

**THE ROYAL BOROUGH OF
KENSINGTON AND CHELSEA**

STATEMENT OF ACCOUNTS 2007/08

STATEMENT OF ACCOUNTS

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FOREWORD

1. INTRODUCTION

The Statement of Accounts provides details of the actual income and expenditure for the financial year 2007/08. This covers the General Fund, Housing Revenue Account, Pension Fund, Collection Fund and all the other accounts for which the Council is responsible. The Council's Balance Sheet provides details of the assets and liabilities as at 31 March 2008. Other supporting statements are provided to help to explain the figures in the accounts.

The Income and Expenditure Account shows the Council's actual financial performance for the year, measured in terms of the resources consumed and generated over the last twelve months. However, the Council is required to levy council tax on a different accounting basis, the main differences being:

- Capital investment is accounted for as it is financed, rather than when the fixed assets are consumed.
- The payment of a share of housing capital receipts to the Government Pool is charged as spending in the Income and Expenditure Account, but is met from the usable capital receipts balance rather than council tax.
- Retirement benefits are charged as amounts become payable to pension funds and pensioners, rather than as future benefits are earned.

The General Fund Balance compares the council's spending against the council tax that it raised for the year, taking into account the use of reserves built up in the past and contributions to reserves earmarked for future expenditure. The reconciliation statement summarises the differences between the outturn on the Income and Expenditure Account and the General Fund Balance.

2. THE BUDGET

Each year, the Cabinet sets out its plans for the future development of services in its Cabinet Business Plan and the financial impact is detailed in the relevant Revenue Budget and Capital Programme. In setting its budget for 2007/08 it took into account:

- The Council's strategic objectives which include the Borough aims, Community Strategy and Local Area Agreement.
- The overall resource position and government guidelines on Council Tax increases.
- The outcome of consultation exercises with the public and other service stakeholders.
- The background of the previous years financial position.
- The potential for improvements in cost effectiveness and the Government's current target for efficiency savings each year.
- The robustness of the estimates and budgetary risks.
- The position on contingencies and reserves.
- The Local Government Finance Settlement for 2007/08 (+4.9 per cent cash grant increase)
- Implications for Council Taxpayers.

The 2007/08 budget included the following proposals:

- Confirmation of the second year of a freeze in the Borough's element of Council Tax for 2007/08
- Budget growth for services of £3.5 million of income, efficiency and other savings to offset cost increases and help maintain a low Council Tax
- An increase in funding for schools of 6.2 per cent per pupil met from ring fenced grant
- Supported an ambitious capital investment programme through an affordable level of revenue contributions
- Maintained a strong balance sheet.

This resulted in a total revenue budget requirement of £168 million for 2007/08 of which £149 million related to Business Group service budgets and £19 million to other (non-departmental) budgets.

3. REVENUE OUTTURN – GENERAL FUND

The net under spending on General Fund Business Group service budgets compared to the final net budget was £6.7 million (-4.9 per cent). This represents an underspending of gross expenditure of £4.5 million (0.8per cent) and an overachievement of gross income of £11.3 million (2.8 per cent) on service budgets.

The net under spend includes £0.7 million relating to On Street Parking, which is required to be appropriated to the Car Parking Reserve Account and £1.0 million underspending on Schools Delegated Budgets and Standards Funding, which is carried forward to 2008/09. There was a net underspending on other budgets of £1.4 million. After appropriations of £8.2 million, there was no change to the General Fund Working Balance which remains at £14.3 million. This is summarised in the following table and by an explanation of the General Fund variances from the budget.

DESCRIPTION	Annual Budget 2007/08	Actual 2007/08	Variance 2007/08	Variance 2007/08
Service Budgets	£'000	£'000	£'000	%
Family and Children's Services	44,616	43,295	(1,321)	-3.0%
Housing, Health and Adult Social Care	55,650	53,336	(2,314)	-4.2%
Planning and Borough Development	5,885	5,858	(27)	-0.5%
Transport, Environment and Leisure Services	17,631	16,917	(714)	-4.0%
Corporate Services	14,353	11,990	(2,363)	-16.5%
Business Group Total	138,135	131,396	(6,739)	-4.9%
Contingency and Central Budgets	493	0	(493)	-100.0%
Net Cost of Services	138,628	131,396	(7,232)	-5.2%
Interest on External Debt	3,450	3,449	(1)	0.0%
Pension Fund Liabilities	15,225	15,371	146	1.0%
Interest and Investment Income	(11,200)	(12,289)	(1,089)	9.7%
Net Operating Expenditure	146,103	137,927	(8,176)	-5.6%
Transfers to(+)/ from(-) reserves:-				
Capital Financing Reserve (incl MRP)	1,277	578	(699)	-54.7%
Transfer to/from capital reserves	9,983	9,983	0	0.0%
Transfer to/from Revenue reserves	7,376	16,251	8,875	120.3%
Transfers to (+) / from (-) Working Balance	0	0	0	
TOTAL EXCLUDING LEVIES	164,739	164,739	0	0.0%
Levies	3,501	3,501	0	0.0%
TOTAL ROYAL BOROUGH EXPENDITURE	168,240	168,240	0	0.0%

VARIATIONS FROM THE REVENUE BUDGET 2007/08

The explanation of the main General Fund variations is as follows:

	£'000	£'000
SERVICE BUDGETS		
Corporate Services		
Employee costs overspent	132	
Increase in other income received	-44	
Reduction in net cost of benefits	-2,559	
Delay by Metropolitan Police Authority in appointing Police Community Support Officers	-203	
Business Group Initiatives not completed	-165	
Additional grants paid to voluntary sector	50	

Maintenance variations	-279
Net overspend on consultancy budgets	139
Net increase in provisions for bad debt especially for Council Tax court costs	528
Other minor variations	38
Total Corporate Services	-2,363

Family and Children's Services

Schools delegated budgets and standards funds underspent (c/f to schools reserves)	-883
Non-schools standards fund underspent (c/f)	-132
Employee costs overspent	492
Increase in income above budget	-738
Grant adjustments	-435
Reduction in number of looked after children	-728
Out of borough statement costs and other special needs demands	394
Transport costs variation	-78
Provision for bad debts created	60
Net overspend on Care Resources and Care Leavers	354
Variation in maintenance expenditure	337
Other minor variations	36
Total Family and Children's Services	-1,321

Transport, Environment and Leisure Services

Employee costs net overspend	58
Additional Income	-529
Deficit - Opera Holland Park	237
Commercial Waste charges – reduced tonnage	-128
Maintenance underspent	-155
Provision for Market Traders fees refunds	728
Cleansing and recycling costs underspent	-179
Other minor variations	-17
Total Environmental Services - General Fund	15
On Street Parking	
Pay and Display Machine budgets underspent	-361
Other expenditure variations	-270
Compliance income shortfall net of Compliance Contract reduced spending	1,065
Additional income from Penalty Charge Notices, Residents Parking, Pay and Display, and Parking Suspensions	-1,163
Total Transport, Environment and Leisure Services - On Street Parking (appropriated to Car Parking Reserve)	-729
Total Transport, Environment and Leisure Services	-714

Housing, Health and Adult Social Care

Employee costs underspent due to vacancies and turnover	-47
Additional income compared to budget	-151
Savings on residential and nursing placements and supported accommodation	-145
Homecare, Direct Payments and Individual Budgets underspent	-546
Substance Use placements budget underspent	-225
Phased spending on Preventative Technology Grant supported budgets	-233
Carers budgets underspent	-141
Homeless Preventative Initiatives predicted underspending	-206
Delay in the start up of the Launchpad/Out of Borough scheme	-100

Reduced average incentive payments under Rent Deposit scheme	-123
Underspend on Taxicard scheme	-102
Other minor variations	-295
Total Housing Health and Adult Social Care	-2,314

Planning and Borough Development

	£'000	£'000
Employee related cost overspend	86	
Overspend on consultants budgets	22	
Additional income - building control and planning fees	-155	
Other minor variations	-20	
Total Planning and Borough Development		-27
TOTAL SERVICE BUDGETS		-6,739

NON-DEPARTMENTAL BUDGETS

Variations from budget

Contingency budget unused	-493
General Fund additional external interest paid	-1
Increased interest on balances due to overestimate of interest paid to non-general fund accounts	-1,089
Pension Fund deficit contribution due to higher level of pensionable pay	146
Total non-departmental budgets	-1,437
Total variation in net operating expenditure	-8,176

Appropriations

Slippage carried forward to 2008/09 £1.625m less release of £0.255m of previous years carry forwards no longer required	1,370
Delegated schools balances transferred to schools reserves and schools Standards Fund balances carried forward	883
Other non-schools Standards Fund balances carried forward	132
Additional transfer to Car Parking Reserve due to On Street Parking budget variation	729
Transfer of additional sum to Capital Expenditure Reserve to build up resource capacity	3,839
Transfer to Property Strategy Reserve to provide resources for new projects	870
Transfer to Cost Reduction Reserve for service development and transformation projects	408
Other reserve variations	-55
Total Appropriations	8,176
NET INCREASE IN WORKING BALANCE	0

BALANCE SHEET

The balance sheet as at 31 March is summarised as follows:-

	2008 £m	2007 £m
Long term assets – Council Housing	444	453
- Other	488	410
Cash Investments	208	210
Other current assets less liabilities	(18)	(35)
Total Assets Less Current Liabilities	1,122	1,038
<i>Less</i>		
Long Term Loans	(205)	(213)
Pension Fund FRS17 liability	(86)	(136)
Other long term liabilities	(31)	(29)
Total Assets less Liabilities	800	660
<i>Represented by:</i>		
Statutory/Non Usable reserves	589	462
Usable Reserves	211	198
Total Equity	800	660

No new long-term loans were raised during the year and some loans that matured in 2007/08 have not been replaced.

The most significant usable earmarked reserve balances, as at 31 March 2008, are the Capital Expenditure Reserve (£64.0 million), Car Parking Reserve (£38.5 million), Strategic Regeneration Fund (£13.3 million), Housing Revenue Account Capital Reserve (£7.1 million), Insurance Reserve (£6.7 million), Demand Growth Reserve (£5.3 million) and the Local Initiatives Reserve (£4.9 million). The levels of all existing reserves have been reviewed during the year and are considered necessary and sufficient for the purpose for which they are held, in particular to fund the Council's ambitious capital expenditure programme.

The Balance Sheet shows that the Council's estimated liabilities for retirement benefits, as calculated by the Council's actuaries, exceeded the assets in the relevant funds by £86.3 million at 31 March 2008. This is £49.7 million lower than the net liabilities of £136.0 million at 31 March 2007, chiefly as a result of the increasing value of investments. This is a volatile figure which can vary significantly from one year to the next. Employer contributions in respect of retirement benefits are calculated by the Council's actuaries on a triennial basis and contribution rates are set at a level estimated to balance the pension liabilities with investment assets for all the employers in the scheme.

HOUSING REVENUE ACCOUNT

The Statement of Accounts includes the Council's Income and Expenditure Account and Balance Sheet, which reflects both the General Fund services and the ring-fenced Housing Revenue Account (HRA). Details of the latter account are included within section 2 on page 61 of the Statement of Accounts.

CAPITAL EXPENDITURE AND FINANCING

The Council spends money of a capital nature in improving its housing stock and on other items of long-term benefit to services for residents and businesses. In 2007/08 the Council spent a total of £49.6 million compared to £49.4 million in the previous year. The total expenditure in 2007/08, compared to the budget, was as follows:

Business Group	Final Budget £'000	Actual £'000	Variance Amount £'000	Variance %
Family and Children's Services	9,322	7,665	-1,657	-17.8%
Housing, Health and Adult Social Care	33,463	30,778	-2,685	-8.0%
Planning and Borough Development	104	74	-30	-28.8%
Transport, Environmental and Leisure Services	9,164	7,702	-1,462	-16.0%
Corporate Services	4,045	3,333	-712	-17.6%
Service Total	56,098	49,552	-6,546	-11.7%

The main reasons for the £6.5 million underspending are due to the following schemes:

Family and Children's Services

	£'000
New Schools projects – mainly Holland Park School delays as a result of planning application resubmission.	-516
Oxford Gardens scheme delayed and other Family Services properties	-407
West Chelsea Play and Youth Development expenditure now planned for 2008/09	-192
ICT Pupil Database delayed expenditure	-188

Transport, Environment and Leisure Services

Exhibition Road and South Kensington schemes overspent and brought forward expenditure	221
Transport Action Plans – slippage on Car Parking Reserve funded projects	-126
Safety Schemes – Planned projects deferred	-298
Street Scene Improvements – slippage including a virement to Exhibition Road	-146
Albert Bridge strengthening – slippage on detailed design fees allocation	-83
Chelsea Bridge – slippage relating to final account	-34
Denyer Street sub depot – slippage following discovery of asbestos on site	-149
Holland Park North Wall – slippage	-174
Sports Centre planned maintenance budget underspent	-91
Leighton House repairs and consultants fees	-97
Holland Park Theatre canopy budget – final payment not until 2008/09	-52

Housing, Health and Adult Social Care

Decent Homes Programme underspend against revised budget	-164
Elm Park Gardens – expenditure accelerated plus complexity of the project	+922
Wiltshire Close Lifts– unforeseen services and asbestos problems	-1,015
Cremorne Refurbishment Phases 3 and 4 higher costs at final account	151
Deferred projects	-447
Elm Park Gardens Basement works delays	-821
Demand-driven disabled facilities and renovation grants	-466
Compulsory Purchase Order not expected to be needed	-50

Corporate Services

Canalside House redevelopment on hold pending negotiations on Gas Board site	-310
Civic Offices Major works projects	-164
Information Systems projects	-174

Capital expenditure in 2007/08 was funded from the following sources:

Funding Source	£m
External Cash	
Capital Receipts	10,300
Capital Grants and Contributions	14,735
Total External Cash	25,035
Internal Reserves	
Earmarked Business Group Capital Reserves	6,881
Car Parking Reserve	4,313
Capital Expenditure Reserve	8,071
Total Internal Reserves	19,265
Capital Financing Requirement	
Housing Revenue Account	5,100
General Fund	0
Total Capital Financing Requirement	5,100
Total	49,400

FUTURE OUTLOOK

The forecast outturn for 2007/08 has been taken into account in setting the 2008/09 revenue budget, although there remain service risks in demand-led budgets. The Council's general Formula Grant is on the grant 'floor' until at least 2010/11 and from 2008/09 onwards contains many previous specific grants which have been transferred into a new non ring-fenced Area Based Grant. The Local Government Finance Settlement 2008/09 was a bad one for the Royal Borough and for London. The percentage increases for the period 2008/09 to 2010/11 come to less than the increase for 2007/08 alone arising largely from Grant Distribution changes, including the removal of protection of Personal Social Services formulae for Children and Younger Adults.

The Council achieved its ambition to maintain a two year Council Tax freeze for 2006/07 and 2007/08, and managed to limit the Council Tax increase to 2.5% for 2008/09. This is as a result of prudent financial management and the careful maintenance of revenue reserves. Similarly, capital reserves are held in order to reduce the future borrowing requirement as well as to contribute funding for a £206 million investment programme for the period 2008/09 to 2010/11, together with other prospective projects in the pipeline.

FUTURE CAPITAL PROGRAMME

The Council has an ambitious capital programme for 2008/09 – 2010/11 totalling £206 million which includes a delayed Holland Park School rebuild, the realisation of a new academy school in Chelsea, improvements to Exhibition Road, an upgraded Central Library and significant projects to renew the Council's street scene and operational buildings. The programme is made up of £43 million for housing in the Housing Revenue Account and £163 million for investment by the General Fund. Funding for the capital programme will come from reserves, external funding and borrowing. Full details of individual schemes, and programme funding, including the impact on Council Tax and Rent levels, can be found in the Council's Capital Programme 2008/09 – 2010/11 at http://www.rbkc.gov.uk/yourcouncil/councilfinances/capital_programme_budget.asp

LONDON RESIDUARY BODY

The accounts incorporate statements relating to those functions transferred to the Royal Borough from the former London Residuary Body. This covers residual matters arising from the abolition of the Inner London Education Authority in 1990 that were not transferred to individual inner London boroughs and are managed on their behalf by the Royal Borough.

ACCOUNTING POLICES

There have been no changes in accounting policies made by the Council in the year other than those arising from the changes introduced in the CIPFA Statement of Recommended Practice (SORP) 2007. The accounts are presented in accordance with SORP which has introduced some changes in the disclosure requirements this year. The main changes are:

- The Fixed Asset Restatement Account and the Capital Financing Account are replaced by a Revaluation Reserve and a Capital Adjustment Account.
- A new Financial Instruments Adjustment Account
- Increased disclosures relating to Financial Instruments (Investments and Borrowing)

Comparable figures for 2006/07 are included within the new and amended statements and notes as required.

The accounts will be required to be fully compliant with International Financial Reporting Standards by 2010/11, including a restatement of 2009/10 balances. Some of the changes referred to above are part of a partial move towards full compliance with these standards (e.g. financial instruments). The Royal Borough is starting to prepare for the implications of other changes that will be required over the next two years.

There are no other bodies required to be consolidated with the Royal Borough's accounts, in accordance with accounting standards.

