibility for ensuring that performance of the Council is reported transparently and accurately both within the Council and externally. Five Scrutiny Committees and a number of specialist working groups consider relevant issues of interest and importance. The tri-borough and bi-borough initiatives are a key part of the Council's response to the Government's on-going reductions to local government funding and requirement for increased savings.

Monitoring of delivery of the Council's objectives included the following documents and processes:

Item / Content	Aimed at	Frequency
The **Report To Taxpayers** - a report on the past year's performance and a summary Statement of Accounts.	People who live and work in the Royal Borough	Annual
Budget Monitoring Reports - revenue and capital monitoring plus key non-financial indicators with Cabinet approval for any corrective action.	Management Board, Cabinet and Scrutiny Committee members	Quarterly
Vital Improvements - reporting progress on key programmes and projects.	Management Board and Cabinet	Bi-annual
Vital Signs – a report detailing key national and local performance indicators compared to targets.	Management Board and Cabinet	Bi-annual
Vital Messages - an information database containing details of all public and staff consultations carried out.	Officers, Members and the public	Continuous via intranet
Credit Rating - an independent assessment of the Council's financial management, financial standing and creditworthiness.	Officers, Members and people who live, work and invest in the Royal Borough	Annual
Gateway Reviews - peer reviews of major programmes.	Management Board	Ad Hoc

e) Defining and documenting the roles and responsibilities of the executive, non-executive, scrutiny and officer functions with clear delegation arrangements and protocols for effective communication in respect of the Council and partnership arrangements.

The Council has a formal Constitution in place, which sets out the detailed roles and responsibilities of Members and officers, including specific delegations. The Constitution is regularly reviewed and updated to take account of functional and organisational changes within the Council. Governance arrangements have been implemented to ensure that the tri-borough and bi-borough initiatives are appropriately managed.

All significant partnerships have partnership frameworks in place, which set out the aims and objectives of the partnership together with the measurable outcomes against which success can be assessed.

f) Developing, communicating and embedding codes of conduct, defining the standards of behaviour for Members and employees.

Members' (Councillors) and Officer codes of conduct are set out in the Council's Constitution and are communicated as part of the induction process and made available to all via the Council's Intranet.

In accordance with the arrangements established by the Localism Act, the Standards Committee and Audit Committee were wound up on 30 June 2012. Under the new arrangements, the Administration Committee is responsible for advising the Council on the adoption and revision of the Members' Code of Conduct. Complaints alleging a breach of the Members' Code of Conduct, which have been investigated in accordance with the Council's arrangements for dealing with such complaints, are considered by the Audit and Transparency Committee. The Audit and Transparency Committee reports on its activities annually to a meeting of the full Council.

g) Reviewing the effectiveness of the authority's decision-making framework, including delegation arrangements, decision making in partnerships and robustness of data quality.

The decision-making framework is documented in the Constitution. Amendments have been made to support tri-borough working. Agreements pursuant to Section 113 of the Local Government Act 1972 are in place for tri-borough and bi-borough services. These agreements have been reviewed and updated as necessary. An annual review of all bi-borough and tri-borough legal agreements (including all corporate schedules) has been undertaken. A range of editorial and minor changes have been made using the agreed change protocol and have been signed off by each council's Section 151 officer in preparation for 2013-14.

h) Reviewing the effectiveness of the framework for identifying and managing risks and demonstrating clear accountability.

The Council has defined and documented its *Risk Management Policy* and *Risk Management Strategy*. Both these and related guidance and processes are published on the Council's Intranet. They have been up-dated for bi-borough and tri-borough working; however, formal ratification of the documents remains outstanding. Risks are managed and reported at both a departmental and project management level however further work is required to amalgamate risks into "strategic risks" for consideration by senior management and Members. The Audit and Transparency Committee's terms of reference provide for independent assurance on the adequacy of the risk management framework and the associated control environment.

i) Ensuring effective counter-fraud and anti-corruption arrangements are developed and maintained.

The Council's *Fraud Response Plan*, *Anti-Fraud and Corruption Strategy*, *Anti Bribery Policy* and *Money Laundering Policy* are all documented and available on the Council's Intranet. A fraud awareness on-line course has been developed and is available to all staff.

The Audit and Transparency Committee received regular reports on the Council's anti-fraud activities.

j) Ensuring effective management of change and transformation.

The Council is experiencing a period of considerable change and all major programmes and projects should utilise Managing Successful Programmes / PRINCE2 methodologies as appropriate. Training in both methodologies is available and has been taken up by a number of relevant staff.

Governance structures are in place to control the Council's change activities.

k) Ensuring the Council's financial management arrangements conform to the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010).

The Town Clerk and Executive Director of Finance is a member of the Management Board and reports directly to the Joint Chief Executive. The role of the Town Clerk and Executive Director of Finance and the financial responsibilities of Members and officers are set out in the Constitution. Key Decision Reports always include detailed financial implications. The Council's financial statements are completed within statutory timescales and are published on the Council's website. The Budget Proposals set out the Cabinet's policy priorities and budget approach for the next three years. This is up-dated annually.

l) Ensuring the Council's assurance arrangements conform with the governance requirements of the *CIPFA Statement on the Role of the Head of Internal Audit* (2010) and, where they do not, explain why and how they deliver the same impact.

Internal Audit complies with CIPFA's *Code of Practice for Internal Audit in Local Government 2006*. An annual report, which includes an opinion on the effectiveness of internal controls, is presented to the Audit and Transparency Committee by the Head of Internal Audit. The Head of Audit is professionally qualified and her responsibilities comply with CIPFA's *Statement on the Role of the Head of Internal Audit in Public Service Organisations*.

m) Ensuring effective arrangements are in place for the discharge of the monitoring officer function.

The Council's Monitoring Officer reviews and updates the constitutional framework, including the Standing Orders and Scheme of Delegation on a regular basis. Similarly, the Section 151 officer undertakes regular reviews of the *Financial Procedure Rules*, *Procurement Procedure Rules* and *Contract Regulations*, which are incorporated into the Constitution. Apart from changes that may be made by the Monitoring Officer in accordance with Article 14.03 of the Constitution, all changes to the Constitution are made by full Council following consideration by the Administration Committee.

n) Ensuring effective arrangements are in place for the discharge of the head of paid service function.

Senior officer responsibilities, including those of the Joint Chief Executive under Section 4 of the Local Government and Housing Act 1989, are set out in the Constitution. The Joint Chief Executive Officer's role and remuneration are outlined on the Council's website.

o) Undertaking the core functions of an Audit Committee, as identified in CIPFA's Audit Committees: Practical Guidance for Local Authorities.

In accordance with the arrangements established by the Localism Act, the Standards Committee and Audit Committee were wound up on 30 June 2012 and replaced by an Audit and Transparency Committee. The Audit and Transparency Committee comprises both Councillors and three independent members who bring a wide range of commercial and governance experience, knowledge and challenge to the Council. It reviews internal and external audit reports and risk management arrangements, and is responsible for providing independent assurance on the Council's corporate governance arrangements.

p) Ensuring compliance with relevant laws, regulations, policies and procedures and that expenditure is lawful.

Internal Audit is responsible for conducting audits, using a risk-based approach that highlights key areas of risk throughout the organisation for both financial and non-financial systems. This work provides assurance on compliance with the Council's policies, procedures and regulations. Individual audit reports are provided to relevant senior managers and Cabinet Members, and reported to the Audit and Transparency Committee.

The Council has an *Anti-fraud and Corruption Strategy* to ensure the proper use and protection of public assets. Key Decision Reports include comments on legality and compliance with relevant policies. Monitoring of compliance is also undertaken by key officers:

Statutory Officer	Responsible Person	Responsible For
Section 151 Officer	Town Clerk and Executive Director of Finance	Ensuring that there are arrangements in place for the proper administration of financial affairs throughout the Council. Maintaining the complaints system.
Monitoring Officer	Chief Solicitor	Reporting any contraventions of the law or maladministration to full Council or the Executive, and supporting the Council in promoting ethical standards and dealing with complaints about breaches of the Members' Code of Conduct. Maintaining the Constitution.
Head of the Paid Service	Joint Chief Executive	Determining the staffing structure of the Council and the deployment of officers.

Many of the Council's services are delivered in partnership with commercial and other organisations. The Council ensures that proper governance is maintained by closely following procurement processes when letting contracts and then robustly monitoring them. A procurement protocol has been developed for joint contracts entered into as a result of the tri-borough and bi-borough initiatives.

q) Whistle-blowing and receiving and investigating complaints from the public.

The Council operates a whistle blowing scheme, set out in its policy *Reporting Concerns at Work,* which includes various channels of communication such as an anonymous phone hotline, a reporting form on the Council's website and an independent organisation to whom any concerns can be expressed. The scheme is regularly publicised to employees and key contractors, and is publicised on the Council's website.

Most complaints are dealt with at the point of service, but there is also a formal system in operation through which complaints can be escalated to more senior management and ultimately the Joint Chief Executive, if necessary, to resolve any issues arising. Complaints are reported annually to a meeting of the Cabinet; the report is published on the Council's website and includes details of the number of complaints from each service, any area of concern, action taken and lessons learned.

r) Identifying the development needs of Members and senior officers in relation to their strategic roles, supported by appropriate training.

There is a programme of training for all new managers and an induction process for Councillors and officers joining the Council. New Councillors are provided with formal induction sessions and receive a copy of *The Councillor's Handbook*. The majority of officers and Councillors have a personal development plan and there is a training programme for all staff and managers to bring skills up to the required level for the job. The effectiveness of all training undertaken is monitored and reviewed. The Council has developed a comprehensive Intranet site, providing ready access to a wide range of information and guidance for all staff including the *Financial Management Guidance* manual.

s) Establishing clear channels of communication with all sections of the community and other stakeholders, ensuring accountability and encouraging open consultation.

Consultation principles and activities are publicised on the Council's website. The primary aim of the Council's consultation activities is to help the Council ensure that its services and policies meet the needs of its users. The Council engages and communicates with the local community in various ways including the Residents' Panel and the Resident Reviewers, which enable residents to participate in service design. Partnerships give communities a say in how local services are delivered and the Council provides a wide range of support to help communities to get involved. The Council has developed and adopted a *Communications Strategy*, *Communication Standards* and a *Statement of Consultation Principles*.

The Council has communicated every four months through the Council's newspaper, delivered to all homes, as well as via the Council's website and publications such as the Report to Taxpayers. Committee agendas, committee reports and the Forward Plan of Key Decisions are made available in public libraries and online via the Council's website.

t) Enhancing the accountability for service delivery and effectiveness of other public service providers.

The Kensington and Chelsea Partnership is the Local Strategic Partnership for the Royal Borough. It consists of the Council, the Metropolitan Police Service (MPS), the London Fire Brigade (LFB), local NHS trusts and commissioning groups, the business community and the local voluntary and community sectors. The Partnership aims to join-up services within the Royal Borough, plan locally for the long-term, and improve quality of life in the Royal Borough, especially in more deprived neighbourhoods.

The strategy for NHS, social care and other health care services is to co-ordinate and integrate those services to provide a better service to residents that reduces the need for hospital appointments and admissions. The adult assessment services within each of the Tri-boroughs are being integrated with Central London Community Healthcare NHS Trust's (CLCH) Adults Community Services Team to integrate services. Community budgets have been introduced, which enable the Council to pool its resources with those of the NHS and its tri-borough partners to make more efficient use of its funds, and integrated care pathways are being developed, which enable social care and NHS services to plan the care of residents together. A governance structure to support robust implementation has been established within both CLCH and the tri-borough councils.

The Council maintains close working relationships with the MPS as part of the joint efforts to discharge the responsibilities placed upon local authorities and the Police by the Crime and Disorder Act 1998 to reduce crime, antisocial behaviour and the misuse of drugs and alcohol. There are formal and informal arrangements in place to guide this relationship at all levels of the Council. The Council manages the Community Safety Partnership Board ("CSPB", which is the local Crime and Disorder Reduction Partnership), attended by very senior officers from the Council's community safety partners including the "Borough Commander" in charge of policing within the Royal Borough. The Council's Cabinet Member for Civil Society is a key member, as is the LFB's "Group Manager" (often referred to as "Borough Commander") in charge of fire and rescue services within the Royal Borough. The Cabinet Member for Civil Society also chairs the Safer, Surer Policy Board, the executive arm of the CSPB, which meets monthly and also includes the MPS's Borough Commander.

Where services have been delivered through significant partners such as NHS trusts and commissioning groups, or through other local authorities, particularly the Council's tri-borough partners, legal agreements, mandates (where applicable) and associated performance monitoring are in place. Assurances of their internal governance arrangements and the relationships and the connections with single, bi-borough and tri-borough governance arrangements have been reviewed.

u) Incorporating good governance arrangements in respect of partnerships and other group working as identified by the Audit Commission's report on the governance of partnerships, and reflecting these in the authority's overall governance arrangements.

The Council leads the Kensington and Chelsea Partnership (KCP), in which the Council comes together with voluntary and community groups, the Metropolitan Police Service, NHS trusts and commissioning groups, the Kensington and Chelsea Chamber of Commerce and others with a common goal to improve the quality of life in the Royal Borough. All significant partnerships have partnership frameworks, which have aims and objectives, and seek measurable outcomes.

The *Procurement Procedure Rules* and *Contract Regulations* detail partnership aspects of procurement and require an appropriate partnership structure and a clear definition of roles and responsibilities. Corporate guidance on the establishment, management and review of partnerships is available on the Council's Intranet. This is flagged-up for staff who manage the Council's partnerships. A tri-borough *Procurement Protocol* has been developed, which provides guidance and standard practice for contracts procured in on a bi-borough or tri-borough basis.

In relation to delivery of the overall tri-borough portfolio of change, governance has been regularly reviewed to take account of the changing needs of services and to ensure strong decision making and assurance. During 2012-13, governance arrangements have been adapted; for example, to manage change programmes alongside the new “business as usual model” of delivering services on a bi-borough or tri-borough basis. Planning for future governance changes is underway, particularly to incorporate the implementation of other major change programmes, for example Managed Services and Total Facilities Management.

(iv) Review of effectiveness

The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by: the statements of assurance and annual governance reports of the Executive Directors and Directors, who have responsibility for the development and maintenance of the governance environment; the Head of Audit and Risk Management’s annual report; and by comments made by the Council’s external auditors and other review agencies and inspectorates.

The **Audit and Transparency Committee** approves the annual *Audit Plan*; receives quarterly reports on audits; reviews the *Risk Register* and annual *Risk Management Report*; intervenes to request further action where necessary; and reviews these reports to support the *Annual Governance Statement*. The Committee undertakes an annual assessment of its effectiveness. The Chairman reports annually to Council on the activity of the Audit and Transparency Committee during the year.

The functions and areas of responsibility of Executive Directors, Directors and Heads of Service are summarised in the Constitution. The Chief Solicitor discharges **the Monitoring Officer** role.

The role of the Town Clerk and Executive Director of Finance (**the Section 151 Officer)** is compliant with the principles of the CIPFA’s *Statement on the Role of the Chief Financial Officer in Local Government (2010)*.

The effectiveness of **Internal Audit** is determined by feedback from clients on individual audit reports, the opinion of the external auditor and an annual self-assessment of the Internal Audit service in accordance with the *Public Sector Internal Audit Standards*.

Internal Audit reviews the effectiveness of the Council’s risk management arrangements and monitors risk action plans.

The Council’s **external auditors** are not required to form an opinion on the effectiveness of the Council’s risk and control systems. However, the Council does have regard to the external auditor’s work in informing its assessment of its controls in conjunction with the work undertaken by Internal Audit. The external auditors attend the Audit and Transparency Committee to present the *Audit Plan*, report on the *Statement of Accounts* and provide an *Annual Report to those Charged with Governance*.

Following the winding up of the Standards Committee and Audit Committees on 30 June 2012, the Administration Committee is responsible for advising the Council on the adoption and revision of the Members’ Code of Conduct. Complaints alleging a breach of the Members’ Code of Conduct, which have been investigated in accordance with the Council’s arrangements for dealing with such complaints, are considered by the Audit and Transparency

Committee. The Audit and Transparency Committee reports annually to full Council on the discharge of its functions during the year.

In 2012-13 there were no complaints made to the Monitoring Officer alleging a breach of the Members' Code of Conduct before and after 1 July 2012.

(v) Summary and conclusion

a) The Head of Internal Audit and Risk Management has issued an opinion, based on the work of Internal Audit and other sources of assurance, that:

- The Council has a robust system of internal control.
- Satisfactory corporate governance arrangements are in place.
- Risk management arrangements are adequate and although compliant with best practice there is scope to improve.

b) The following significant control issues were identified by Internal Audit during its review of governance arrangement for 2012-13. An action plan to address these issues has been agreed.

- Service Delivery Plans were not consistently produced by all service groups during 2012-13. Where plans were produced, these were not in a consistent format and in some areas Service Delivery Plans were not produced during 2012-13.
- A tri-borough *Risk Management Policy and Strategy* has been agreed. However, formal ratification of the documents remains outstanding. Risks are managed and reported on both a departmental and project management level. However further work is required to fully embed the tri-borough strategy.
- The major reorganisation of public services (notably those of the Council and the National Health Service and, latterly, MPS services with London Fire Brigade reorganisation currently underway) has meant that in 2012-13, it was not possible to marshal in one place a set of performance targets addressing the priorities identified in the Community Strategy. Progress against the aims of the Strategy was therefore not formally monitored. It is not certain whether this will be possible in 2013-14 because the major changes to Police and health services (including the transfer of public health responsibilities to local government, the assumption of health commissioning responsibilities by clinical commissioning groups and the establishment of statutory health and well-being boards) took effect only on 1 April 2013. It will take some time for strategic priorities and the associated targets to emerge from this new organisational landscape.

c) No material issues were raised by the Audit Commission in respect of the 2011-12 Financial Statements.

There are no significant governance issues that need to be addressed urgently.

Signed:

....

Leader of the Council **Joint Chief Executive**

On behalf of the Royal Borough of Kensington and Chelsea

ANNEX

Corporate Governance Framework

Corporate Governance comprises the systems and processes, cultures and values, by which the council is directed and controlled and through which we account to, engage with and where appropriate, lead the community

1. Focus on purpose of the authority, vision for local area and outcomes for the community	2. Members and officers working together to achieve a common purpose	3. Promoting values and upholding high standards of conduct and behaviour
4. Taking informed and transparent decisions, scrutinised and risk managed	5. Developing capacity of Members and Officers to be effective	6. Engaging with local people to ensure public accountability

[A] Key Documents: Regular/Annual Review or Production

- Community Strategy
- Medium Term Financial Strategy
- The Cabinet's Budget Proposals
- Management Board Collective Key Tasks
- Service Delivery Plans
- Statement of Accounts
- Internal/External Audit Protocol
- Performance Digest of KPIs
- Report to Taxpayers
- Vital Signs (performance indicators)
- Vital Improvements (programmes and projects)
- Vital Finances (statistics)
- Vital Messages (consultation)
- Corporate Risk Register
- Budget Leaflet
- Borough Newsletter
- External Audit Report to those charged with Governance
- External Audit Letter
- Budget Monitoring Reports
- Management Assurance Statements
- Annual Reports on Scrutiny, Standards and Internal Audit

[B] Key Documents: Ad hoc Review or Production

- Constitution including Standing Orders
- Communications Strategy
- Consultation Guidelines
- Customer Service Strategy and Standards
- Equal Opportunities Policy
- Scheme of Delegation
- Financial Procedure Rules
- Procurement Policy and Strategy
- Procurement Procedure Rules
- Freedom of Information Publication Scheme
- Workforce Strategy
- Health Safety, Welfare and Employment Policies
- Environmental Strategy
- Data Quality Framework
- Data Security Policy
- IS/IT Strategy
- Protocol – Member/Officer Relations
- Members Code of Conduct
- Officers Code of Conduct
- Whistleblowing Policy
- Partnership Working Guidelines
- Risk Management Policy Statement
- Published Agendas, Reports and Minutes of Committees

[c] Contributory Processes / Regulatory Monitoring

- Audit and Transparency Committee
- Administration Committee
- Scrutiny Committees and Scrutiny Managers
- Independent Remuneration Panel for Members Allowances
- Corporate Risk Management Group
- Management Board
- Monitoring Officer appointed
- S.151 Officer Appointed
- Head of Paid Service appointed
- Customer Complaints / Feedback Process
- Procurement Programme Board
- Community Safety Programme Board
- Resident's Panel – consultation
- Budget Consultation
- Kensington and Chelsea Partnership Steering Group
- Job Descriptions and Person Specifications
- Job Evaluation Process

- Employee Induction
- Employee Surveys
- Learning and Development Programme – Employees/Members
- Employee Personal Development Framework
- Personal Development Plans
- Criminal Conviction Checks
- Inspectorate Reports
- Health and Safety Officers
- Website Publication
- Internal Audit and Corporate Investigations Group
- Fraud Awareness Training
- External Audit
- Gift and Hospitality Registers for Employees and Members
- Members Register of Interests
- Annual Review of Internal Audit, Risk Management and Governance Arrangements
- Peer Reviews
- Credit Rating

GLOSSARY OF TERMS

Balance Sheet	This is a ‘snapshot’ of the Council’s assets, liabilities and reserves on 31 March 2013. The reserves are always equal to the Council’s assets less the Council’s liabilities. Assets represent everything owned by the Council and money owed to it. Liabilities are the sums that the Council owes to others.
Budget	A forecast of the Council’s planned expenditure; the level of the council tax is set by reference to detailed revenue budgets. Budgets are reviewed during the course of the financial year to take account of pay and price changes and other factors affecting the level or cost of services.
Cabinet	The Cabinet is the executive body responsible for undertaking all of the Council’s functions except those functions that are reserved to the full Council or delegated to committees or officers. When the executive meets collectively, it is known as the ‘Cabinet’. Individual councillors that are members of the executive are known as ‘Cabinet Members’.
Capital Adjustment Account	An account recording financing transactions relating to capital expenditure. This account is not available for general use to fund capital expenditure.
Capital Expenditure	Spending on the acquisition or enhancement of fixed (non-current) assets or advances and loans to other individuals or organisations.
Capital Receipts	Income received from the sale of fixed assets or repayment of capital advances.
CIPFA	Chartered Institute of Public Finance and Accountancy.
Collection Fund	A statutory account into which Council Tax and National Non-Domestic Rates are paid and from which amounts are paid to the Council and the precepting body, the Greater London Authority.
Community Assets	A class of fixed (non-current) assets that are expected to be held by the Council in perpetuity to deliver services. Examples include parks.
Depreciation	A measure of the consumption or wearing out of a fixed (non-current) asset over its useful economic life.

Fixed or 'Non-current' Assets	Assets that provide benefit to the Council and its services for a period in excess of one year.
Formula Grant	Government subsidy to local authorities comprising two elements: Revenue Support Grant and redistributed National Non-Domestic Rates.
IAS19 Employment Benefits (Formerly FRS17)	This International Accounting Standard is based on the principle that an organisation should account for retirement benefits when it is committed to give them, even if the actual payments will be made many years into the future.
General Fund	The primary revenue account, which records the cost of providing the majority of the Council's services.
Heritage Asset	An asset with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture.
Housing Revenue Account (HRA)	A statutory account recording the income and expenditure relating to the Council's provision of social housing.
Infrastructure	A class of fixed (non-current) assets that includes bridges, roads and highway works. Infrastructure assets are not normally saleable.
Intangible Assets	A class of non-financial fixed (non-current) assets that do not have any physical substance, but are identifiable and are controlled by the Council, for example purchased software licences.
LASAAC	Local Authority (Scotland) Accounts Advisory Committee.
London Residuary Body (LRB)	The authority to which functions were transferred from the Greater London Council and the Inner London Education Authority. Residual functions for inner-London, including education awards, were subsequently transferred to the Council on behalf of London's local authorities.
LPFA	London Pensions Fund Authority.
Major Repairs Allowance (MRA)	The Major Repairs Allowance is an element of Government subsidy payable to the Housing Revenue Account. It represents the capital cost of keeping the housing stock in its current condition. Unused Majors Repairs Allowance is held in the Major Repairs Reserve (MRR) until required.
Management Board	The Council's senior management team.

Minimum Revenue Provision (MRP)	The amount defined by statutory regulation that must be set aside to provide for the redemption of debt.
Monitoring Officer	A role, carried out by the Chief Solicitor, to report to the Council on any potential illegality, misadministration or injustice that may come to his or her attention.
National Non Domestic Rates (NNDR)	The form of local taxation charged on non-residential premises at a level set by the Government. Rates are collected and paid into a central pool administered by the Government. The total collected is then redistributed to local authorities on the basis of population.
Precept	The charge made by another public authority on the Council to finance its net expenditure. The Council currently has one precepting authority, the Greater London Authority (GLA).
Public Works Loan Board (PWLB)	Government agency responsible for the financing of a large proportion of local authority borrowing.
Related Parties	Related parties are those individuals and entities that the Council either has the ability to influence, or to be influenced by. Related parties include the Government, subsidiary and associated companies, the Pension Fund, Councillors and senior officers.
Reserves (Unusable)	Unusable reserves are reserves that in simple terms balance the Council's Balance Sheet and cannot be released to spend on services. For example, the Revaluation Reserve records the effect of revaluing fixed assets and is not available for general use in the financing of capital expenditure. Full details are set out in Note 23 Unusable Reserves.
Reserves (Usable)	Usable reserves are those reserves that can be released to spend on services or added to for future spending on services. Details of these are set out in Note 8 Transfers to and from Earmarked Reserves and Usable Reserves. The Council has a detailed reserves policy as set out in its published revenue budget book which can be found at: http://www.rbkc.gov.uk/councilanddemocracy/howthecouncilmanagesmoney.aspx.