The accounting policies adopted by the Council comply with recommended accounting practices and are set out on pages 9 to 14.

P.A. Kidd

P.A. Kidd, CPFA
Chief Finance Officer

STATEMENT OF MAIN ACCOUNTING POLICIES ADOPTED IN COMPILING THE ACCOUNTS

1. General Principles

The Statement of Accounts has been prepared according to the Accounts and Audit Regulations 2003, the Audit Commission Act 1998 and the 2007 Code of Practice on Local Authority Accounting in the United Kingdom issued by the Chartered Institute of Public Finance and Accountancy (CIPFA)/LASAAC Joint Committee. This prescribes the requirements of proper accounting practice for local authorities. The Statement of Accounts complies with the basic accounting concepts set out in CIPFA's Statement of Recommended Practice 2007 ("SORP") and the Best Value Accounting Code of Practice ("BVACOP").

2. Fixed Assets

- a) Where the authority will benefit for more than one year, expenditure on buying or improving fixed assets is capitalised in the accounts and accrued. By definition this excludes routine repairs and maintenance, which are charged directly to service revenue accounts.
- b) Basis for accounting

Asset Class	Valuation Basis
Infrastructure, Vehicle, Plant and Equipment.	Market value in existing use (Historic cost net of depreciation is used as a proxy for this).
Community assets such as parks and open spaces.	Nil unless additional capital expenditure, recorded at cost.
Short lived assets, including intangible assets.	Historic cost as a proxy for replacement cost net of depreciation.
Council Dwellings.	Valued at existing use for social housing.
Operational Properties.	Market value in existing use or depreciated replacement cost if no market for the asset exists.
Non-Operational Properties.	Market value.

- c) Valuations
Valuation of land and assets accords with the statements of asset valuation principles and guidance notes issued by the Royal Institution of Chartered Surveyors (RICS), as recommended by CIPFA. They are revalued every five years as part of a rolling programme. Valuations have been carried out by members of the Royal Borough's Property Services Division who are either members or probationers of the RICS. All valuations have been certified by M Flanagan BA(hons) Dipsurv MRICS, the Director for the Royal Borough's Property Services Division.

Assets	Last Valued
Council Dwellings	Full Valuation 2005
Operational Properties	Full Valuation 2004
Non-Operational Properties	Full Valuation 2007

- d) The difference between the actual cost of assets as recorded in the capital accounts and the valuations shown in the Balance Sheet is reflected in the Revaluation Reserve (previously the Fixed Asset Restatement Account) which is shown on the face of the Balance Sheet. The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only – the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account. In the case of fixed assets where there is a clear consumption of economic benefit (impairment) this cost would be charged to the relevant service in the Income and Expenditure Account matched by a corresponding release from the Capital Adjustment Account (previously the Capital Financing Account) to prevent any impact on the level of the Council Tax. The de minimis level for capitalisation of expenditure is £10,000 (see note 14).

3. Deferred Charges

Expenditure on Deferred Charges is amortised to revenue in the year in which it is incurred.

4. Intangible Assets

Expenditure on intangible assets represents purchased software licences. It is included on the balance sheet at historic cost, net of depreciation.

5. Capital Receipts

A capital receipt on the disposal of a fixed asset (as part of a gain or loss on disposal) is transferred to the capital receipts unapplied account from the Income and Expenditure Account until either used to buy new assets or repay debt. The General Fund or the Housing Revenue Account, as appropriate, receives interest on the balances. Legislation requires a percentage of housing capital receipts to be paid to the National Pool, administered by the Department for Communities and Local Government. This appears in the balance sheet within the Capital Adjustment Account.

6. Treatment of Sales of Council Houses

Sales of Council houses for which a Council mortgage is granted are not initially treated as capital receipts but are shown in the balance sheet as deferred credits. As loan repayments are made they are then treated as capital receipts.

7. Government Grants and Contributions

Where a government grant or other contribution pays for a fixed asset either wholly or in part, it is first credited to the government grants deferred account. Amounts are credited to the Statement of Movement on the General Fund Balance over the useful life of the asset, matching depreciation charged to services. The authority accrues government capital grants and other contributions. Where there is reasonable assurance that the grants will be received, the accounting statements include them.

Grants used to finance deferred charges are not included but used to write down the deferred charge in the year.

8. Depreciation

Depreciation on land and building assets, other than Council Dwellings, has been calculated in accordance with accounting standards. Fixed assets (excluding land and other non-depreciable assets) are depreciated, using the straight-line method, over their useful life starting the year after acquisition. All buildings are depreciated over their remaining useful life (to a maximum of 50 years). The variation between this policy and FRS15 (depreciation at point of bringing into use) is considered each year to ensure that any such difference would not be material. Council policy defines the maximum useful life of vehicles, plant and equipment as follows:

Type of Asset	Estimated Useful Life in Years
Lifts	25
Furniture	10
Infrastructure	20
Vehicles	7
Computer hardware	4
Computer software	3-10
Other items of equipment	5

Depreciation in respect of Council Dwellings is charged as an amount equal to the Major Repairs Allowance as calculated by the Department for Communities and Local Government.

Revaluation gains are depreciated with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been charged based on their historic cost. This amount is transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

9. Capital Charges

Charges to service revenue accounts in respect of capital are based on the provisions of the CIPFA Code of Practice. From 2006/07 onwards the requirement to charge notional interest to service revenue accounts was removed, and capital charges therefore now reflect only depreciation. Charges to the Housing Revenue Account are governed by statutory provisions and include both a depreciation charge and an allocation of interest.

10. Basis of Provision for Redemption of Debt

Charges to services are based on asset values as discussed in the paragraph above. The Local Authorities (Capital Financing and Accounting)(England)(Amendment) Regulations 2008 require revenue accounts to be charged with a minimum revenue provision for the general fund towards the redemption cost of external loans which the local authority considers to be prudent and provides guidance on what may be considered to be prudent provision. Actual external loan repayments to lenders are made at the time considered the most beneficial to the Council. Premiums paid on refinancing long-term loans are charged to the Income and Expenditure Account as outlined in paragraph 17 below.

11. Operating Leases

Rental payments due for the year under operating leases have been charged to the relevant service revenue accounts.

12. Stock and Work in Progress

Stocks and stores are in the accounts at the latest invoice price. The variation between this method and the basis set out in SSAP9 (lower of cost and net realisable value) is considered each year to ensure that it would not be material. Work in progress on uncompleted jobs is valued at cost, including overhead allocations.

13. Extent to which Costs of Central Support Services are allocated

In accordance with BVACOP central management and administration costs are fully reallocated over services based on staff time allocation, office space or usage of assets and services as appropriate. Central support services are covered by service level statements between clients and providers. Expenditure on Corporate and Democratic Core and Non-Distributed Costs is not charged to services but is recognised separately within the accounts.

14. Basis of Capitalising Improvements

Works to enhance the values of assets are capitalised where they exceed £10,000 and have an anticipated life of at least 5 years.

15. Reserves

Money held as a general sum against future needs is classed as a reserve and payments to it do not count as service expenditure. Money held in reserve is transferred back to revenue to meet needs as they arise. The movements are shown on page 50.

16. Provisions

A provision may be raised where a loss or liability is recognised in accordance with FRS12 but where the exact amount and date are uncertain.

FRS12 states that a provision may be made where the following apply.

- There is a present obligation, derived from a past event, and
- It involves a probable transfer of funds, and
- It is able to be reliably estimated.

Payment to a provision is service revenue expenditure. The provisions for bad debts are shown in notes 16 and 17 on page 41 and a note on other provisions is shown in note 24(b) on page 43.

17. Financial Liabilities

Financial Liabilities are initially measured at fair value and carried at their amortised cost. Annual charges to the Income and Expenditure Account for interest payable are based on the carrying amount of the liability, multiplied by the effective interest rate for the instrument.

Gains and losses on the repurchase to early settlement of borrowing are credited/debited to Net Operating Expenditure in the Income and Expenditure Account in the year of repurchase/settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down to the Income and Expenditure Account 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 Income and Expenditure Account, regulations allow the impact on the General Fund Balance to be spread over future years. The Council has a policy of spreading gains and losses in accordance with prevailing regulations. The reconciliation of amounts charged to the Income and Expenditure Account 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 Statement of Movement on the General Fund Balance.

18. Financial Assets

Financial Assets are classified in two types:-

- **Loans and Receivables** – assets that have fixed or determinable payments but are not quoted in an active market; and
- **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 initially measured at fair value and carried at their amortised cost. Annual credits to the Income and Expenditure Account for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument.

Where 'soft loans' (loans made to counterparties at less than market rate) are made, a loss is recorded in the Income and Expenditure Account 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 at a marginally higher effective rate of interest than the rate receivable from the counterparty, 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 Balance is the interest receivable for the financial year – the reconciliation of amounts debited and credited to the Income and Expenditure Account 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 Statement of Movement on the General Fund Balance. This procedure is only applied where the loss arising from the soft loan is considered material.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under contract will not be made, the asset is written down and a charge made to the Income and Expenditure Account.

Any gains and losses that arise on the derecognition of the asset are credited/debited to the Income and Expenditure Account.

Available-for-Sale Assets

Available for sale assets are initially measured and carried at fair value through the Income and Expenditure Account. Where the asset has fixed or determinable payments, annual credits to the Income and Expenditure Account for interest receivable are based on the amortised cost of the asset multiplied by the effective rate of interest for the loan. Where there are no fixed or determinable payments, income (e.g. dividends) is credited to the Income and Expenditure Account.

Assets are recorded on the Balance Sheet at fair value. Values are based on the market price (bid price).

Where impairment losses have been incurred – these are debited to the Income and Expenditure Account, along with any net gain/loss for the asset accumulated in the Reserve.

Where assets are identified because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the Income and Expenditure Account.

Any gains or losses that arise on the derecognition of the asset are credited/debited to the Income and Expenditure Account.

Where the Council entered into financial guarantees before 1 April 2006 they are not required to be accounted for as financial instruments and are reflected in these accounts to the extent that provisions might be required or a contingent liability note needed under their respective policies.

19. Pensions

Pensions for the Royal Borough's employees are administered through three schemes which provide defined benefits relating to pay and service:-

(i) Royal Borough of Kensington and Chelsea

Council employees, subject to certain qualifying criteria, are eligible to join and contribute to the Local Government Pension Scheme (LGPS).

The LGPS is a funded multi-employer scheme accounted for on a defined benefit basis. Unfunded discretionary benefits awarded by the Council under the scheme are also accounted for on the same basis. The cost of providing pensions for employees within the LGPS is funded in accordance with the statutory requirements governing the scheme. However, accounting for LGPS employees' pensions is in accordance with generally accepted practice, as defined by Financial Reporting Standard 17 (FRS17) and the interpretations set out within the Code of Practice.

In accordance with the requirements of FRS17, the Council now accounts for retirement benefits when it is committed to give them, regardless of when the benefits are received. Hence:

- The Balance Sheet reflects, at fair value, the assets and liabilities arising from the Council's retirement obligations.
- The operating costs of providing retirement benefits to employees are recognised in the accounting period(s) in which the benefits are earned by the employees, and the related finance costs and any other changes in value of the assets and liabilities are recognised in the accounting periods in which they arise.
- The financial statements disclose the cost of providing retirement benefits and related gains, losses, assets and liabilities. The attributable assets of the LGPS are measured, at their fair value, at the balance sheet date, and are shown net of attributable scheme liabilities.

Current service costs are included within the Income and Expenditure Account, within the Net Cost of Services. The net of the interest cost and expected return on assets is included within Net Operating Expenditure.

Actuarial gains and losses arising from any new valuation, and from updating the latest actuarial valuation to reflect conditions at the balance sheet date, is recognised in the Statement of Total Movements in Reserves for the period.

Past service costs are recognised in Net Cost of Services on a straight-line basis over the period to which the increases in benefits vest. To the extent that past service costs vest immediately, the past service cost is recognised immediately.

Losses arising on a settlement or curtailment not allowed for in the actuarial assumptions will be measured at the date on which the Council becomes demonstrably committed to the transaction and recognised in the Net Cost of Services at that date. Gains arising on a settlement or curtailment not allowed for in the actuarial assumptions will be measured at the date on which all parties whose

consent is required are irrevocably committed to the transaction and recognised in Net Cost of Services at that date.

(ii) Teachers

This is an unfunded scheme administered by the Teachers Pensions Agency. The pension cost charged to the accounts is the contribution set by the Department for Children, Schools and Families (14.1% since January 2007) on the basis of a notional fund, and any added years payments awarded by the Council. The Teachers' Pension Scheme is a defined benefit scheme in which the assets and liabilities underlying the scheme are not identifiable at individual employer level on a consistent and reasonable basis. The added years payments awarded by the Council are unfunded discretionary benefits and it has not been possible to quantify the employers' liability in respect of these benefits. Both have therefore been accounted for on a defined contribution basis.

(iii) London Pension Fund Authority

This is an LGPS funded scheme operated by the LPFA on behalf of employees who formerly worked for the Inner London Education Authority or the Greater London Council.

Early Retirement Policy

An employee will be allowed to retire and receive accrued pension benefits subject to the employer's agreement and the pension fund being reimbursed the cost of the early payment of benefits.

The Council no longer permits added years or augmentation of service to be awarded. Applications for early retirement are, in all cases, considered on affordability grounds and needs of the organisation.

STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

The Responsibilities of the Authority

The authority is required:-

- to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Chief Finance Officer;
- to manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- to approve the Statement of Accounts.

The Responsibilities of the Chief Finance Officer

The Chief Finance Officer is responsible for the preparation of the authority's Statement of Accounts in accordance with proper practices as set out in the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom (the SORP).

In preparing this statement of accounts, the Chief Finance Officer has:-

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

The Chief Finance Officer has also:-

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

I certify that the Statement of Accounts 2007/08 presents fairly the financial position of the Authority at 31 March 2008 and its income and expenditure for the year ended 31 March 2008.

P.A Kidd

**P.A. Kidd, CPFA
Chief Finance Officer**

I certify that the Statement of Accounts 2007/08 was approved by the Audit Committee on 24th June 2008.

Jury Weale

Chairman of the Audit Committee

ANNUAL GOVERNANCE STATEMENT 2007/08

Scope of responsibility

The Royal Borough of Kensington and Chelsea is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Royal Borough 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 Royal Borough is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, which includes arrangements for the management of risk.

The Royal Borough 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 our website at *At your Service>Your Council>How We Govern> Constitution>Part5 D*¹ or can be obtained from Governance Services, Kensington Town Hall, Hornton Street, London W8 7NX. This statement explains how the Royal Borough complies with the Code and also meets the requirements of regulation 4(2) of the Accounts and Audit regulations 2003 as amended by the Accounts and Audit (Amendment) (England) regulations 2006 in relation to the publication of a statement on internal control.

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 authority 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 Royal Borough's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The governance framework has been in place at the Royal Borough for the year ended 31 March 2008 and up to the date of approval of the Statement of Accounts.

The governance framework

The governance framework is set out in the **Appendix** to this statement. This sets out the key documents and processes that determine the way the Royal Borough 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 Royal Borough's vision of its purpose and outcomes for citizens and service users

¹ http://www.rbkc.gov.uk/howwegovern/constitution/2007constitution_part5_d.pdf

The Council's core values are expressed in three aims that define its contribution to 'A Better City Life':

Really Good Services - setting high standards for ourselves and for others.

Responding to Residents - listening to and leading a diverse population and using public money wisely.

Renewing the Legacy – investing in the public buildings and places that make the Royal Borough special.

Through its leadership of the Kensington and Chelsea Partnership, the Council comes together with voluntary and community groups, the Metropolitan Police Service, the Primary Care Trust, the Kensington and Chelsea Chamber of Commerce and others with a common goal: to improve the quality of life in the Borough. The Partnership published "*The Future of our Community 2005-2015*", which sets out the long-term priorities and the challenges for the whole of the Borough and identified eight shared goals that the Council and its partners will all work to achieve. This is in the process of being revised and updated. Delivery of the Council's objectives is through an integrated annual business and financial planning process, which results in a three year Cabinet Business Plan, Departmental Service Delivery Plans, and personal targets for individuals. It is expressed financially in the revenue budget and capital programme, which are subject to full consultation and review by Overview and Scrutiny Committees before recommendation by Cabinet and formal adoption by full Council.

b) Measuring the quality of services for users to ensure that they are delivered in accordance with the Royal Borough's objectives and represent best use of resources.

Measurement of the quality of services is through the Royal Borough's performance management system. This includes the setting of targets and reporting of achievement of key performance indicators and a programme of annual service reviews. There is a designated Cabinet Member for Service Improvement who has responsibility for ensuring that performance of the Council and its partners is maintained and improved. Five Overview and Scrutiny Committees and a number of specialist working groups, including an Economy Efficiency and Effectiveness Working Group, consider relevant issues of interest and importance.