The Council holds material earmarked reserves for the following purposes:

General Fund Earmarked Reserves

Better City Life - Provides resources for new policy priorities.

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

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

Car Parking – Holds the surpluses from on-street parking places and contraventions and is controlled by the provisions of Section 55 of the Road Traffic Regulation Act 1984 (as amended) including the application of any surplus income held in such an account.

Community Safety – to fund community safety initiatives within the Council.

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

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

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

Exhibition Road Local Initiatives – Earmarking income for Exhibition Road.

Excellence All Round – Funds initiatives to improve services.

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

Insurance – Earmarked insurance fund to cover future insurance liabilities.

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

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

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

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

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

Risk Management – Provides pump-priming for risk management initiatives.

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

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

Specific Grant Loss – Provides resources to help cushion against adverse changes in specific grant regimes where there are unavoidable financial commitments.

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

Street Trading - Surplus or deficit from street trading (permanent and temporary street trading site lettings). A legislation requirement.

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

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

Voluntary Sector Fund - A fund to: support the voluntary sector to deliver new types of services that have the potential to become self-funding in the medium term after a period of start-up public funding; assist the voluntary sector to provide services to new beneficiaries to meet an identified need; and support voluntary sector organisations that have not hitherto delivered services within the Royal Borough or received Council funding.

Housing Revenue Account Earmarked Reserves:

Controlled Repairs – Provides resources for TMO repair projects.

Lancaster West Estate Management Board – Holds unspent grant that is earmarked for the Lancaster West Estate Management Board under the terms of its management agreement with the Council.

Revenue Expenditure	Day-to-day expenditure incurred in the provision of services including salaries, goods and services.
REFCUS	Revenue Expenditure Funded from Capital Under Statute.
Section 151 Officer	A term used to describe the chief financial officer, whose responsibilities are set out in the *Statement of Responsibilities for the Statement of Accounts*. The Council's chief financial officer is the Town Clerk and Executive Director of Finance.
SeRCOP	CIPFA's Service Reporting Code of Practice, which provides guidance on financial reporting to stakeholders and establishes 'proper practice' with regard to consistent financial reporting.
SOLACE	Society of Local Authority Chief Executives.
Tenant Management Organisation (TMO)	The Kensington and Chelsea Tenant Management Organisation Limited manages the Council's Housing Revenue Account dwelling stock on behalf of the Council.

Core Financial Statements 2012-13

THE ROYAL BOROUGH OF KENSINGTON AND CHELSEA

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

We have audited the financial statements of the Royal Borough of Kensington and Chelsea for the year ended 31 March 2013 on pages 33 to 150. 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 2012/13.

This report is made solely to the members of the Authority, as a body, in accordance with Part II of the Audit Commission Act 1998. Our audit work has been undertaken so that we might state to the members of the Authority, as a body, those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the members of the Authority, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Town Clerk and Executive Director of Finance and auditor

As explained more fully in the Statement of the Town Clerk and Executive Director of Finance's Responsibilities, the Town Clerk and Executive Director of Finance is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Authority's and the Pension Fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Town Clerk and Executive Director of Finance; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Foreword to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2013 and of the Authority's expenditure and income for the year then ended;

- give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2013 and the amount and disposition of the fund's assets and liabilities as at 31 March 2013, and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

Matters on which we are required to report by exception

The Code of Audit Practice 2010 for Local Government Bodies requires us to report to you if:

- the annual governance statement set out on pages 9 to 20 does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007; or
- the information given in the Foreword for the financial year for which the financial statements are prepared is not consistent with the financial statements; or
- any matters have been reported in the public interest under section 8 of Audit Commission Act 1998 in the course of, or at the conclusion of, the audit; or
- any recommendations have been made under section 11 of the Audit Commission Act 1998; or
- any other special powers of the auditor have been exercised under the Audit Commission Act 1998.

We have nothing to report in respect of these matters.

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

Authority's responsibilities

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

Auditor's responsibilities

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

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

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

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in November 2012, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2013.

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

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in November 2012, we are satisfied that, in all significant respects, the Royal Borough of Kensington and Chelsea put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2013.

Certificate

We certify that we have completed the audit of the financial statements of the Royal Borough of Kensington and Chelsea in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice 2010 for Local Government Bodies issued by the Audit Commission.

Michael McDonagh
for and on behalf of KPMG LLP, Appointed Auditor

Chartered Accountants

15 Canada Square
Canary Wharf
London
E14 5GL

30 September 2013

Movement in Reserves Statement

	Notes	General Fund £'000	Earmarked Reserves £'000	Housing Revenue Account £'000	Other Usable Reserves £'000	Major Repairs Reserve £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000	Total Usable Reserves £'000	Total Unusable Reserves £'000	Total Council Reserves £'000
		Revenue Reserves				Capital Reserves					
Balance at 31 March 2011		**10,000**	**163,422**	**11,821**	**12,187**	**3,294**	**4,186**	**1,118**	**206,028**	**1,102,732**	**1,308,760**
Movement in reserves during 2011-12											
Surplus / (deficit) on provision of services		(16,573)	-	(30,793)	(128)	-	-	-	(47,493)	-	(47,493)
Other Comprehensive Expenditure and Income		-	-	-	-	-	-	-	-	(105,703)	(105,703)
Total Comprehensive Expenditure and Income		**(16,573)**	**-**	**(30,793)**	**(128)**	**-**	**-**	**-**	**(47,493)**	**(105,703)**	**(153,196)**
Adjustments between accounting basis and funding basis under regulations	7a/b	29,843	-	32,528	-	(1,242)	787	3,433	65,349	(65,349)	-
Net increase / decrease before transfers to Earmarked Reserves		**13,271**		**1,735**	**(128)**	**(1,242)**	**787**	**3,433**	**17,856**	**(171,052)**	**(153,196)**
Transfers to / from Earmarked Reserves		(13,271)	11,597	(93)	1,521	-	13	-	(233)	233	-
Increase / (decrease) in 2011-12	**8**	**-**	**11,597**	**1,642**	**1,393**	**(1,242)**	**799**	**3,433**	**17,623**	**(170,819)**	**(153,196)**
Balance at 31 March 2012		**10,000**	**175,019**	**13,463**	**13,580**	**2,051**	**4,985**	**4,552**	**223,651**	**931,913**	**1,155,564**
Movement in reserves during 2012-13											
Surplus / (deficit) on provision of services		(57,937)	-	(3,191)	118	-	-	-	(61,010)	-	(61,010)
Other Comprehensive Expenditure and Income		-	-	-	-	-	-	-	-	59,908	59,908
Total Comprehensive Expenditure and Income		**(57,937)**	**-**	**(3,191)**	**118**	**-**	**-**	**-**	**(61,010)**	**59,908**	**(1,102)**
Adjustments between accounting basis and funding basis under regulations	7a/b	67,094	-	5,848	-	(1,349)	5,436	1,910	78,939	(78,939)	-
Net increase / decrease before transfers to Earmarked Reserves		**9,157**	**-**	**2,657**	**118**	**(1,349)**	**5,436**	**1,910**	**17,929**	**(19,031)**	**(1,102)**
Transfers to / from Earmarked Reserves		(9,157)	9,327	(59)	(356)	-	6	-	(239)	239	-
Increase / (decrease) in 2012-13	8	**-**	**9,327**	**2,598**	**(238)**	**(1,349)**	**5,442**	**1,910**	**17,690**	**(18,792)**	**(1,102)**
Balance at 31 March 2013		**10,000**	**184,346**	**16,061**	**13,342**	**702**	**10,427**	**6,462**	**241,341**	**913,121**	**1,154,462**

Comprehensive Income and Expenditure Statement

	Year Ended 31 March 2013			Year Ended 31 March 2012			
	Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000	Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000	Notes
Central services to the public	11,488	(4,369)	7,119	13,900	(2,632)	11,268	
Cultural and related services	24,606	(5,941)	18,665	23,435	(5,496)	17,939	
Environment and regulatory services	37,871	(8,516)	29,355	46,884	(8,367)	38,517	
Planning services	11,118	(4,326)	6,792	11,651	(4,990)	6,661	
Education and children's services*	235,149	(120,227)	114,922	161,576	(114,199)	47,377	
Highways and transport services	41,971	(49,428)	(7,457)	42,452	(47,634)	(5,182)	
Local authority housing – settlement payment to Government for HRA self financing	-	-	-	24,960	-	24,960	
Local authority housing – other	43,104	(49,548)	(6,444)	45,459	(47,377)	(1,918)	
Other housing services	198,873	(183,341)	15,532	205,709	(189,031)	16,678	
Adult social care	65,797	(23,600)	42,197	67,349	(21,885)	45,464	
Corporate and democratic core	8,769	(1,470)	7,299	9,170	(723)	8,447	
Non distributed costs – past service pension costs	-	-	-	-	-	-	
Non distributed costs – other	16,726	(2,138)	14,588	6,860	(673)	6,187	
Cost of services	**695,472**	**(452,904)**	**242,568**	**659,405**	**(443,007)**	**216,398**	27b
Other Operating Expenditure	1,347	-	1,347	5,756	-	5,756	9
Financing and Investment Income and Expenditure	52,633	(48,581)	4,052	63,948	(40,336)	23,612	10
Taxation and Non-Specific Grant Income	-	(186,839)	(186,839)	-	(198,399)	(198,399)	11
Net (Surplus) / Deficit on Provision of Services			**61,128**			**47,366**	27b
(Surplus) or deficit on revaluation of non-current assets			(34,472)			2,116	23b
(Surplus) or deficit on revaluation of available for sale financial assets			107			(708)	
Actuarial (gains) / losses on pension assets/liabilities			(25,543)			104,350	41
Any other (gains) / losses required to be included			(118)			72	
Other Comprehensive Income and Expenditure			**(60,026)**			**105,830**	
Total Comprehensive Income and Expenditure			**1,102**			**153,196**	

* The 2012-13 gross expenditure in education and children's services includes a £70.6 million impairment of Holland Park School

Balance Sheet

	31 March '13 £'000	31 March '12 £'000	Notes
Long-term Assets			
Property, Plant and Equipment	1,188,583	1,212,208	12a
Heritage Assets	44,489	43,124	13
Investment Property	139,114	131,514	14
Intangible Assets	3,138	2,779	15
Assets Held for Sale	-	-	19
Long Term Investments	23	23	16a
Long Term Debtors	93,562	90,889	17b
Total Long Term Assets	**1,468,909**	**1,480,538**	
Current Assets			
Short Term Investments	155,504	152,357	16a
Assets Held for Sale	4,803	8,074	19
Inventories	206	222	
Short Term Debtors	39,486	37,321	17a
Cash and Cash Equivalents	20,846	19,400	18
Total Current Assets	**220,845**	**217,374**	
Current Liabilities			
Short Term Borrowing	8,658	8,664	16a
Short Term Creditors	105,257	87,469	20
Provisions	2,154	1,986	21
Total Current Liabilities	**116,069**	**98,119**	
Long-term Liabilities			
Long Term Creditors	-	-	
Provisions	2,997	3,073	21
Long Term Borrowing	157,740	163,971	16a
Other Long Term Liabilities	241,435	263,676	46
Donated Assets Account	-	-	
Capital Grants Receipts in Advance	17,051	13,509	34c
Total Long Term Liabilities	**419,223**	**444,229**	
Net Assets	**1,154,462**	**1,155,564**	
RESERVES			
Usable Reserves	241,341	223,651	7/8
Unusable Reserves	913,121	931,913	7/23
Total Reserves	**1,154,462**	**1,155,564**	

Cash Flow Statement

	2012-13 £'000	2011-12 £'000	Notes
Net surplus / (deficit) on the provision of services	(61,128)	(47,366)	
London Residuary Body	118	(128)	
Net surplus / (deficit)	**(61,010)**	**(47,494)**	
Adjustments to net surplus or deficit on the provision of services for non-cash movements	118,421	95,750	
Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	(6,040)	(10,265)	
Net cash flows from Operating Activities	**51,371**	**37,991**	24
Investing Activities	(43,653)	(29,955)	25
Financing Activities	(6,273)	(12,200)	26
Net increase / (decrease) in cash and cash equivalents	**1,446**	**(4,164)**	
Net cash and cash equivalents at the beginning of the reporting period	19,400	23,564	
Net cash and cash equivalents at the end of the reporting period	**20,846**	**19,400**	18

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

Notes to the Core Financial Statements

1. Accounting Policies

i. General Principles

The Statement of Accounts summarises the Council's financial transactions for the 2012-13 financial year and its financial position at 31 March 2013. The Council is required to prepare an annual Statement of Accounts by the *Accounts and Audit Regulations 2011* in accordance with proper accounting practices. Proper practices primarily comprise the Code *of Practice on Local Authority Accounting in the United Kingdom 2012/13* (the Code) and the *Service Reporting Code of Practice 2012/13 (SeRCOP)*, supported by International Financial Reporting Standards (IFRS).

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

ii. Revenue Recognition

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

- Revenue from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that the economic benefits or service potential associated with the transaction will flow to the Council.

- Revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.

- Supplies are recorded as expenditure when they are consumed. Where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.

- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.

- Interest receivable on investments and payable on borrowings is accounted for as income and expenditure respectively, based on the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.

- Where revenue or expenditure has been recognised, but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

iii. Exceptional Items

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

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

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

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

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

v. Events after the Balance Sheet Date

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

- **Adjusting Events**: those that provide evidence of conditions that existed at the end of the reporting period; the Statement of Accounts is adjusted to reflect such events.

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

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

vi. VAT

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

vii. Overheads and Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Service Reporting Code of Practice 2012-13 (SeRCOP). The total absorption costing principle is used: the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- **Corporate and Democratic Core**: costs relating to the Council's status as a multi-functional, democratic organisation.

- **Non-Distributed Costs**: the cost of discretionary benefits awarded to employees retiring early and impairment losses chargeable on Assets Held for Sale.

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

viii. Inventories and Long Term Contracts

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

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

ix. Reserves

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

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

x. Government Grants and Contributions

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

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

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that must be met by the recipient as specified or the grant must be repaid.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (non-ringfenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

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

xi. Property, Plant and Equipment

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

Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable the future economic benefits or service potential associated with the item will flow to the Council and that the cost of the item can be measured reliably. Expenditure that maintains, but does not add to an asset's potential to deliver future economic benefits or service potential i.e. repairs and maintenance, is charged as an expense when it is incurred.

Measurement

Assets are initially measured at cost, comprising:

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

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

The cost of assets acquired other than by purchase is deemed to be its fair value, unless the acquisition does not have commercial substance. Where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the Council.

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

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

- **Infrastructure**: depreciated historic cost.

- **Dwellings**: fair value, determined using the basis of existing use value for social housing (EUV-SH).

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

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

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

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

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

Impairment

The balance sheet values of assets are assessed at year-end to determine if there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

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

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

Depreciation

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

Depreciation is calculated on the following bases:

- **Dwellings**: dwellings are depreciated on a straight-line basis over the estimated useful life of the property.

- **Other land and buildings**: buildings are depreciated on a straight-line basis over the estimated useful life of the property.

- **Vehicles, plant, furniture and equipment**: straight-line over the anticipated useful life of the asset.

- **Infrastructure**: straight-line over the anticipated useful life of the asset.

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

- are worth at least 10 per cent of the total value of the asset (a de minimis threshold of £0.5 million for any individual component); and

- have a significantly shorter life, defined as less than two thirds of the current life of the whole asset.

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

Disposals and Non-current Assets Held for Sale

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

- The asset must be available for sale in its present condition subject to the terms that are usual and customary for the sale of such assets.

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

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

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

- its carrying amount before it was classified as held for sale, adjusted for depreciation, amortisation or revaluations that would have been recognised had the asset not been classified as Held for Sale; or

- the recoverable amount at the date of the decision not to sell the asset.

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

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

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. A proportion of receipts relating to housing disposals (75 per cent for dwellings, 50 per cent for land and other assets, net of statutory deductions and allowances) is payable to the Government. The balance of receipts is credited to the Capital Receipts Reserve and statutorily can then only be used for new capital investment or set aside to reduce the Council's debt or underlying need to borrow (the 'Capital Financing Requirement'). Receipts are appropriated to the reserve from the General Fund in the Movement in Reserves Statement.

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

xii. Charges to Revenue for Non-Current Assets

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

- **depreciation** attributable to the assets used by the relevant service;

- **revaluation and impairment** losses on assets used by the service in excess of any accumulated gains in the Revaluation Reserve against which the losses can be written off; and

- **amortisation** of intangible fixed assets attributable to the service.

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

xiii. Heritage Assets

The Council holds a range of heritage assets comprising the Council’s two museum buildings and land (Leighton House and 18 Stafford Terrace), the museum collections, the art in parks, local regalia and a local studies and archive collection held in Kensington Library.

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

Heritage assets are accounted for at current cost except “where it is not practical to obtain a valuation at a cost which is commensurate with the benefits to users of the financial statements” when “heritage assets shall be measured at historic cost” (paragraph 4.10.2.8 of the Accounting Code of Practice). Under the Code, “valuations may be made by any method that is appropriate and relevant. There is no requirement for valuations to be carried out or verified by external valuers nor is there any prescribed minimum period between revaluations” (paragraph 4.10.2.9 of the Code).

The heritage property assets (the museums) are valued and accounted for in accordance with the Council’s accounting policies on property i.e. fair value, determined as the amount that would be paid for the asset in its existing use (“Existing Use Value” or “EUV”). The museums are depreciated over the 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 collections and art are deemed to have indeterminate lives and high residual value. Hence the Council does not deem it appropriate to charge depreciation for these assets.

The local regalia and the local studies and archive collection are not disclosed on the balance sheet because the collections are of low balance sheet value due to individual items either: having nil or low market value; being worth less than the Council’s de minimis threshold of £10,000; or having no up-to-date valuation that is reliable. (FRS 30 does not require the Council to obtain valuations of heritage assets where none exists.)

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

xiv. Investment Property

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used for the delivery of services, the production of goods or is held for sale.

Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's-length. Properties are not depreciated, but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

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

xv. Intangible Assets

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

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

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

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

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

xvi. Financial Instruments

Financial Liabilities

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

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

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

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

Financial Assets

Financial assets are classified into two types:

- **Loans and receivables**: assets that have fixed or determinable payments, but are not quoted in an active market.

- **Available-for-sale assets**: assets that have a quoted market price and/or do not have fixed or determinable payments.

Loans and Receivables

Loans and receivables are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument classified as such. They are initially measured at fair value and are subsequently measured at amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the

Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

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

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

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

Available-for-Sale Assets

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

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

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

- **Other instruments with fixed and determinable payments**: discounted cash flow analysis.

- **Equity shares with no quoted market prices**: independent appraisal of company valuations.

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

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

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

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

xvii. Cash and Cash Equivalents

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

Cash equivalents are investments that, having originally been invested for no longer than three months, are repayable on demand or readily convertible to known amounts of cash with an insignificant risk of change in value. Fixed Deposits are not considered to be readily convertible since they are only repayable at the point of maturity and cannot be traded or redeemed without penalty.

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

xviii. Provisions, Contingent Liabilities and Contingent Assets

Provisions

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

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

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

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

Contingent Liabilities

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

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

Contingent Assets

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

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

xix. Revenue Expenditure Funded from Capital under Statute

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

xx. Leases

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

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

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

The Council as Lessee

Finance Leases

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

Lease payments are apportioned between:

- a charge for the acquisition of the interest in the property, plant or equipment, which writes down the lease liability; and

- a finance charge, which is debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

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

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

Operating Leases

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

The Council as Lessor

Finance Leases

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

Lease rentals receivable are apportioned between:

- a charge for the acquisition of the interest in the property: applied to write down the lease debtor together with any premiums received; and

- finance income: credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

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

The written-off value of disposals is not a charge against council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are therefore appropriated to the Capital Adjustment Account from the General Fund in the Movement in Reserves Statement.

Operating Leases

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

xxi. Employee Benefits

Benefits Payable During Employment

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

Termination Benefits

Termination benefits are amounts payable to an employee as a result of a decision by the Council to terminate his or her employment before the normal retirement date, or an employee's decision to accept voluntary redundancy. The benefits are charged on an accruals basis to the Comprehensive Income and Expenditure Statement when the employee is informed of his or her likely redundancy (known as 'redundancy advice') i.e. when the Council is demonstrably committed to termination of employment.

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

Post Employment Benefits

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

- The Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education (DfE).

- The Local Government Pension Scheme (LGPS), which for the majority of staff is administered by the Council and for a relatively small number, by the London Pension Fund Authority.

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

The Local Government Pension Scheme

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

Liabilities are discounted to their value at current prices, using a discount rate determined by the actuary that is based on the indicative rate of return on high quality corporate bonds: the iBoxx 'AA' rated, over 15-year corporate bond index.

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

- **Quoted securities**: current bid price.

- **Unquoted securities**: professional estimate.

- **Unitised securities**: current bid price.

- **Property**: market value.

The change in the net pensions liability is analysed into seven components:

- **Current service cost**: the increase in liabilities as a result of years earned in the financial year, allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked.

- **Past service cost**: the increase in liabilities arising from fund performance relating to years of service earned in earlier years; debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non-Distributed Costs.

- **Interest cost**: the expected increase in the present value of liabilities during the year as they move one year closer to being paid; debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

- **Expected return on assets**: the annual investment return on the fund assets attributable to the Council, based on an average of the expected long-term return; credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

- **Gains or losses on settlements and curtailments**: the result of actions to relieve the Council of liabilities or events that reduce the expected future service or accrual of benefits of employees; debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs.

- **Actuarial gains and losses**: changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions; debited to the Pensions Reserve.

- **Contributions paid to the Kensington and Chelsea Pension Fund**: cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

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

Discretionary Benefits

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

xxii. Collection Fund

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

xxiii. Carbon Reduction Commitment Allowances

The Council is required to participate in the Carbon Reduction Commitment (CRC) Energy Efficiency Scheme. This scheme is currently in its introductory phase which will last until 31 March 2014. The Council is required to purchase and surrender allowances (currently retrospectively) on the basis of emissions i.e. the amount of carbon dioxide produced as energy is used. As carbon dioxide is emitted, a liability and an expense are recognised. The liability will be discharged by surrendering allowances and is measured at the best estimate of the expenditure required to meet the obligation, normally at the current market price of the number of allowances required to meet the liability at the reporting date. The cost to the Council is recognised and reported in the cost of services and is apportioned to services on the basis of energy consumption.

2. Accounting Standards Issued Not Yet Adopted

The International Accounting Standards Board (IASB) has issued a number of revised accounting standards, which have not yet been adopted by either the Code or the Council that apply to the Council for the financial year 2012-13. These are:

- IAS19 Employee Benefits (June 2011 Amendments)
- IAS1 Presentation of Financial Statements – Other Comprehensive Income (June 2011 Amendments)
- IFRS7 Financial Instruments Disclosures – Offsetting Financial Assets and Liabilities (December 2011 Amendments)
- IAS12 Deferred Tax: Recovery of Underlying Assets (December 2010 Amendments).

None of these affects the Council's accounting policies, the financial position of the Council or the disclosures required in this Statement of Accounts.

3. Critical Judgements in Applying Accounting Policies

In applying the accounting policies set out on Note 1, the Council has had to make certain judgements about future events. The critical judgements made in the accounts are:

- There is a high degree of uncertainty concerning future levels of funding for local government. The Council believes that this uncertainty is neither sufficient nor significant enough in its likely impact to warrant impairment of assets due to reduced levels of service provision or a need to close facilities. Furthermore, property prices in the Royal Borough are such that any asset the Council deems surplus is unlikely to be disposed of for less than its current fair value.

- The Council is entering into joint working arrangements with its neighbouring local authorities, the City of Westminster and the London Borough of Hammersmith & Fulham. These arrangements are currently referred to as 'tri- or bi- borough working'. The proposals have not reduced the level of service provided by the Council and plans to align systems are underway. Therefore, the Council believes that it is not necessary to impair any non-current asset in light of tri-borough and bi-borough working.

- The Council is required to take a view on which school assets are recognised on the Council's balance sheet. The Council has recognised Community schools. The Council has not recognised Voluntary Aided, Free, or Academy Schools as it is of the view that these school assets are - to varying degree - beyond the control of the Authority.

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

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

The items in the Council's Balance Sheet at 31 March 2013 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Non-current Assets	Asset valuations are based on market prices and are periodically reviewed to ensure that the Council does not materially misstate its non-current assets and investment properties. During the past financial year property values in the Royal Borough have increased, but the number and relevance of asset sales against which the Council could judge the fair value of its property assets was low. Therefore, the Council's external valuers provided valuations as at 31 March that saw an increase in the value of the Council's property portfolio, but were prudent and reflected their best estimates of fair value. Should evidence emerge in 2013-14 that causes the Council to amend these estimates, the estimated fair value of its property and dwellings could change.	A reduction in estimated valuations would result in reductions to the Revaluation Reserve and / or a loss recorded as appropriate in the Comprehensive Income and Expenditure Statement. For example, a 10 per cent reduction in the value of the Council's investment properties would result in a £13.9 million charge to the Comprehensive Income and Expenditure Statement. Conversely, an increase in value would result in increases to the Revaluation Reserve and / or reversals of previous negative revaluations to the Comprehensive Income and Expenditure Statement and / or gains being recorded as appropriate in the Comprehensive Income and Expenditure Statement. Depreciation charges for operational buildings will change in direct proportion to the change in estimated fair value. The net book value of non-current assets subject to potential revaluation is over £1.3 billion.
Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex estimates including the discount rate used, the rate at which salaries are projected to increase, changes in retirement age, mortality rates and expected returns on pension fund assets. Consulting actuaries provide advice concerning these estimates.	The effect of changes in these estimates on the net pension liability of the Council can be measured, but are complex and interact in a complex manner. The Council is reliant on the advice of its actuaries regarding estimates and the calculations of their effects. For example, changes in estimates, such as the measure of inflation and rate of inflation, could either reduce or increase the net pensions liability.

5. Material Items of Income and Expense

The rebuilt Holland Park School has been completed and opened in 2012. The Council's external valuers, Deloitte Real Estate, have calculated a valuation for the school based on the cost to the Council of replacing that service potential should it wish to do so. Deloitte Real Estate has assumed that a replacement would be built at a lower cost than that of Holland Park School because the Council might not seek to replicate the high quality of the new building's design and materials. In addition, the school is becoming an Academy in September 2013. In line with the Council's existing accounting policy, the building has been impaired to reflect that the Council will benefit from only a further five months use of the school (April to August 2013).

The Council has debited an impairment of £70.6 million to the Surplus or Deficit on the Provision of Services under the schools element of Children's and Education Services.

6. Events after the Balance Sheet Date

The Business Rates Retention scheme was introduced on 1 April 2013. The Council has a share in the risks associated with income from National Non Domestic Rates (NNDR) rather than simply acting in an agency capacity for the Department of Communities and Local Government. Under the scheme the Council has a share of the financial liability for any refunds relating to back-dated appeals. As set out in CIPFA Guidance (LAAP Bulletin 96) this liability is required to be recognised as a non-adjusting post Balance Sheet event in the 2012-13 accounts providing it is material.

The Council’s 2013-14 budget forecast estimate of losses on appeal is currently £23 million (8 per cent of the 2013-14 forecast NNDR collectable locally of £285 million) of which the Council’s share is 30 per cent or £7 million. This forecast was included in the January 2013 NNDR1 return to central government and used to set the 2013-14 budget and Council Tax.

Please note that there is a safety net in operation and the Council’s maximum financial risk for 2013-14 - under the new funding regime - is a funding loss of £3.5 million.

7. Adjustments between Accounting Basis and Funding Basis under Regulations

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

Movement on Usable Reserves 2012-13	General Fund Balance £'000	Earmarked Reserves £'000	Housing Revenue Account £'000	Major Repairs Reserve £'000	Capital Receipts Reserves £'000	Capital Grants Unapplied £'000	Schools Reserves £'000	London Residuary Body £'000	Total Usable Reserves £'000
Balance at 1 April 2012	**10,000**	**175,019**	**13,463**	**2,051**	**4,985**	**4,552**	**9,409**	**4,171**	**223,651**
Surplus or (deficit) on provision of services	(57,937)	-	(3,191)	-	-	-	-	118	**(61,010)**
Other comprehensive expenditure and income	-	-	-	-	-	-	-	-	-
Total Comprehensive Expenditure and Income	**(57,937)**	**-**	**(3,191)**	**-**	**-**	**-**	**-**	**118**	**(61,010)**
Adjustments between accounting basis and funding basis under regulations									
Reversal of items debited or credited to the CIES									
Depreciation of tangible non current assets (excluding HRA depreciation)	13,390	-	-	-	-	-	-	-	**13,390**
Amortisation of intangible non current assets (excluding HRA amortisation)	581	-	-	-	-	-	-	-	**581**
HRA depreciation / amortisation	-	-	2,901	-	-	-	-	-	**2,901**
Local authority housing: settlement payment to the Government for HRA self-financing	-	-	-	-	-	-	-	-	**-**
Impairment / revaluation losses (charged to the CIES)	81,978	-	9,629	-	-	-	-	-	**91,607**
Capital grants and contributions applied	(3,392)	-	-	-	-	-	-	-	**(3,392)**
Revenue Expenditure Funded from Capital Under Statute (England and Wales)	2,156	-	570	-	-	-	-	-	**2,726**
Movement in the market value of investment property	(7,714)	-	-	-	-	-	-	-	**(7,714)**
Amounts of non current assets written off on disposal or sale as part of the gain / loss on disposal to the CIES	4,494	-	-	-	-	-	-	-	**4,494**
Capital grants and contributions unapplied credited to the CIES	(2,649)	-	-	-	-	2,649	-	-	**-**
Transfer of sale proceeds credited as part of the gain / loss on disposal to the CIES	(6,999)	-	-	-	6,999	-	-	-	**-**
Use of capital grants to finance capital expenditure	-	-	-	-	-	(739)	-	-	**(739)**
Use of capital receipts reserve to finance capital expenditure	-	-	-	-	(949)	-	-	-	**(949)**
Reversal of items relating to retirement benefits debited or credited to the CIES	29,103	-	-	-	-	-	-	-	**29,103**
Amount by which council tax income and residual community charge adjustment included in the CIES is different from the amount taken to the General Fund in accordance with regulations	20	-	-	-	-	-	-	-	**20**
Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	111	-	-	-	-	-	-	-	**111**
Amount by which finance costs calculated in accordance with the Code are different from the amount of finance costs calculated in accordance with statutory requirements	(56)	-	-	-	-	-	-	-	**(56)**
Insertion of items not debited or credited to the CIES									
Statutory provision for the repayment of debt - (Minimum Revenue Provision)	(1,070)	-	-	-	-	-	-	-	**(1,070)**
Statutory repayment of debt (finance lease liabilities)	(35)	-	-	-	-	-	-	-	**(35)**
Voluntary provision above MRP	(298)	-	-	-	-	-	-	-	**(298)**
Contribution to disposal costs of capital sales	330	-	-	-	(330)	-	-	-	**-**
HRA capital receipts to housing central pool	284	-	-	-	(284)	-	-	-	**-**
Revenue contribution to finance capital	(17,622)	-	(50)	-	-	-	-	-	**(17,671)**
Employers' contributions to pension schemes	(25,521)	-	-	-	-	-	-	-	**(25,521)**
Reversal of Major Repairs Allowance credited to the HRA	-	-	(7,202)	7,202	-	-	-	-	**-**
Use of the Major Repairs Reserve to finance new capital expenditure	-	-	-	(8,551)	-	-	-	-	**(8,551)**
Total adjustment between accounting basis and funding basis under regulations	**67,094**	**-**	**5,848**	**(1,349)**	**5,436**	**1,910**	**-**	**-**	**78,939**
Net increase / decrease before transfers to earmarked reserves	**9,157**	**-**	**2,657**	**(1,349)**	**5,436**	**1,910**	**-**	**118**	**17,929**
Transfers to / from earmarked reserves (see Note 8)	(9,157)	9,327	(59)	-	6	-	(356)	-	**(239)**
Increase / decrease (movement) in-year	**(0)**	**9,327**	**2,598**	**(1,349)**	**5,442**	**1,910**	**(356)**	**118**	**17,690**
Balance at 31 March 2013 carried forward	**10,000**	**184,346**	**16,061**	**702**	**10,427**	**6,462**	**9,052**	**4,289**	**241,341**

Movement on Usable Reserves 2011-12

	General Fund Balance £'000	Earmarked Reserves £'000	Housing Revenue Account £'000	Major Repairs Reserve £'000	Capital Receipts Reserves £'000	Capital Grants Unapplied £'000	Schools Reserves £'000	London Residuary Body £'000	Total Usable Reserves £'000
Balance at 01 April 2011	**10,000**	**163,422**	**11,821**	**3,293**	**4,186**	**1,118**	**7,888**	**4,299**	**206,028**
Surplus or (deficit) on provision of services	(16,573)	-	(30,793)	-	-	-	-	(128)	**(47,493)**
Other Comprehensive Expenditure and Income:	-	-	-	-	-	-	-	-	-
Total Comprehensive Expenditure and Income	**(16,573)**	**-**	**(30,793)**	**-**	**-**	**-**	**-**	**(128)**	**(47,493)**
Adjustments between accounting basis & funding basis under regulations									
Reversal of items debited or credited to CIES									
Depreciation of Tangible Fixed Assets (excl HRA depn)	9,593	-	-	-	-	-	-	-	**9,593**
Amortisation of Intangible Fixed Assets (excl HRA depn)	513	-	-	-	-	-	-	-	**513**
HRA Depreciation/amortisation	-	-	263	-	-	-	-	-	**263**
Local authority housing – settlement payment to Government for HRA self financing	-	-	24,960						**24,960**
Impairment/revaluation losses (charged to I&E)	25,970	-	7,355	-	-	-	-	-	**33,325**
Capital grant and contributions applied	(6,832)	-	-	-	-	-	-	-	**(6,832)**
Revenue Expenditure Funded from Capital under Statute (England and Wales)	2,075	-	-	-	-	-	-	-	**2,075**
Movement in market value of investment property	13,775	-	-	-	-	-	-	-	**13,775**
Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	4,177	-	-	-	-	-	-	-	**4,177**
Capital grant and contributions unapplied credited to I&E	(3,433)	-	-	-	-	3,433	-	-	**-**
Transfer of sale proceeds credited as part of the gain/loss on disposal to the CIES	(2,716)	-	-	-	2,716	-	-	-	**-**
Use of capital receipts reserve to finance capital expenditure	-	-	-	-	(914)	-	-	-	**(914)**
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	22,204	-	-	-	-	-	-	-	**22,204**
Amount by which council tax income and residual community charge adjustment included in the Comprehensive Income and Expenditure Statement is different from the amount taken to the General Fund in accordance with regulation	(184)	-	-	-	-	-	-	-	**(184)**
Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(273)	-	-	-	-	-	-	-	**(273)**
Soft loans adjustments	-	-	-	-	-	-	-	-	**-**
Insertion of items not debited or credited to CIES									
Statutory Provision for the repayment of debt - (Minimum revenue provision)	(1,107)	-	-	-	-	-	-	-	**(1,107)**
Statutory Repayment of Debt (Finance Lease Liabilities)	(102)	-	-	-	-	-	-	-	**(102)**
Voluntary provision above MRP	(291)	-	-	-	-	-	-	-	**(291)**
Contribution to disposal costs of capital sales	85	-	-	-	(85)	-	-	-	**-**
HRA capital receipts to housing central pool	930	-	-	-	(930)	-	-	-	**-**
Revenue contribution to finance capital	(17,439)	-	(50)	-	-	-	-	-	**(17,489)**
Employers contributions to pension schemes	(17,101)	-	-	-	-	-	-	-	**(17,101)**
Reversal of Major Repairs Allowance credited to the HRA	-	-	-	7,202	-	-	-	-	**7,202**
Use of the Major Repairs Reserve to finance new capital expenditure	-	-	-	(8,444)	-	-	-	-	**(8,444)**
TOTAL Adj between accounting basis & funding basis under regulations	**29,843**	**-**	**32,528**	**(1,242)**	**787**	**3,433**	**-**	**-**	**65,349**
Net Increase/Decrease before Transfers to Earmarked Reserves	**13,271**	**-**	**1,735**	**(1,242)**	**787**	**3,433**	**-**	**(128)**	**17,856**
Transfers to/from earmarked reserves (See Note 8)	(13,271)	11,597	(93)	-	13	-	1,521	-	**(233)**
Increase/Decrease (movement) in Year	**-**	**11,597**	**1,642**	**(1,242)**	**799**	**3,433**	**1,521**	**(128)**	**17,623**
Balance at 31 March 2012 carried forward	**10,000**	**175,019**	**13,463**	**2,051**	**4,985**	**4,552**	**9,409**	**4,171**	**223,651**

Movement in Unusable Reserves 2012-13	Revaluation Reserve £000	Pensions Reserve £000	CAA £000	Deferred Capital Receipts £000	FIAA £000	AFS FI Reserve £000	CFAA £000	STACA Reserve £000	Unusable Reserves £'000	Total Usable Reserves £'000	All Reserves £'000
Balance at 1 April 2012	**493,009**	**(263,203)**	**620,260**	**84,582**	**(910)**	**107**	**51**	**(1,984)**	**931,913**	**223,651**	**1,155,564**
Movement in reserves during 2012-13											
Surplus or (deficit) on provision of services	-	-	-	-	-	-	-	-	**-**	**(61,010)**	**(61,010)**
Revaluation gains and losses	45,604	-	-	-	-	-	-	-	**45,604**	**-**	**45,604**
Impairment losses (chargeable to the Revaluation Reserve)	(11,132)	-	-	-	-	-	-	-	**(11,132)**	**-**	**(11,132)**
Movement in Available for Sale Financial Instruments	-	-	-	-	-	(107)	-	-	**(107)**	**-**	**(107)**
Movement in the Pensions Reserve	-	25,543	-	-	-	-	-	-	**25,543**	**-**	**25,543**
Other comprehensive expenditure and income	-	-	-	-	-	-	-	-	**-**	**-**	**-**
Total Comprehensive Expenditure and Income	**34,472**	**25,543**	**-**	**-**	**-**	**(107)**	**-**	**-**	**59,908**	**(61,010)**	**(1,102)**
Adjustments between accounting basis and funding basis under regulations											
Reversal of items debited or credited to the CIES											
Depreciation of tangible non current assets (excluding HRA depreciation)	-	-	(13,390)	-	-	-	-	-	**(13,390)**	**13,390**	**-**
Amortisation of intangible non current assets (excluding HRA amortisation)	-	-	(581)	-	-	-	-	-	**(581)**	**581**	**-**
HRA depreciation / amortisation	-	-	(2,901)	-	-	-	-	-	**(2,901)**	**2,901**	**-**
Local authority housing: settlement payment to the Government for HRA self-financing	-	-	-	-	-	-	-	-	**-**	**-**	**-**
Impairment / revaluation losses (charged to the CIES)	-	-	(91,608)	-	-	-	-	-	**(91,608)**	**91,608**	**-**
Capital grants and contributions applied	-	-	3,392	-	-	-	-	-	**3,392**	**(3,392)**	**-**
Revenue Expenditure Funded from Capital Under Statute (England and Wales)	-	-	(2,726)	-	-	-	-	-	**(2,726)**	**2,726**	**-**
Movement in the market value of investment property	-	-	7,714	-	-	-	-	-	**7,714**	**(7,714)**	**-**
Amounts of non current assets written off on disposal or sale as part of the gain / loss on disposal to the CIES	-	-	(4,494)	-	-	-	-	-	**(4,494)**	**4,494**	**-**
Use of capital grants to finance capital expenditure	-	-	739	-	-	-	-	-	**739**	**(739)**	**-**
Use of capital receipts reserve to finance capital expenditure	-	-	949	-	-	-	-	-	**949**	**(949)**	**-**
Reversal of items relating to retirement benefits debited or credited to the CIES	-	(29,103)	-	-	-	-	-	-	**(29,103)**	**29,103**	**-**
Amount by which council tax income and residual community charge adjustment included in the CIES is different from the amount taken to the General Fund in accordance with regulations	-	-	-	-	-	-	(20)	-	**(20)**	**20**	**-**
Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	-	-	-	-	-	-	-	(111)	**(111)**	**111**	**-**
Amount by which finance costs calculated in accordance with the Code are different from the amount of finance costs calculated in accordance with statutory requirements	-	-	-	-	56	-	-	-	**56**	**(56)**	**-**
Insertion of items not debited or credited to the CIES											
Statutory provision for the repayment of debt - (Minimum Revenue Provision)	-	-	1,070	-	-	-	-	-	**1,070**	**(1,070)**	**-**
Statutory repayment of debt (finance lease liabilities)	-	-	35	-	-	-	-	-	**35**	**(35)**	**-**
Voluntary provision above MRP	-	-	298	-	-	-	-	-	**298**	**(298)**	**-**
Revenue contribution to finance capital	-	-	17,671	-	-	-	-	-	**17,671**	**(17,671)**	**-**
Employers' contributions to pension schemes	-	25,521	-	-	-	-	-	-	**25,521**	**(25,521)**	**-**
Reversal of Major Repairs Allowance credited to the HRA	-	-	-	-	-	-	-	-	**-**	**-**	**-**
Use of the Major Repairs Reserve to finance new capital expenditure	-	-	8,551	-	-	-	-	-	**8,551**	**(8,551)**	**-**
Adjustment between the CAA and Revaluation Reserve for the difference between current cost depreciation and historic cost depreciation	(2,841)	-	2,841	-	-	-	-	-	**-**	**-**	**-**
Adjustment between the CAA and Revaluation Reserve in respect of assets disposed of or scrapped	(3,519)	-	3,519	-	-	-	-	-	**-**	**-**	**-**
Total adjustment between accounting basis and funding basis under regulations	**(6,360)**	**(3,582)**	**(68,922)**	**-**	**56**	**-**	**(20)**	**(111)**	**(78,939)**	**78,939**	**-**
Net increase / decrease before transfers to earmarked reserves	**28,112**	**21,961**	**(68,922)**	**-**	**56**	**(107)**	**(20)**	**(111)**	**(19,031)**	**17,929**	**(1,102)**
Transfers to / from earmarked reserves (see Note 8)	**-**	**-**	**-**	**239**	**-**	**-**	**-**	**-**	**239**	**(239)**	**-**
Increase / decrease (movement) in-year	**28,112**	**21,961**	**(68,922)**	**239**	**56**	**(107)**	**(20)**	**(111)**	**(18,792)**	**17,690**	**(1,102)**
Balance at 31 March 2013 carried forward	**521,121**	**(241,242)**	**551,338**	**84,821**	**(854)**	**-**	**31**	**(2,095)**	**913,121**	**241,341**	**1,154,462**

Movement in Unusable Reserves 2011-12

	Revaluation Reserve	Pensions Reserve	CAA	Deferred Capital Receipts	FIAA	AFS FI Reserve	CFAA	STACA Reserve	Unusable Reserves	Total Usable Reserves	All Reserves
	£000	£000	£000	£000	£000	£000	£000	£000	£'000	£'000	£'000
Balance at 01 April 2011	**498,834**	**(153,750)**	**677,255**	**84,349**	**(966)**	**(601)**	**(133)**	**(2,257)**	**1,102,732**	**206,028**	**1,308,760**
Movement in reserves during 2010/11											
Surplus or (deficit) on provision of services	-	-	-	-	-	-	-	-	**-**	**(47,493)**	**(47,493)**
Revaluation gains	-	-	-	-	-	-	-	-	**-**	**-**	**-**
Revaluation losses (chargeable to revaluation reserve)	(2,116)	-	-	-	-	-	-	-	**(2,116)**	**-**	**(2,116)**
Movement in Available for Sale FI's	-	-	-	-	-	708	-	-	**708**	**-**	**708**
Movement in the pensions reserve	-	(104,350)	-	-	-	-	-	-	**(104,350)**	**-**	**(104,350)**
Other Comprehensive Expenditure and Income:	-	-	-	-	56	-	-	-	**56**	**-**	**56**
Total Comprehensive Expenditure and Income	**(2,116)**	**(104,350)**	**-**	**-**	**56**	**708**	**-**	**-**	**(105,703)**	**(47,494)**	**(153,196)**
Adjustments between accounting basis & funding basis under regulations											
Reversal of items debited or credited to CIES											
Depreciation of Tangible Fixed Assets (excl HRA depn)	-	-	(9,593)	-	-	-	-	-	**(9,593)**	**9,593**	**-**
Amortisation of Intangible Fixed Assets (excl HRA depn)	-	-	(513)	-	-	-	-	-	**(513)**	**513**	**-**
HRA Depreciation/amortisation	-	-	(263)	-	-	-	-	-	**(263)**	**263**	**-**
Local authority housing – settlement payment to Government for HRA self financing			(24,960)						**(24,960)**	**24,960**	**-**
Impairment/revaluation losses (charged to I&E)	-	-	(33,325)	-	-	-	-	-	**(33,325)**	**33,325**	**-**
Capital grant and contributions applied	-	-	6,832	-	-	-	-	-	**6,832**	**(6,832)**	**-**
Revenue Expenditure Funded from Capital under Statute (England and Wales)	-	-	(2,075)	-	-	-	-	-	**(2,075)**	**2,075**	**-**
Movement in market value of investment property			(13,775)						**(13,775)**	**13,775**	**-**
Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	-	-	(4,177)	-	-	-	-	-	**(4,177)**	**4,177**	**-**
Use of capital receipts reserve to finance capital expenditure	-	-	914	-	-	-	-	-	**914**	**(914)**	**-**
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	-	(22,204)	-	-	-	-	-	-	**(22,204)**	**22,204**	**-**
Amount by which council tax income and residual community charge adjustment included in the Comprehensive Income and Expenditure Statement is different from the amount taken to the General Fund in accordance with regulation	-	-	-	-	-	-	184	-	**184**	**(184)**	**-**
Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	-	-	-	-	-	-	-	273	**273**	**(273)**	**-**
Insertion of items not debited or credited to CIES											
Statutory Provision for the repayment of debt - (Minimum revenue provision)	-	-	1,107	-	-	-	-	-	**1,107**	**(1,107)**	**-**
Statutory Repayment of Debt (Finance Lease Liabilities)	-	-	102	-	-	-	-	-	**102**	**(102)**	**-**
Voluntary provision above MRP	-	-	291	-	-	-	-	-	**291**	**(291)**	**-**
Revenue contribution to finance capital	-	-	17,489	-	-	-	-	-	**17,489**	**(17,489)**	**-**
Employers contributions to pension schemes		17,101							**17,101**	**(17,101)**	**-**
Reversal of Major Repairs Allowance credited to the HRA	-	-	(7,202)	-	-	-	-	-	**(7,202)**	**7,202**	**-**
Use of the Major Repairs Reserve to finance new capital expenditure	-	-	8,444	-	-	-	-	-	**8,444**	**(8,444)**	**-**
Adjustment between CAA and Revaluation Reserve for depreciation that is related to the revaluation balance rather than Historic Cost.	(1,227)	-	1,227	-	-	-	-	-	**-**	**-**	**-**
Adjustment between CAA and Revaluation Reserve for revaluations in respect of disposed assets	(2,481)	-	2,481	-	-	-	-	-	**-**	**-**	**-**
TOTAL Adj between accounting basis & funding basis under regulations	**(3,708)**	**(5,103)**	**(56,995)**	**-**	**-**	**-**	**184**	**273**	**(65,349)**	**65,349**	**-**
Net Increase/Decrease before Transfers to Earmarked Reserves	**(5,824)**	**(109,453)**	**(56,995)**	**-**	**56**	**708**	**184**	**273**	**(171,052)**	**17,856**	**(153,196)**
Transfers to/from earmarked reserves (See Note 8)	**-**	**-**	**-**	**233**	**-**	**-**	**-**	**-**	**233**	**(233)**	**-**
Increase/Decrease (movement) in Year	**(5,824)**	**(109,453)**	**(56,995)**	**233**	**56**	**708**	**184**	**273**	**(170,819)**	**17,623**	**(153,196)**
Balance at 31 March 2012 carried forward	**493,009**	**(263,203)**	**620,260**	**84,582**	**(910)**	**107**	**51**	**(1,984)**	**931,913**	**223,651**	**1,155,564**

8. Transfers to and from Earmarked Reserves and Usable Reserves

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

The Council has two capital reserves: the Usable Capital Receipts Reserve and the Capital Grants Unapplied Account. These two reserves totalled £16.8 million at 31 March 2013. All other reserves are revenue reserves. Capital grants may be applied to certain items of revenue where regulations and statute permit.