Monitoring of delivery of the Royal Borough's objectives includes 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
Collective Key Tasks - main actions required by Management Board members to achieve the Cabinet Business Plan key objectives	Management Board and Cabinet	Annual with review
Budget Monitoring Reports - revenue and capital monitoring plus key non-financial indicators with Cabinet approval for any corrective action.	Management Board, Cabinet and Overview and Scrutiny Committee members	Quarterly
Improvement Action Plan - includes reporting on Royal Borough reviews - the local version of Best Value reviews - and Local Public Service Agreement stretch targets.	Management Board, and Cabinet	Bi-annual
Vital Improvements - reporting progress on key project action plans.	Management Board, and Cabinet	Bi-annual
Vital Signs report - 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 or staff consultations carried out	Officers, Members and the public	Continuous via intranet
Vital Finances - a digest of historical and current financial information covering key areas of activity	Officers, Members and the public	Updated bi-annually
Performance Digest - statutory report on all national and key local performance indicators and targets	Management Board, Cabinet and published on web site	Annual
Annual Efficiency Statement – submission to Government on efficiency savings achieved.	Management Board and Cabinet	Bi-Annual
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 Borough.	Annual
Use of Resources Assessment – external audit validation of the Royal Borough's financial reporting, financial management, financial standing, internal control and value for money	Management Board and Cabinet	Annual

c) Defining and documenting the roles and responsibilities of the executive, non executive, scrutiny and officer functions with clear delegation arrangements.

The Royal Borough 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.

d) Developing, communicating and embedding codes of conduct for members and employees.

Member and Employee Codes of Conduct are communicated as part of the induction process and made available to all via the intranet. Significant revisions to the Code of Conduct are followed by a series of short seminars facilitated by the Director of Law and Administration. The Standards Committee reports annually to full Council on its activities. This Committee contains three Council members plus three independent voting members, one of whom is the chairman of the Committee.

e) Reviewing and updating standing orders, financial procedure rules, schemes of delegation and risk management controls.

The Council's Monitoring Officer reviews and updates the constitutional framework including the Standing Orders and Scheme of Delegation on a regular basis. The Section 151 officer similarly undertakes regular reviews of the Financial Procedure Rules and Procurement Procedure Rules and Contract Regulations, which are incorporated into the Constitution. All changes to the Constitution are approved by the Administration Committee, which reports directly to the Council. Directors and Heads of Service are ultimately responsible for the management of the risks within their areas of responsibility. The Council's Risk Management Strategy is overseen by the Risk Management Group which meets quarterly, is chaired by an Executive Director, and comprises senior officer representatives from each Business Group. A database of key Business Group and council-wide risks is maintained. Each Business Group has a senior officer nominated as a Risk Champion who is responsible for ensuring that risks are adequately reviewed, monitored and appropriate action is being taken by the risk owner.

f) Undertaking the core functions of an Audit Committee.

The Audit Committee comprises both council members plus two 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, risk management arrangements and is responsible for the Council's overall governance arrangements.

g) 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, which 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 Internal Audit reports are provided to relevant senior managers and cabinet members as well as being reported to the Audit 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	Exec Director for Finance, Information Systems and Property	Ensuring that there are arrangements in place for the proper administration of financial affairs throughout the authority
Monitoring Officer	Director For Law and Administration	Monitoring and reporting contraventions of the law, maladministration, ethical standards and misconduct. Maintaining the Constitution and complaints system.
Head of the Paid Service	Town Clerk and Chief Executive	Determining the overall staffing structure of the Council and the deployment of officers.

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

The Council operates a whistleblowing scheme with various channels of communication including an anonymous phone hotline and via an independent organisation to whom any concerns can be expressed. The scheme is regularly publicised among employees, key contractors and publicised on the Council's web site. Most complaints are dealt with at the point of service but in addition there is a formal system in operation which can escalate complaints to more senior management, and ultimately the Town Clerk and Chief Executive, if necessary, to resolve any issues arising. Complaints are reported annually to a meeting of the Cabinet along with action taken and lessons learned.

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

There is a programme of regular training for all new managers and a strong corporate induction process for members and officers joining the Council. New members receive a copy of The Councillor's Handbook. The majority of officers and members 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 an intranet based Financial Management Guidance Manual.

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

The primary aim of the Council's consultation activities is to help the Council to ensure that its services and policies meet the needs of its users. The Council engages and communicates with the local community in a variety of ways including the Resident Review Panel which enables 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 communicates on a regular basis via the quarterly Borough Newsletter, delivered to all homes, as well as via the Council's web site and publications such as the annual Report to Taxpayers. Committee agendas and reports and the Forward Plan of Key Decisions are made available in public libraries and online on the Council's website.

Review of effectiveness

The Royal Borough 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 within the authority, who have responsibility for the development and maintenance of the governance environment, the Head of Audit and Risk Management's annual report, and also by comments made by the Royal Borough's external auditors and other review agencies and inspectorates.

The Royal Borough has established a **Corporate Governance Board** which has clear terms of reference which include oversight and review of the Council's governance arrangements. It is chaired by the Town Clerk and Chief Executive and its membership comprises key senior officers who are involved in aspects of the governance process. The Board is responsible for the initial review of:

- Management Statements of Assurance on Corporate Governance
- Internal Audit annual review of the Royal Borough's corporate governance arrangements
- Internal Audit annual review of the Royal Borough's risk management arrangements
- Annual report on Internal Audit and Internal Control
- The Corporate Governance Statement and supporting evidence

The **Audit Committee** approves the annual Audit Plan, receives quarterly reports on Internal Audit system audits, reviews the Risk Register and annual Risk Management Report, intervening to request further action where necessary, and a final review of the above reports to support the Annual Governance Statement. It carries out a self assessment review of the Committee's effectiveness. The Chairman of the Audit Committee reports annually to the Council on the activity of the Audit Committee during the year.

The effectiveness of **Internal Audit** is determined by feedback from managers on individual audit reports, the opinion of the external auditor and an annual peer review by an independent London Borough audit team.

The **Risk Management Group** reviews the effectiveness of the Royal Borough's risk management arrangements and monitors risk action plans twice yearly. It reports a summary of its activities to the Management Board and Audit Committee twice yearly

The Royal Borough's **external auditors** are not required to form an opinion on the effectiveness of the Council's risk and control systems however their work, in conjunction with that of Internal Audit, does give a degree of assurance. The external auditors meet on a quarterly basis with the Town Clerk and Chief Executive and the Section 151 officer, and attend the Audit Committee to present their Audit Plan, report on the Statement of Accounts and provide an annual Report to those Charged with Governance. They provide a scored judgement on the Use of Resources which includes internal control, probity and risk management issues

The **Standards Committee** reports on an annual basis to the full Council on its activities for the year. This is presented to the Council members by the independent chairman of the Committee.

Conclusion

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

- the Royal Borough has a robust system of Internal Control
- strong corporate governance arrangements are in place
- risk management arrangements are satisfactory and compliant with best practice.

No significant control issues have been identified but one area was identified where there is a need to ensure work is prioritised to reduce the overall risk to the Council achieving its objectives. This relates to the need for senior management to ensure that effective disaster recovery arrangements are in place. The Head of Internal Audit is satisfied that appropriate work is being undertaken to address the issue raised.

There have been two areas where we acknowledge that management standards have been criticised:

- (i) the management of local public housing stock, where the deliverer of services, the Tenant Management Organisation, lost the confidence of some of its tenants and leaseholders,
- (ii) the Council's past calculation of the cost of waste disposal from the Portobello Road market area, where details are being finalised on a scheme to refund likely overcharging to some local traders.

In both these areas councillors and officers have looked at the management action necessary to secure the resolution of problems and looked at learning points.

We have been advised on the implications of the result of the review of the effectiveness of the governance framework by the Audit Committee. We plan to address minor weaknesses and to ensure that continuous improvements in the governance system are made and the Corporate Governance Board will monitor their implementation and operation as part of our next annual review.

Significant governance issues

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

Signed:



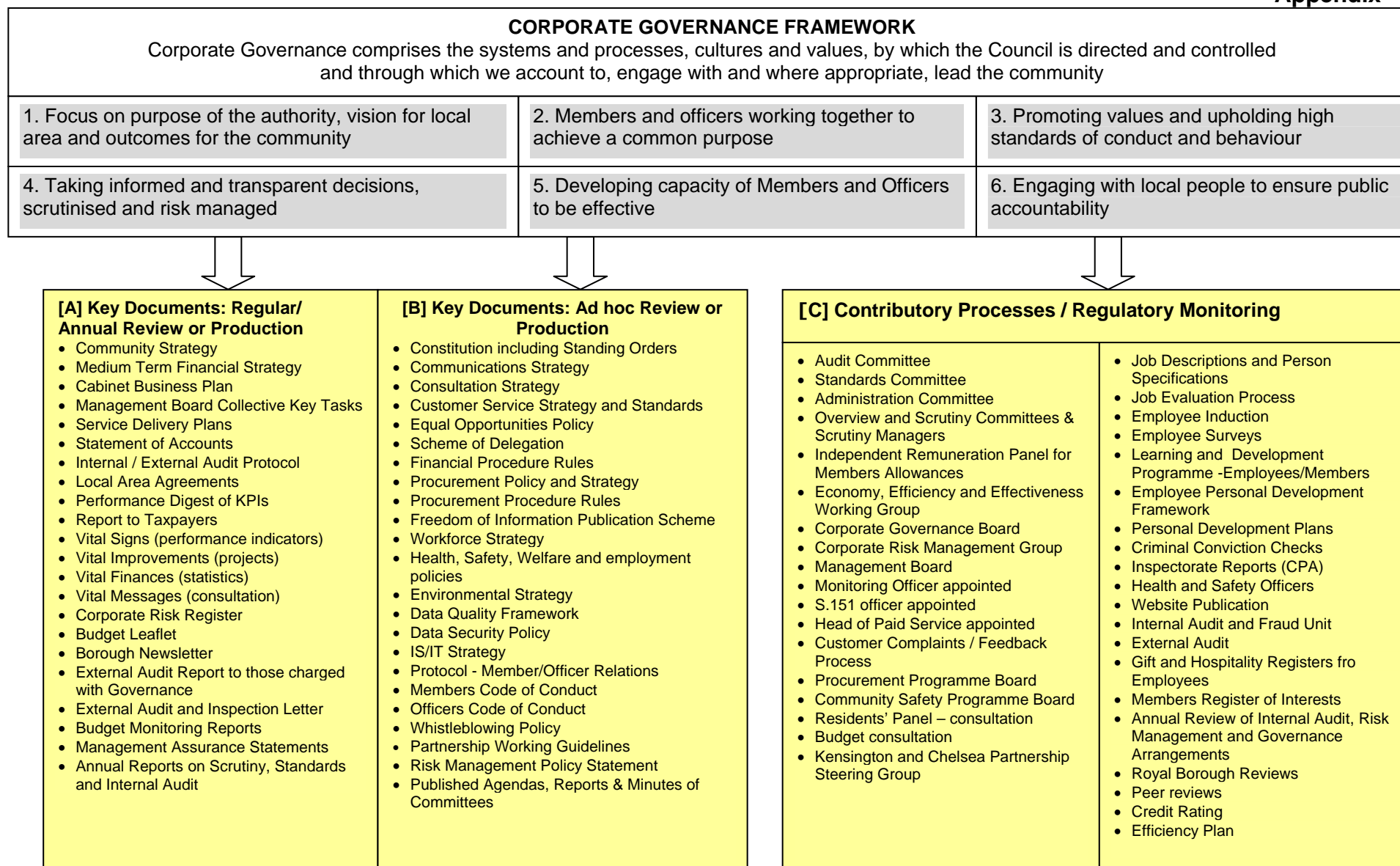
Councillor Merrick Cockell
Leader of the Council

Dated... 31st July 2008...



Derek Myers BA, LLB
Town Clerk and Chief Executive

Dated 31st July 2008



GLOSSARY OF TERMS

ALMO	Arms Length Management Organisation
Balance Sheet	A statement showing the position of the Borough's assets and liabilities as at 31 March in each year.
Budget	A forecast of the Borough'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.
BVACOP	CIPFA's Best Value Accounting Code of Practice which provides guidance on financial reporting to stakeholders and establishes 'proper practice' with regard to consistent financial reporting below the Statement of Accounts level.
Cabinet	The Cabinet is the Executive responsible for undertaking all of the Council's functions, except those functions which are reserved to the full Council or delegated to committees or officers. When the Executive meet collectively they are 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 in financing capital expenditure. This account appears on the Balance Sheet from 2007/08 onwards.
Capital Charges	Charges made to service revenue accounts based on the service's use of fixed assets.
Capital Expenditure	Expenditure on the acquisition or enhancement of fixed assets, deferred charges or advances (loans) to other individuals or organisations.
Capital Financing Account	An account recording financing transactions relating to capital expenditure. This account is not available for general use in financing capital expenditure. This account does not exist on the Balance Sheet after 31 March 2007.
Capital Receipts	Income received from the sale of fixed assets or repayment of capital advances.
CIPFA	The Chartered Institute of Public Finance and Accountancy
Collection Fund	A statutory account into which are paid Council Tax, Non Domestic Rates and from which amounts are paid to the Borough and precepting authorities.
Community Assets	A class of fixed assets that are expected to be held by the Borough in perpetuity. Examples include parks, historic buildings and works of art.
DCLG	Department for Communities and Local Government
Deferred Charges	A type of capital expenditure which may be deferred but which does not give rise to tangible assets. Examples are renovation grants (grants to private individuals and companies to improve housing standards) and capital grants to other organisations.

Depreciation	A measure of the consumption or wearing out of the useful economic life of a fixed asset.
DRC	Depreciated Replacement Cost is a method of asset valuation.
DSG	Dedicated Schools Grant
DWP	Department for Work and Pensions
Fixed Assets	Assets which provide benefit to the Borough and its services for a period in excess of one year.
Fixed Asset Restatement Account	An account showing the surpluses or deficits achieved when revaluing fixed assets. This account is not available for general use in the financing of capital expenditure. This account does not exist on the Balance Sheet after 31 March 2007.
Formula Grant	Central Government subsidy to local authorities comprising two elements – Revenue Support Grant and Redistributed Non-Domestic Rate.
FRS17	This Financial Reporting 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 giving will be many years into the future.
General Fund (GF)	The primary revenue account which records the cost of providing the majority of the Borough's services.
HEFCE	Higher Education Funding Council in England
Housing Revenue Account (HRA)	A statutory account recording the income and expenditure relating to the Borough's provision of council housing.
Infrastructure	A class of fixed assets whose life is of indefinite length and which are not usually capable of being sold. Examples include roads and highway works.
Intangible Assets	Non financial fixed assets that do not have any physical substance but are identifiable and are controlled by the authority, for example, purchased software licences.
ISB	Individual School Budgets
LAA	Local Area Agreement. A framework of targets agreed with government.
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 were subsequently transferred to the Royal Borough on behalf of London Local Authorities, including Education Awards.
LPFA	London Pension 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 MRA resources are held in the Major Repairs Reserve (MRR) until required.
Management Board	Officer Management Team of the Borough

Minimum Revenue Provision (MRP)	The amount defined by government regulation required to be charged to the revenue account as to provide for the redemption of debt.
Monitoring Officer	Function carried out by the Director of Law and Administration to report to the Council on any potential illegality, misadministration or injustice that may come to his/her attention.
National Non Domestic Rates (NNDR)	The form of local taxation charged on non residential premises at a level set by Central Government. Rates are collected and paid into a central pool administered by Central Government. The total collected is then redistributed to authorities on the basis of population.
Outturn	The final expenditure and income in any financial year.
Precept	The charge made by another authority on the Borough to finance its net expenditure. The Borough currently has one precepting authority - the Greater London Authority (GLA).
Public Works Loan Board (PWLB)	Agency of Central Government responsible for the funding of a large proportion of local authority borrowing.
Related Parties	Defined under Financial Reporting Standard 8, material transactions of the Council with Related Parties are disclosed. Related parties include Central Government, subsidiary and associated companies, the Pension Fund, Council Members and Chief and Senior Officers. FRS8 requires attention to be drawn to the possibility that the reported financial position may have been affected by the existence of related parties and by material transactions with them.
Revaluation Reserve	An account recording the effect of revaluing fixed assets. This account is not available for general use in the financing of capital expenditure. This account appears on the Balance Sheet from 2007/08 onwards.
Revenue Expenditure	Day to day expenditure incurred in the provision of services including salaries and wages and goods and services.
Revenue Support Grant	A grant paid by the Government in support of the Borough's revenue expenditure, as part of the Formula Grant.
RICS	Royal Institute of Chartered Surveyors
Royal Borough Review	Local version of Best Value Review to investigate services and look for alternative approaches to service provision.
Section 151 Officer	Another term to describe the Chief Financial Officer of the Borough with responsibilities as set out in the Statement of Responsibilities for the Statement of Accounts.
SORP	Statement of Recommended Practice issued by CIPFA
STRGL	Statement of Total Recognised Gains and Losses
Tenant Management Organisation (TMO)	Royal Borough of Kensington and Chelsea Tenant Management Organisation Ltd., which manages the Council's Housing Revenue Account stock.

GLOSSARY OF FINANCIAL REPORTING STANDARD 17 TERMS

Actuarial Gains and Losses	The average rate of return, based on actuarial advice, including both income and changes in the fair value, but net of scheme expenses, expected over the remaining life of the related obligation on the actual assets held by the scheme. This is a financing element within the net operating expenditure.
Costs Payable to the Pension Fund and any Payments to Pensioners	<p>The changes in actuarial deficits or surpluses that arise because:</p> <ul style="list-style-type: none">• events have not coincided with actuarial assumptions made for the last revaluation (experience gains or losses) or the actuarial assumptions have changed.• These are appropriated to the Income and Expenditure Account from the Pensions Reserve, to replace all FRS 17 debits and credits, so that they remain, as previously, the actual amount to be met from government grants and local taxation. These have no impact on the Income and Expenditure Account.
Current Service Cost	This represents the increase in present value of the scheme's liabilities expected to arise from employee service in the current period. It is charged directly to services and is based on the most recent actuarial valuation at the beginning of the period (31 March 2007) and is stated net of employees' contributions.
Expected Return on Assets	This is a financing element included within the net operating expenditure in the Income and Expenditure Account.
Gains and Losses on Settlements	An irrecoverable action that relieves the employer of the primary responsibility for a pension obligation and eliminates significant risks relating to the obligation and the assets used to effect the settlement. This also is charged to Non Distributed Costs.
Interest Cost (Pensions)	<p>The expected increase during the year in the present value of the scheme's liabilities because the benefits are one year closer to settlement. The interest cost is based on a discount rate and the present value of the scheme liabilities at the beginning of the year.</p> <p>The discount rate used was that recommended by CIPFA and for 2007/08 was measured by the yield on long-dated high-quality sterling corporate bonds. At 6.9%, this was 3.2% above the assumed level of inflation. In 2006/07 the discount rate used was 5.4% on the same basis.</p>
Past Service Costs	The amount in the present value of the scheme liabilities related to employee service in prior periods, as a result of the introduction of or improvement to retirement benefits. This is charged within the net cost of services under Non Distributed Costs in the Income and Expenditure Account.

SECTION 1

CORE FINANCIAL STATEMENTS

INDEPENDENT AUDITORS' 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 2008 under the Audit Commission Act 1998. The financial statements comprise the Income and Expenditure Account, the Statement of Movement on the General Fund Balance, the Statement of Total Recognised Gains and Losses, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Account, the Statement of Movement on the Housing Revenue Account Balance, the Collection Fund, the Pension Fund Account and Net Assets Statement, and the related notes. The financial statements have been prepared under the accounting policies set out within them.

Respective Responsibilities of the Chief Financial Officer and Auditors

The Chief Finance Officer's responsibilities for preparing the financial statements in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007 are set out in the Statement of Responsibilities for the Financial Statements.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (United Kingdom and Ireland).

This report, including the opinion, has been prepared for and only for the Royal Borough of Kensington and Chelsea's members as a body in accordance with the Audit Commission Act 1998 and for no other purpose as set out in paragraph 36 of the Statement of Responsibilities of Auditors and of Audited Bodies, prepared by the Audit Commission. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements present fairly, in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007, the financial position of the Council and its income and expenditure and cashflows for the year.

We review whether the Governance Statement reflects compliance with 'Delivering Good Governance in Local Government: A Framework' published by CIPFA/SOLACE in June 2007. We report if it does not comply with proper practices specified by CIPFA/SOLACE or if the statement is misleading or inconsistent with other information we are aware of from our audit of the financial statements. We are not required to consider, nor have we considered, whether the Governance Statement covers all risks and controls. Neither are we required to form an opinion on the effectiveness of the Council's corporate governance procedures or its risk and control procedures.

We read the other information published with the financial statements and consider whether it is consistent with the audited financial statements. This other information comprises only the explanatory foreword. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission, which requires compliance with International Standards on Auditing (United Kingdom and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the

Council in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Council's circumstances, consistently applied and adequately disclosed.

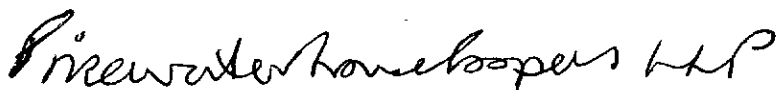
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we evaluated the overall adequacy of the presentation of the information in the financial statements.

The maintenance and integrity of the Royal Borough of Kensington and Chelsea's website is the responsibility of the council; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Opinion

In our opinion the financial statements present fairly, in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007, the financial position of the Royal Borough of Kensington and Chelsea as at 31 March 2008 and its income and expenditure and cash flows for the year then ended.



PricewaterhouseCoopers LLP
London

24th September 2008

CONCLUSION ON ARRANGEMENTS FOR SECURING ECONOMY, EFFICIENCY AND EFFECTIVENESS IN THE USE OF RESOURCES

Council's Responsibilities

The Council 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 regularly review the adequacy and effectiveness of these arrangements.

Auditor's Responsibilities

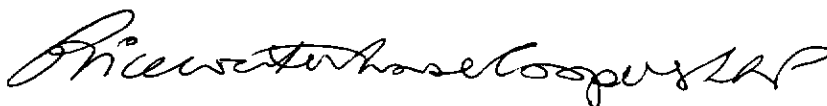
We are required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Council for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion in relation to proper arrangements, having regard to relevant criteria specified by the Audit Commission for principal local authorities. We report if significant matters have come to our attention which prevent us from concluding that the Council has made such proper arrangements. We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Conclusion

We have undertaken our audit in accordance with the Code of Audit Practice and we are satisfied that, having regard to the criteria for local authorities specified by the Audit Commission and published in December 2006, in all significant respects, the Royal Borough of Kensington and Chelsea made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2008.

Certificate

We certify that we have completed the audit of the financial statements in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.



PricewaterhouseCoopers LLP
London

24th September 2008

INCOME AND EXPENDITURE ACCOUNT

	2007/08			2006/07	Notes
	Gross Exp £'000	Income £'000	Net Exp £'000	Net Exp £'000	
EXPENDITURE ON SERVICES					
Central Services	26,875	4,312	22,563	19,175	2
Cultural Environmental and Planning Services					
Cultural and Related Services	19,080	4,419	14,661	12,510	
Environmental Services	35,828	8,892	26,936	26,789	
Planning and Development Services	14,173	12,464	1,709	(1,155)	
Children's and Education Services	146,330	109,707	36,623	40,979	
Highways Roads and Transport Services	40,624	43,666	(3,042)	(6,420)	
Housing Services (excl HRA)	155,576	152,957	2,619	4,522	
Housing Revenue Account	55,422	53,387	2,035	11,523	
Adult Social Care	60,991	27,414	33,577	43,123	
NET COST OF SERVICES	554,899	417,218	137,681	151,046	
Gain or Loss on disposal of fixed assets			(3,930)	(320)	
Levies			3,501	3,380	5
Surplus or deficit of trading undertakings not included in Net Cost of Services			(89)	(63)	
Interest Payable and similar charges			16,762	17,178	
Amounts payable into the Housing Capital Receipts Pool			2,418	2,135	
Interest and Investment Income			(13,526)	(10,494)	4
Pensions Interest Cost and Expected Return on Pensions Assets			1,230	2,094	
NET OPERATING EXPENDITURE FINANCED BY			144,047	164,956	
Income from the Collection Fund			71,722	72,895	6
Revenue Support Grant			13,870	14,843	
Distribution from Non Domestic Rate Pool			82,648	77,094	
			168,240	164,832	
Surplus/(Deficit) for the year			24,193	(124)	

STATEMENT OF MOVEMENT ON THE GENERAL FUND BALANCE

	2007/08 £'000	2006/07 £'000
Surplus/(Deficit) for the year on the Income and Expenditure Account	24,193	(124)
Net additional amount required by statute and non-statutory proper practices to be debited or credited to the General Fund Balance for the year	(23,310)	1,817
Increase in General Fund Balance for the Year	883	1,693
Split Between:		
General Fund Surplus	0	1,055
Schools Balances Surplus/(Deficit)	883	638
Surplus/(Deficit) for the year	883	1,693
General Fund Balance		
Balance at beginning of year	14,255	13,200
Surplus/(Deficit) for the year	0	1,055
Balance at end of year	14,255	14,255
Schools Balances		
Balance at beginning of year	5,782	5,144
Surplus/(Deficit) for the year	883	638
Balance at end of year	6,665	5,782

**RECONCILING NOTE TO THE STATEMENT OF MOVEMENT
ON THE GENERAL FUND BALANCE**

	2007/08 £'000	2006/07 £'000
Amounts included in the Income and Expenditure Account but required by statute to be excluded when determining the Movement on the General Fund Balance for the year		
Amortisation of intangible fixed assets	272	80
Depreciation and impairment of fixed assets	12,036	7,007
Government Grants Deferred amortisation	(1,101)	(1,595)
Write downs of deferred charges to be financed from capital resources	21,118	30,877
Net gain or loss on sale of fixed assets	(12,467)	(320)
Net charges made for retirement benefits in accordance with FRS17	(6,985)	1,973
	12,873	38,022
Amounts not included in the Income and Expenditure Account but required to be included by statute when determining the Movement on the General Fund Balance for the year		
Minimum Revenue Provision for capital financing	(1,872)	(2,088)
Capital expenditure charged in-year to the General Fund Balance	(15,333)	(16,238)
Transfer from Usable Capital Receipts to meet payments to the Housing Capital Receipts Pool	2,418	2,135
	(14,787)	(16,191)
Transfers to or from the General Fund Balance that are required to be taken into account when determining the Movement on the General Fund Balance for the year		
Housing Revenue Account balance	(5,402)	(2,254)
Voluntary revenue provision for capital financing	(5,965)	(3,278)
Net transfer to or from earmarked reserves	(10,029)	(14,482)
	(21,396)	(20,014)
Net Additional Amount required to be credited to the General Fund Balance for the year	(23,310)	1,817

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	2007/08 £'000	2006/07 £'000
Surplus/(Deficit) for the year on the Income and Expenditure Account	24,193	(124)
Surplus arising on revaluation of fixed assets	70,382	1,499
Actuarial gains/(losses) on pension fund assets and liabilities	42,694	29,556
Any other gains and losses required to be included in the STRGL *	1,889	(1,670)
Total recognised gains for the year	139,158	29,261

* Items included in this line are the movements in balances on the Collection Fund and the London Residuary Body

BALANCE SHEET

	2008	2007	Notes
	£'000	£'000	
LONG TERM ASSETS			
Intangible Assets	1,456	469	
Tangible Fixed Assets			
Operational Assets			
- Council Dwellings	444,152	452,567	
- Other Land and Buildings	317,066	296,048	
- Infrastructure Assets	25,794	26,249	
- Vehicles, Plant, Furniture and Equipment	9,024	8,037	
- Community Assets	3,849	9,912	
Non-Operational Assets			
- Investment Properties	118,499	56,333	
- Assets under Construction	7,036	5,000	
- Surplus Assets, held for disposal	4,595	0	
	931,471	854,615	15a
Long Term Investments	23	7,523	41
Long Term Debtors	380	450	16
TOTAL LONG TERM ASSETS	931,874	862,588	
CURRENT ASSETS			
Stocks and Work in Progress	326	187	
Debtors (net of provision for bad and doubtful debts)	74,610	43,719	17
Investments	208,271	209,586	41
Cash and Bank	0	2,845	
TOTAL CURRENT ASSETS	283,207	256,337	
TOTAL ASSETS	1,215,081	1,118,925	
CURRENT LIABILITIES			
Borrowing repayable on demand or within 12 months	10,897	11,483	
Creditors	73,745	69,128	18
Bank Overdraft	8,603	0	
TOTAL CURRENT LIABILITIES	93,245	80,611	
TOTAL ASSETS LESS CURRENT LIABILITIES	1,121,836	1,038,314	
Borrowing repayable within a period in excess of 12 months	205,203	213,436	41
Deferred Liabilities	50	50	
Provisions	3,908	2,947	24b
Government Grants - Deferred	26,777	25,462	19
Liability Related to Defined Benefit Pension Schemes	86,308	135,987	29
TOTAL ASSETS LESS LIABILITIES	799,590	660,432	
RESERVES			
Capital Adjustment Account	606,452	599,496	20
Financial Instruments Adjustment Account	(1,133)	(1,189)	
Revaluation Reserve	70,382	0	21
Pensions Reserve	(86,308)	(135,987)	29
Usable Capital Receipts Reserve	1,489	1,793	22
Deferred Credits - Sale of Council Houses	115	173	
HRA Major Repairs Reserve	7,109	12,946	24a
Fund Balances and Reserves			
Schools Reserves	6,665	5,782	24c
Reserves	164,437	154,327	24a
Housing Revenue Account Balance	10,208	4,806	
London Residuary Body Balance	4,259	4,041	
Collection Fund Balance	1,660	(11)	
General Fund Balance	14,255	14,255	
TOTAL EQUITY	799,590	660,432	

CASH FLOW STATEMENT

	2007/08 £'000	2006/07 £'000	Notes
REVENUE ACTIVITIES			
Cash Outflows			
Cash paid to and on behalf of employees	116,577	118,140	
Other operating cash payments	417,977	412,497	
Housing Benefit paid out	71,578	68,107	
National non-domestic rate payments to national pool	182,060	182,900	
Precepts paid	33,077	31,354	
Payments to the Capital Receipts Pool	2,418	2,135	
Cash Inflows			
Rents (after rebates)	(36,750)	(35,842)	
Council Tax Receipts	(102,999)	(98,928)	
National non-domestic rate receipts from national pool	(82,648)	(77,094)	
Non-domestic rate receipts	(180,796)	(183,760)	
Revenue Support Grant	(13,870)	(14,843)	
DWP grants for benefits	(118,044)	(112,064)	
Other government grants	(119,197)	(122,502)	33
Cash received for goods and services	(87,358)	(91,138)	
Other operating cash receipts	(75,549)	(94,932)	
Net Revenue Activities	6,476	(15,970)	34
RETURNS ON INVESTMENT AND SERVICING OF FINANCE			
Cash Outflows			
Interest paid	16,705	17,064	
Cash Inflows			
Interest received	(13,758)	(10,697)	
Net Servicing of Finance	2,947	6,367	
CAPITAL ACTIVITIES			
Cash Outflows			
Purchase of fixed assets	40,271	46,643	
Purchase of Long Term Investments	0	7,500	
Other Capital Cash Payments	0	0	
Cash Inflows			
Sale of fixed assets	(12,526)	(3,476)	
Capital grants received	(13,670)	(15,270)	
Other capital cash receipts	(19,498)	(27,683)	
Net Capital Activities	(5,423)	7,714	
Total net cash (inflow)/outflow before financing	4,000	(1,889)	
MANAGEMENT OF LIQUID RESOURCES *			
Net Increase/decrease in short term deposits	(1,315)	(1,321)	
Net Increase/decrease in other liquid resources	0	0	
	(1,315)	(1,321)	
FINANCING			
Cash Outflows			
Repayments of amounts borrowed	8,763	5,052	
Cash Inflows			
New loans raised	0	0	
New short term loans	0	0	
Total Net Financing	8,763	5,052	35
Net Decrease in cash	11,448	1,842	36

* The category 'liquid resources' represents investments made for periods of less than twelve months

1. Changes arising from SORP amendments.

In the 2007/08 Statement of Accounts, the changes arising from the SORP 2007 have been implemented. These primarily relate to accounting for fixed assets and financial instruments. Accounting policies have been updated in line with the SORP. The Balance Sheet at 31 March 2007 has been restated for the new SORP, with the combined value of the Fixed Asset Restatement Account and Capital Financing Account moving into the new Capital Adjustment Account. The balance on the Revaluation Reserve at the start of the financial year is zero in compliance with the SORP. A new Financial Instruments Adjustments Account has been created and moved to the Reserves part of the Balance Sheet containing the balance previously held on the Balance Sheet under Long Term Assets as 'Deferred Premiums on Early Repayment of Debt'.

2. Central Services

This is total expenditure on Corporate and Democratic Core, Non Distributed Costs and Central Services to the Public as defined in the Best Value Accounting Code of Practice.

	2007/08 £'000	2006/07 £'000
Corporate and Democratic Core	8,738	8,774
Non Distributed Costs	12,047	8,963
Central Services to the Public	1,778	1,438
Total	22,563	19,175

3. Minimum Revenue Provision

To comply with minimum revenue provision requirements in respect of capital financing, charges are made which impact on the General Fund Balance. Details of the charges are as follows:-

	2007/08 £'000	2006/07 £'000
General Fund Min. Revenue Provision		
- Statutory	1,872	2,088
- Voluntary	5,965	3,278
Total	7,837	5,366

4. Interest on Balances

	2007/08 £'000	2006/07 £'000
External Interest – General Fund		
Investment Income	(14,549)	(11,523)
Interest paid to other accounts (inc.HRA)	2,474	2,264
Interest received from other accounts	(214)	(67)
Total Interest – General Fund	(12,289)	(9,326)
Interest – Housing Revenue Account	(1,237)	(1,168)
Total	(13,526)	(10,494)

5. Levies

	2007/08 £'000	2006/07 £'000
Environment Agency	179	112
London Boroughs Grants Committee	693	657
London Pensions Fund Authority	1,443	1,526
Garden Committees Levies	1,186	1,085
Total	3,501	3,380

6. Collection Fund

This figure represents the total of the Royal Borough's precept on the Collection Fund (£71,969k) (£71,578k in 2006/07) (see page 64) less its share of the deficit of the Council Tax Collection Fund Balance £248k from 2006/07.