8a. Summary of Usable Reserves

	1 April 2011 £'000	Transfers Out 2011-12 £'000	Transfers In 2011-12 £'000	31 March '12 £'000	Transfers Out 2012-13 £'000	Transfers In 2012-13 £'000	31 March 2013 £'000
General Fund	**10,000**	-	-	**10,000**	-	-	**10,000**
Earmarked Reserves (General Fund) [see 8c]	**163,191**	(48,342)	59,846	**174,695**	(62,364)	71,632	**183,963**
Schools' reserves	**7,888**	(1,450)	2,971	**9,409**	(1,487)	1,130	**9,052**
London Residuary Body balance	**4,299**	(128)	-	**4,171**	-	118	**4,289**
Housing Revenue Account	**11,821**	-	1,642	**13,463**	-	2,598	**16,061**
Major Repairs Reserve	**3,293**	(8,444)	7,202	**2,051**	(8,551)	7,202	**702**
Earmarked Reserves (HRA) [see 8b]	**230**	-	93	**324**	-	59	**383**
Usable Capital Receipts Reserve	**4,186**	(1,929)	2,728	**4,985**	(949)	6,391	**10,427**
Capital Grants Unapplied	**1,118**	-	3,433	**4,552**	(739)	2,649	**6,462**
Total Usable Reserves	**206,028**	**(60,293)**	**77,916**	**223,651**	**(74,089)**	**91,779**	**241,341**

8b. Transfer to and from HRA Earmarked Reserves

	1 April 2011 £'000	Transfers Out 2011-12 £'000	Transfers In 2011-12 £'000	31 March '12 £'000	Transfers Out 2012-13 £'000	Transfers In 2012-13 £'000	31 March 2013 £'000
HRA Controlled Repairs	**141**	-	82	**223**	-	47	**270**
HRA Lancaster West Estate Management Board	**90**	-	10	**101**	-	12	**113**
Total HRA Earmarked Reserves	**231**	**-**	**93**	**324**	**-**	**59**	**383**

8c. Transfer to and from General Fund Earmarked Reserves

	1 April 2011	Transfers Out 2011-12	Transfers In 2011-12	31 March 2012	Transfers Out 2012-13	Transfers In 2012-13	31 March 2013
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Better City Life	**2,657**	(120)	300	**2,837**	(593)	300	**2,544**
Budget Carry Forward	**4,140**	(1,374)	5,422	**8,188**	(2,253)	2,379	**8,314**
Capital Expenditure	**66,119**	(11,089)	12,049	**67,079**	(16,730)	19,356	**69,704**
Car Parking	**30,118**	(33,003)	27,106	**24,220**	(30,174)	29,600	**23,646**
Corporate Information Systems (IS) Initiatives	**378**	(215)	132	**295**	(21)	132	**406**
Cost Reduction (Transformation Fund)	**1,287**	(495)	-	**792**	(1,584)	7,024	**6,232**
Community Safety	**82**	-	250	**332**	-	585	**917**
Demand Growth	**5,297**	-	-	**5,297**	-	-	**5,297**
Excellence All Round	**3,272**	(179)	-	**3,093**	(167)	-	**2,926**
Insurance	**4,313**	(250)	436	**4,500**	(487)	870	**4,883**
Licensing and Planning Costs	**250**	-	-	**250**	-	-	**250**
Local Initiatives (Transformation Fund)	**4,652**	-	140	**4,792**	(21)	-	**4,771**
Pension Fund Contribution	**-**	-	9,000	**9,000**	(9,000)	6,000	**6,000**
Property Strategy	**1,597**	(458)	1,000	**2,138**	(516)	500	**2,122**
Repairs and Renewals	**3,525**	(400)	428	**3,553**	(391)	461	**3,623**
Service Risks	**4,703**	-	1,550	**6,253**	-	500	**6,753**
Severance (Transformation Fund)	**7,967**	(23)	325	**8,269**	-	325	**8,594**
Specific Grant Loss	**2,566**	-	-	**2,566**	-	1,606	**4,172**
Strategic Regeneration	**13,105**	(316)	673	**13,462**	(120)	885	**14,227**
Street Trading Account	**216**	-	65	**281**	(29)	-	**252**
Supporting People	**4,706**	-	-	**4,706**	-	-	**4,706**
Value Added Tax (VAT) Liability	**1,070**	-	-	**1,070**	-	730	**1,800**
Voluntary Sector Fund	**-**	-	500	**500**	-	-	**500**
Other Earmarked Reserves (<£250k balance)	**1,173**	(420)	470	**1,222**	(278)	380	**1,324**
Total General Fund Earmarked Reserves	**163,191**	**(48,342)**	**59,846**	**174,695**	**(62,364)**	**71,632**	**183,963**

9. Other Operating Expenditure

	2012-13 £'000	2011-12 £'000
Levies	3,238	3,279
Payments to the Government Housing Capital Receipts Pool	284	930
(Gains) / losses on the disposal of non-current assets	(2,175)	1,546
Total	**1,347**	**5,756**

10. Financing and Investment Income and Expenditure

	2012-13 £'000	2011-12 £'000
Interest payable and similar charges	11,582	12,424
Interest payable on finance leases	7	9
Premium on early repayment of debt	-	56
Pensions interest cost	34,714	34,618
Expected return on pensions assets	(26,078)	(28,608)
Interest receivable and similar income	(3,515)	(4,112)
Income and expenditure in relation to investment properties	(4,862)	(4,849)
Changes to fair value of investment properties	(7,714)	13,775
Other investment income – (surplus) / deficit on trading accounts	(82)	298
Total	**4,052**	**23,612**

11. Taxation and Non-Specific Grant Income

	2012-13 £'000	2011-12 £'000
Council tax income	(77,968)	(77,920)
Non domestic rates*	(98,962)	(82,703)
Non-ring fenced Government grants*	(3,869)	(27,511)
Capital grants and contributions	(6,040)	(10,265)
Total	**(186,839)**	**(198,399)**

*The large movement between years for 'Non domestic rates' and 'Non-ring fenced government grants' is the result of reductions in government funding and associated changes to the funding distribution system.

12. Property, Plant and Equipment

12a. Movement on Balances

Movements in 2012-13	Council Dwellings £'000	Other Land and Buildings £'000	Vehicles, Equipment Plant and Furniture £'000	Infrastructure Assets £'000	Community Assets £'000	Surplus Assets £'000	Assets Under Construction £'000	Total £'000
Cost or Valuation								
At 1 April 2012	**603,929**	**527,846**	**16,099**	**69,375**	**6,652**	**-**	**51,566**	**1,275,467**
Additions	9,325	14,932	307	1,344	947	-	25,421	52,275
Revaluation increases / (decreases) and impairments recognised in the Revaluation Reserve	(15,381)	1,330	(293)	-	-	-	-	(14,343)
Revaluation increases / (decreases) and impairments recognised in the CIES	(268)	(31,838)	293	-	-	-	-	(31,814)
Transfers to Assets Held for Sale	-	-	-	-	-	-	-	-
Transfers in	-	71,610	-	-	-	-	-	71,610
Transfers out	(2)	(1,445)	-	-	-	-	(71,009)	(72,456)
Derecognition - disposals	(150)	(5,692)	(1,069)	-	-	-	-	(6,911)
At 31 March 2013	**597,454**	**576,743**	**15,337**	**70,718**	**7,599**	**-**	**5,978**	**1,273,829**
Accumulated Depreciation and Impairment								
At 1 April 2012	**28,846**	**12,779**	**5,450**	**16,185**	**-**	**-**	**-**	**63,259**
Depreciation charge	2,652	7,850	1,821	3,801	-	-	-	16,124
Revaluations	(40,790)	(6,038)	(454)	-	-	-	-	(47,282)
Impairments	9,325	50,158	310	-	-	-	-	59,793
Assets reclassified to Assets Held for Sale	-	-	-	-	-	-	-	-
Transfers in	-	2	-	-	-	-	-	2
Transfers out	(2)	(10)	-	-	-	-	-	(12)
Derecognition - disposals	(32)	(5,536)	(1,069)	-	-	-	-	(6,638)
At 31 March 2013	**-**	**59,204**	**6,056**	**19,986**	**-**	**-**	**-**	**85,246**
Net Book value								
At 31 March 2013	**597,454**	**517,539**	**9,280**	**50,732**	**7,599**	**-**	**5,978**	**1,188,583**
At 31 March 2012	575,083	515,067	10,650	53,190	6,652	-	51,566	1,212,208

Comparative Movements in 2011-12

	Council Dwellings £'000	Other Land and Buildings £'000	Vehicles, Equipment Plant and Furniture £'000	Infrastructure Assets £'000	Community Assets £'000	Surplus Assets £'000	Assets Under Construction £'000	Total £'000
Cost or Valuation								
At 1 April 2011	**594,656**	**566,991**	**15,274**	**56,824**	**6,669**	**-**	**19,152**	**1,259,566**
Additions	8,822	7,137	990	12,551	465	-	33,144	63,110
Revaluation increases / (decreases) and impairments recognised in the Revaluation Reserve	(230)	(14,101)	5,398	-	-	-	-	(8,933)
Revaluation increases / (decreases) and impairments recognised in the CIES	64	(20,203)	(5,498)	-	-	-	-	(25,638)
Transfers to Assets Held for Sale	-	(9,399)	-	-	-	-	-	(9,399)
Transfers in	650	-	295	-	-	-	-	945
Transfers out	-	(650)	-	-	(295)	-	-	(945)
Derecognition - disposals	(32)	(1,928)	(360)	-	(188)	-	(730)	(3,239)
At 31 March 2012	**603,929**	**527,846**	**16,099**	**69,375**	**6,652**	**-**	**51,566**	**1,275,467**
Accumulated Depreciation and Impairment								
At 1 April 2011	**15,498**	**7,361**	**4,834**	**13,223**	**-**	**-**	**-**	**40,915**
Depreciation charge	7,202	5,361	1,362	2,962	-	-	-	16,886
Revaluations	-	(2,041)	-	-	-	-	-	(2,041)
Impairments	6,150	2,195	(386)	-	-	-	-	7,959
Assets reclassified to Assets Held for Sale	-	(97)	-	-	-	-	-	(97)
Transfers in	-	-	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-	-	-
Derecognition - disposals	(2)	-	(360)	-	-	-	-	(363)
At 31 March 2012	**28,846**	**12,779**	**5,450**	**16,185**	**-**	**-**	**-**	**63,259**
Net Book value								
At 31 March 2012	**575,083**	**515,067**	**10,650**	**53,190**	**6,652**	**-**	**51,566**	**1,212,208**
At 31 March 2011	579,158	559,630	10,441	43,601	6,669	-	19,152	1,218,651

12b. Depreciation rates

Council Dwellings:
Dwellings are depreciated on a straight line basis over their estimated useful lives. The most recent full valuation of the housing stock estimated the remaining useful lives of individual dwellings at between 50 and 100 years. Land is not depreciated because it has an indefinite useful life. In 2011-12, in line with Government guidance, the Major Repairs Allowance was used as a proxy for depreciation.

Other Land and Buildings:
The basements at Elm Park Gardens and some other assets that are not available for use are not depreciated. All other buildings are depreciated on a straight line basis over their estimated useful lives, generally between 25 and 50 years. Land is not depreciated because it has an indefinite useful life.

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

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

12c. Capital Commitments

Outstanding capital commitments:	31 March 2013		31 March 2012	
	General* Fund	Housing Revenue Account**	General Fund	Housing Revenue Account
	£m	£m	£m	£m
Schemes contracted for	86.6	0.7	50.0	5.0
Schemes not contracted for	52.1	0.2	102.7	0.2
Total	**138.7**	**0.9**	**152.7**	**5.2**

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

* Figures for the General Fund are estimates based on the Capital Programme 2013-14 to 2015-16. It is assumed that schemes that have spent more than 10 per cent of their budget are contracted.

** For the Housing Revenue Account, schemes are not treated as capital commitments until firm funding has been allocated.

Significant outstanding capital commitments at **31 March 2013** and **31 March 2012** are / were as follows:

	2013		2012	
	Total Cost £m	**Total Outstanding £m**	**Total Cost £m**	**Total Outstanding £m**
GENERAL FUND:				
Kensington Leisure Centre	29.8	26.7	-	-
Kensington Aldridge Academy	27.6	24.3	-	-
Office Accommodation (SPACE)	23.9	11.2	23.8	17.4
Middle Row School	12.7	10.0	-	-
Holland Park School Redevelopment	80.0	4.6	80.0	24.8
Albert Bridge Major Structural Repairs	9.8	0.1	8.8	0.3
Exhibition Road	21.0	0.2	24.6	1.5
HOUSING REVENUE ACCOUNT:				
Trellick Tower: Fire Strategy Works	-	-	1.5	-
Decent Homes – kitchens, bathrooms and electrical rewiring	4.8	0.5	4.3	2.4

12d. Effects of Changes in Estimates

In 2011-12, the Council undertook a full revaluation of its operational properties, museums within Heritage Assets and 'other' properties. The work was undertaken by Deloitte Real Estate (formerly Drivas Jonas Deloitte), whose staff are qualified surveyors with the Royal Institution of Chartered Surveyors (RICS). The revaluation included a reassessment of the estimated useful lives of the assets, revisited the valuation basis of each asset and considered the assumptions used in calculating the value of specialised buildings valued under the Depreciated Replacement Cost (DRC) methodology. The revaluations and attendant revisions to the estimated useful lives of the properties had no material impact on the overall depreciation charges; reductions in asset values were largely offset by reductions in the estimated useful lives. Overall, depreciation charges, excluding dwellings, increased from £10 million to £10.4 million on a like-for-like basis.

Deloitte Real Estate updated the valuations as at 31 March 2013 in light of rising property prices in central London. In compliance with IAS 16, where an asset in any class saw a significant change to its value, the Council recorded the updated valuations for all assets in that class. The updated valuations have had a minimal impact on the expected depreciation charges for 2013-14.

12e. Revaluations

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

The 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: un-adopted access roads; parking areas; open spaces; and plant and machinery normally associated with the valuation of land and buildings, including mains services, heating systems, 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.

	Council Dwellings	Other Land and Buildings	Plant	Vehicles, Furniture and Equipment	Heritage Assets held under Current Cost Model	Surplus Assets	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Carrying amount if assets had been carried under the cost model	**394,480**	**275,525**	**-**	**4,457**	**4,972**	**-**	**679,433**
Valued at fair value as at:							
1 April 2012	-	-	-	-	-	-	-
1 April 2011	-	526,504	5,742	-	18,683	-	-
1 April 2010	585,712	-	-	-	-	-	-
1 April 2009	-	-	-	-	-	-	-
1 April 2008	-	609,765	-	-	-	-	-
Current carrying value	**597,454**	**569,602**	**4,767**	**4,513**	**19,883**	**-**	**1,196,219**

13. Heritage Assets

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

Cost or Valuation	Heritage Properties £'000	Museum Collections £'000	Art in Parks £'000	Total Assets £'000
1 April 2011	13,336	22,653	1,903	37,892
Additions	2	50	-	52
Disposals	-	-	-	-
Revaluation increases / (decreases) and impairments recognised in the Revaluation Reserve	6,685	-	-	6,685
Revaluation increases / (decreases) and impairments recognised in the surplus / deficit on the provision of services	(1,339)	-	-	(1,339)
Depreciation	(167)	-	-	(167)
31 March 2012	**18,518**	**22,703**	**1,903**	**43,123**
Cost or Valuation				
1 April 2012	18,518	22,703	1,903	43,123
Additions	-	-	-	-
Disposals	-	-	-	-
Revaluation increases / (decreases) and impairments recognised in the Revaluation Reserve	1,533	-	-	1,533
Revaluation increases / (decreases) and impairments recognised in the surplus / deficit on the provision of services	-	-	-	-
Depreciation	(167)	-	-	(167)
31 March 2013	**19,883**	**22,703**	**1,903**	**44,489**

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

The museum collections and the art in parks are reported in the balance sheet at their insurance valuation (based on market values provided by valuers Christie, Manson and Woods Ltd and Stancliff and Glover Ltd). These valuations are reviewed periodically as deemed appropriate for insurance purposes. Acquisitions are recognised at cost. These are deemed to have indeterminate lives and high residual value; hence the Council does not deem it appropriate to charge depreciation for these assets.

The local regalia, and the local studies and archive collection require no balance sheet disclosure because the collections are of low balance sheet value due to individual items either: having nil or low market value; being worth less than the Council's de minimis threshold of £10,000; or having no up-to-date valuation that is reliable. (FRS 30 does not require the Council to obtain valuations of heritage assets where none exists.)

The Council's heritage asset holdings are static with no disposals or acquisitions above the Council's de minimis threshold in 2012-13.

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

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

From 1875, 18 Stafford Terrace was the home of Punch cartoonist Edward Linley Sambourne, his wife Marion, their two children and their live-in servants. Today, the house is recognised as the best surviving example of a late Victorian middle-class home in the UK. It is remarkably well preserved and complete with its original interior decoration and contents.

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

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

13b. Five Year Movements

Museums held at current cost	2008-09 £'000	2009-10 £'000	2010-11 £'000	2011-12 £'000	2012-13 £'000
Opening carrying value	7,799	12,545	13,418	13,336	18,518
Additions and enhancements	313	1,279	100	2	-
Revaluations	4,578	(261)	-	5,347	1,533
Depreciation	(145)	(145)	(182)	(167)	(167)
Closing carrying value	**12,545**	**13,418**	**13,336**	**18,518**	**19,883**

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

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

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

14. Investment Properties

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

	2012-13 £'000	2011-12 £'000
Rental income from investment property	7,329	6,751
Direct operating expenses arising from investment property	(2,467)	(1,902)
Net gain / (loss)	**4,862**	**4,849**

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:

	2012-13 £'000	2011-12 £'000
Balance at start of the year	**131,514**	**145,281**
Additions:		
Purchases	-	-
Construction	-	8
Subsequent expenditure	-	-
Disposals	-	-
Net gains / (losses) from fair value adjustments	7,714	(13,775)
Transfers:		
(To) / from Inventories	-	-
(To) / from Property, Plant and Equipment	(114)	-
Other changes	-	-
Balance at end of the year	**139,114**	**131,514**

In 2011-12, the Council undertook a full revaluation of its investment properties, including an inspection of each property. The work was undertaken by Deloitte Real Estate (formerly Drivas Jonas Deloitte), whose staff are qualified surveyors with the Royal Institution of Chartered Surveyors (RICS). In accordance with IAS 40, the valuation of the investment properties is updated each year to reflect movements in their market value. Deloitte Real Estate undertook this work for 2012-13.

15. Intangible Assets

The Council's intangible assets consist of purchased licenses and internally generated software. The Council accounts for software as an intangible asset where it provides economic benefit to the Council for a period greater than one year and if sourced from an external supplier, is licensed for a period greater than one year. Therefore, where a license is not purchased from a supplier, but a right to use software is granted in return for an annual fee, that software is not capitalised. All capitalised software is given a finite useful life of seven years, unless the software is expected to be of use to the Council for a shorter period. The intangible asset is amortised on a straight line basis over its anticipated useful life. The Council has not capitalised any major software suites for a period other than seven years.

In 2012-13, amortisation was charged to services under the Service Reporting Code of Practice as follows:

£106,276 to Support Service and Management Costs within Children's and Education Services;
£54,781 to Regulatory Services within Environmental and Regulatory Services;
£16,629 to Support Service and Managements Costs within Adult Social Care;
£10,507 to Service Management and Support Services within Planning Services;
£1,200 to General Fund Housing Services; and
£7,779 to the Libraries Service within Cultural and Related Services.

The remainder, totalling £384,289 is absorbed as an overhead across all service headings in the Net Expenditure of Services.

The movement on Intangible Asset balances during the year is as follows:

	2012-13			2011-12		
	Internally Generated Assets	Other Assets	Total	Internally Generated Assets	Other Assets	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Balance at start of year:						
Gross carrying amounts	291	5,372	5,663	230	4,577	4,807
Accumulated amortisation	(24)	(2,860)	(2,884)	-	(2,368)	(2,368)
Net carrying amount at start of year	**267**	**2,512**	**2,779**	**230**	**2,209**	**2,439**
Additions:						
Internal development	28	-	28	61	-	61
Purchases	-	912	912	-	796	796
Acquired through business combinations	-	-	-	-	-	-
Other disposals	-	-	-	-	-	-
Impairment losses*	-	-	-	-	-	-
Amortisation for the period	(43)	(539)	(581)	(24)	(493)	(517)
Other changes	-	-	-	-		
Net carrying amount at end of year	**252**	**2,886**	**3,138**	**267**	**2,512**	**2,779**
Comprising:						
Gross carrying amounts	318	6,285	6,603	291	5,372	5,663
Accumulated amortisation	(66)	(3,399)	(3,465)	(24)	(2,860)	(2,884)

**recognised in the Surplus / Deficit on the Provision of Services*

16. Financial Instruments

16a. Financial Instruments - Balances

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

	31 March 2013		31 March 2012	
	Long Term	**Current**	**Long Term**	**Current**
	£'000	£'000	**£'000**	£'000
Borrowings				
Financial liabilities (principal amount)	(157,740)	(6,233)	(163,971)	(6,226)
Accrued interest (all short term)		(2,425)	-	(2,438)
Financial liabilities at amortised cost (1)	**(157,740)**	**(8,658)**	**(163,971)**	**(8,664)**
Financial liabilities at fair value through CIES (2)			-	-
Total borrowings	**(157,740)**	**(8,658)**	**(163,971)**	**(8,664)**
Debtors				
Long term debtors	93,562	-	90,889	-
Current debtors	-	33,557	-	33,827
Total debtors	**93,562**	**33,557**	**90,889**	**33,827**
Cash				
Cash and cash equivalents	-	24,640	-	22,674
Bank accounts in overdraft	-	(3,794)	-	(3,274)
Total cash and cash equivalents	**-**	**20,846**	**-**	**19,400**
Creditors				
Short term creditors	**-**	**(98,640)**	**-**	**(79,923)**
Investments				
Loans and receivables (principal amount)	-	114,670	-	73,191
Accrued interest	-	20	-	21
Loans and receivables at amortised cost (1)	**-**	**114,690**	**-**	**73,211**
Available-for-sale financial assets	-	-	-	38,466
Financial assets held at fair value through the CIES (2)	-	40,814	-	40,679
Other investments	23	-	23	-
Total investments (3)	**23**	**155,504**	**23**	**152,356**

Note 1 – Under accounting requirements the carrying value of the financial instruments is shown in the balance sheet including the principal amount borrowed or lent together with accrued interest.
Note 2 – Fair value has been measured by direct reference to published price quotations in an active market.
Note 3 – The long term investment figure in the Balance Sheet relates to monies invested to maintain graves in perpetuity. These are not included in the table above.

16b. Financial Instruments – Gains / Losses

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

	2012-13					2011-12				
	Financial Liabilities	Financial Assets			Total	Financial Liabilities	Financial Assets			Total
	Liabilities measured at amortised cost £'000	Loans and receivables £'000	Available for Sale Assets(1) £'000	At fair value through CIES (2) £'000	£'000	Liabilities measured at amortised cost £'000	Loans and receivables £'000	Available for Sale Assets £'000	At fair value through CIES £'000	Total £'000
Interest expenses	**(11,582)**	**-**	**-**	**-**	**(11,582)**	**(12,424)**	-	-	-	**(12,424)**
Losses on derecognition	**-**	**-**	**-**	**-**	**-**	**-**	-	-	-	**-**
Impairment losses	**-**	**-**	**-**	**-**	**-**	**-**	-	-	-	**-**
Interest payable and similar charges	**(11,582)**	**-**	**-**	**-**	**(11,582)**	**(12,424)**	**-**	**-**	**-**	**(12,424)**
Interest income	**-**	396	-	99	**495**	**-**	958	-	253	**1,211**
Gains on derecognition	**-**	-	-	45	**45**	**-**	-	-	103	**103**
Interest and investment income	**-**	**396**	**-**	**144**	**540**	**-**	**958**	**-**	**356**	**1,314**
Gains on revaluation	**-**	-	-	-	**-**	**-**	-	-	-	**-**
Losses on revaluation	**-**	-	-	-	**-**	**-**	-	(921)	-	**-**
Amounts recycled to the CIES after impairment	**-**	-	-	-	**-**	**-**	-	-	-	**-**
Surplus arising on revaluation of financial assets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(921)**	**-**	**(921)**
Net gain / (loss) for the year	**(11,582)**	**396**	**-**	**144**	**(11,042)**	**(12,424)**	**958**	**(921)**	**356**	**(12,031)**

(1) Available for Sale Financial Instruments consist of the Council's direct Gilt holding. The Gilts are valued at the year-end by the Council's custodian with reference to the price quoted by the Debt Management Office (DMO) at the close of business on 31 March. The loss on revaluation has been recognised in the Comprehensive Income and Expenditure Statement.

(2) Fair Value through the Comprehensive Income and Expenditure Statement: represents the funds placed with the Council's external fund manager, Investec, which holds funds as part of a portfolio of identified financial instruments that can be managed together and are acquired principally for the purpose of selling or repurchasing in the near term. The prices quoted for the holdings are the bid prices. The fund manager's portfolio has been accounted for at fair value through the Comprehensive Income and Expenditure Statement.

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

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

- Public Works Loan Board (PWLB) loans have been valued using the new borrowing rates published by the DMO on 31 March 2013.
- No early repayment or impairment is recognised.
- Where an instrument will mature in the next 12 months the carrying amount is assumed to approximate to fair value.

The fair values are calculated as follows:

	31 March 2013		**31 March 2012**	
	Carrying Amount £'000	**Fair Value £'000**	Carrying Amount £'000	Fair Value £'000
PWLB Debt	**157,740**	**203,473**	**163,971**	**208,462**
Loans and receivables				
Money market loans <1 year	114,960	114,960	73,211	73,211
Money market loans > 1 year	-	-	-	-
Gilts < 1 year	-	-	38,466	38,466
Gilts > 1 year	-	-	-	-
Total loans and receivables	**114,960**	**114,960**	**111,677**	**111,677**

The fair value for financial liabilities is greater than the carrying amount because the Council's portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the rates available for similar loans in the market at the Balance Sheet date. The commitment to pay interest above current market rates increases the amount that the Council would have to pay if the lender requested or agreed to early repayment of the loans. The calculation above uses the PWLB new borrowing rate as the discount factor. If the premature redemption rate were to be used, the fair value would be £225,774 (£231,645 as at 31 March 2012).

The fair values for financial liabilities have been determined by reference to the PWLB redemption rules and prevailing PWLB loan rates at each Balance Sheet date. They include accrued interest. All the Council's debt is attributable to the Housing Revenue Account. The General Fund is debt free.

At 31 March 2013, all money market loans and receivables are repayable within one year. Therefore, the carrying amount is assumed to be approximate fair value; the figures for both years include accrued interest. The prevailing comparator market rates have been taken from indicative investment rates at the Balance Sheet date. In practice, rates will be determined by the size of the transaction and the counterparty, but it is impractical to use these figures and the difference is not likely to be material.

17. Debtors

17a. Current Debtors

	2013 £'000	2012 £'000
Government bodies	3,100	3,603
Other local authorities	11,772	9,958
NHS bodies	898	1,723
Public corporations and trading funds	2	-
Other entities and individuals	23,714	22,037
Total	**39,486**	**37,321**

17b. Long Term Debtors

	2013 £'000	2012 £'000
Advances - housing	144	165
Advances - other	51	51
Deferred Capital Receipts	93,367	90,673
Total	**93,562**	**90,889**

The bulk of the long-term debtors is the balance of the payment due for the sale of the Holland Park School southern site. This will be paid to the Council in 2013-14 when the land site is handed over to the purchaser.