7. Expenditure on Publicity

In accordance with S.5 of the Local Government Act 1986, the expenditure on the relevant areas of publicity is analyzed below:

	2007/08 £'000	2006/07 £'000
Press and Public Relations		
Salaries	346	294
Other Costs	209	278
Misc. Advertising	194	101
Staff Recruitment Costs	538	594
Total	1,287	1,267

8. Contributions to Local Government Pension Schemes

As part of the terms and conditions of its officers and other employees, the Council offers retirement benefits. Although these will not be payable until employees retire, the Council has a commitment to make these payments, that needs to be accounted for at the time that employees earn their future entitlement. The details of this can be found in Note 29.

a. The total normal employer's contributions to the Council's Pension Fund for the year totalled £15,467,548 representing 20.5% of pensionable pay. The contribution rate was set by the Fund's Actuary to meet 100% of the liabilities of the fund over the estimated average future service of the fund members. This rate is based on triennial actuarial valuation as at 31 March 2004. The contribution rate applicable is 342% of members contributions of which 185% relates to the annual accrual of benefits and 157% relating to the past service surplus. Further details of the Council's Pension Fund Accounts may be found on page 67. Disclosures relating to FRS17 can be found in note 29 on pages 44 to 47.

b. The cost of early retirements is not funded by the Pension Scheme but is ultimately met by the General Fund and Housing Revenue Account over a maximum period of 5 years. The total capital cost of early retirements in the year is recognised in the Net Cost of Services but offset within the Pension Reserve.

c. Contributions to the Teachers Pensions Agency amounted to £3,669,279 in the year (£3,387,363 in 2006/07), which represents a contribution rate of 14.1% of pensionable pay.

d. Contributions to the London Pensions Fund Authority scheme amounted to £238,294 (£280,927 in 2006/07), which represents a contribution rate of 21.4% of pensionable pay.

9. Staff Remuneration

The number of employees in each salary band set out below is as follows. Calculations are based on all sums paid to or receivable by an employee and sums due by way of taxable expenses allowance and the monetary value of any other benefits received other than in cash. Pension contributions payable by either employee or employer are excluded.

Salary Bands	2007/08 Total Employees	2006/07 Total Employees
£50,000 - £59,999	139	125
£60,000 - £69,999	65	64
£70,000 - £79,999	32	18
£80,000 - £89,999	8	10
£90,000 - £99,999	12	5
£100,000 - £109,999	1	1
£110,000 - £119,999	3	5
£120,000 - £129,999	1	1
£130,000 - £139,999	1	0
£140,000 - £149,999	1	0
£150,000 - £159,999	0	1
£160,000 - £169,999	1	0
£170,000 - £179,999	0	0
£180,000 - £189,999	0	0
£190,000 - £199,999	0	0
£200,000 - £209,999	0	1
£210,000 - £219,999	0	0
£220,000 - £229,999	1	0
Total	265	231

10. Related Party Transactions

The Council has had a number of transactions with related parties involving Council members or their close relatives. Members' interests are noted in the Register of Members Pecuniary Interests. Councillors are required to disclose both direct and indirect pecuniary interests, which they may have in any matter coming before the Council or a Committee. Standing Orders require them to withdraw from any meeting while the matter is discussed. Pecuniary interests are declared in the Statutory Register kept for this purpose.

11. Members Allowances

The total of Members Allowances paid in 2007/08 was £1,177,842 (£1,142,745 in 2006/07).

12. External Audit and Inspection Fees

External audit and inspection fees incurred were as follows:

	2007/08 £'000	2006/07 £'000
Fees payable to the Audit Commission in respect of:		
- External audit services	267	260
- Statutory Inspection	27	147
- Grant claims and returns	75	98
- Other services provided	1	43
Total	370	548

13. Building Regulations Charges Statement

Under the Building (Local Authority Charges) Regulations 1998, local authorities are required to disclose the costs and income derived from the building control functions prescribed in regulation 4 of the Charges Regulations. The objective is to fully recover costs over a 3-year rolling period.

	2007/08 £'000	2006/07 £'000
Expenditure		
Employee Costs	820	783
Transport	27	17
Supplies and Services	109	84
Support Services	261	246
Total Expenditure	1,217	1,130
Income		
Building Regulation Charges	1,497	1,276
Total Income	1,497	1,276
Surplus/(Deficit)	280	146
Surplus/(Deficit) on a rolling 3 year period	128	(88)

14. Pooled Budgets Disclosure

Under S.31 of the Health Act 1999, the Royal Borough and the Primary Care Trust have established lead commissioning arrangements for learning disability services. The following table shows the pooled budgets established under the Act.

Project	2007/08 £'000	2006/07 £'000
Community Equipment Service		
Balance Brought forward	107	47
Gross Funding		
▪ Royal Borough	339	339
▪ Kensington and Chelsea Primary Health Care Trust	339	338
Expenditure/refund	721	617
Balance carried forward	64	107
Partnership Staffing*		
Balance Brought forward	0	0
Gross Funding		
▪ Royal Borough	376	370
▪ Central and North West London Mental Health Trust	754	728
Expenditure/refund	1,130	1,098
Balance carried forward	0	0
Total carried forward	64	107

* NB For the Partnership Staffing Pooled Budget, the Borough Council is not the host authority.

Notes to the Core Financial Statements

15. Fixed Assets

a. Movements in fixed asset balances on an accruals basis during the year were as follows:-

	Intangible Assets	Operational Assets					Non-Operational Assets			Total
		Council Dwellings	Other Land and Buildings	Vehicles, Plant, Furniture and Equipment	Infrastructure Assets	Community Assets	Investment Properties	Assets Under Construction	Surplus Assets Held for Disposal	
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	
Gross Book Value	826	464,859	306,035	18,078	33,463	9,916	54,578	5,000	5,307	898,062
Accumulated Depreciation	(357)	(12,292)	(9,987)	(10,041)	(7,214)	(4)	(3,552)	0	0	(43,447)
Net Book Value at 31 March 2007	469	452,567	296,048	8,037	26,249	9,912	51,026	5,000	5,307	854,615
Movement in 2007/08										
Opening Balance Adjustment	1,198	(761)	3,417	(1,779)	(471)	(8,277)	7,495	0	(1,440)	(618)
Additions	99	0	8,507	3,296	56	28	0	927	0	12,913
Enhancements	6	0	5,856	272	2,613	2,186	323	929	0	12,185
Disposals	0	(2,916)	0	(30)	0	0	0	0	(8,507)	(11,453)
Revaluations	0	2,130	8,030	12	0	0	62,457	0	9,235	81,864
Depreciation Charged In Year	(271)	(6,265)	(3,538)	(646)	(1,523)	0	0	0	0	(12,243)
Impairments	(45)	0	(1,677)	(138)	(1,130)	0	(2,802)	0	0	(5,792)
Transfers	0	(603)	423	0	0	0	0	180	0	0
Net Book Value of Assets At 31 March 2008	1,456	444,152	317,066	9,024	25,794	3,849	118,499	7,036	4,595	931,471

b. An analysis of fixed assets at 31 March 2008 is:-

	Nos.		Nos.
Council Dwellings	6,921	Libraries	6
Commercial Assets	325	Off-street Car Parks	4
Town Halls	2	Sports and Leisure Centres	2
Residential Homes and Day Centres	10	Museums and Galleries	4
Family, Children's Centres and Nurseries	8	Major Parks	8
Schools (Primary and Secondary excluding voluntary aided)	13	Cemeteries	2
Special Schools/ Pupil Referral Units	2	Public Conveniences	15
		Other	65

d. Outstanding capital commitments at 31 March are:-

	General Fund*	Housing Revenue Account **
	£m	£m
Schemes contracted for	28.0	9.1
Schemes not contracted for	135.2	10.7
Total	163.2	19.8

The ability to carry out schemes planned for future years will depend on the availability of capital resources at the appropriate time.

* Figures for the General Fund are estimates based on the Capital Budget 2008/09 – 2009/11. An assumption is made that schemes having spent more than 10% of the budget are contracted.

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

c. Capital expenditure was financed as follows:-

Resources Used	£'000	Capital Expenditure	£'000
Usable Capital Receipts	10,301	Fixed Assets	47,034
Use of borrowing	5,100	Deferred Charges and De Minimis	1,092
Grant and Other Contributions Applied	5,041	Renovation Grants	500
Major Repairs Allowance and other Reserves	12,801		
<u>Direct Revenue Financing</u>			
HRA	50		
General Fund	15,333		
Total Resources Used	48,626	Total Expenditure	48,626

Notes to the Core Financial Statements

Significant outstanding capital commitments are as follows:-

Scheme	Total Cost £m	Total O/S £m
GENERAL FUND:-		
New Secondary School Site Works	11.200	3.800
Exhibition Rd – Development and Phase 1	7.300	4.000
Kensington Town Hall Mechanical and Electrical Works	12.400	10.500
HOUSING REVENUE ACCOUNT:-		
Elm Park Gardens External Repairs	14.908	1.837
Trellick Tower Phase 3: Internal Works	3.589	3.310
Wiltshire Close: Lifts	3.758	1.272
Trellick Tower Phase 2 External Works	3.058	1.250
Chesterton Sq & Broadwood Terrace: Windows	1.958	1.914
Walnut Tree House and Finborough: Externals	1.909	1.904
Cremerne: Lifts	1.702	1.700
Balfour of Burleigh: Roofs, Doors and Concrete Repairs	1.516	1.423

Schemes larger than £1.5m listed in the table above.

e. Analysis of Net Assets Employed

A breakdown of total capital and revenue assets between the General Fund, the Housing Revenue Account and the London Residuary Body is set out below:-

Balance at 31 March	2008 £'000	2007 £'000
General Fund	445,742	317,351
Housing Revenue Account	349,589	338,423
London Residuary Body	4,259	4,041
Total	799,590	659, 815

16. Long Term Debtors

Balance at 31 March	2008 £'000	2007 £'000
Housing Association Advances	127	139
House Purchase Advances	46	51
Sale of Council Houses	115	173
Other Loans	93	88
	381	451
Provision for Bad and Doubtful Debts	(1)	(1)
Net Long Term Debtors	380	450

17. Current Debtors

Balance at 31 March	2008 £'000	2007 £'000
Government	6,049	5,664
Rent Payers and Lessees	10,992	9,469
Sundry Debtors	31,394	29,559
Payments in Advance	25,881	1,671
Council Tax	8,919	8,192
National Non Domestic Rates	7,239	4,165
London Residuary Body Debtors	9	9
	90,483	58,729
Provision for Bad and Doubtful Debts	(15,873)	(15,010)
Net Current Debtors	74,610	43,719

18. Creditors

This is made up of:

Balance at 31 March	2008 £'000	2007 £'000
Government	4,028	3,726
Sundry Creditors	41,292	36,831
Deposits	7,025	6,202
Receipts In Advance	8,637	10,529
Interest Accrued on Loans*	0	2,836
Council Tax	4,257	3,519
National Non Domestic Rates	5,705	3,221
Residents and Miscellaneous Savings Accounts	2,801	2,264
Total	73,745	69,128

*Interest accrued on loans is now included as part of the amortised costs shown in note 42.

19. Government Grants Deferred

Government Grants Deferred represents capital grants and contributions received. The balance on this account represents sums which will be credited to revenue in future years in line with the depreciation charge for related fixed assets.

	2007/08 £'000	2006/07 £'000
Balance at 1 April	25,462	26,391
Capital Grants Received (net of deferred charges written out in year)	2,416	666
Less grants on assets being depreciated written back in year	(1,101)	(1,595)
Balance at 31 March	26,777	25,462

20. Capital Adjustment Account

This account replaces the Fixed Asset Restatement Account (FARA) and the Capital Financing Account (CFA) from 2007/08 onwards. The Capital Adjustment Account reflects the timing difference between the cost of fixed assets consumed and the capital financing set aside to pay for them.

	£'000	£'000
Balance at 1 April (Transfer from the FARA and the CFA)		598,879
Minimum Revenue Provision (Net of depreciation)	1,939	
Usable Capital Receipts utilised in year	10,326	
HRA Depreciation Charge on dwellings	(6,266)	
HRA Depreciation Charge on non-dwellings	(81)	
HRA Major Repairs Allowance	12,103	
Direct Revenue Financing in year	15,333	
Fixed Asset Disposals	(11,452)	
Fixed Asset Impairments	(5,793)	
Transfers from the Revaluation Reserve	11,482	
Deferred Charges written-off (net of Government Grants)	(21,118)	
Fixed Assets Grant written-off from Government Grants Deferred Account	1,101	
		7,573
Balance at 31 March		606,452

21. Revaluation Reserve

This reserve records any unrealised net gains from revaluations made after 1 April 2007.

	£'000	£'000
Balance at 1 April		0
Upward revaluations to assets in year	81,864	
Disposals written-out	(10,649)	
Depreciation of revalued gains	(833)	
		70,382
Balance at 31 March		70,382

22. Usable Capital Receipts Reserves

These are capital receipts, which have not yet been used to finance capital expenditure or to repay debt.

	£'000	£'000
Balance at 1 April		1,793
Capital Receipts received during year		
Sales of Assets	12,488	
Loans Repaid	59	
Total received in year		12,547
Payment to Pool		(2,418)
Capital Receipts applied during year		(10,433)
Balance at 31 March		1,489

23. Finance and Operating Leases

The finance lease rentals paid in the year totalled £0. The Council has several operational leases for vehicles. The operating lease rentals paid in the year totalled £784,133 (£848,814 in 2006/07) and the total value of outstanding obligations under the leases at 31st March 2008 was as follows:-

Future cash payments required under these leases are	Car Leases £'000	Fleet Leases £'000	Total Cost £'000
Less than 1 year to expiry	19	53	72
1 - 2 years to expiry	37	114	151
2 - 5 years to expiry	196	401	597
Total *	252	568	820

*This represents the net amount of commitments under vehicle leasing contracts, and excludes the estimated contributions due from employees under the Council's car leasing scheme.

24. Reserves and Provisions**a. Reserves**

	Opening Balance 1 April	Transfers to Reserves	Transfers from Reserves	Closing Balance 31 March
	£'000	£'000	£'000	£'000
GENERAL FUND:-				
Car Parking *	39,595	23,738	24,831	38,502
Repairs/Refurbishment	4,302	533	689	4,146
Insurance	6,667	0	0	6,667
Budget Carry Forward	1,367	1,757	933	2,191
Capital	60,427	14,175	10,562	64,040
Strategic Regeneration	8,828	4,650	146	13,332
Local Initiatives	4,942	0	0	4,942
Pension Revaluation	5,376	0	5,376	0
Other	22,090	9,257	1,542	29,805
Total General Fund	153,594	54,110	44,078	163,626
HOUSING REVENUE ACCOUNT:-				
Controlled Repairs	160	104	0	264
Major Repairs	12,946	6,962	12,799	7,109
IT	27	0	27	0
Other	546	57	56	547
Total HRA	13,679	7,123	12,882	7,920
Total Reserves	167,273	61,233	59,960	171,546

*The Car Parking Reserve is subject to statutory restrictions on its use. Other reserves are created and are being utilised in line with the purpose of the reserve. Additional details of all reserves can be found on pages 75 to 83 although this detail is not covered by the audit opinion.

b. Provisions

	Balance at 1 April	Provision in Year	Payments in Year *	Balance at 31 Mar
	£'000	£'000	£'000	£'000
Insurance	1,773	983	725	2,031
Banked Leave	81	2	24	59
Mental Health Act	933	0	0	933
London Residuary Body	128	0	0	128
Repayments to Street Traders	0	728	0	728
Other	32	0	3	29
Total	2,947	1,713	752	3,908

* Including reversals unused.

The Insurance Provision relates to self-insurance in respect of motor, fire and other liabilities. The balance on the provision therefore represents the amount of self-insurance held to cover the cost of known claims arising. Further details are shown on page 84 although this detail is not covered by the audit opinion.

The Banked Leave provision sum has been set aside to compensate departments where employees have put leave aside for a mini-sabbatical and temporary staff may be needed to cover some of their work. This scheme has now been withdrawn but a number of staff

members have "banked leave" which they may choose to take some time in the future.

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

Further details on the London Residuary Body can be found on pages 71 and 72.

The object of the Repayments to Street Traders provision is to provide for any repayments due to Street traders where there has been an overcharge for waste disposal costs in the licence fees.

The provisions made within the "Other" provisions category are to cover the estimated costs of winding down the Equity Share Scheme and to provide against possible losses on housing association schemes.

More information regarding provisions can be found on pages 84 and 85.

c. Schools unspent balances of delegated budgets, Dedicated Schools Grant (DSG), Standards Fund and Devolved Formula Capital amounted to £6,665m at 31 March 2008, compared with £5,782m a year earlier. The balances include £1.147m of capital, of which £0.731m is held by voluntary aided schools. Standards Fund Grant carry forward held by schools amounts to £0.461m.

Individual School balances ranged from a deficit of £24,731 to a surplus of £674,690. These balances remain under the control of the governors concerned and are not available to the Council for general use.

	2008		2007	
	No. of Schools	£'000	No. of Schools	£'000
Schools in Surplus	34	6,705	35	5,847
Schools in Deficit	2	40	1	65
Total	36	6,665	36	5,782

25. Disclosure of deployment of Dedicated Schools Grant

The council's expenditure on schools is funded by grant monies provided by the Department for Education and Skills, the Dedicated Schools Grant (DSG). DSG is ring-fenced and can only be applied to meet expenditure properly included in the Schools Budget. The Schools Budget includes elements for a restricted range of services provided on an authority-wide basis and for the Individual Schools Budget, which is divided into a budget share for each school. Over- and underspends on the two elements are required to be accounted for separately. The council is able to supplement the Schools Budget from its own resources however the level of funding allocated directly to schools (the ISB) and to centrally controlled schools expenditure through the DSG was deemed sufficient to meet schools' and central budgetary requirements.

a) Schools Budget Funded by Dedicated Schools Grant

	Central Expenditure £000s	Individual Schools Budget £000s	Total £000s
Original grant allocation to Schools Budget for the current year in the Authority's budget	7,943	52,329	60,272
Adjustment to finalised grant allocation	(131)	0	(131)
DSG receivable for the year	7,812	52,329	60,141
Actual Expenditure for the year	7,812	52,329	60,141
(Over)/underspend for the year	0	0	0
Planned top-up funding of the ISB from Council resources	0	0	0
Use of schools balances brought forward	0	0	0
(Over)/underspend from prior year	0	0	0
(Over)/underspend carried forward To 2008/09	0	0	0

26. Trust Funds

The Council is responsible for a number of small charitable trust funds which are not consolidated in the accounts. These are not covered by the audit opinion. The two largest trust funds included below are the Pocklington Apprenticeship Trust (£84k) and the Thomas Hugget Aid Fund (£19k).

	2008 £'000	2007 £'000
Balance at 31 March		
Minor Trust Funds	105	93

27. Contingent Liabilities

The Council has the following contingent liabilities which are not included in the revenue accounts or balance sheet:-

a. Bank Overdraft Guarantees

Organisation	2008 £'000	2007 £'000
Burton Enterprises	0	10
Notting Hill Housing Trust Commercial Properties	0	1,600
Kensington Housing Trust	750	750
C. T. Crosdale	4	4

These guarantees are secured against underlying assets.

b. During 1992/93 the Council's insurers, Municipal Mutual Insurance, ceased accepting new business. The Council is a member of a scheme of arrangement that has been put in place to try to ensure an orderly settlement of the run-off of MMI. Current outstanding claims amount to a maximum of £1.94m as at 31/03/08 (of which £365,000 relates to the London Residuary Body transferred functions). It is not possible at this time to determine the likelihood of these claims being called upon.

28. London Residuary Body

From 1 April 1992, the Council took on responsibility as lead borough for specific Inner London functions from the London Residuary Body (LRB). The Balance Sheet, Notes to the Core Financial Statements, and Cash Flow Statement for 31 March 2008 incorporate the statements for both the Council and the LRB transferred functions. The detailed financial statements for the LRB transferred functions are included within this booklet on pages 71 and 72 in Section 2.

29. Disclosure of Net Pension Liability

The Council participates in two Local Government Pension Schemes administered by the Royal Borough and also by the London Pensions Fund Authority (LPFA). This is a defined benefit statutory scheme, meaning that the Authority and employees pay contributions into a fund, calculated at a level estimated to balance the pensions liabilities with investment assets.

Under the projected unit method the current service cost will increase as the members of the scheme approach retirement (for schemes in which the age profile of the active membership is rising significantly).

The Borough prepares its accounts in accordance with CIPFA guidelines. This is compliant with a 3.2% real discount rate as required by the Code of Practice on Local Authority Accounting in Great Britain – A Statement of Recommended Practice (SORP).

Royal Borough of Kensington and Chelsea Scheme

	31 March 2008 £'000	31 March 2007 £'000
Estimated Liabilities in scheme (present value)	448,689	500,101
Estimated assets in scheme (fair value)	366,342	371,352
Net liability	82,347	128,749

Notes to the Core Financial Statements

LPFA Scheme

	31 March 2008 £'000	31 March 2007 £'000
Estimated Liabilities in scheme	24,046	26,326
Estimated assets in scheme	20,085	19,088
Net liability	3,961	7,238

This net liability has been calculated by reference to the latest formal actuarial valuation as at 31 March 2007. The actuary is satisfied that this approach does not introduce any material distortion to the figures provided, assuming the financial assumptions are broadly in line with the actual performance of the fund.

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 etc. Under this method the current service cost will increase as the members of the scheme approach retirement. These liabilities have been assessed by Hymans Robertson, an independent firm of actuaries. The main assumptions used in their calculations for both Schemes are:

	At 31 March 2008 %	At 31 March 2007 %
Price Increases	3.6	3.2
Rate of increase in salaries	5.1	4.7
Rate of increase in pensions	3.6	3.2
Proportion of employees opting to take a commuted lump sum	50	25
Rate for discounting scheme liabilities	6.9	5.4

Changes to the Local Government Pension Scheme permit employees retiring on or after 6 April 2007 to take an increase in their lump sum payment on retirement in exchange for a reduction in their future annual pension. The actuary has estimated a take-up of the number of employees opting to take a commuted lump sum at 50 per cent. Consequently the valuation of the Council's retirement benefit liabilities as at 31 March 2007 includes an allowance for this change to the pension scheme.

Assets in the two Schemes are valued at fair value, principally market value for investments. The proportion of assets held by category and the associated long term expected rates of return are as follows:

Royal Borough of Kensington and Chelsea Scheme

	2008			2007		
	Long Term Return	Fund Value at 31 March 2008	Expected Annual Return	Long Term Return	Fund Value at 31 March 2007	Expected Annual Return
	% per annum	£'000	£'000	% per annum	£'000	£'000
Equity Investments	7.7	254,160	19,570	7.8	267,943	20,900
Bonds	5.7	77,606	4,424	4.9	75,300	3,690
Property	5.7	15,279	871	5.8	17,352	1,006
Cash	4.8	19,297	926	4.9	10,757	527
Total	7.0	366,342	25,791	7.0	371,352	26,123

LPFA Scheme

	2008			2007		
	Long Term Return	Fund Value at 31 March 2008	Expected Annual Return	Long Term Return	Fund Value at 31 March 2007	Expected Annual Return
	% per annum	£'000	£'000	% per annum	£'000	£'000
Equity Investments	7.7	2,500	193	7.8	2,766	216
Cashflow Matching	4.5	17,181	773	4.9	15,996	720
Property	5.7	0	0	5.8	0	0
Cash	4.8	404	19	4.9	325	16
Total	4.9	20,085	985	7.0	19,087	952

Notes to the Core Financial Statements

The following tables show the amounts charged to revenue accounts.

Royal Borough of Kensington and Chelsea Scheme

	31 st March 2008		31 st March 2007	
	£'000	% of Payroll	£'000	% of Payroll
Service Cost	14,434	18.5	15,516	21.1
Past Service Costs	8	0.0	428	0.6
Curtailment and Settlements	27	0.0	122	0.2
Total Operating Charge	14,469	18.5	16,066	21.9
Expected Return on Employer Assets	26,313	33.7	23,002	31.3
Interest on Pension Scheme Liabilities	(27,079)	(34.7)	(24,662)	(33.6)
Net Return	(766)	(1.0)	(1,660)	(2.3)
Net Revenue Account Cost	15,235	19.5	17,726	24.2

LPFA Scheme

	31 st March 2008		31 st March 2007	
	£'000	% of Payroll	£'000	% of Payroll
Service Cost	270	22.7	341	25.6
Past Service Costs	0	0	0	0
Total Operating Charge	270	22.7	341	25.6
Expected Return on Employer Assets	927	77.9	857	64.4
Interest on Pension Scheme Liabilities	(1,391)	(116.8)	(1,291)	(97.1)
Net Return	(464)	(38.9)	(434)	(32.6)
Net Revenue Account Cost	734	61.6	775	58.3

The following tables analyse the recognised gains and losses in the two funds.

	Royal Borough Scheme 31 March 2008 £'000	Royal Borough Scheme 31 March 2007 £'000
Actual return less expected return on pension scheme assets	(39,055)	(2,887)
Experience gains and losses arising on the scheme liabilities	(3,074)	(364)
Changes in actuarial assumptions	81,243	31,935
Actuarial gain/(loss) in pension plan	39,114	28,684
Increase/(decrease) in irrecoverable surplus from membership fall and other factors	0	0
Actuarial gain/(loss) recognised in Statement of Total Recognised Gains and Losses	39,114	28,684

	LPFA Scheme 31 March 2008 £'000	LPFA Scheme 31 March 2007 £'000
Actual return less expected return on pension scheme assets	163	0
Experience gains and losses arising on the scheme liabilities	1,683	(62)
Changes in financial assumptions	1,734	934
Actuarial gain/(loss) in pension plan	3,580	872
Increase/(decrease) in irrecoverable surplus from membership fall and other factors	0	0
Actuarial gain/(loss) recognised in Statement of Total Recognised Gains and Losses	3,580	872

Notes to the Core Financial Statements

The following tables show the movement in Surplus/Deficit during the year.

	Royal Borough Scheme 31 March 2008	Royal Borough Scheme 31 March 2007
	£'000	£'000
Surplus/(deficit) at beginning of year	(128,749)	(155,800)
Current Service Cost	(14,434)	(15,516)
Employer Contributions	21,211	14,800
Contributions on unfunded benefits	1,312	1,293
Past Service Costs	(8)	(428)
Impact of settlements and curtailments	(27)	(122)
Net return on assets	(766)	(1,660)
Actuarial gain/(loss) in pension plan	39,114	28,684
Surplus/(deficit) at end of year	(82,347)	(128,749)

	LPFA Scheme 31 March 2008	LPFA Scheme 31 March 2007
	£'000	£'000
Surplus/(deficit) at beginning of year	(7,238)	(7,770)
Current Service Cost	(270)	(341)
Employer Contributions	306	308
Contributions re unfunded benefits	125	127
Past Service Costs	0	0
Net return on assets	(464)	(434)
Actuarial gain/(loss) in pension plan	3,580	872
Surplus/(deficit) at end of year	(3,961)	(7,238)

The following tables show the history of experience gains and losses.

	Royal Borough Scheme 31 March 2008	Royal Borough Scheme 31 March 2007
	£'000	£'000
Difference between the expected and actual return on assets	(39,055)	(2,887)
Value of assets	366,342	371,352
Percentage of assets	(10.7)	(0.8)
Experience gains/(losses) on liabilities	(3,074)	(364)
Present value of liabilities	448,689	500,101
Percentage of the present value of liabilities	(0.7)	(0.1)
Actuarial gains/losses recognised in STRGL	39,114	28,684
Present value of liabilities	448,689	500,101
Percentage of the present value of liabilities	8.7	5.7

	LPFA Scheme 31 March 2008	LPFA Scheme 31 March 2007
	£'000	£'000
Difference between the expected and actual return on assets	163	0
Value of assets	20,085	19,088
Percentage of assets	0.8	0.0
Experience gains/(losses) on liabilities	1,683	(62)
Present value of liabilities	24,046	26,326
Percentage of the present value of liabilities	7.0	(0.2)
Actuarial gains/losses recognised in STRGL	3,580	872
Present value of liabilities	24,046	26,326
Percentage of the present value of liabilities	14.9	3.3

30. Group Accounts - Tenant Management Organisation

The Kensington and Chelsea Tenant Management Organisation (TMO), is a limited liability company (limited by guarantee). The Local Government SORP requires Local Authorities to prepare consolidated group accounts from 2005/06 in respect of any interests in companies which are sufficient to require consolidation. Unlike most other Arms Length Management Organisations (ALMO's) which are wholly Council owned subsidiaries, the TMO is an ALMO constituted under the Housing (Right to Manage) Regulations 1994, where it is owned by its members who are the tenants and leaseholders of the Borough's housing stock. Therefore the TMO has neither been consolidated as a subsidiary undertaking nor accounted for as an associate undertaking.

31. Post Balance Sheet Events

There are no post balance sheet events to report.

32. Local Area Agreement Grant

The key purpose of the LAA is to promote community safety, the 'respect' agenda and community empowerment. There are no potential refunding requirements. Major partners include MPA, PCT, London Fire Brigade, Citizen's Advice Bureau, SITA and local schools'. The Royal Borough of Kensington and Chelsea received £4.408 million Local Area Agreement (LAA) grant. It is the accountable body for the full amount and the expenditure and income related to this grant is included in the relevant Council services. £802,410 was not spent by Family and Children's Services and will be carried forward into 2008/09 in accordance with the LAA regulations for 4 star authorities. The table below details the individual elements of the grant received in the year.

Grants allocated	£'000
Preventing Violent Extremism	98
Safer Stronger Communities Fund	360
Waste Performance and Efficiency	554
School Travel Advisors	18
Secondary Central Co-ordination	90
Secondary Behaviour and Attendance	68
Primary Strategy Central Co-ordination	80
School Development	1,586
Positive Activities for Young People	324
Children's Services	1,230
TOTAL	4,408

This LAA grant is not influenced by the Kensington and Chelsea Local Strategic Partnership and does not contribute directly to the Royal Borough's LAA. The Royal Borough was allocated Pump Priming Grant of £934,101 from the government in 2006/07 to support projects contributing to the LAA.

33. Analysis of Government Grants

	2007/08 £'000	2006/07 £'000
Access and Systems Grant	2,214	1,971
Asylum Seekers Grants	1,207	1,605
Basic Command Unit	232	0
Bed and Breakfast Unit Grant	989	1,094
Benefits Administration Grant	2,347	2,610
Children and Adolescent Mental Health Services	685	672
Carers Grant	1,014	918
Children's Fund	284	323
Children's Services Grant	1,230	826
Connexions Grant	810	1,335
Dedicated Schools Grant*	59,340	56,218
Delayed Discharge	421	404
Development Initiative	0	56
Drugs Intervention Programme	1,008	0
Education Standards Fund	6,799	9,128
HIV/Aids	275	304
Housing Subsidy	8,015	8,054
Human Resources Development Strategy	247	254
Individual Budgets	150	171
LA Business Growth Incentives	434	6,707
Learning and Skills Council	5,688	6,148
Leaving Care Grant	539	703
Mandatory Awards	0	326
Mental Health Grant	793	815
National Training Strategy	533	548
NNDR Cost Collection Allowance	608	606
Planning Delivery Grant	352	702
Positive Action for Young People	324	0
Preserved Rights	997	1,060
Preventative Technology	213	79
Safer Stronger Communities	457	0
Schools LAA Grants	1,843	0
School Standards Grant	2,330	1,555
Substance Misuse	298	97
Supporting People	11,394	12,097
Sure Start	3,324	3,937
Waste Performance and Efficiency Grant	277	264
Other Miscellaneous Grants	1,526	915
Total	119,197	122,502

34. Reconciliation of Surplus to Net Cash Flow

	2007/08 £'000	2006/07 £'000
(Surplus)/Deficit for the year		
- General fund / HRA	(5,402)	(3,308)
- Collection Fund	(1,671)	1620
- LRB	(218)	49
	(7,291)	(1,639)
Minimum Revenue Provision	(1,872)	(2,088)
Provisions set aside in year	(961)	38
Contributions to Reserves	8,465	15,193
Movements in Current Assets and Liabilities		
Stocks and Work in Progress	141	89
Debtors	30,891	(1,062)
Creditors	(4,617)	(3,896)
Items Classified elsewhere on cash flow statement		
External Investment Income	13,758	10,697
Interest Paid	(16,705)	(17,064)
Capital Expenditure met from revenue	(15,333)	(16,238)
Total	6,476	(15,970)

35. Movement in Financing

	31 March 2008 £'000	31 March 2007 £'000	Movement £'000
Short Term Loans	(10,897)	(11,483)	586
Long Term Loans	(205,203)	(213,436)	8,233
Deferred Charges	1,133	1,189	(56)
Total	(214,967)	(223,730)	8,763

36. Movement in Cash and Cash Equivalents

	31 March 2008 £'000	31 March 2007 £'000	Movement £'000
Cash (Overdrawn) / In Hand	(8,603)	2,845	(11,448)

37. Statement of Total Movement in Reserves

	Balance as at 1 April 2007	Net surplus / (deficit) for the Year	Unrealised gains / (losses) on revaluation of fixed assets	Effects of disposals of fixed assets			Effects of amounts payable to housing capital receipts pool	Financing of fixed assets	Balance as at 31 March 2008
				Cost or value of assets disposed of	Proceeds of disposals / repayments	Net surplus / (deficit)			
				(4)	(5)	(4)+(5) (6)			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
CAPITAL RESERVES									
Revaluation Reserve	0	70,382	0	0	0	0	0	0	70,382
Capital Adjustment Account	599,496	(3,370)	0	0	0	0	0	10,326	606,452
Usable Capital Receipts Reserve	1,793	0	0	0	12,547	12,547	(2,418)	(10,433)	1,489
Deferred Credits - Sale of Council Houses	173	0	0	0	(58)	(58)	0	0	115
Financial Instruments Adjustment Account	(1,189)	56							(1,133)
Total Capital Reserves	600,273	67,068	0	0	12,489	12,489	(2,418)	(107)	677,305
REVENUE RESERVES									
Pension Reserve	(135,987)	49,679	0	0	0	0	0	0	(86,308)
General Fund	14,255	0	0	0	0	0	0	0	14,255
Specific Reserves *	159,365	12,587	0	0	0	0	0	0	171,951
Housing Revenue Account	18,485	(357)	0	0	0	0	0	0	18,128
London Residuary Body	4,041	218	0	0	0	0	0	0	4,259
Total Revenue Reserves	60,159	62,127	0	0	0	0	0	0	122,285
TOTAL	660,432	129,195	0	0	12,489	12,489	(2,418)	(107)	799,590

38. Analysis of Movements between General Fund, HRA and other Accounts

	2007/08			
	General Fund £'000	HRA £'000	LRB £'000	Total £'000
CAPITAL RESERVES				
Revaluation Reserve	45,406	24,976	0	70,382
Capital Adjustment Account	14,882	(7,926)	0	6,956
Usable Capital				
Receipts Reserve	653	(957)	0	(304)
Deferred Credits - Sale of Council Houses	0	(58)	0	(58)
Financial Instruments				
Adjustments Account	56	0	0	56
Total Capital Reserves	60,997	16,035	0	77,032
REVENUE RESERVES				
Pension Reserve	49,679			49,679
General Fund	0			0
Specific Reserves *	12,587			12,587
Housing Revenue Account		(357)		(357)
London Residuary Body			218	218
Total Revenue Reserves	62,266	(357)	218	62,127

* This represents the total of Reserves, Schools Reserves and the Collection Fund Balance.