18. Cash and Cash Equivalents

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

	2013 £'000	2012 £'000
Cash held by the Council	12,335	12,663
Bank current accounts	77	1,651
Short-term deposits	12,228	8,359
Bank accounts in funds	**24,640**	**22,674**
Bank accounts in overdraft*	**(3,794)**	**(3,274)**
Cash and cash equivalents	**20,846**	**19,400**

*Please note that the Council's bank accounts were not actually overdrawn. This is the year-end balance sheet position which, for example, includes payments committed to but not yet cleared.

19. Assets Held for Sale

	2012-13 £'000	2011-12 £'000
Balance at Start of the Year	**8,074**	**-**
Assets newly classified as Held for Sale:		
Property, Plant and Equipment	950	9,302
Intangible assets	-	-
Other assets	-	-
Revaluation losses	-	-
Revaluation gains	-	-
Impairment losses	-	-
Assets declassified as Held for Sale:	-	-
Property, Plant and Equipment newly classified as Held for Sale	-	-
Intangible assets	-	-
Other assets	-	-
Assets sold	(4,221)	(1,301)
Other movements	-	73
Balance at year-end	**4,803**	**8,074**

20. Creditors

	2013 £'000	2012 £'000
Government bodies	36,133	25,044
Other local authorities	11,713	7,654
NHS bodies	955	1,055
Public corporations and trading funds	11	111
Other entities and individuals	56,445	53,605
Total	**105,257**	**87,469**

21. Provisions

	Insurance	Mental Health Act	Termination Benefits	Single Status	Other Provisions	**Total**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Balance at 1 April 2012	3,586	314	513	343	302	**5,058**
Additional provisions made in 2012-13	370	-	661	103	55	**1,189**
Amounts used in 2012-13	(559)	(5)	(269)	-	-	**(833)**
Unused amounts reversed in 2012-13	-	-	(44)	(8)	(211)	**(263)**
Balance at 31 March 2013	**3,397**	**309**	**861**	**438**	**146**	**5,151**
Of which:						
Next twelve months	536	309	861	438	10	**2,154**
Over twelve months	2,861	-	-	-	136	**2,997**
Balance at 31 March 2013	**3,397**	**309**	**861**	**438**	**146**	**5,151**

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.

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

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

Other provisions include a provision for the London Residuary Body’s public liability insurance claims and various small immaterial provisions such as banked leave and repayments due to street traders that have been overcharged for waste disposal costs in their licence fees.

22. Usable Reserves

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

23. Unusable Reserves

23a. Total Unusable Reserves

	2012-13 £’000	**2011-12 £’000**
Revaluation Reserve	521,121	493,009
Pensions Reserve	(241,242)	(263,203)
Capital Adjustment Account	551,339	620,260
Deferred Capital Receipts	84,821	84,582
Financial Instruments Adjustment Account	(854)	(910)
Available-for-Sale Financial Instruments Reserve	-	107
Collection Fund Adjustment Account	31	51
Unequal Pay Back Pay Account	-	-
Short-term Accumulating Compensated Absences Account	(2,094)	(1,984)
Total Unusable Reserves	**913,121**	**931,913**

23b. Revaluation Reserve

The Revaluation Reserve contains the gains made by the Council arising from increases in the value of its Property, Plant and Equipment. The balance is reduced when assets with accumulated gains are:

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

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

	2012-13 £'000	2011-12 £'000
Balance at 1 April	**493,009**	**498,834**
Upward revaluations to assets*	106,578	82,238
Downward revaluation of assets*	(60,974)	(74,278)
Impairments written off to the revaluation reserve	(11,132)	(10,076)
Difference between current cost depreciation and historic cost depreciation	(2,841)	(1,227)
Accumulated gains on assets sold or scrapped	(3,519)	(2,481)
Movement in year	28,112	(5,824)
Closing balance at 31 March	**521,121**	**493,009**

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

23c. Pensions Reserve

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

	2012-13 £'000	2011-12 £'000
Balance at 1 April	**(263,203)**	**(153,750)**
Actuarial gains or losses on pensions assets and liabilities	25,543	(104,350)
Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	(29,103)	(22,204)
Employers' contributions payable to scheme	25,521	17,101
Movement in year	21,961	(109,453)
Closing balance at 31 March	**(241,242)**	**(263,203)**

23d. Capital Adjustment Account

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

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

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

	2012-13 £'000	2011-12 £'000
Balance at 1 April	**620,260**	**677,255**
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:		
Charges for depreciation and impairment of non current assets	(102,404)	(41,949)
Reversal of depreciation charged in respect of dwellings	(2,652)	(7,202)
Amortisation of intangible assets	(581)	(517)
Revenue expenditure funded from capital under statute	(2,726)	(2,075)
Amounts of non current assets written off on disposal or sale as part of the gain / loss on disposal to the CIES	(4,494)	(4,177)
HRA self-financing settlement / payment	-	(24,960)
Adjusting amounts written out of the Revaluation Reserve:		
Accumulated revaluation gains on assets sold or scrapped	3,519	2,481
Capital financing applied in the year:		
Use of the Capital Receipts Reserve to finance new capital expenditure	949	914
Use of the Major Repairs Reserve to finance new capital expenditure	8,550	8,444
Capital grants and contributions credited to the CIES that have been applied to capital financing	4,130	6,832
Application of grants to capital financing from the Capital Grants Unapplied Account		-
Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	1,402	1,500
Capital expenditure charged against the General Fund and HRA balances	17,672	17,489
Other Movements:		
Movements in the market value of investment properties	7,714	(13,775)
Movement in the Donated Assets Account	-	-
Movement in year	(68,922)	(56,995)
Closing balance at 31 March	**551,338**	**620,260**

23e. Deferred Capital Receipts and credits

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

The bulk of the deferred capital receipt is the balance of the payment due for the sale of the Holland Park School southern site. This will be paid to the Council in 2013-14 when the land site is handed over to the purchaser.

Deferred Capital Receipts	**2012-13 £'000**	**2011-12 £'000**
Balance at 1 April	**84,542**	**84,296**
Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the CIES	-	-
Unwind notional credit in respect of leaseback arrangement	245	245
Transfer to the Capital Receipts Reserve upon receipt of cash	-	-
Closing balance at 31 March	**84,787**	**84,542**

Deferred Credits	**2012-13 £'000**	**2011-12 £'000**
Balance at 1 April	**40**	**53**
Transfer to the Capital Receipts Reserve upon receipt of cash	(6)	(13)
Closing balance at 31 March	**34**	**40**

23f. Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions. The Council uses the Account to manage premiums paid on the early redemption of loans. Premiums are debited to the Comprehensive Income and Expenditure Statement when they are incurred, but reversed out of the General Fund to the Account in the Movement in Reserves Statement. Over time, the expense is posted back to the General Fund in accordance with statutory arrangements for spreading the burden on council tax. In the Council's case, this period is the unexpired term that was outstanding on the loans when they were redeemed. As a result, the balance on the Account at 31 March 2013 will be charged to the General Fund over the next 15 years.

	2012-13 £'000	**2011-12 £'000**
Balance at 1 April	**(910)**	**(966)**
Premiums incurred in the year and charged to the CIES	-	-
Proportion of premiums incurred in previous financial years to be charged against the General Fund balance in accordance with statutory requirements	56	56
Amount by which finance costs charged to the CIES are different from finance costs chargeable in the year in accordance with statutory requirements	-	-
Closing balance at 31 March	**(854)**	**(910)**

23g. Available-for-Sale Financial Instruments Reserve

The Available-for-Sale Financial Instruments Reserve contains the gains made by the Council arising from increases in the value of its investments that it neither intends to hold to maturity nor hold for only a very short period of time. The balance is reduced when investments with accumulated gains are:

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

	2012-13 £'000	2011-12 £'000
Balance at 1 April	**107**	**(601)**
Downward movement in book cost	(107)	708
Closing balance at 31 March	**-**	**107**

23h. Collection Fund Adjustment Account

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

	2012-13 £'000	2011-12 £'000
Balance at 1 April	**51**	**(133)**
Amount by which council tax income credited to the CIES is different from council tax income calculated for the year in accordance with statutory and expenditure requirements	(20)	184
Closing balance at 31 March	**31**	**51**

23i. Short-term Accumulating Compensated Absences Account

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

	2012-13 £'000	2011-12 £'000
Balance at 1 April	**(1,983)**	**(2,256)**
Settlement or cancellation of accrual made at the end of the preceding year	1,983	2,256
Amounts accrued at the end of the current year	(2,095)	(1,983)
Closing balance at 31 March	**(2,095)**	**(1,983)**

24. Net Cash Flow from Operating Activities

	2012-13 £'000	2011-12 £'000
Total revenue surplus / (deficit) on the provision of services	(61,128)	(47,366)
Total revenue surplus / (deficit) (LRB)	118	(128)
Total	**(61,010)**	**(47,493)**
Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities:		
Capital Grants	(6,040)	(10,266)
Adjust net surplus or deficit on the provision of services for noncash movements:		
Non-cash Items in the Income and Expenditure Account		
Depreciation and impairment charged to revenue	108,480	50,595
Other non-cash movements*	-	56
Change in value of investment property recognised in CIES	(7,714)	13,775
Surplus or deficit on revaluation of available for sale financial assets	(107)	708
Net adjustments made in respect of IAS19 (pensions adjustment)	3,582	5,103
(Gain) / loss on disposal of fixed assets	(2,175)	1,546
**Other movements comprise movement in deferred credits and the amortisation of premia and discounts*		
Movement in non-cash Assets and Liabilities		
Assets		
(Increase) / decrease in stock and work in progress	18	(23)
(Increase) / decrease in debtors	(2,159)	6,434
(Increase) / decrease change in long term debtors	(2,673)	(2,493)
Liabilities		
Increase / (decrease) in creditors	17,781	20,665
Increase / (decrease) in provisions	91	(521)
Increase / (decrease) deferred liabilities	(245)	(245)
Increase / (decrease) in capital grants received in advance	3,542	150
Cash flow from revenue activities	**51,371**	**37,991**
Items included in net cash flow from operating activities include:		
Financing and Investment Income		
Interest paid on debt (including finance leases)	(11,595)	(12,440)
Investment interest income	639	1,357

25. Investing Activities

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

	2012-13 £'000	2011-12 £'000
Purchase of non-current assets	(53,215)	(64,100)
Purchase and disposal of short-term and long-term investments	(3,147)	21,249
Other payments for investing activities	6,040	10,265
Proceeds from the sale of non-current assets	6,669	2,631
Net cash flows from investing activities	**(43,653)**	**(29,955)**

26. Financing Activities

	2012-13 £'000	2011-12 £'000
Cash payments for the reduction of outstanding finance lease liabilities	(35)	(35)
Repayments of short-term and long-term borrowing	(6,238)	(12,165)
Net cash flows from financing activities	**(6,273)**	**(12,200)**

27. Segmental Reporting - Amounts Reported for Resource Allocation Decisions

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

27a Analysis of Directorate Income and Expenditure

Directorate Income and Expenditure **2012-13**	Adult and Family Learning Services	Adult Social Care	Children's Services	Environment Leisure and Resident's Services	Housing General Fund	Library and Heritage Services	Planning and Borough Development	Transport, and Technical Services	Corporate Services	Total
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Fees, charges and other service income	-	(4,487)	(12,223)	(10,277)	(359)	(258)	(4,592)	(47,817)	(15,352)	(95,364)
Government grants	(1,379)	(3,750)	(95,504)	-	(2,300)	-	(217)	(1,048)	(160,490)	(264,689)
Other grants and contributions	(28)	(15,350)	(9,461)	(718)	(19,265)	(496)	-	(739)	(2,780)	(48,836)
Total Income	**(1,407)**	**(23,587)**	**(117,188)**	**(10,995)**	**(21,924)**	**(754)**	**(4,809)**	**(49,603)**	**(178,622)**	**(408,889)**
Employee expenses	303	15,672	88,151	5,324	4,769	2,423	5,319	8,696	31,151	161,808
Other service expenses	1,096	56,355	59,638	37,524	26,458	2,506	1,612	22,203	187,192	394,583
Support service recharges	123	4,418	7,075	2,556	754	1,449	1,769	5,512	(24,726)	(1,071)
Total Expenditure	**1,521**	**76,445**	**154,863**	**45,404**	**31,981**	**6,378**	**8,700**	**36,412**	**193,617**	**555,321**
Net Expenditure	**114**	**52,858**	**37,676**	**34,409**	**10,057**	**5,624**	**3,891**	**(13,191)**	**14,995**	**146,432**

**Please note that this analysis reflects the new structure of the Council's services following the implementation of tri- and bi-borough working. Amounts overleaf for 2011-12 reflect the Council's previous structure.*

Directorate Income and Expenditure 2011-12	Family and Children's Services £'000	Housing, Health and Adult Social Care £'000	Planning and Borough Development £'000	Transport, Environment and Leisure Services £'000	Corporate Services £'000	Total £'000
Fees, charges and other service income	(12,315)	(6,973)	(3,895)	(55,823)	(13,429)	(92,436)
Government grants	(95,156)	(6,448)	(138)	-	(169,252)	(270,994)
Other grants and contributions	(7,397)	(28,489)	-	(2,091)	(918)	(38,896)
Total Income	**(114,869)**	**(41,910)**	**(4,034)**	**(57,914)**	**(183,599)**	**(402,326)**
Employee expenses	90,170	27,999	4,917	12,060	33,080	168,225
Other service expenses	61,401	78,926	1,359	55,840	193,641	391,168
Support service recharges	8,912	8,181	1,983	7,585	(26,369)	291
Total Expenditure	**160,483**	**115,105**	**8,259**	**75,485**	**200,352**	**559,684**
Net Expenditure	**45,614**	**73,195**	**4,225**	**17,572**	**16,753**	**157,359**

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

	2012-13 £’000	2011-12 £’000
Net expenditure in the Directorate Analysis	**146,432**	**157,359**
Net expenditure of services and support services not included in the Analysis:		
Amounts in the Comprehensive Income and Expenditure Statement Cost of Services not reported in the Directorate Analysis:		
General Fund Revenue Expenditure Funded from Capital Under Statute	2,155	2,075
General Fund impairments	81,978	25,950
Employee benefits – leave accrual	111	(273)
Pension Fund deficit recovery	5,045	5,208
Non-distributed pension costs	1,040	188
Revenue in support of capital expenditure	770	1,081
IAS19	-	127
Advances – mortgages	7	-
Voluntary Pension Fund contribution	9,000	-
Amounts included in the Directorate Analysis not included in the Cost of Services in the Comprehensive Income and Expenditure Statement:		
General Fund investment property income and expenditure	2,419	2,535
Finance lease principal	(35)	(111)
Interest payable on finance leases	(6)	-
Depreciation adjustment	14	-
Trading Accounts	82	(298)
REFCUS included in management reporting	-	(484)
	249,012	**193,356**
(Surplus) / deficit on the Housing Revenue Account	(6,444)	(1,918)
Local Authority Housing – settlement payment to Government for HRA self financing	-	24,960
Total Cost of Services per Comprehensive Income and Expenditure Statement	**242,568**	**216,398**

Amounts in the Comprehensive Income and Expenditure Statement Surplus / Deficit on Provision of Services not reported in the Cost of Services per Comprehensive Income and Expenditure Account:		
Levies	3,239	3,279
Payments to the Government Housing Capital Receipts Pool	284	930
(Gains) / losses on the disposal of non-current assets	(2,175)	1,546
Interest payable and similar charges	11,582	12,424
Premium on early repayment of debt	-	56
Pensions interest cost	34,714	34,618
Expected return on pensions assets	(26,078)	(28,608)
Interest receivable and similar income	(3,515)	(4,112)
Changes in fair value of Investment Properties	(7,714)	13,775
Council tax income	(77,967)	(77,920)
Non domestic rates	(98,962)	(82,703)
Non-ring fenced Government grants	(3,869)	(27,511)
Capital grants and contributions	(6,040)	(10,265)
Income and expenditure in relation to investment properties	(4,863)	(4,848)
Interest payable on finance leases	6	9
Other investment income – (surplus) / deficit on trading accounts	(82)	298
	(181,440)	**(169,032)**
Total (Surplus) / Deficit on Provision of Services per Comprehensive Income and Expenditure Statement	**61,128**	**47,366**

28. Trading Operations

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

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

The figures shown below are included within the relevant service summary lines in the Comprehensive Income and Expenditure Statement, with the exception of the cash collection service which is included in the corporate section.

		2012-13			2011-12	
	Income £'000	**Exp £'000**	**Net £'000**	**Income £'000**	**Exp £'000**	**Net £'000**
Trading Operation						
Family and Children's Services						
Pupil support services	480	(480)	-	570	(570)	-
Transport, Environment and Leisure Services						
Street trading	837	(808)	29	754	(819)	(65)
Holland Park Theatre	2,265	(3,260)	(995)	2,381	(3,101)	(720)
Corporate Services						
Professional Development Centre catering	115	(187)	(72)	103	(177)	(74)
Professional Development Centre conferences	-	-	-	301	(551)	(250)
Cash collection	464	(449)	15	461	(436)	25
Legal Services	4,083	(3,944)	139	-	-	-
Planning and Borough Development						
Building Control	602	(1,102)	(500)	891	(1,093)	(202)
Total surplus / (deficit)	**8,846**	**(10,230)**	**(1,384)**	**5,461**	**(6,747)**	**(1,286)**

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

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

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

Professional Development Centre Catering
The provision of catering at conferences and meetings held at the Isaac Newton Professional Development Centre.

Professional Development Centre Conferences
Income earned from the hosting of conferences and meetings at the Isaac Newton Professional Development Centre. This ceased operating as a trading account from 1 April 2012.

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

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

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

29. Pooled Budgets

Community Service Equipment	**2012-13 £'000**	**2011-12 £'000**
Gross Funding _ In-year		
Royal Borough of Kensington and Chelsea	200	373
Kensington and Chelsea Primary Care Trust	500	538
Total funding	**700**	**911**
Expenditure		
Total expenditure	(824)	(846)
Net (overspend) / under-spend in Year	**(124)**	**65**
Balance brought forward	315	250
Net (overspend) / under-spend in Year	(124)	65
Balance carried forward	**191**	**315**

30. Members' Allowances

	2012-13 £'000	**2011-12 £'000**
Basic Allowance	559	555
Special Responsibility Allowance	555	555
Travel / Subsistence / Dependent Carers' Allowance	-	1
Reimbursement of expenses	59	44
Total	**1,173**	**1,155**

31. Officer Remuneration

31a. Disclosure of remuneration for senior employees 2012-13

The remuneration as paid through the Council's payroll to the Council's Chief Executive, Executive Directors and employees earning over £150,000 in 2012-13 are as follows:

Job Title	Name	Notes	Salary, Fees and Allowances £	Bonuses £	Expenses Allowances £	Compensation for Loss of Employment £	Total Remuneration (excluding pension contribution) £	Employer's Pension Contribution £	Total Remuneration (including pension contribution) £
Joint Chief Executive	Derek Myers	1	209,866	14,686	-	-	224,552	11,738	236,290
Town Clerk and Executive Director of Finance	Nicholas Holgate		152,650	8,958	1,125	-	162,733	34,261	196,994
Assistant Chief Executive	Tot Brill	2	89,303	11,880	-	68,351	169,534	20,148	189,682
Bi-Borough Executive Director of Transportation and Technical Services	Nigel Pallace	2	-	-	-	-	-	-	-
Bi-Borough Executive Director of Environment, Leisure and Resident's Services	Lyn Carpenter	2	-	-	-	-	-	-	-
Tri-Borough Executive Director of Adult Social Care	Andrew Webster	3	-	-	-	-	-	-	-
Tri Borough Executive Director of Children's Services	Andrew Christie	4	151,667	14,961	-	-	166,628	35,325	201,953
Exec Director of Planning and Borough Development	Jonathan Bore		112,943	6,666	1,168	-	120,777	25,297	146,074
Director of Strategy and Service Improvement	Tony Redpath		97,783	4,825	1,120	-	103,728	21,753	125,481
Bi-Borough Director of Human Resources	Deborah Morris	5	-	-	-	-	-	-	-
Head of Media and Communications	Martin Fitzpatrick		56,900	2,845	-	-	59,745	12,666	72,411
Head of Holland Park School	Colin Hall		156,972	-	-	-	156,972	33,278	190,250

Disclosure of remuneration for senior employees 2011-12

Job Title	Name	Notes	Salary, Fees and Allowances £	Bonuses £	Expenses Allowances £	Compensation for Loss of Employment £	Total remuneration (excluding pension contribution) £	Employer's Pension Contribution £	Total Remuneration (including pension contribution) £
Joint Chief Executive	Derek Myers	1	209,800	10,490	-	-	220,290	46,701	266,991
Town Clerk and Exec Director of Finance	Nicholas Holgate		153,117	7,355	1,057	-	161,529	34,020	195,549
Assistant Chief Executive	Tot Brill	2	119,003	5,940	883	-	125,826	26,445	152,271
Exec Director of Housing, Health and Adult Social Care	Jean Daintith	3	135,667	6,640	-	74,971	217,278	29,950	247,228
Exec Director of Family and Children Services	Libby Blake	4	64,863	5,425	684	-	70,972	14,976	85,948
Tri Borough Executive Director of Children's Services	Andrew Christie	4	87,273	-	-	-	87,273	18,502	105,775
Exec Director of Planning and Borough Development	Jonathan Bore		111,339	3,300	1,104	-	115,743	24,233	139,976
Director of Strategy and Service Improvement	Tony Redpath		96,500	4,825	1,050	-	102,375	21,481	123,856
Director of Personnel and General Services	George Bishop	5	125,288	11,670	-	62,609	199,567	28,107	227,674
Head of Media and Communications	Martin Fitzpatrick		56,900	2,845	-	-	59,745	12,666	72,411

31a. Disclosure of remuneration for senior employees 2012-13 (continued)

Notes:

1. The costs of the Joint or Bi-Borough Chief Executive were shared 50:50 with London Borough of Hammersmith & Fulham.
2. The post of Assistant Chief Executive ended on 31 December 2012. The post holder was also formerly the Executive Director of Transport, Environment and Leisure Services. These duties are now carried out by two bi-borough Executive Directors, Nigel Pallace and Lyn Carpenter, who are employed by the London Borough of Hammersmith & Fulham. The costs of these posts were shared 50:50 in 2012-13. Details of the salaries paid by London Borough of Hammersmith & Fulham can be found in their 2012-13 Statement of Accounts: http://www.lbhf.gov.uk/Directory/Council_and_Democracy/Plans_performance_and_statistics/Performance_information/Statement_of_accounts/68526_Statement_of_accounts.asp (Note 32).
3. The cost of the Tri-Borough Executive Director of Adult Social Care, who is employed by the London Borough of Hammersmith & Fulham, was shared with the London Borough of Hammersmith & Fulham (LBHF) and the City of Westminster (COW). The share was 21.2 (RBKC): 46.3 (LBHF): 32.5 (COW). Details of the salary paid by London Borough of Hammersmith & Fulham can be found in their 2012-13 Statement of Accounts: http://www.lbhf.gov.uk/Directory/Council_and_Democracy/Plans_performance_and_statistics/Performance_information/Statement_of_accounts/68526_Statement_of_accounts.asp (Note 32).
4. The cost of the Tri Borough Executive Director of Children's Services was shared with the London Borough of Hammersmith & Fulham (LBHF) and the City of Westminster (COW). The share was 33.3 (RBKC): 33.3 (LBHF): 33.3 (COW).
5. The cost of the Bi-Borough Director of Human Resources, Deborah Morris, was shared 50:50 with the London Borough of Hammersmith & Fulham. Details of the salary paid by the London Borough of Hammersmith & Fulham can be found in the senior officers' salaries disclosure at: http://www.lbhf.gov.uk/Directory/Council_and_Democracy/Data_Protection_and_Freedom_of_Information/Freedom_of_Information_Act/170643_Senior_officer_salaries.asp

Please note that salaries of all staff employed directly by the Royal Borough of Kensington and Chelsea paid over £58,200 can be found at: http://www.rbkc.gov.uk/councilanddemocracy/transparencyinthecouncil/seniorstaffinformation.aspx

31b. Officer Remuneration in Bands

The number of employees in each salary band is set out below. Calculations are based on all sums paid to or receivable by an employee and sums due by way of taxable expenses, allowances and the monetary value of any other benefits received other than in cash. Pension contributions payable by either employee or employer are excluded. Voluntary Aided schools are not included in this analysis.

	2012-13 Officers	2011-12 Officers
£50,000 - £54,999	125	126
£55,000 - £59,999	58	51
£60,000 - £64,999	36	36
£65,000 - £69,999	25	34
£70,000 - £74,999	22	20
£75,000 - £79,999	8	7
£80,000 - £84,999	8	15
£85,000 - £89,999	10	12
£90,000 - £94,999	8	3
£95,000 - £99,999	1	2
£100,000 - £104,999	3	2
£105,000 - £109,999	1	1
£110,000 - £114,999	-	-
£115,000 - £119,999	-	2
£120,000 - £124,999	2	-
£125,000 - £129,999	-	1
£130,000 - £134,999	-	-
£135,000 - £139,999	-	1
£140,000 - £144,999	-	1
£145,000 - £149,999	-	1
£150,000 - £154,999	-	-
£155,000 - £159,999	1	-
£160,000 - £164,999	1	1
£165,000 - £169,999	1	-
£170,000 - £174,999	-	-
£175,000 - £179,999	-	-
£180,000 - £184,999	-	-
£185,000 - £189,999	-	-
£190,000 - £194,999	-	-
£195,000 - £199,999	-	-
£200,000 – £204,999	-	-
£205,000 - £209,999	-	-
£210,000 - £214,999	-	-
£215,000 - £219,999	-	-
£220,000 - £224,999	1	1
£225,000 - £229,999	-	-
Total	**311**	**317**

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

31c. Costs of Staff Departures - All Administrations Disclosure Note for 2012-13 Accounts

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

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

Cost Band (including special payments)	Number of compulsory redundancies		Number of other departures agreed		Total number of departures by cost band		Total cost of departures in each band	
	2012-13	2011-12	2012-13	2011-12	2012-13	2011-12	2012-13	2011-12
£0 - £20,000	35	59	22	34	57	93	401,975	648,939
£20,001 - £40,000	7	9	4	7	11	16	286,807	424,476
£40,001 - £60,000	2	-	3	2	5	2	253,170	94,954
£60,001 - £80,000	-	3	5	8	5	11	344,188	738,691
£80,001 - £100,000	-	-	1	2	1	2	81,603	177,349
£100,001 - £200,000	-	-	1	4	1	4	100,242	613,430
Total	**44**	**71**	**36**	**57**	**80**	**128**	**1,467,985**	**2,697,839**

32. External Audit Costs

	2012-13 £'000	2011-12 £'000
Fees payable to external auditors in respect of:		
- External audit services carried out by the appointed auditor for the year	180	276
- The certification of grant claims and returns for the year	37	72
- Other services	-	-
Total	**217**	**348**

33. Dedicated Schools Grant

The Council's expenditure on schools is primarily funded by the Dedicated Schools Grant (DSG), a grant paid by the Department for Education. An element of DSG is recouped by the Department to fund academy schools in the Royal Borough. DSG is ring-fenced and can only be applied to meet expenditure properly included in the 'Schools Budget', as defined in the *School Finance (England) Regulations 2011*. The Schools Budget comprises: elements for a range of educational services provided on a borough-wide basis; and the 'Individual Schools Budget' (ISB), which is divided into a budget share for each maintained school.

Details of the deployment of DSG receivable for 2012-13 are as follows:

2012-13	**Central Expenditure £'000**	**Individual School Budgets £'000**	**Total £'000**
Final DSG for 2012-13 before Academy recoupment			79,495
Academy figure recouped for 2012-13			-
Total DSG after Academy recoupment for 2012-13			**79,495**
Brought forward from 2011-12			1,492
Carry-forward to 2013-14 agreed in advance			**1,492**
Agreed initial budgeted distribution in 2012-13	8,357	71,138	79,495
In-year adjustments	(1,146)	1,146	-
Final budgeted distribution for 2012-13	**7,211**	**72,284**	**79,495**
Less Actual central expenditure	(7,042)	-	(7,042)
Less Actual ISB* deployed to schools	-	(72,284)	(72,284)
Plus Local authority contribution for 2012-13	-	-	-
Carry-forward to 2013-14	**169**	**-**	**1,661**

2011-12	**Central Expenditure £'000**	**Individual School Budgets £'000**	**Total £'000**
Final DSG for 2011-12 before Academy recoupment	8,332	70,903	79,235
Academy figure recouped for 2011-12	-	-	-
Total DSG after Academy recoupment for 2011-12	**8,332**	**70,903**	**79,235**
Brought forward from 2009-10	62	-	62
Carry-forward to 2012-13 agreed in advance	**62**	**-**	**62**
Agreed initial budgeted distribution in 2011-12	8,332	70,903	79,235
In-year adjustments	-	-	-
Final budgeted distribution for 2011-12	**8,332**	**70,903**	**79,235**
Less: Actual central expenditure	(7,903)	-	(7,903)
Less: Actual ISB* deployed to schools	-	(69,902)	(69,902)
Plus: Local authority contribution for 2011-12	-	-	-
Carry-forward to 2012-13	**491**	**1,001**	**1,492**

34. Grant Income

The Council credited the following revenue grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2012-13:

34a. Credited to Taxation and Non Specific Grant Income

	2012-13 £'000	2011-12 £'000
Council tax	77,968	77,920
National non-domestic rates	98,962	82,703
Revenue Support Grant	1,918	25,564
Council Tax Freeze Grant	1,951	1,947
Total	**180,799**	**188,134**

34b. Credited to Services

	2012-13 £'000	2011-12 £'000
Housing Benefit Subsidy	141,662	151,117
Dedicated Schools Grant	79,326	79,615
Council Tax Subsidy	12,762	13,467
Early Intervention Grant	7,398	6,852
Skills Funding Agency Grants	1,312	5,735
Education Funding Agency Post 16 Grant	4,138	-
Learning Disability and Health Reform Grant	3,750	3,645
Homelessness Grant	2,300	2,300
Housing Benefit Administration Subsidy	1,877	2,085
Pupil Premium Grant	2,812	1,511
Discretionary Housing Payments	1,308	292
Transport for London Revenue Grant	989	1,429
HRA Subsidy	-	847
Drug Intervention Programme Grant	159	767
New Homes Bonus	885	673
Academies Funding Transfer Refunds	579	-
Unaccompanied Asylum Seekers Grant	502	514
Housing Benefit Reforms Transitional Funding	461	-
Youth Justice Grants	362	418
Disabled Facilities Grant	-	321
Welfare Reform Changes Grant	268	-
Other Grants (under £250k)	1,917	2,769
Total	**264,767**	**274,357**

34c. Capital Grants Receipts in Advance

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

	2012-13 £'000	2011-12 £'000
Standards Fund Capital (Primary Programme)	6,111	8,018
S106 and private contributions	8,513	4,017
Community Capacity Grant	1,042	521
Social Services - Single Capital Pot	850	850
Disabled Facilities Grant	240	-
71 Academies	192	-
Other	103	103
Total	**17,051**	**13,509**

35. Related Parties

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

The Government has effective control of all local authorities. It is responsible for the statutory framework in which the Council operates, provides the majority of the Council's funding and limits the ability of the Council to determine the level of its council tax. Grants received from the Government and are set out in **Note 34.**

Councillors

Councillors have direct control of the Council's policies and strategies. Day-to-day responsibility lies with the Council's executive, or "Cabinet", which in 2012-13 comprised nine Members with authority within their respective portfolios to approve decisions of a value less than £250,000. Decisions with a value greater than £250,000 are taken by Cabinet collectively or by full Council as appropriate. No councillor has a relationship or holds a position with a company that has a material commercial relationship with the Council.

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

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

The Leader of the Council during 2012-13, Councillor Sir Merrick Cockell, is Chairman of the Local Government Group (the Local Government Association) and Deputy Chairman of the London Pension Fund Authority.

Councillor Moylan, member of the Cabinet and Corporate Services Scrutiny Committee is:

- a member of Transport for London;
- Chairman of Kensington and Chelsea Environmental Limited, a charity registered with ENTRUST under the Landfill Tax Regulations, which undertakes environmental improvement projects in the Royal Borough;
- Co-chairman of Urban Design London; and was
- a Member of the London Waste and Recycling Board until August 2012.

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

Councillor (Fiona) Buxton, Councillor (Terence) Buxton, Councillor Feilding-Mellen, Cllr Lindsay and Councillor Mason are on the board of Westway Development Trust.

Councillor Read is chair of the Board of Kensington and Chelsea Credit Union Limited (trading as Your Credit Union) and Councillor Freeman is chair of the Supervisory Committee.

A number of councillors are committee members at London Councils.

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

Other Public Bodies
The Council delivers services in close co-operation with other public bodies such as the Greater London Authority, Transport for London, the Kensington and Chelsea Partnership, Metropolitan Police Service, National Health Service trusts and commission 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 34 Grant Income**. The Council has made no material financial payments to another public body.

The Council has entered into joint working arrangements with neighbouring local authorities, the City of Westminster and the London Borough of Hammersmith & Fulham. These arrangements are currently referred to as tri-borough or bi-borough working and the bulk of these arrangements were in place from 1 April 2012. The net payments between the three authorities are not material, but the gross payments are material and will continue to be so. Work to develop the arrangements also means that each borough influences the others.

36. Capital Expenditure and Capital Financing

	2012-13 £'000	2011-12 £'000
Opening Capital Financing Requirement	**284,914**	**228,881**
Capital investment		
Property, Plant and Equipment	52,275	63,110
Long Term Investments	-	-
Heritage Assets	-	52
Investment Properties	-	8
Intangible Assets	940	857
Assets Held for Sale	-	73
Revenue Expenditure Funded from Capital Under Statute	6,024	4,046
Sources of finance		
Capital receipts	(949)	(837)
Government grants and other contributions	(7,429)	(8,803)
Sums set aside from revenue:		
Direct revenue contributions	(17,672)	(17,489)
Direct Revenue Funding (Major Repairs Reserve)	(8,550)	(8,444)
MRP / loans fund principal	(1,402)	(1,500)
Closing Capital Financing Requirement	**308,151**	**259,954**
Provision to reduce the underlying need to borrow (MRP)	(1,402)	(1,500)
Increase in the underlying need to borrow (supported by government financial assistance)		-
Increase in underlying need to borrow (unsupported by government financial assistance)	24,639	32,573
Assets acquired under finance leases		-
Assets acquired under PFI / PPP contracts		-
Increase / (decrease) in Capital Financing Requirement	**23,237**	**31,073**

NOTE:
The capital financing requirement is adjusted below to reflect Government reporting requirements for the HRA self-financing payment and financing:

	2012-13 £'000	2011-12 £'000
Closing Capital Financing Requirement	**308,151**	**259,954**
HRA self-financing settlement	-	24,960
Revised Closing Capital Financing Requirement	**308,151**	**284,914**

37. Leases

Council as Lessee

Finance Leases

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

	31 March 2013 £'000	31 March 2012 £'000
Other Land and Buildings	1,980	1,923
Vehicles, Plant, Furniture and Equipment	55	110
Total	**2,035**	**2,033**

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

	31 March 2013 £'000	31 March 2012 £'000
Present value of the minimum lease payments:		
Current	39	37
Non-current	1	40
Future interests costs	3	7
Unguaranteed residual value of assets	-	-
Total minimum lease payments	**43**	**85**

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

	Present Value of Minimum Lease Payments		Finance Lease Liabilities	
	31 March 2013 £'000	31 March 2012 £'000	**31 March 2013 £'000**	31 March 2012 £'000
Not later than one year	39	37	3	5
Later than one year and not later than five years	1	40	-	3
Later than five years	-	-	-	-
Total	**40**	**77**	**3**	**8**

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

Operating Leases

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

	31 March 2013 £'000	31 March 2012 £'000
Not later than one year	181	286
Later than one year and not later than five years	414	422
Later than five years	556	567
Total	**1,151**	**1,276**

The Council does not sublet any of the space let to it under operating leases.

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

	31 March 2013 £'000	31 March 2012 £'000
Adult Social Care	5	5
Cultural and Related Services	8	8
Children's and Education	79	223
Cultural, Environmental, Regulatory and Planning Services	6	6
Housing GF Services	11	11
Allocated across service lines	34	34
Total	**143**	**286**

Council as Lessor

Finance Leases

The Council has let a number of properties, mostly land, on very long leases that are judged to be finance leases. Ten assets have been let on leases of 990 to 1001 years and three other properties have been let on terms of 126, 150 and 200 years. In each case, the Council receives a peppercorn rent (if demanded) and there is no guaranteed residual value of the property. This means that the gross investment in each lease is zero and thus no financial disclosures to be made.

Properties let by the Council include: five storage units leased to private individuals and companies; the land occupied by the Muslim Cultural Heritage Centre; the land occupied by the Tesco store in Fenelon Place; the land occupied by the Great Western Studios; the land occupied by the Manor House Estate; a parcel of land at Henry Dickens Court; a property on Notting Hill Gate; and a small parcel of land at Redcliffe Square.

The land parcels set out above have been judged to be finance leases on the basis of substance over form. In some cases a premium has been paid to secure a long tenancy at a peppercorn rate and in others, the Council has granted favourable terms to deliver social benefit. In all cases other than the land at Fenelon Place, the length of the lease is such that control of the land will not revert to the Council until 2988AD or later if the leaseholder retains the lease for its full term.

Operating Leases

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

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

The future minimum lease payments receivable under non-cancellable leases for non-operational assets in future years are:

	31 March 2013 £'000	31 March 2012 £'000
Not later than one year	6,236	5,780
Later than one year and not later than five years	21,301	18,824
Later than five years	36,062	28,732
Total	**63,598**	**53,336**

Please note that the information in the table above reflects current leases (a number of which expire in the coming years), tenancies at will, leases that have been held over and leases without a finite expiry date. The Council anticipates that expiring leases will be re-let to new or existing tenants, but income from these and vacant properties is not included in the table. It is assumed in the table that the existing arrangements governing tenancies at will, leases that have been held over and leases without a finite expiry date will continue for 15 years.

38. Impairment Losses

The rebuilt Holland Park School has been completed and opened in 2012. The school will convert to an Academy during 2013-14 and therefore the Council's external valuers, Deloitte Real Estate, have calculated a valuation for the school based on the cost to the Council of replacing that service potential should it wish to do so. Deloitte has assumed that a replacement would be built at a lower cost than that of Holland Park School given that the Council would not have the capital receipt available from the sale of the southern site to fund the work as was the case when rebuilding of Holland Park School commenced. The Council has debited an impairment of £70,571,717 to the Surplus or Deficit on the Provision of Services under the schools element of Children's and Education Services. A further impairment of £341,662 was charged in relation to the demolition of the old school buildings and facilities.

The Council values its dwellings in accordance with the proper practice set out in the Government guidance Stock Valuation *for Resource Accounting: Guidance for Valuers - 2010*. In the opinion of Mazars, the external valuers who complete an annual valuation of the Council's dwelling stock, under the requirements of the 'Existing Use Valuation - Social Housing' method of valuation, the Council's capital expenditure on its dwelling stock does not increase the value of those assets. The Code and associated *Guidance Notes for Practitioners* require the Council to impair an asset accordingly where the value of an asset increases by less than the capital expenditure incurred on it. Therefore, the Council has impaired the value of its dwellings by £9,325,224 with the charge taken to the Housing Revenue Account.

The Council commissioned Deloitte Real Estate to provide updated valuations of its property assets as at 31 March 2013 in light of rising property prices in central London and significant capital expenditure on certain properties. In relation to Kensington Town Hall, a revaluation loss of £4,676,360 in excess of the available Revaluation Reserve balance was charged to the Surplus or Deficit on the Provision of Services under Central Services. Other non-material revaluation losses were also charged to the appropriate service in the Surplus or Deficit on the Provision of Services, notably £389,289 in relation to Bevington Road Public Conveniences, £297,164 in relation to St Quintin Family Centre, £236,334 in relation to Chelsea Old Town Hall and £162,959 in relation to Colville Primary School.

The Council is rebuilding Marlborough School. In the opinion of the Council's external valuers, Deloitte Real Estate, the remaining building has no ongoing value to the Council and therefore the Council has impaired it accordingly, with a £2,985,907 loss charged to the Surplus or Deficit on the Provision of Services under the schools element of Children's and Education Services. This sum includes the value of assets previously let to Kensington and Chelsea College.

The Council is rebuilding Kensington Leisure Centre on its existing site. The centre was closed in December 2012 and has been demolished. The Council therefore charged impairments to the Surplus or Deficit on the Provision of Services under the recreation and sport element of Cultural and Related Services comprising £1,237,706 in relation to the buildings and £17,005 in relation to the artificial pitches.

The Council is replacing the existing school buildings at Middle Row Primary School. In the opinion of the Council's external valuers, Deloitte Real Estate, the remaining building has no ongoing value to the Council and therefore the Council has impaired it accordingly, with a £400,000 loss charged to the Surplus or Deficit on the Provision of Services under the schools element of Children's and Education Services. A further £322,000 impairment was also charged in relation to ancillary buildings on the school site.

39. Termination Benefits

There are no additional estimable termination benefit costs as at the balance sheet date. The Council has an earmarked Severance Reserve held specifically to cover future termination benefit costs. The balance of the reserve at 31 March 2013 was £8.6 million.

40. Pension Schemes Accounted for as Defined Contribution Schemes

In 2012-13, the council paid £4,197,642 to Teachers' Pensions in respect of teachers' retirement benefits, representing 14.1 per cent of pensionable pay. The figures for 2011-12 were £4,178,328 and 14.1 per cent. There were no contributions remaining payable at the year-end.

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

41. Defined Benefit Pension Schemes

Participation in Pension Schemes

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

The Council participates in two funds, both of which form part of the Local Government Pension Scheme, which is a funded defined benefit final salary scheme meaning that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets. The Council participates in the Kensington and Chelsea Pension Fund, which it administers and also that of the London Pension Fund Authority (LPFA).

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

Transactions Relating to Post-employment Benefits

The Council recognises the cost of retirement benefits in the cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge the Council is required to make against council tax is based on the cash payable in the year, so the real cost of post employment/retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year:

	RBKC Pension Scheme		LPFA Pension Scheme	
	31 March 2013 £'000	31 March 2012 £'000	31 March 2013 £'000	31 March 2012 £'000
Comprehensive Income and Expenditure Statement (CIES)				
Cost of Services:				
Current service cost	**19,212**	15,801	**215**	205
Past service costs	**-**	-	**-**	-
Settlements and curtailments	**1,040**	140	**-**	48
Financing and Investment Income and Expenditure:				
Interest cost	**33,408**	33,188	**1,306**	1,430
Expected return on scheme assets	**(25,114)**	(27,484)	**(964)**	(1,124)
Total Post Employment Benefit Charged to the Deficit on the Provision of Services	**28,546**	21,645	**557**	559
Other Post Employment Benefit Charged to the CIES:				
Actuarial (gains) and losses*	**(28,475)**	102,047	**2,932**	2,303
Total Post Employment Benefit Charged to the CIES	**71**	123,692	**3,489**	2,862
Movement in Reserves Statement				
Reversal of net charges made to the deficit for the Provision of Services for post employment benefits in accordance with the Code	**(28,546)**	(21,645)	**(557)**	(559)
Actual amount charged against the General Fund Balance for pensions in the year				
Employers' contributions payable to scheme**	**25,042**	16,602	**479**	499

* *As reported in the CIES: Actuarial (gains)/losses on pension assets/liabilities*

*** The Council made an additional voluntary contribution of £9 million in 2012-13.*

Assets and Liabilities in Relation to Post-employment Benefits

Reconciliation of present value of the scheme liabilities (defined benefit obligation):

	Funded liabilities: RBKC Pension Scheme £'000		Funded liabilities: LPFA Pension Scheme £'000	
	2012-13	**2011-12**	**2012-13**	**2011-12**
Opening balance at 1 April	**733,648**	**604,076**	**29,186**	**26,498**
Current service cost	19,212	15,801	215	205
Interest cost	33,408	33,188	1,306	1,430
Contributions by scheme participants	5,068	5,281	49	61
Actuarial gains and losses	18,238	97,523	4,006	2,300
Benefits paid	(21,269)	(23,728)	(1,519)	(1,283)
Past service costs	-	-	-	-
Curtailments	1,040	1,507	-	110
Unfunded Pension Payments		-	(138)	(135)
Closing balance at 31 March	**789,345**	**733,648**	**33,105**	**29,186**

Reconciliation of fair value of the scheme (plan) assets:

	Funded assets: RBKC Pension Scheme £'000		Funded assets: LPFA Pension Scheme £'000	
	2012-13	**2011-12**	**2012-13**	**2011-12**
Opening fair value of scheme assets	**476,760**	**454,278**	**22,871**	**22,546**
Expected rate of return	25,114	27,484	964	1,124
Actuarial gains and losses	46,198	(3,806)	1,078	(3)
Employer contributions (including unfunded)	25,557	17,251	475	561
Contributions by scheme participants	5,068	5,281	49	61
Benefits paid	(21,269)	(23,728)	(1,657)	(1,418)
Entity combinations	-	-	-	-
Settlements	-	-	-	-
Closing balance at 31 March	**557,428**	**476,760**	**23,780**	**22,871**

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the Balance Sheet date. Expected returns on equity investments reflect long-term real rates of return experienced in the respective markets.

Scheme History

	31 Mar'10 £000	31 Mar '11 £000	31 Mar '12 £000	31 Mar '13 £000
Present value of liabilities:				
RBKC Pension Scheme	714,167	604,076	733,648	789,345
LPFA Pension Scheme	33,312	26,498	29,186	33,105
Fair value of assets				
RBKC Pension Scheme	407,001	454,278	476,760	557,428
LPFA Pension Scheme	18,755	22,546	22,871	23,780
Surplus / (deficit) in the scheme:				
RBKC Pension Scheme	(307,166)	(149,798)	(256,888)	(231,917)
LPFA Pension Scheme	(14,557)	(3,952)	(6,315)	(9,325)
Total	**(321,723)**	**(153,750)**	**(263,203)**	**(241,242)**

The liabilities show the underlying long-run commitments that the Council has to meet to pay post employment retirement benefits. The total liability of £241 million has a substantial impact on the net worth of the Council. However, statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy: the deficit scheme will be made good by maintaining a high level contributions over the remaining working life of employees i.e. before payments fall due, as assessed by the scheme actuary.

Finance is only required to be raised to cover discretionary benefits when the pensions are actually paid.

The total contribution the Council expects to make to the Pension Fund in the financial year to 31 March 2014 is £16,125,000. Expected contributions for the LPFA scheme in the year to 31 March 2014 are £340,000.

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 1 April 2010.

The principal assumptions used by the actuary are:

	RBKC Pension Scheme 2012-13	RBKC Pension Scheme 2011-12	LPFA Pension Scheme 2012-13	LPFA Pension Scheme 2011-12
Mortality assumptions:				
Longevity at 65 for current pensioners (in years):				
Men	19.2	19.0	20.4	20.3
Women	23.2	23.1	23.1	23.0
Longevity at 65 for future pensioners:				
Men retiring in 20 years	21.1	21.0	22.4	22.3
Women retiring in 20 years	25.1	25.0	25.0	24.9
Rate of RPI inflation	3.4%	3.3%	3.2%	3.3%
Rate of CPI Inflation	2.6%	2.5%	2.4%	2.5%
Rate of increase in salaries	4.8%	4.7%	4.1%	4.2%
Rate of increase in pensions	2.6%	2.5%	2.4%	2.5%
Rate for discounting scheme liabilities	4.6%	4.6%	3.5%	4.6%
Take-up of option to convert annual pension into retirement lump sum	50%	50%	50%	50%

* Due to changes in IAS19 requirements, the long-term expected rate of return on assets in the scheme is assumed to be 5.2 per cent per annum.

The Pension Fund's assets consist of the following categories, by proportion of the total assets held:

	31 March 2013 %	31 March 2012 %
Equity investments	67.0	64.0
Gilts	1.0	1.0
Alternative assets	28.0	30.0
Property	3.0	4.0
Private equity	0.0	0.0
Cash	1.0	1.0
	100.0	**100.0**

History of Experience Gains and Losses

The actuarial gains identified as movements on the Pensions Reserve in 2012-13 can be analysed into the following categories, measured as a percentage of assets or liabilities at 31 March 2013:

	2009-10	2010-11	2011-12	2012-13
	%	%	%	%
Differences between the expected and actual return on assets				
RBKC Local Government Pension Scheme	20.6	3.6	(0.8)	8.3
LPFA Local Government Pension Scheme	6.8	16.3	0.0	4.5
Experience gains and losses on liabilities				
RBKC Local Government Pension Scheme	0.6	3.0	0.0	0.0
LPFA Local Government Pension Scheme	0.7	5.2	(0.2)	0.0

42. Contingent Liabilities

At 31 March 2013, the Council had the following contingent liabilities:

- During 1992-93, the then Council's insurers, Municipal Mutual Insurance (MMI), ceased accepting new business. The Council is a member of a scheme of arrangement that has been put into place to try to ensure an orderly settlement of the run-off of MMI. The scheme of arrangement was triggered in 2012-13 and the Council is required to pay an estimated levy of £240,000 for which it has made provision. The Council's maximum additional exposure to future claims payments is £1.4 million. The Council has sufficient funds in its Insurance reserve to cover this exposure.

- The Council holds reserves held by schools within its balance sheet. Reserves held by schools converting to academy status are transferred from the Council to the academy. Holland Park School is converting to academy status in September 2013 and the value of its reserve at 31 March 2013 is £2 million.

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

43. Contingent Assets

The Council has made claims where either the policy of Her Majesty's Revenue and Customs (HMRC) has changed, or where legal judgements have changed the Valued Added Tax (VAT) treatment of a service.

'Fleming claims' are claims for overpaid VAT, potentially going back as far as the inception of VAT in 1973. They followed the House of Lords judgements in January 2008 in the cases of Fleming and Conde Nast, which both concerned the way that the three-year time limit on making claims had been introduced by HMRC.

At 31 March 2013, the Council had contingent assets relating to the following VAT claims, none of which are individually material to the Council:

Nature of Claim	Amount of Claim £'000
Off Street Car Parking	3,363
Off Street Car Parking (Fleming Claim)	1,750
Building Control Fees (Fleming Claim)	585
Trade Waste	2,866
Total	**8,564**

The claims are subject to litigation and therefore the timing and amounts that may be paid to the Council are uncertain.