39. Actuarial Gains and Losses

The actuarial gains identified as movements on the Pensions Reserve for the Royal Borough Fund in 2007/08 and earlier years can be analysed into the following categories, measured as absolute amounts and as a percentage of assets or liabilities at 31 March:

	2003/04		2004/05		2005/06		2006/07		2007/08	
	£'000	%	£'000	%	£'000	%	£'000	%	£'000	%
Differences between the expected and actual return on assets	32,500	13.7	13,600	5.1	52,600	15.3	(2,887)	(0.8)	(39,055)	(10.7)
Experience gains and losses on liabilities	(100)	0	(6,100)	(1.5)	200	0	(364)	(0.1)	(3,074)	(0.7)
Changes in actuarial assumptions	0	0	(72,700)	(17.6)	(60,800)	(12.2)	31,935	6.4	81,243	18.1
Actuarial gains and losses recognised in the STRGL	32,400	10.2	(65,200)	(15.8)	(8,000)	(1.6)	28,684	5.7	39,114	8.7

40. Long Term Investments

This category has decreased considerably as investments due to be realised in 2008/09 are reclassified and treated as temporary investments.

41. Financial Instruments Balances

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

	Long-Term		Current	
	31 March 2008 £000s	31 March 2007 £000s	31 March 2008 £000s	31 March 2007 £000s
Financial Liabilities (principal amount)	202,720	213,436	10,717	11,483
Financial Liabilities at amortised cost	205,203	216,083	10,897	11,672
Financial Liabilities at fair value through the I&E	0	0	0	0
Total Borrowings	205,203	216,083	10,897	11,672
Loans and receivables (principal amount)	23	7,523	206,654	209,586
Loans and receivables at amortised cost	23	7,761	142,245	149,125
Available-for-sale financial assets	0	0	0	0
Financial Assets at fair value through the I&E	0	0	66,026	62,499
Unquoted equity investments at cost	0	0	0	0
Total Investments	0	7,761	208,271	211,624

42. Financial Instruments Gains/Losses

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

	2007/08				2006/07			
	Financial Liabilities	Financial Assets		Total £'000s	Financial Liabilities	Financial Assets		Total £'000s
	Liabilities measured at amortised cost £'000s	Loans and receivables £'000s	At fair value through I&E (1) £'000s		Liabilities measured at amortised cost £'000s	Loans and receivables £'000s	At fair value through I&E (1) £'000s	
Interest Expense	(16,705)	-	-		(17,064)	-	-	
Losses on derecognition	0	0	(151)		0	0	0	
Impairment losses	-	0	0		-	0	0	
Interest payable and similar charges	(16,705)	0	(151)	(16,856)	(17,064)	0	0	(17,064)
Interest income	-	11,022	2,257		-	8,981	2,506	
Gains on derecognition	0	0	1,430		0	0	0	
Interest and investment income	0	11,022	3,687	14,709	0	8,981	2,506	11,487
Gains on revaluation			0				0	
Losses on revaluation			(8)				0	
Amounts recycled to the I&E Account after impairment			0				0	
Surplus arising on revaluation of financial assets			(8)				0	
Net gain/(loss) for the year	(16,705)	11,022	3,528		(17,064)	8,981	2,506	

(1) Fair Value through the I&E – The Council holds liquid deposits with two cash fund managers. Investec 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. Scottish Widows Investment Partnership (SWIP) holds deposits through Money Market Funds. Deposits in these types of funds are very secure and are made by the purchase of shares in the Fund. Any income or capital gain increases the share value and is not realised until sale. The Fund share price is actively quoted and the gain in the share price (bid) represents the income. Both fund managers portfolios have been accounted for as Fair Value through the Income and Expenditure Account and changes in fair value have been credited to the I&E.

43. 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 term of the instruments, using the following assumptions:

- PWLB loans have been valued using the new borrowing rates published by the DMO on 31st March 2008
- no early repayment or impairment is recognised
- where an instrument will mature in the next 12 months, carrying amount is assumed to approximate to fair value

The carrying amount and fair values calculated are as follows:

	31 March 2008		31 March 2007	
	Carrying amount £'000s	Fair value £'000s	Carrying amount £'000s	Fair value £'000s
PWLB Debt	205,203	252,126	216,083	261,222
Loans and Receivables				
Money market loans < 1 year	142,246	142,246	149,125	149,125
Money market loans > 1 year	0	0	7,738	7,702
Total Loans and receivables	142,246	142,246	156,863	156,827

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 authority would have to pay if the lender requested or agreed to early repayment of the loans.

The fair values for financial liabilities have been determined by reference to the Public Works Loan Board (PWLB) redemption rules and prevailing PWLB loan rates as at each balance sheet date, and include accrued interest.

At 31st March 2008 all loans and receivables are repayable within one year and so the carrying amount is assumed to approximate fair value. For 2007 fair values have been determined by reference to the PWLB redemption rules which provide a good approximation for the fair value of a financial instrument. The figures for both years include accrued interest. The comparator market rates prevailing 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 likely to be immaterial.

44. Disclosure of Nature and Extent of Risk 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 implementing restrictions to minimise these risks. The procedures for risk management are set out through a legal framework laid down in the Local Government Act 2003 and the associated regulations. These require the Council to comply with the CIPFA Prudential Code, the CIPFA Treasury Management in the Public Services Code of Practice and Investment Guidance issued through the Act. Overall these procedures require the Council to manage risk on the following ways:

- by formally adopting the requirements of the Code of Practice
- by approving annually in advance prudential indicators for the following three years limiting:
 - The Council's overall borrowing;
 - Its maximum and minimum exposures to fixed and variable rates;
 - Its maximum and minimum exposures for the maturity structure of its debt;
 - Its maximum annual exposures to investments maturing beyond a year
- by approving an investment strategy for the forthcoming year setting out its criteria for both investing and selecting investment counterparties in compliance with the Government Guidance;

These are required to be reported and approved at or before the Council's annual Council Tax setting budget. These items are reported with the annual treasury management strategy which outlines the detailed approach to managing risk in relation to the Council's financial instrument exposure. Actual performance is also reported annually to the Cabinet Member for Finance and Property.

These policies are implemented by a central treasury team. The Council maintains written principles for overall risk management, as well as written policies covering specific areas, such as interest rate risk, credit risk, and the investment of surplus cash through Treasury Management Practices (TMPs). 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 exposures to the Council's customers. Deposits are not made with banks and financial institutions unless they meet the minimum requirements of the investment criteria outlined in the Strategy.

The following analysis summarises the Authority's potential maximum exposure to credit risk, based on experience of default assessed by the ratings agencies and the Council's experience of its customer collection levels over the last five financial years, adjusted to reflect current market condition.

	Amount at 31 March 2008 £000s	Historical experience of default %	Adjustment for market conditions at 31 March 2008 %	Estimated maximum exposure to default £000s
Deposits with banks and financial institutions				
AAA rated counterparties	32,914	0.000	0.000	0
AA rated counterparties	59,180	0.000	0.000	0
A rated counterparties	111,560	0.007	0.007	780.92
Other counterparties	3,000	0.000	0.000	0
	206,654			780.92

The historic experience of default has been taken from Moody's, a credit rating organisation used by the Council. Whilst the current credit crisis in international markets has raised the overall possibility of default the Council maintains strict credit criteria for investment counterparties. As a result of these high credit criteria, we have maintained historical default rates as a good indicator under these current conditions.

The Council also uses non credit rated institutions (bank subsidiaries where the parent has a satisfactory rating). In these circumstances these investments have been classified as other counterparties.

At the 31st March 2008 the Council had an outstanding investment with Northern Rock plc (repayable on the 6th May), whose rating grade is A, and has been included in this category above. The Bank is currently nationalised and so the rating is that applicable to Government borrowing (AAA). The nationalisation applies with a three months notice period for de-nationalisation and guarantees are currently in force for long standing deposits.

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 of its counterparties in relation to deposits.

Collateral – During the reporting period the Council held no collateral as security.

Liquidity risk

The Council has ready access to borrowings from the Money Markets to cover any day to day cash flow needs, and whilst the Public Works Loan Board (PWLB) provides access to longer term funds, it also acts as a lender of last resort to councils (although it will not provide funding to a council 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. There is therefore no significant risk that it will be unable to raise finance to meet its commitments under financial instruments.

The Council manages its liquidity position through the risk management procedures above (the setting and approval of prudential indicators and the approval of the treasury and investment strategy reports), as well as through cash flow management procedures required by the Code of Practice.

Refinancing and Maturity Risk

The Council maintains a significant debt and investment portfolio. Whilst 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 approved treasury and investment strategies address the main risks and the central 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:

	£000s
Less than one year	10,897
Between one and two years	10,206
Between two and five years	28,601
Between five and ten years	38,717
Between ten and fifteen years	47,794
More than fifteen years	79,885
	216,100

The maturity analysis of financial assets is as follows:

	£000s
Less than one year	208,271
Between one and two years	0
Between two and three years	0
More than three years	0
	208,271

All trade and other payables are due to be paid in less than one year and trade debtors are not shown in the table above.

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 periods. 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 Income and Expenditure Account will rise;
- borrowing at fixed rates – the fair value of the borrowing liability will fall;
- investments at variable rates – the interest income credited to the Income and Expenditure Account will rise; and
- investments at fixed rates – the fair value of the assets will fall.

Borrowings are not carried at fair value on the balance sheet, so nominal gains and losses on fixed rate borrowings would not impact on the Income and Expenditure Account or STRGL. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Income and Expenditure Account and affect the General Fund Balance, subject to influences from Government grants. Movements in the fair value of fixed interest rate investments will be reflected in the STRGL, unless the investments have been designated as Fair Value through the Income and Expenditure Account.

The Council has a number of strategies for managing interest rate risk. The Annual Treasury Management Strategy draws together Council's prudential indicators and its expected treasury operations, including an expectation of interest rate movements. From the Strategy a prudential indicator is set which provides maximum and minimum limits for fixed and variable interest rate exposure. The central treasury team will monitor market and forecast interest rates within the year to adjust exposures 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.

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% higher (with all other variables held constant) the financial effect would be:

	£000s
Increase in interest payable on variable rate borrowings	0
Increase in interest receivable on variable rate investments	(2,507)
Impact on Income and Expenditure Account	(2,507)
Increase in Government grant receivable for financing costs	0
Share of overall impact debited to the HRA	0
Decrease in fair value of fixed rate investment assets	0
Impact on STRGL	0
Decrease in fair value of fixed rate borrowings liabilities (no impact on I&E Account or STRGL)	20,001

The approximate impact of a 1% fall in interest rates would be as above but with the movements being reversed. These assumptions are based on the same methodology as used in the Note 51 Fair Value of Assets and Liabilities carried at Amortised Cost.

Price risk – The Council, other than the Pension Fund, does not generally invest in equity shares but may have exposure to gilts via the external fund managers. The gilt market is extremely liquid thus minimising the exposure to price risk.

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.

SECTION 2

SUPPLEMENTARY FINANCIAL STATEMENTS

HOUSING REVENUE INCOME AND EXPENDITURE ACCOUNT

	2007/08	2006/07	Notes
	£'000	£'000	
INCOME			
Dwellings Rents (Gross)	29,711	28,588	
Non-Dwellings Rents (Gross)	3,473	3,109	
Charges for Services and Facilities	11,889	10,907	
Contributions towards Expenditure	586	649	
Housing Revenue Account Subsidy Receivable (including the MRA element)	7,728	8,687	12
TOTAL INCOME	53,387	51,940	
EXPENDITURE			
Repairs and Maintenance	11,080	12,997	
Supervision and Management	17,683	17,798	
Rents Rates and Taxes and Other Charges	63	206	
Depreciation and Impairments of Fixed Assets	6,347	6,488	10
Debt Management Costs	105	94	
Increase in Bad Debt Provision	485	863	3
Capital Expenditure Amortised to Revenue	19,244	25,041	11
TOTAL EXPENDITURE	55,007	63,487	
NET COST OF HRA SERVICES AS INCLUDED IN THE WHOLE AUTHORITY INCOME AND EXPENDITURE ACCOUNT	1,620	11,547	
HRA Services Share of Corporate and Democratic Core	100	97	
NET COST OF HRA SERVICES	1,720	11,644	
HRA SHARE OF THE OPERATING INCOME AND EXPENDITURE INCLUDED IN THE WHOLE AUTHORITY INCOME AND EXPENDITURE ACCOUNT			
Interest Payable and Similar Charges	13,312	12,688	9
Amortisation of Premiums and Discounts	0	58	9
Interest and Investment Income	(1,237)	(1,168)	
(SURPLUS)/DEFICIT FOR THE YEAR ON HRA SERVICES	13,795	23,222	

STATEMENT OF MOVEMENT ON THE HOUSING REVENUE ACCOUNT BALANCE

	2007/08	2006/07	
	£'000	£'000	
(Surplus) or Deficit for the year on the HRA Income and Expenditure Account	13,795	23,222	
Transfers to/from Major Repairs Reserve	(81)	(379)	
Contributions to/from Reserves	78	(205)	
Capital expenditure funded by the Housing Revenue Account	50	149	
Capital expenditure Amortised to Revenue	(19,244)	(25,041)	
(Increase) or decrease in the Housing Revenue Account Balance	(5,402)	(2,254)	
Housing Revenue Account surplus brought forward	(4,806)	(2,552)	
Housing Revenue Account surplus carried forward	(10,208)	(4,806)	

Notes to the Housing Revenue Account

1. Gross Rent Income

This is the total rent income due for the year after allowance is made for empty properties. In 2007/2008 income lost on empty properties comprised 0.80% of gross rent debit (0.67% in 2006/2007). Average rents, excluding service charges, were £82.40 a week in 2007/2008 (£78.93 in 2006/2007).

2. HRA Rent Rebates (Housing Benefits)

Assistance with rents is available under the Housing Benefits Scheme for those on low incomes. 66.4% of the Council's tenants receive some help with the costs of rent. Total Housing Benefits received by the Council's tenants in 2007/2008 were £21m.

3. Provision for Bad or Doubtful Debts

Tenant arrears include rent, service charges and heating & hot water arrears for the Council's tenants as well as garage/car park rent arrears.

Tenant Arrears	2008 £'000	2007 £'000
Gross Arrears	2,060	2,214
Net Arrears		
Former Tenants *	214	495
Current Tenants *	699	855
Net Arrears at 31 March	913	1,350

* also includes credit balances representing Receipts in Advance

Other Arrears include service charges, heating & hot water and major works arrears for the Council's leaseholders as well as rent arrears for HRA commercial property tenants.

Other Arrears	2008 £'000	2007 £'000
Gross Arrears	8,206	7,415
Net Arrears		
Leaseholder Charges*	7,408	6,730
Commercial Properties	289	290
Net Arrears at 31 March	7,697	7,020

* also includes credit balances representing Receipts in Advance

Provision for bad debts has been made as follows:-

Provision	2008 £'000	2007 £'000
Provision at 1 April	3,515	2,730
Provision Made in Year	485	863
Write-offs during year	(342)	(78)
Provision at 31 March	3,658	3,515

4. Housing Stock

a. The Council was responsible for managing on average 6,933 tenanted dwellings during 2007/2008. The closing stock comprised the following:

	Nos.
Houses & Bungalows	154
Flats	6,717
Hostel Spaces (equivalent units)	51
Total	6,922

b. The change in the stock during the year can be summarized as follows:

	2007/08 Nos.	2006/07 Nos.
Stock at 1 April	6,944	6,961
Less: Sales	15	15
Loss on Conversion of Units	0	2
Less: Transfer to Commercial Usage	5	0
Less: Properties for Demolition	3	0
Stock at 31 March	6,921	6,944

5. Capital Value of HRA Assets

The Net Book Value of the assets of the HRA are set out below:-

	As at 31 March 2008 £'000	As at 31 March 2007 £'000
Operational Assets		
- Land & Buildings	6,905	6,297
- Dwellings	444,152	451,807
- Other Assets	16	21
Total Operational Assets	451,073	458,125
Non Operational Assets	47,193	21,988
Total All Assets	498,266	480,113

* The Open Market Value of dwellings at 1 April 2005 amounted to £1,557,020,000 (vacant possession). It should be noted that the vacant possession value and balance sheet value of dwellings within the HRA show economic cost to Government of providing council housing at less than open market value.