44. Nature and Extent of Risks Arising from Financial Instruments

Key Risks

The Council's activities expose it to a variety of financial risks, the key risks are:

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

Overall Procedures for Managing Risk

The Council's overall risk management procedures focus on the unpredictability of financial markets, and are structured to implement suitable controls to minimise these risks. The procedures for risk management are set out through a legal framework based on the Local Government Act 2003 and the associated regulations. These require the Council to comply with CIPFA's *Prudential Code* and *Code of Practice on Treasury Management in the Public Services* together with investment guidance issued through the Act. Overall these procedures require the Council to manage risk in the following ways:

- by formally adopting the requirements of the *Code of Practice on Treasury Management in the Public Services*;
- by the adoption of a Treasury Policy Statement and treasury management clauses within its constitution;
- by approving annually in advance prudential and treasury indicators for the following three years limiting the Council's:
    - overall borrowing;

- maximum and minimum exposures to fixed and variable rates;
- maximum and minimum exposures for the maturity structure of its debt;
- maximum annual exposures to investments maturing beyond a year; and

- by approving an investment strategy for the forthcoming year that sets criteria for both investing and selecting investment counterparties in compliance with Government guidance.

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

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

Credit Risk

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

This risk is minimised through the *Annual Investment Strategy*, which requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria. The *Annual Investment Strategy* also considers maximum amounts in respect of each financial institution. Deposits are not made with banks and financial institutions unless they meet the minimum requirements of the investment criteria. Additional selection criteria are also applied following the application of the initial credit criteria.

The following analysis summarises the Council's potential maximum exposure to credit risk arising from the Council's investment activities, based on past experience, current market conditions and the Council's experience of its customer collection levels over the last five financial years:

	Amount at 31 March 2013	Historical experience of default	Adjustment for market conditions at 31 March 2013	Estimated maximum exposure to default
	£'000	%	%	£'000
Deposits with banks and financial institutions				
'AAA' rated counterparties	**132,490**	0.00	0.00	0.00
'AA' rated counterparties	**0**	0.02	0.02	0.00
'A' rated counterparties	**44**	0.09	0.09	0.04
Other counterparties *	**25,420**	0.00	0.00	0.00
	157,954			0.04

* Other counterparties represent investments with other local authorities

The table above does not include non-investment related financial instruments, such as trade debtors which are disclosed in Note 17.

While the ongoing crisis in international markets has raised the overall possibility of default, the Council maintains strict credit criteria for investment counterparties and has actively placed funds with low risk institutions such as the Debt Management Office and other local authorities.

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

In the unlikely event that the payment due for the sale of the Holland Park School southern site is not paid to the Council (the deferred capital receipt is disclosed in Note 17b Debtors), the Council will be able to resell the land site because it has a legal charge over the site. Therefore, the Council could secure the full debt even in the event of a default.

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

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

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

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

- monitoring the maturity profile of financial liabilities and amending the profile through either new borrowing or the rescheduling of the existing debt; and

- monitoring the maturity profile of investments to ensure sufficient liquidity is available for the Council's day to day cash flow needs and spread of longer term investments provide stability of maturities and returns in relation to the longer term cash flow needs.

The maturity analysis of financial liabilities is as follows:

	£'000
Less than one year	8,658
Between one and two years	7,797
Between two and five years	23,589
Between five and ten years	47,127
Between ten and fifteen years	25,744
More than fifteen years	53,484
Total	**166,399**

The maturity analysis of financial assets is as follows:

	£'000
Less than one year	155,504
Between one and two years	-
Between two and three years	-
More than three years	-
Total	**155,504**

The above tables exclude trade payables and receivables all of which are due to be paid/received within one year. The maturity analysis of financial assets excludes the deferred capital receipt in respect of the disposal of Holland Park School southern site which is due to be received in September 2013.

Market risk

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

- *Borrowing at variable rates*: the interest expense charged to the Comprehensive Income and Expenditure Statement will rise.

- *Borrowing at fixed rates:* the fair value of the borrowing liability will fall (no impact on revenue balances).

- *Investments at variable rates*: the interest income credited to the Comprehensive Income and Expenditure Statement will rise.

- *Investments at fixed rates*: the fair value of the assets will fall (no impact on revenue balances).

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

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

The risk of interest rate loss is partially mitigated by Government grant payable on financing costs.

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

	£'000
Increase in interest payable on variable rate borrowings	-
Increase in interest receivable on variable rate investments	(1,657)
Impact on the CIES	(1,657)
Increase in Government grant receivable for financing costs	-
Share of overall impact debited to the HRA	182
Decrease in fair value of fixed rate investment assets	-
Decrease in fair value of fixed rate borrowings liabilities (no impact on the CIES)	15,826

The approximate impact of a 1 per cent fall in interest rates would be as above, but with the movements being reversed. These assumptions are based on the same methodology as used in the note: Fair Value of Assets and Liabilities carried at Amortised Cost.

Price risk: the Council, excluding the Pension Fund, does not generally invest in equities or marketable bonds.

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

45. Expenditure on Publicity

	2012-13 £'000	2011-12 £'000
Press and public relations		
Salaries	398	431
Other costs	155	116
Miscellaneous advertising	325	296
Staff recruitment costs	181	178
Total	**1,059**	**1,021**

46. Long Term Liabilities

	£'000	£'000
Net pensions liability	241,242	263,203
Long term lease liability	40	75
Deferred liabilities	152	398
Total	**241,435**	**263,676**

Supplementary Financial Statements 2012-13

THE ROYAL BOROUGH OF
KENSINGTON
AND CHELSEA

The Housing Revenue Account Income and Expenditure Statement

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

	31 March '13 £'000	31 March '12 £'000	Notes
Expenditure			
Repairs and maintenance	11,776	12,194	
Supervision and management	17,941	18,232	
Rents, rates, taxes and other charges	130	172	
Depreciation and impairment of fixed assets			
On dwellings	2,652	7,202	1a
On non-dwellings	249	263	
Impairments	9,629	7,355	1a
Debt management costs	81	119	
Revenue Expenditure Funded from Capital Under Statute	570	-	
Bad debt provision made in year	59	(109)	8
Settlement payment	-	24,960	
Total expenditure	**43,087**	**70,388**	
Income			
Dwelling rents	(38,386)	(35,683)	
Non-dwelling rents	(3,551)	(3,413)	
Charges for services and facilities	(9,721)	(9,290)	
Contributions towards expenditure	(256)	(458)	
HRA subsidy receivable (including the MRA element)	(79)	(847)	2
Total income	**(51,993)**	**(49,691)**	
Net cost of HRA services as included in the Council's Income and Expenditure Statement	(8,906)	20,697	
HRA's share of Corporate and Democratic Core	17	31	
Net cost of HRA services	**(8,889)**	**20,728**	
HRA share of the operating income and expenditure included in the Comprehensive Income and Expenditure Statement:			
Interest payable and similar charges*	12,158	10,156	6
Amortisation of premiums and discounts	-	-	
Interest and investment income	(78)	(90)	
Government grants applied	-	-	
(Surplus) / deficit for the year on HRA services	**3,191**	**30,793**	

* Interest payable and similar charges include £576,000 of additional interest charged from the General Fund.

Movement on the HRA Statement

	31 March '13 £'000	31 March '12 £'000	Notes
(Surplus) / deficit for the year on the HRA Income and Expenditure Account	**3,191**	**30,793**	
Transfers to / (from) Major Repairs Reserve	4,301	(263)	
Contributions to / (from) reserves	59	93	
Capital expenditure funded by the Housing Revenue Account	50	50	
Government grants applied	-	-	3
Impairment of non-current assets	(9,629)	(7,355)	1a
Neutralisation of REFCUS	(570)	-	
Settlement payment	-	(24,960)	
(Increase) / decrease in the Housing Revenue Account balance	**(2,598)**	**(1,642)**	
Housing Revenue Account surplus brought forward	**(13,463)**	**(11,821)**	
Housing Revenue Account surplus carried forward	**(16,061)**	**(13,463)**	

1a. Movement on Balances 2012-13

	Council Dwellings	Other Land and Buildings	Vehicles, Equipment Plant and Furniture	Infrastructure Assets	Community Assets	Surplus Assets	Assets Under Construction	Investment Properties	Total
Cost or Valuation	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
At 1 April 2012	**603,929**	**12,066**	**48**	**-**	**-**	**-**	**-**	**44,316**	**660,359**
Additions	9,325	226	-	-	-	-	129	-	9,679
Revaluation increases / (decreases) and impairments recognised in the Revaluation Reserve	(15,380)	427	-	-	-	-	-	-	(14,953)
Revaluation increases / (decreases) and impairments recognised in the surplus / deficit on the provision of services	(269)	(36)	-	-	-	-	-	2,232	1,928
Assets reclassified (to) / from Held for Sale	-	-	-	-	-	-	-	-	-
Transfers in	-	629	-	-	-	-	-	145	774
Transfers out	(2)	(1,445)	-	-	-	-	-	(277)	(1,724)
Derecognition - disposals	(150)	-	-	-	-	-	-	-	(150)
At 31 March 2013	**597,454**	**11,866**	**48**	**-**	**-**	**-**	**129**	**46,416**	**655,913**
Accumulated Depreciation and Impairment									
At 1 April 2012	**28,846**	**146**	**20**	**-**	**-**	**-**	**-**	**-**	**29,013**
Depreciation charge	2,652	256	7	-	-	-	-	-	2,915
Revaluations	(40,790)	(399)	-	-	-	-	-	-	(41,189)
Impairments	9,325	-	-	-	-	-	-	-	9,325
Assets reclassified (to) / from Held for Sale	-	-	-	-	-	-	-	-	-
Transfers in	-	10	-	-	-	-	-	-	10
Transfers out	(2)	(10)	-	-	-	-	-	-	(12)
Derecognition - disposals	(32)	-	-	-	-	-	-	-	(32)
At 31 March 2013	**0**	**2**	**27**	**-**	**-**	**-**	**-**	**-**	**29**
Net Book value									
At 31 March 2013	**597,454**	**11,864**	**21**	**-**	**-**	**-**	**129**	**46,416**	**655,884**
At 31 March 2012	575,083	11,919	28	-	-	-	-	44,316	631,346

1a. Movement on Balances 2011-12

	Council Dwellings	Other Land and Buildings	Vehicles, Equipment Plant and Furniture	Infrastructure Assets	Community Assets	Surplus Assets	Assets Under Construction	Investment Properties	Total
Cost or Valuation	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
At 1 April 2011	**594,656**	**21,455**	**48**	**-**	**-**	**-**	**730**	**39,434**	**656,323**
Additions	8,822	490	-	-	-	-	-	-	9,312
Revaluation increases / (decreases) and impairments recognised in the Revaluation Reserve	(230)	3,622	-	-	-	-	-	4,882	8,274
Revaluation increases / (decreases) and impairments recognised in the surplus / deficit on the provision of services	64	(1,524)	-	-	-	-	-	-	(1,460)
Assets reclassified (to) / from Held for Sale	-	(9,399)	-	-	-	-	-	-	(9,399)
Transfers in	650	-	-	-	-	-	-	-	650
Transfers out	-	(650)	-	-	-	-	-	-	(650)
Derecognition - disposals	(33)	(1,928)	-	-	-	-	(730)	-	(2,691)
At 31 March 2012	**603,929**	**12,066**	**48**	**-**	**-**	**-**	**-**	**44,316**	**660,359**
Accumulated Depreciation and Impairment									
At 1 April 2011	**15,498**	**168**	**14**	**-**	**-**	**-**	**-**	**-**	**15,680**
Depreciation charge	7,202	252	7	-	-	-	-	-	7,460
Revaluations	-	(83)	-	-	-	-	-	-	(83)
Impairments	6,150	(95)	-	-	-	-	-	-	6,055
Assets reclassified (to) / from Held for Sale	-	(97)	-	-	-	-	-	-	(97)
Transfers in	-	-	-	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-	-	-	-
Derecognition - disposals	(3)	-	-	-	-	-	-	-	(3)
At 31 March 2012	**28,846**	**146**	**20**	**-**	**-**	**-**	**-**	**-**	**29,013**
Net Book value									
At 31 March 2012	**575,083**	**11,919**	**28**	**-**	**-**	**-**	**-**	**44,316**	**631,346**
At 31 March 2011	579,158	21,287	35	-	-	-	730	39,434	640,644

1b. Value of Land and Dwellings

Within the dwellings balance sheet category, the 31 March 2013 Net Book Value comprises £393,298,419 land and £204,155,321 dwellings. The total value of the property in other balance sheet categories is £60,733,397.

On the 1 April 2010, Net Book Value comprised £377,457,750 land and £208,254,600 dwellings. The total value of the property in other balance sheet categories was £60,483,771.

1c. Number and Types of Dwelling

MRA Archetype	01-04-2013	01-04-2012	Difference
Houses Small Terraced <1945	-	-	-
Houses Semi Detached <1945	1	1	-
Houses Other <1945	56	57	(1)
Houses Small Terraced 1945-1964	-	-	-
Houses SD/Large Terraced 1945-1964	7	7	-
Houses 1965-1974	10	10	-
Houses 1974+	67	67	-
Houses (Non Traditional)	-	-	-
Bungalows	12	12	-
Low-Rise Flats <1945	210	210	-
Low-Rise Flats >1945	200	200	-
Medium	3,663	3,666	(3)
High Rise	2,650	2,650	-
Multi-Occupancy	44	44	-
Total	**6,920**	**6,924**	**(4)**

1d. Depreciation

Council Dwellings:
Dwellings are depreciated on a straight line basis over their estimated useful lives. The most recent full valuation of the housing stock estimated the remaining useful lives of individual dwellings at between 50 and 100 years. Land is not depreciated because it has an indefinite useful life. In 2011-12, in line with Government guidance, the Major Repairs Allowance was used as a proxy for depreciation.

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

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

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

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

1e. Vacant Possession Value and Valuation Basis

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

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

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

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

The difference between the open market price and the EUV-SH valuation is known as the “adjustment factor” and is the economic cost of providing social housing. Government guidance suggests the use of 25 per cent for London. The Council uses an adjustment factor of 27 per cent. The gross balance sheet value of the Council's dwellings and the land they occupy is therefore 27 per cent of the open market price. The opinion of Mazars is that the adjustment factor of 27 per cent better reflects the difference between market rents and HRA rents in the borough. The table below sets out the value of the Council's dwellings and the land they occupy based on the historic cost model, their market value, EUV-SH valuation and current carrying value. The current carrying value is the EUV-SH valuation after depreciation, disposals, capital investment, revaluations and impairments that took place in 2011-12 and 2012-13.

	Council Dwellings £'000
Carrying amount if assets had been carried under the cost model	394,480
Market value as at 1 April 2010	1,952,375
Gross EUV-SH valuation as at 1 April 2010	585,712
Current carrying value	597,454

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

1f. Impairments

The Council values its dwellings in accordance with the proper practice set out in the Government guidance Stock Valuation *for Resource Accounting: Guidance for Valuers - 2010*. In the opinion of Mazars, the external valuers who complete an annual valuation of the Council's dwelling stock, under the requirements of the 'Existing Use Valuation - Social Housing' method of valuation, the Council's capital expenditure on its dwelling stock does not increase the value of those assets. The Code and associated *Guidance Notes for Practitioners* require the Council to impair an asset accordingly where the value of an asset increases by less than the capital expenditure incurred on it. Therefore, the Council has impaired the value of its dwellings by £9,325,224 with the charge taken to the Housing Revenue Account.

2. HRA Subsidy

The Housing Revenue Account subsidy paid by the Government can be analysed as follows:

	2012-13 £'000	2011-12 £'000
Received in–year	-	915
Prior year adjustment	79	31
Total received	**79**	**946**
Due:		
Management and maintenance	-	17,851
Rents	-	(35,130)
Interest on receipts	-	(3)
Debt charges	-	10,896
ALMO Allowance	-	-
Major Repairs Allowance	-	7,202
Total due	**-**	**816**
Prior year adjustment	79	31
Total due	**79**	**847**
Amount due to / (from) Government	**-**	**99**

3. Capital Expenditure

Capital Expenditure	£'000	Funding Sources	£'000
		Borrowing	570
Dwellings	10,109	Capital grants and contributions	129
Other property	-	Usable capital receipts	809
Land	-	Direct revenue financing	50
		Major Repairs Reserve	8,551
Total	**10,109**		**10,109**

4. Revenue Expenditure Funded from Capital Under Statute (REFCUS)

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

	2012-13 Net Expenditure £'000	2011-12 Net Expenditure £'000
Capital expenditure written to revenue	**570**	**-**

5. Capital Receipts in Year

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

	2012-13 £'000	2011-12 £'000
Land	-	-
Dwellings (net of sale expenses)	2,065	1,248
Other property	4,245	1,231
Loan repayments	6	13
Total	**6,316**	**2,492**

6. Capital Charges in the HRA

Charges for capital expenditure are made to the HRA as follows:

	2012-13 £'000	2011-12 £'000
Item 8 charge based on actual interest paid by the Council	12,158	10,156
Value of amortised premia	-	-
Total	**12,158**	**10,156**

To reflect the true cost to the HRA of its borrowing, a figure calculated by reference to the Council's overall borrowing costs is charged to the HRA, known as the Item 8 charge. The HRA is also liable to a share of the amortised value of any premium or discount incurred on the early repayment of loan debt.

7. Major Repairs Reserve

	2012-13 £'000	2012-13 £'000	2011-12 £'000	2011-12 £'000
Balance at 1 April		**2,051**		**3,294**
Income:				
Contribution from the HRA	7,202		7,202	
Expenditure:				
Dwellings	8,551		8,444	
Surplus / (deficit) for year		(1,349)		(1,242)
Balance at 31 March		**702**		**2,051**

8. 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	**2012-13 £'000**	**2011-12 £'000**
Gross arrears	2,251	2,291
Net arrears		
Former tenants *	317	277
Current tenants *	(912)	(851)
Net arrears at 31 March	**(595)**	**(574)**

*Also includes credit balances representing receipts in advance

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

Other Arrears	**2012-13 £'000**	**2011-12 £'000**
Gross arrears	3,682	4,201
Net arrears		
Leaseholder charges*	2,787	3,404
Commercial properties	504	436
Net arrears at 31 March	**3,291**	**3,840**

*Also includes credit balances representing receipts in advance

Provision for bad debts has been made as follows:

Provision	**2012-13 £'000**	**2011-12 £'000**
Provision at 1 April	**2,666**	**2,975**
Provision made in year	59	(109)
Write-offs during year	(209)	(200)
Provision at 31 March	**2,516**	**2,666**

The Collection Fund Revenue Account Income and Expenditure Statement

	31 March '13 £'000	31 March '12 £'000	Notes
Expenditure			
Precepts			
Royal Borough of Kensington and Chelsea	78,022	77,887	
Greater London Authority	30,580	30,835	
Total precepts	**108,602**	**108,722**	
Business rates			
Payment to national 'Pool'	265,490	242,689	
Costs of collection	625	628	
Business Rate Supplement			
Payment to Greater London Authority	9,868	9,971	
Costs of collection	45	50	
Bad and doubtful debts / appeals			
Write-offs	301	112	
Provisions	66	378	
Contributions towards previous year's estimated collection Fund surplus / (deficit)	(48)	(211)	
Total expenditure	**384,949**	**362,339**	
Income			
From council tax	96,325	95,941	4
Transfers from the General Fund			
Council Tax Benefit	12,569	13,318	
Collectable from business rate-payers	266,115	243,317	2
Collectable from Business Rate Supplement payers	9,913	10,021	3
Total income	**384,922**	**362,597**	
Movement on Collection Fund balance	**(27)**	**258**	

Collection Fund Reserve

	31 March '13 £'000	31 March '12 £'000
Balance at the end of the previous year	71	(187)
Movement on Collection Fund balance	(27)	258
Balance at the end of the year	**43**	**71**

Notes to the Collection Fund Revenue Account Income and Expenditure Statement

1. General
The Collection Fund (England) is an agent's statement that reflects the statutory obligation for billing authorities to maintain a separate Collection Fund. The statement shows the transactions of the billing authority in relation to the collection from taxpayers and distribution to local authorities and the Government of council tax and non-domestic rates.

2. National Non-Domestic Rates (NNDR)
Under the arrangements for National Non-Domestic Rates, the Council collects non-domestic rates for its area that are based on local rateable values multiplied by uniform rate poundage. The total amount, less certain reliefs and other deductions, is paid to a central pool (the Pool) managed by the Government, which in turn pays back to authorities their share of the Pool based on a standard amount per head of the local adult population. Under these arrangements, the amounts included in these accounts are analysed as follows:

	2012-13 £'000	2011-12 £'000
Non Domestic Rates Due	286,671	273,384
Less Allowances and other adjustments		
Transitional relief	(5,699)	(16,526)
Mandatory reliefs	(11,576)	(11,025)
Discretionary reliefs	(221)	(187)
Deferrals	(496)	-
Provision for bad debts	(2,547)	(2,217)
Transfer to General Fund	(17)	(112)
Collectable from business rate payers net contribution to Pool	**266,115**	**243,317**

The National Non Domestic Rateable Value at 31 March 2013 was £662,101,509. The standard NNDR multiplier for 2012-13 was 45.8 pence (43.3 pence in 2011-12). The Small Business Rate Relief multiplier for 2012-13 was 45.0 pence (42.6 pence for 2011-12).

3. Business Rate Supplement (BRS)
Under the arrangements for the Business Rate Supplement, the Council collects a supplement for its area based on local rateable values in excess of £55,000 multiplied by the designated rate poundage. From 2010-11 onwards, the total amount, less certain reliefs and other deductions, is paid to the Greater London Authority on whose behalf it is collected. Under these arrangements, the amounts included in these accounts are analysed as follows:

	2012-13 £'000	2011-12 £'000
Non Domestic Rates Due	10,599	10,715
Less Allowances and other adjustments		
Mandatory reliefs	(613)	(618)
Discretionary reliefs	(7)	(7)
Provision for bad debts	(66)	(69)
Collectable from Business Rate Supplement payers	**9,913**	**10,021**

The Business Rate Supplement Rateable Value at 31 March 2013 was £550,880,600. The standard BRS multiplier for 2012-13 was 2 pence, unchanged from previous years.

4. Council Tax

The tax base for the Financial Year 2012-13 was calculated as follows:

Band	Number Of Dwellings	Exemptions, Disregards and Discounts	No. of dwellings after disregards, exemptions and discounts	Band Ratio	Band D Equivalents	Add Back Band D equivalent - 2nd Home Discount Reduced to 10%	Total Band D Equivalents 2012-13
A	1,464	390	1,074	6/9	716	24	739
B	3,568	822	2,746	7/9	2,136	27	2,163
C	9,250	1,915	7,335	8/9	6,520	143	6,663
D	13,643	2,987	10,656	1	10,656	301	10,957
E	13,238	2,599	10,639	11/9	13,003	432	13,436
F	11,805	2,267	9,538	13/9	13,777	544	14,321
G	19,535	3,699	15,836	15/9	26,393	1,427	27,821
H	14,536	2,035	12,501	18/9	25,002	1,102	26,105
Class O					50		50
TOTAL	**87,039**	**16,714**	**70,325**		**98,253**	**4,000**	**102,254**

Capital valuations are set by reference to 1991 values. The total number of dwellings in each band is reduced to a number of 'discounted' dwellings which takes account of reductions for:

- Dwellings with only one (non student) adult.
- Dwellings with one or more students only.
- Dwellings in exempt categories e.g. vacant properties.
- Dwellings containing people who are 'discounted' for payment of Council Tax under legislation e.g. severely mentally impaired.
- Dwelling subject to discount as second homes.

The Council set a Band D charge of £1,075.72 (a reduction of £3.40 from 2011-12). The amounts credited to the Collection Fund are analysed as follows:

	2012-13 £'000	**2011-12 £'000**
Charges for the year including Garden Square Levies	130,871	131,450
Less - Exemptions	(21,978)	(22,191)
- Council Tax Benefit	(12,569)	(13,318)
Net charges payable	**96,325**	**95,941**

5. Council Tax Precept Adjustments

The estimated balance on the Collection Fund as at 15 January 2013 has to be distributed amongst or collected from the precepting authorities. Although the surplus on the Collection Fund was £43,126 at the 31 March, the sum of £185,000 will be additionally debited to the account in 2013-14 by way of payments from precepting authorities. The adjustment of £48,160 in 2012-13 represents the recovery of the estimated deficit as at 31 March 2012.

The Pension Fund

The Pension Fund Account

Dealings with members, employers and others directly involved in the fund	2012-13 £'000	2011-12 £'000	Notes
Contributions			
From employers (normal)	(18,199)	(20,378)	6
From employers (special)	(9,000)	-	6
From members	(5,695)	(6,187)	6
Transfers in from other pension funds	(3,722)	(1,548)	
Other income	-	(796)	
	(36,616)	**(28,908)**	
Benefits			
Pension	19,118	17,435	7
Commutation and lump sum retirement benefits	5,678	6,136	7
Payments to and on account of leavers	117	11	
Individual transfers out to other pension funds	2,058	2,861	
Other expenditure	-	-	
Administration expenses	530	515	8
	27,501	**26,958**	
Net (additions) / withdrawals with members	**(9,115)**	**(1,950)**	
Returns on investments			
Investment income	(5,499)	(5,251)	9
Other income	(530)	(179)	
Taxes on income	116	196	
Profit and loss on disposal of investments and changes in the market value of investments			
Realised	(14,199)	(10,905)	
Unrealised	(66,392)	(6,083)	
	(80,591)	**(16,988)**	12
Investment management expenses	2,923	2,634	10
Net return on investments	**(83,581)**	**(19,588)**	
Net (increase) / decrease in the net assets available for benefits during the year	**(92,696)**	**(21,539)**	
Opening Net Assets of the Scheme	**540,793**	**519,254**	
Closing Net Assets of the Scheme	**633,489**	**540,793**	

The Pension Fund Net Assets Statement*

	31 March 2013 £'000	31 March 2012 £'000	Notes
Investment Assets			
Fixed interest securities			
Equities:			
United Kingdom	15,696	11,883	13
Overseas	124,532	99,231	13
Pooled index-linked Gilts	4,745	4,250	13
Pooled global equities	257,211	212,106	13
Pooled global absolute return funds	174,667	159,735	13
Pooled property investments	20,834	21,678	13
Pooled private equity funds	30,237	24,386	13
Cash (with managers)	2,215	1,606	12/13
Investment income due	264	269	13
Investment liabilities	-	-	
Net value of investment assets	**630,401**	**535,144**	12/13
Current assets	762	896	12/20
Current liabilities	(403)	(594)	12/21
Cash (held directly by fund)	2,729	5,347	12/13
Net assets of the fund available to fund benefits at the period end	**633,489**	**540,793**	

** The Fund's financial statements do not take account of liabilities to pay pensions and other benefits after the period end. The actuarial present value of promised retirement benefits is disclosed in Note 19.*

Notes to the Pension Fund Account

1. Description of The Royal Borough Of Kensington And Chelsea Pension Fund

(a) General

The Pension Fund (the 'Fund') is part of the Local Government Pension Scheme (LGPS) and is administered by the Royal Borough of Kensington and Chelsea. 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 Royal Borough of Kensington and Chelsea and the admitted and scheduled bodies to the Fund.

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 are based on an employee's final salary and the number of years of eligible service. Pensions are increased each year in line with the Consumer Price Index.

The Fund is financed by contributions from employees, the Council, the admitted and scheduled bodies and from interest and dividends on the Fund's investments.

The Fund is governed by the Superannuation Act 1972 and is administered in accordance with the following secondary legislation: *the LGPS (Benefits, Membership and Contributions) Regulations 200*7 (as amended), the *LGPS (Administration) Regulations 2008* (as amended) and the *LGPS (Management and Investment of Funds) Regulations 200*9 (as amended). The regulations are updated on a regular basis by central government.

(b) 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 one opposition party representative, each of whom has voting rights. In addition, there are up to four co-opted members from the Royal Borough who may attend the committee meetings, but have no voting rights.

The Committee reports to the full Council and has full delegated authority to make investment decisions. The Committee obtains and considers advice from the Town Clerk and Executive Director of Finance, and as necessary from the fund's appointed investment advisors, managers and actuary.

(c) Investment Principles

The *Local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 1999* require administering authorities to prepare and review from time to time a written statement recording the investment policy of their Pension Fund. The purpose of this document is to satisfy the requirements of the regulations, to explain how the Fund is managed and the factors taken into account in doing so.

The latest *Statement of Investment Principles* (SIP) was approved in November 2012 by the Investment Committee. It outlines the broad investment principles governing the investment policy of the Fund and demonstrates compliance with the "10 Investment Principles" identified in the Myners Review of Institutional Investment in the UK as subsequently revised in 2008 by the Department for Communities and Local Government. The SIP is available from the Council's website at: http://www.rbkc.gov.uk/councilanddemocracy/howthecouncilmanagesmoney/pensionfund2011-12.aspx

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

The Committee has delegated the management of the fund's investments to professional investment managers appointed in accordance with the regulations, and whose activities are specified in detailed investment management agreements and monitored on a quarterly basis. Please see **Note 12.**

(d) Membership

Membership of the LGPS is voluntary and employees are free to choose whether to join the scheme, remain in the scheme or make their own personal arrangements outside the scheme. Organisations participating in the Fund include scheduled bodies, which are local authorities and similar bodies whose staff are automatically entitled to be members of the fund and admitted bodies, which are other organisations that participate in the fund under an admission agreement between the fund and the relevant organisation. Admitted bodies include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following outsourcing to the private sector.

The following table summarises the membership numbers of the scheme:

	31 March '13 £'000	31 March '12 £'000
Active members	3,202	3,385
Pensioners receiving benefits	2,515	2,430
Deferred Pensioners	3,966	3,706
Total	**9,683**	**9,521**

Details of the scheduled and admitted bodies in the scheme are shown in **Note 6** Contributions Receivable and **Note 7** Benefits Payable.

(e)Tri-borough Working

The Royal Borough of Kensington and Chelsea, London Borough of Hammersmith & Fulham and the City of Westminster councils have combined certain operational areas to provide a more efficient service and greater resilience. Two of the first areas to be jointly operated were the treasury and pension teams of the three councils.

The combined team was formed in February 2012 and is responsible for the management of the pension fund investments and the treasury operations across the three boroughs. The team is based at the City of Westminster's offices.

The pension fund and treasury operations will continue to be managed separately in accordance with Government regulations and the strategies agreed by each council, which retains sovereignty over decision making in relation to its pension fund.

2. Basis of the Preparation of the Financial Statements

The Statement of Accounts summarise the Fund's transactions for 2012-13 and its position at year end as at 31st March 2013. They have been prepared in accordance with International Accounting Standard 26 (IAS26): *Accounting and Reporting by Retirement Benefit Plans* and the *Code of Practice on Local Authority Accounting in the United Kingdom* (The Code). The Code is issued by the Chartered Institute of Public Finance and Accountancy and is based on International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts have been prepared on an accrual basis in accordance with the Code, apart from transfer values which have been accounted for on a cash basis in accordance with the Code.

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. IAS 26 gives administering authorities the option to disclose this information in the Net Asset 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 an accompanying report to the accounts which is discussed in **Note 19.**

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.

(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. 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.

(c) Investment Income
Dividends from quoted securities are accounted for when the security is declared ex-dividend. Interest income is accrued on a daily basis. Investment income is reported gross of withholding taxes which are accrued in line with the associated investment income. Irrecoverable withholding taxes are reported separately as a tax charge. 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.

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 a registered public service scheme 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. 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) Administrative Expenses

Expenses are accounted for on an accruals basis to ensure costs for the full accounting period are accounted for in the fund account. All staff costs of the pension's administration team are charged directly to the fund.

(g) Investment Management Expenses

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

Investment management expenses are accounted for on an accruals basis to ensure expenses for the full accounting period are shown.

Net Assets Statement

(h) Financial Assets

Financial assets are included in the net assets statement on a fair value basis as at the reporting date. Quoted securities and pooled investment vehicles have been valued at the bid price and fixed interest securities are recorded at net market value based on their current yields at the balance sheet date. Quoted securities are valued by Northern Trust, the Fund's custodian.

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

There are no significant restrictions affecting the ability of the Fund to realise its investments at the accounting date or at the value at which they are included in the accounts, apart from the investments in private equity which, by their nature, will be realised over a long period of time.

(i) Foreign Currency Transactions

Dividends, interest and purchases and sales of investments in foreign currencies have been accounted for at the spot market rates as at the transaction date. Investments held in foreign currencies as at the 31 March 2013 are shown at their sterling market value calculated using the prevailing applicable spot exchange rate provided by Northern Trust.

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

(k) 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.

(l) Actuarial present value of promised retirement benefits
The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the relevant actuarial and accounting standards.

As permitted under IAS26 Accounting and Reporting by Retirement Benefit Plans, the financial statements include a report from the actuary disclosing the actuarial present value of retirement benefits. This report is published with these accounts and summarised in **Note 19.**

(m) 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 the relevant regulations. They are disclosed in **Note 22.**

(n) Recharges from the General Fund
The *Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998* permit the Council to charge administration costs to the Fund. A proportion of the relevant Council costs have been charged to the Fund on the basis of actual time spent on Pension Fund business. Costs incurred in the management and administration of the Fund are set out separately.

4. Critical Judgements in Applying Accounting Practices

The accounts contain certain estimated figures that are based on assumptions made by the Council and other bodies about the future or that are otherwise uncertain. Estimates are made because they are required to satisfy relevant standards or regulations and are on the basis of best judgement at the time, derived from historical experience, current trends and other relevant factors. As a result, actual results may differ materially from those assumptions.

(a) Pension Fund Liability
The Pension Fund liability is calculated triennially by the appointed actuary, with annual updates in the intervening years. The methodology used follows generally agreed guidelines and is in accordance with IAS 19. These assumptions are summarised in **Note 18.** The estimates are sensitive to changes in the underlying assumptions underpinning the valuations.

(b) 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.

5. Events after the Balance Sheet Date

As at end July 2013 the Fund's investments have changed in value to £670 million compared to the value placed on the net assets statement as at the reporting date of 31 March 2013. This mainly reflects a combination of general equity and fixed-income market movements and the actual inflow of funds.

6. Contributions Receivable

	2012-13 £'000		2011-12 £'000	
By authority	**Employees Normal**	**Employers Normal**	**Employees Normal**	**Employers Normal**
Administering Body				
Kensington and Chelsea	**5,043**	**25,507**	**5,271**	**17,968**
Scheduled Bodies				
Chelsea Academy	64	148	49	153
Kensington and Chelsea College	141	338	228	550
St Charles Sixth Form College	41	132	40	129
Subtotal of Scheduled bodies	**246**	**618**	**317**	**832**
Admitted Bodies				
Medequip	1	4	1	5
Hestia	5	11	-	-
Specialist Schools and Academies Trust	21	44	277	543
Tenant Management Organisation	358	955	300	969
Westway Development Trust	21	60	21	61
Subtotal of Admitted bodies	**406**	**1,074**	**599**	**1,578**
Total *	**5,695**	**27,199**	**6,187**	**20,378**

* The total employers contributions for 2012-13 includes the £9 million special contribution shown separately in the Pension Fund Account.

7. Benefits Payable

By category:	2012-13 £'000	2011-12 £'000
Pensions	19,118	17,435
Commutation and lump sum retirement benefits	4,841	5,615
Lump sum death benefits	837	521
Provision for bad debt	-	-
Total	**24,796**	**23,571**

By authority:

The Fund paid benefits to members of the following employers. This summary excludes lump sum retirement benefits and death benefits as this information is not held at employer level.

	2012-13 £'000	2011-12 £'000
Royal Borough of Kensington and Chelsea	17,334	15,931
Scheduled Bodies		
Chelsea Academy	261	254
Kensington and Chelsea College	117	100
St Charles Sixth Form College	21	20
Subtotal of Scheduled bodies	**399**	**374**
Admitted Bodies		
Medequip	-	-
Specialist Schools and Academies Trust	395	216
Tenant Management Organisation	861	792
Westway Development Trust	92	87
Other Admitted Bodies	37	35
Subtotal of Admitted bodies	**1,385**	**1,130**
Total	**19,118**	**17,435**

8. Administrative Expenses

	2012-13 £'000	2011-12 £'000
Provision of pension administration	356	321
Support services including IT	107	114
External audit fees (KPMG)	21	-
External audit fees (Audit Commission)	(2)	37
Professional fees	49	44
Total	**530**	**515**

9. Investment Income

	2012-13 £'000	2011-12 £'000
Fixed interest securities	-	-
Equity dividends	4,031	3,500
Income from pooled property investments	938	1,213
Income from private equity	485	456
Interest on cash deposits	46	82
Total	**5,499**	**5,251**

10. Investment Expenses

	2012-13 £'000	2011-12 £'000
Investment management fees	2,874	2,615
Custody and performance fees	49	19
Total	**2,923**	**2,634**

11. Investment Strategy

The strategy of the Fund is to have around 60 per cent of the investments in global equities, diversified through three managers, Baillie Gifford and Longview managing active portfolios, with Legal & General managing a passive global equity allocation. For further diversification, 30 per cent of the Fund is allocated to global absolute return strategies (which have the ability to move between different asset classes) managed by Barings and Pyrford. The remaining 10 per cent is split between a global private equity allocation, managed by Adams Street and a UK commercial property fund of funds managed by CBRE.

The market value and proportion of assets managed by each manager at 31 March was:

	31 March 2013		31 March 2012	
Fund Manager	**Market Value £'000**	**%**	**Market Value £'000**	**%**
Baillie Gifford	128,840	20.5	105,739	19.7
Longview	142,176	22.6	112,720	21.1
Legal & General	133,115	21.1	110,617	20.6
Barings	88,153	14.0	80,213	15.0
Pyrford	86,514	13.7	79,522	14.9
CBRE	21,070	3.3	21,678	4.1
Adams Street	30,269	4.8	24,386	4.6
Total Fund Managers	**630,137**	**100.0%**	**534,875**	**100.0%**
Investment income due	264		269	
Total Investments	**630,401**		**535,144**	

12. Reconciliation in Movements in Investments

Transaction costs are included in the cost of purchases and sale proceeds. Transaction costs include costs charged directly to the scheme such as fees, commissions, stamp duty and other fees.

Market Value **2012-13**	**1 April 2012**	**Purchases during the year and derivative payments**	**Sales during the year and derivative receipts**	**Changes in market value during the year**	**Market values 31 March 2013**
Index-linked gilt pooled fund (Legal & General)	4,250	-	-	494	4,745
Pooled active global equities (Baillie Gifford)	105,739	2,008	-	21,093	128,840
Active global equities (Longview)	112,720	22,371	(17,834)	24,919	142,176
Pooled passive global equities (Legal and General)	106,367	2,000	-	20,004	128,371
Pooled active global absolute return fund (Barings)	80,213	1,541	-	6,399	88,153
Pooled active global absolute return fund (Pyrford)	79,522	1,891	-	5,101	86,514
Pooled UK property fund (CBRE)	21,678	236	-	(843)	21,070
Global private equity fund (Adams Street)	24,386	6,007	(3,548)	3,424	30,269
Fixed term cash deposits	-	-	-	-	-
Investment Income Due	269	-	-	-	264
Sub-Total	**535,144**	**36,054**	**(21,382)**	**80,591**	**630,401**
Current assets	896				762
Current liabilities	(594)				(403)
Cash deposits	5,347				2,729
Net Investment Assets	**540,793**				**633,489**

Market value **2011-12**	1 April 2011	Purchase during the year and derivative payments	Sales during the year and derivative receipts	Changes in market value during the year	Market values 31 March 2012
Index-linked gilt pooled fund (Legal & General)	51,531	4,000	(51,397)	116	4,250
Pooled active global equities (Baillie Gifford)	104,161	-	-	1,577	105,739
Active global equities (Longview)	104,677	30,824	(29,219)	6,438	112,720
Pooled passive global equities (Legal and General)	104,753	-	-	1,613	106,367
Pooled active global absolute return fund (Northern Trust)	97,772	-	(96,016)	(1,756)	-
Pooled active global absolute return fund (Barings)	-	76,628	-	3,585	80,213
Pooled active global absolute return fund (Pyrford)	-	77,039	(427)	2,910	79,522
Pooled UK property fund (CBRE)	20,937	-	-	741	21,678
Global private equity fund (Adams Street)	19,952	5,479	(2,809)	1,764	24,386
Fixed term cash deposits	5,000	6,000	(11,000)	-	-
Investment Income Due	211	-	-	-	269
Subtotal	**508,996**	**199,970**	**(190,868)**	**16,988**	**535,144**
Current assets	341				896
Current liabilities	(1,007)				(594)
Cash Deposits	10,924				5,347
Net investment assets	**519,254**				**540,793**

13. Classification of Financial Instruments

	31 March '13 £'000			**31 March '12 £'000**		
	Designated as fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost	Designated as fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost
Financial Assets **Equities**						
United Kingdom	15,696			11,883		
Overseas	124,532			99,231		
Pooled funds - investment vehicles						
UK Pooled Index-Linked Gilts	4,745			4,250		
Pooled Global Equities	257,211			212,106		
Pooled Global Absolute Return Funds	174,667			159,735		
Pooled Property Investments	20,834			21,678		
Pooled Private Equity Funds (unquoted)	30,237			24,386		
Investment income due	264			269		
Cash		4,944			6,953	
Debtors		762			896	
Creditors			(403)			(594)
Subtotal	**628,186**	**5,706**	**(403)**	**533,538**	**7,849**	**(594)**
Total		**633,489**			**540,793**	

14. Fair Value of Financial Instruments and Liabilities

The following table summarises the book cost of the financial instruments by class of instrument compared with their market values.

	31 March '13 £'000		31 March '12 £'000	
	Market Value	Book Costs	Market Value	Book Costs
Financial Assets				
Investment assets	630,702	517,477	533,269	501,805
Cash deposits	2,729	2,998	6,953	6,953
Income due	264	264	269	269
Current assets	197	197	896	896
Financial Liabilities	-	-	(340)	(340)
Investment liabilities				
Current liabilities	(403)	(403)	(254)	(254)
Total Value of Investments	**633,489**	**520,533**	**540,793**	**509,329**

15. Contingent Liabilities and Contractual Commitments

As at 31 March, the Fund had a commitment to invest a further £34.3 million into the Adams Street private equity funds of funds. It is anticipated that these commitments will be spread over the next 11 years and will be largely offset by cash distributions from the investments made since 2007.

16. Stock Lending

The Fund does not participate in stock lending.

17. Nature of Risk Arising from Financial Instruments

Risk and Risk Management

(a) Market Risk

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 assets that would most closely match the liabilities are a combination of index-linked Gilts, as the liabilities move in accordance with changes in the relevant Gilt yields.

In order to meet the Fund's objective of being fully funded within 10 years of the 2010 actuarial valuation, the fund managers have been set differing targets appropriate to the types of assets they manage. The overall target for the scheme is to outperform a weighted average of these benchmarks by 2.3 per cent on a rolling three year basis.

The Fund's assets are invested in a broad range of asset classes in terms of geographical and industry sectors and individual securities. This diversification reduces exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. The aim of the investment strategy is to minimise the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gains across the portfolio.

Responsibility for the Fund's investment strategy rests with the Investment Committee and is reviewed on a regular basis.

(b) 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.

(c) 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.

(d) 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.

(e) 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 through the failure to settle a transaction in a timely manner.

(f) Liquidity Risk

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The Council therefore takes steps to ensure that the Fund has adequate cash resources to meet its commitments. This will particularly be the case for cash to meet the pensioner payroll costs; and also cash to meet investment commitments. The Council has immediate access to its pension fund cash holdings.

18. 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 most recent full triennial valuation of the Royal Fund was carried out by Barnett Waddingham, the Fund's actuary, as at 31 March 2010, in accordance with the *Funding Strategy Statement* of the Fund and Regulation 36 of *the Local Government Pension Scheme (Administration) Regulations 2008*. The results were published in the triennial valuation report dated 31 March 2011.

The 2010 valuation certified a common contribution rate of 21.2 per cent of pensionable pay to be paid by each employing body participating in the Royal Borough of Kensington and Chelsea Pension Fund, based on a funding level of 89 per cent. In addition to this, 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 market value of the scheme's assets at 31 March 2010 was £463 million and the actuary assessed the present value of the funded obligation at £509 million indicating a net deficit of £58 million. As at 31 March 2013, the market value of the scheme's assets was £633 million and the actuary assessed the present value of the funded obligation at £897 million indicating a net liability of £264 million under International Accounting Standard (IAS) 26.

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

i. The rate of accumulation of income and capital on new investments over the long-term and the increase from time to time of income from existing investments.

ii. Future rises in pensionable pay due to inflation and etc, and pension increases.

iii. Withdrawals from membership due to mortality, ill health and ordinary retirement.

iv. Progression of pensionable pay due to promotion.

The contribution rate is set on the basis of the cost of future benefit accrual, increased to bring the funding level back to 100 per cent over a period of 10 years, as set out in the Funding Strategy Statement. It is set to be sufficient to meet the additional annual accrual of benefits allowing for future pay increases and increases to pension in payment when these fall due, plus an amount to reflect each participating employer's notional share of value of the Fund's assets compared with 100 per cent of their liabilities in the Fund in respect of service to the valuation date.

The 2010 Actuarial Valuation and the 2013 IAS26 update will be published with the Pension Fund Annual Report. The next actuarial revaluation of the Fund will be as at 31 March 2013 and will be published in 2014.

19. Actuarial Present Value of Promised Retirement Benefits

The table below shows the total net liability of the Fund as at 31 March 2013. The figures have been prepared by Barnett Waddingham, the fund's actuary, only for the purposes of providing the information required by IAS26. In particular, they are not relevant for calculations undertaken for funding purposes or for other statutory purposes under UK pensions legislation.

In calculating the required numbers the actuary adopted methods and assumptions that are consistent with IAS19.

	31 March '13 £'000	**31 March '12** £'000
Present Value of Promised Retirement Benefits*	897,050	832,832
Fair Value of Scheme Assets (bid value)	(633,489)	(540,793)
Net Liability	**263,561**	**292,039**

*Present Value of promised retirement benefits consists of £699,410,000 in respect of Vested Obligation and £197,640,000 in respect of Non-Vested Obligation.

20. Current Assets

Debtors	**31 March '13 £'000**	**31 March '12** £'000
Contributions due - employers	146	65
Contributions due - employee	51	28
Sundry debtors	565	803
Total	**762**	**896**

Analysis of debtors	**31 March '13 £'000**	**31 March '12** £'000
Government bodies	-	-
Other entities and individuals	762	896
Total	**762**	**896**

21. Current Liabilities

Creditors	**31 March '13 £'000**	**31 March '12** £'000
Sundry creditors	403	340
Benefits payable	-	254
	403	**594**

Analysis of creditors	**31 March '13 £'000**	**31 March '12** £'000
Government bodies	-	-
Other entities and individuals	403	594
Total	**403**	**594**

22. Additional Voluntary Contributions

The *Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998* do not permit Additional Voluntary Contributions (AVCs) to be paid into the Pension Fund, so they are not included in these accounts. 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. A total of £584,000 was invested by members of this fund in this way during 2012-13.

	Market Value 31 March '13 £'000	**Market Value 31 March'12** £'000
Prudential	584	679
Total	**584**	**679**

23. Related Party Transactions

The Fund is administered by the Royal Borough of Kensington and Chelsea. The Council incurred costs of £0.5 million in the period 2012-13 (2011-12 £0.5 million) in relation to the administration of the Fund and was reimbursed by the Fund for the expenses. The Fund uses the same payroll and banking providers as the Council and no additional charges are made in respect of this.

In year, and in total, the Council contributed £27 million to the Fund compared to £20 million in 2011-12.

The Council has a significant relationship with one admitted body, the Kensington and Chelsea Tenant Management Organisation (TMO). The Fund received £1.3 million in employer contributions, deficit and early retirement costs from the TMO.

The London Residuary Body Transferred Functions Income and Expenditure Statement

	2012-13 Gross Expenditure £'000	2012-13 Gross Income £'000	2012-13 Net Expenditure £'000	2011-12 Net Expenditure £'000	Notes
Income and expenditure on services					
General costs	30	-	**30**	132	**1**
Adjustment to provisions	(130)	-	**(130)**	17	**2**
Adjustment to assets and liabilities	-	-	**-**	-	
Interest	-	(18)	**(18)**	(20)	**4**
Total expenditure on services	**(100)**	**(18)**	**(118)**	129	
Surplus / (deficit) for the year			**118**	(129)	

Statement of Movement on the London Residuary Body Balance

	2012-13 £'000	2011-12 £'000
Balance brought forward at 1 April	**4,171**	**4,299**
Surplus / (deficit) for the year on Income and Expenditure Account	118	(129)
Total assets	**4,289**	**4,171**

London Residuary Body Transferred Functions Balance Sheet

	2012-13 £'000	2011-12 £'000	Notes
Current assets			
Current debtors	**-**	**-**	
Temporary investment with the Council	4,395	4,406	
Total assets	**4,395**	**4,406**	
Current liabilities			
Creditors	**-**	**-**	
Total assets less current liabilities	**4,395**	**4,406**	
Long term liabilities			
Provisions	(106)	(235)	**2**
Net Assets	**4,289**	**4,171**	
Represented by			
London Residuary Body balance	4,289	4,171	
Total net worth	**4,289**	**4,171**	

Introduction

The Council inherited inner-London functions from the London Residuary Body as follows:

Education Awards	from 1 August 1992
Property (Capital Receipts)	from 1 April 1992
Late Rating Claims	from 31 March 1994
Other Functions	from 1 October 1992.

Other functions included administration of leases, collection of outstanding debts and Higher Education Funding Council for England debt management.

The Council was given endowments for education awards, late rating claims, and other functions, from which the net spending has been met. The Council is required to determine whether the sum left is sufficient to meet future expenditure and whether it is possible to distribute any projected excess of this to the other inner-London boroughs or, if it is not sufficient, to request funds from those boroughs. These accounts show the position on these endowments. At the present time and in order to meet potential future third party liability claims, it is considered prudent to retain the current level of balances. The position will continue to be kept under review.

Notes

1. There has been a reduction in the payment of claims this year.

2. **Provisions**
   Exposure to **public liability claims** has declined during 2012-13 and now includes an amount resulting from the triggering of the Municipal Mutual Insurance (MMI) scheme of arrangement. The table below shows the amounts set aside for these.

Balance at 31 March	**2012-13 £'000**	**2011-12 £'000**
Public liability claims	50	235
MMI legacy Scheme levy	56	-
Total Provision	**106**	**235**

3. **Contingent Liabilities**
   During 1992-93, the London Residuary Body's insurers, MMI ceased accepting new business. The London Residuary Body is a member, through the Council, of a scheme of arrangement that has been put in place to try to ensure an orderly settlement of the run-off of MMI. This has now been triggered and a 15 per cent levy (£56,000) has been provisioned for as set out in **Note 2** above. The remaining maximum exposure is £312,000 as at 31 March 2013. There is sufficient cash held by the Council on behalf of the London Residuary Body transferred functions to cover this exposure.

4. **Interest on the endowment** has been calculated at money market rates.

Other Useful Information

Website address www.rbkc.gov.uk

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This publication can be provided in other languages and formats (such as large print, Braille and speaking version) on request:-

Town Clerk and Executive Director of Finance
Kensington Town Hall
Hornton Street
London
W8 7NX

Telephone: 020 7361 2384

Email: CorpFinance@rbkc.gov.uk