6. Major Repairs Reserve

	2007/08		2006/07	
	£'000	£'000	£'000	£'000
Balance at 1st April		12,946		18,012
INCOME				
Contribution from Hsg Revenue Account	6,962		6,489	
EXPENDITURE				
- Dwellings	12,799		11,555	
Surplus/(Deficit) for year		(5,837)		(5,066)
Balance at 31st March		7,109		12,946

7. Capital Expenditure in Year

Capital Expenditure	£'000	Funding Sources	£'000
Land	0	Borrowing	5,100
Dwellings	18,463	Capital Grants & Contributions	0
Other Property	1,331	Usable Capital Receipts	1,793
		Direct Revenue Financing	50
		Major Repairs Reserve	12,103
		Other Reserves	748
Total Expenditure	19,794	Total Funding	19,794

8. Capital Receipts in Year

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

	2007/08 £'000	2006/07 £'000
Land	0	0
Dwellings (net of sale expenses)	3,119	2,622
Other Property	197	43
Loan Repayments	42	37
Total Receipts	3,358	2,702

9. Capital Charges in the HRA

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

	2007/08 £'000	2006/07 £'000
Item 8 charge based on actual interest paid by RBKC	13,312	12,688
Value of amortised premia	0	58
Total	13,312	12,746

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, this is 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.

10. Depreciation in the HRA

Charges for depreciation were made to the HRA as set out below. No charges for impairment were made to the HRA in the year.

	2007/08 £'000	2006/07 £'000
Intangible Assets	5	0
Operational Assets		
- Land	0	0
- Dwellings	6,265	6,109
- Other Property	77	82
Total Operational Assets	6,347	6,191
Non Operational Assets	0	297
Total all Assets	6,347	6,488

11. Capital Expenditure Written to Revenue

Capital expenditure on non-asset related items, items of capitalised maintenance expenditure and items below the de minimis threshold are charged to revenue accounts. There is no effect on the bottom line of the HRA.

	2007/08 Net Expenditure £'000	2006/07 Net Expenditure £'000
Capital Expenditure written to revenue	19,244	25,041

12. HRA Subsidy

The subsidy paid by Central Government into the HRA can be broken down as follows:-

	2007/08 £'000	2006/07 £'000
Received	8,012	8,196
Due:-		
- Management and Maintenance	17,246	17,138
- Rents	(31,980)	(29,769)
- Interest on receipts	(14)	(19)
- Debt Charges	11,014	10,715
- ALMO Allowance	3,472	3,472
- Admissible Allowance	0	24
- Major Repairs Allowance	6,266	6,109
- Rental Constraint Allowance	1,724	1,017
Total Due	7,728	8,687
Amount due to/(from) Government	284	(491)

COLLECTION FUND REVENUE ACCOUNT

	2007/08 £'000	2006/07 £'000	Notes
INCOME			
Income from Council Tax	92,066	90,597	3
Transfers from General Fund			
- Council Tax Benefits	11,527	11,467	
Income Collectable from Business Ratepayers	182,667	183,506	2
Contributions			
- Towards Previous Years Collection Fund Deficit	344	0	
TOTAL INCOME	286,604	285,570	
EXPENDITURE			
Precepts:-			
Royal Borough of Kensington & Chelsea	71,969	71,578	CFS6
Greater London Authority	29,576	27,974	
Total Precepts	101,545	99,552	
Business Rates:-			
Payment to National Pool	182,060	182,900	
Costs of Collection	608	606	
Bad and Doubtful Debts/Appeals			
- Write offs	2,321	1,818	
- Provisions	(1,601)	541	
Contributions			
- Towards Previous Years Estimated Collection Fund Surplus	0	1,773	
TOTAL EXPENDITURE	284,933	287,190	
MOVEMENT ON FUND BALANCE	1,671	(1,620)	

COLLECTION FUND RESERVE	£'000	£'000	
Balance at beginning of year	(11)	1,609	
Movement on Fund Balance	1,671	(1,620)	
Balance at end of year	1,660	(11)	4

All notes relate to the Collection Fund notes except CFS6 which relates to the notes to the Core Financial Statements

Notes to the Collection Fund Revenue Account

1. General

This is a statutory fund separate from the main accounts of the Council in which income from Council Tax, Community Charge, National Non-Domestic Rate and Government Grants, and payments to precepting authorities and to the Council's General Fund are recorded.

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 a uniform rate poundage. The total amount, less certain reliefs and other deductions, is paid to a central pool (the NNDR Pool) managed by Central 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:-

	2007/08 £'000	2006/07 £'000
Non-domestic rates due	206,623	215,767
Less allowances and other adjustments		
- Transitional Relief	(1,416)	(11,086)
- Mandatory Reliefs	(11,097)	(10,082)
- Empty Property Reliefs	(8,860)	(9,849)
- Discretionary Reliefs	(113)	(91)
- Provision for Bad Debts	(1,581)	(947)
- Transfer to General Fund	(889)	(206)
Collectable from Bus. Rate payers/Net Contribution to Pool	182,667	183,506

The NND Rateable Value at 31st March 2008 was £498,153,676. The standard NNDR multiplier for 2007/08 was 44.4 pence (43.3 pence in 2006/07). The Small Business Rate Relief multiplier for 2007/08 was 44.1 pence (42.6 pence for 2006/07).

3. Council Tax

The tax base for the Financial Year 2007/08 was calculated as follows:-

Band	Capital Valuation £'000	Number Of Dwellings	Number of Discounted Dwellings	Multiplier	Add back 2 nd Home Discount	Discounted Band D Equivalents
A	0 - 40	823	626	6/9	9	427
B	40 - 52	3,318	2,537	7/9	21	1,993
C	52 - 68	8,958	7,057	8/9	137	6,409
D	68 - 88	13,386	10,461	1	283	10,744
E	88 - 120	13,208	10,514	11/9	451	13,302
F	120 - 160	11,881	9,547	13/9	548	14,338
G	160 - 320	19,883	16,041	15/9	1,428	28,162
H	over 320	14,210	12,181	18/9	1,069	25,431
		85,667	68,964		3,946	100,806

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 the Council Tax legislation (e.g. severely mentally impaired).
- Dwelling subject to discount as second homes.

The Council set a charge of £1,031.15 Band D (£1,015.88 in 2006/07). The amounts credited to the Collection Fund can be analysed as follows:-

	2007/08 £'000	2006/07 £'000
Charges for the year including Garden Charges	124,579	122,632
Less - Exemptions	(20,987)	(20,611)
- Transitional Relief	0	0
- Council Tax Benefit	(11,527)	(11,467)
Net Charges Payable	92,066	90,554

4. Council Tax Precept Adjustments

The estimated balance on the Collection Fund as at 15th January 2008 has to be distributed amongst or collected from the precepting authorities. Although the surplus on the Collection Fund was £1,660k at the 31st March the sum of £520k will be additionally debited from the account in 2008/09 by way of payments to precepting authorities. The adjustment of £344k in 2007/08 represents the release of the estimated deficit as at 31 March 2007.

SUMMARY TRADING ACCOUNTS

The services shown below operate as Trading Accounts as defined in the CIPFA Best Value Accounting Code of Practice. 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 organizations which 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 Income and Expenditure Account.

Trading Operation	2007/08			2006/07		
	Exp £'000	Income £'000	Net £'000	Exp £'000	Income £'000	Net £'000
Family and Children's Services						
Professional Development Centre Catering	189	202	13	151	147	(4)
Portobello House *	0	0	0	10	9	(1)
Professional Development Centre Course Conferences	273	326	53	263	311	48
Pupil Support Services	902	728	(174)	1,092	990	(102)
SMILE (provider of curriculum resources in Mathematics) **	0	0	0	61	63	2
Transport, Environment and Leisure Services						
Street Trading	836	870	34	921	865	(56)
Holland Park Theatre	2,294	1,736	(558)	2,061	1,558	(503)
Corporate Services						
Cash Collection	419	508	89	450	513	63
Planning and Borough Development						
Building Control	1,217	1,497	280	1,132	1,278	146
TOTAL (DEFICIT)/SURPLUS	6,130	5,867	(263)	6,141	5,734	(407)

Notes

* Portobello House is not operated as a trading account as it no longer meets the definition.

** SMILE ceased trading during 2006.

PENSION FUND

Introduction

1. The Council's Pension Fund is based on a funded defined benefit scheme operated under the provisions of the Local Government Superannuation Acts and provides for pensions, grants on age or ill health retirement, short service grants, death grants, injury allowances and widows' pensions.
2. The Fund is financed by contributions from employers and employees of the Royal Borough and admitted / scheduled bodies and by earnings from investment of fund monies. A full list of the admitted and scheduled bodies is shown in Note 18.
3. The total numbers of active members and beneficiaries at 31 March were as follows:

	2008	2007
Active Members	3,386	3,359
Pensioners and Dependents	2,095	2,056
Former Employees - Deferred Benefits	2,890	2,701
Total	8,371	8,116

5. **Other**
The accounts summarise the transactions and net assets of the Fund. They do not take account of liabilities to pay pensions and other benefits after the period end. The ability of the Fund's contributions and investments to meet its overall obligations is reviewed in detail by a firm of independent actuaries.
6. The Fund excludes transactions for teachers, lecturers and youth workers which are administered by the Department for Children Schools and Families, to whom the Council makes a payment for this purpose.
7. The accounts are prepared on an accruals basis with the exception of inter-fund adjustments (i.e. transfers to and from other pension funds when employees leave and join), which are accounted for on a cash basis.

Statement of Main Principles Adopted in Compiling the Accounts

1. The Pension Fund accounts have been prepared in accordance with the accounting recommendations of the Financial Reports of Pension Schemes - a Statement of Recommended Practice, Chapter 2 Recommended Accounting Practice. Disclosures are as required by the Code of Practice on Local Authority Accounting in the United Kingdom: a Statement of Recommended Practice (SORP 2007).

2. Investments

In accordance with the requirements of the SORP, investments are stated at market value with any surplus or deficit on revaluation being credited direct to the fund balance. The market value of securities is determined by closing middle prices on 31 March. Fixed interest securities are valued on a 'clean' basis (i.e. excluding accrued interest). Purchase and sales transactions in foreign currencies are converted to sterling using a pooled average exchange rate. The property fund of funds is valued at the valuation price quoted for 31 March. The private equity investment is valued from the 31 December 2007 valuation of the investment assets and the cash cost of new investments made between 1 January and 31 March 2008, since no further valuation will be available until three months following the year-end.

External Managers administer the investments of the Fund and the cost of this is shown in the Fund Account. Internal administration expenses are charged directly to the Pension Fund on the basis of direct costs plus apportioned overheads.

3. Benefits

Pensions to staff are provided from the Pension Fund whose summarised accounts are shown below. All pension payments, except added years relating to early retirements prior to 1998/99, are paid from the Fund. Employers' contributions, at rates advised by the Fund's actuaries (Hymans Robertson) are credited to the Fund as received. Since 1998/99 additional employer's contributions have been made as a capital sum to the Pension Fund, following the early retirement of employees. The contributions are based on a formula, provided by the actuary, to cover the cost of early payment of pension benefits and discretionary enhancements.

4. Taxation

Investments of the Fund are exempt from Capital Gains Tax but tax on UK Dividends is irrecoverable. All Value Added Tax paid is recoverable. There is a liability for Income Tax at 20% for pensions compounded into a lump sum. This liability is a minimal sum.

FUND ACCOUNT

	2007/08 £'000	2006/07 £'000	Notes
INCOME – Contributions Receivable			
Employers' Normal Contributions	19,299	17,920	3
Employers' Special Contributions	5,370	0	3
Employers' Contributions-Early Retirements	257	607	4
Employees' Contributions	5,550	5,270	3
Transfer Values Received	2,551	3,241	
Other Income	1	3	
TOTAL INCOME	33,028	27,041	
EXPENDITURE – Pension Benefits			
Benefits Payable			
Pensions	11,908	11,041	5
Lump Sums	3,357	3,264	5,6
Payments to and on behalf of leavers			
Refund of Contributions	30	66	
Transfer Values Paid	3,477	3,905	
Pension Administration and other expenses	496	401	7
TOTAL EXPENDITURE	19,268	18,677	
Net Addition	13,760	8,364	
Returns on Investments			
Investment Income	12,807	9,878	8
Change in Market Value (Realised and Unrealised)	(22,395)	11,815	
Taxation (Irrecoverable Withholding Tax)	(197)	(185)	
Investment Management Expenses	(1,552)	(1,207)	
Net Returns on Investments	(11,337)	20,301	
Net Increase / (Decrease) in the Fund during the Year	2,423	28,665	
Opening Net Assets of the Fund	407,180	378,515	
Closing Net Assets of the Fund	409,603	407,180	

NET ASSETS STATEMENT

	2008		2007		Notes
	%	£'000	%	£'000	
Investment Assets					9-15
<u>Fixed Interest</u> - UK - Public Sector	5.5	22,471	7.4	30,042	
<u>Index Linked Bonds</u> - UK Public Sector	6.2	25,368	6.2	25,205	
- Overseas Public Sector	0.6	2,519	0.0	0	
- Corporate Bonds	0.6	2,472	0.4	1,722	
<u>Equities</u> - UK	31.2	127,708	34.5	140,618	
- Overseas	30.1	123,458	30.8	125,466	
<u>Pooled Investment</u> - Overseas Equities	6.1	25,143	5.9	23,992	
<u>Vehicles</u> - Corporate Bonds	7.9	32,183	6.2	25,260	
<u>Property</u>	4.0	16,256	4.7	18,890	
<u>Private Equity</u>	0.9	3,782	0.2	874	16
<u>Cash on Deposit</u>	6.4	26,220	3.3	13,407	
Subtotal		407,580		405,476	
Net debtors/creditors	0.5	2,023	0.4	1,704	17
Net Assets and Liabilities	100.0	409,603	100.0	407,180	

1. The latest actuarial valuation report received is as at 31 March 2007 and was conducted on the following basis:
 - (a) The market value of the scheme's assets at 31 March 2007 was £407.2 million.
 - (b) 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 etc., and pension increases.
 - iii. Withdrawals from membership due to mortality, ill health and ordinary retirement.
 - iv. Progression of pensionable pay due to promotion.
 - (c) The contribution rate is set on the basis of the cost of future benefit accrual, increased to bring the funding level back to 100% over a period of 13 years, as set out in the Funding Strategy Statement.
 - (d) On the basis of a funding level of 85%, the employers' common contribution rate for the whole Fund is set at 20.2% of pensionable pay from 1 April 2008 to 31 March 2011. A notable change since the 2004 valuation is that the Fund has been un-pooled so that different employers will have different contribution rates and deficit recovery periods, depending on their membership profiles. Monetary amounts have been set for those employers with no employee members.
 - (e) The next actuarial revaluation of the Fund will be as at 31st March 2010.
2. Contributions for 2007/08 were calculated on the basis of the 78% funding level assessed at 31 March 2004, when the fund was valued at £255.7 million. From this, the employers' common contribution rate was set as 20.5% of pay from 1 April 2005 to 31 March 2008:
3. Contributions were received from the following sources:

Body	Employers £'000's	Employees £'000's
RBKC*	20,838	4,554
Admitted Bodies	2,883	718
Scheduled Bodies	743	165
Schools	205	113
Total	24,669	5,550

* Includes £5,370k one-off contribution from the General Fund.

4. The contributions receivable from employers relating to early retirements will vary from year to year, depending on the number of early retirements and the ability to compensate the Fund within each year's budget.
5. Benefits payable were as follows (includes all pension and lump sum payments):

Body	£'000
RBKC	14,461
Admitted Bodies	760
Scheduled Bodies	44
Total	15,265

Payments to pensioners exclude potential liabilities in respect of nine deferred members who have reached retirement age, but cannot be contacted or located. The potential value of

lump sums payable to these individuals has been calculated at approximately £50k while the value of pension payments which could be claimed amounted to approximately £170k at 31 March 2008.

6. Lump sum payments included in note 5 are summarised as shown below:

Payment Type	£'000
Commutation of pensions and lump sum retirement benefits	3,110
Lump sum death benefits	247
Total	3,357

7. Related Party Transactions

Pension Administration and other expenses were £496k and included the costs of administering pension entitlements, contributions etc, the apportioned costs of Corporate Finance time spent on pension administration as well as direct costs.

There were no material transactions between the fund and Members of the Investment Committee or between the fund and senior officers of the Council during the financial years 2006/07 and 2007/08.

8. Summary of Investment Income

	2008 £'000's	2007 £'000's
Income from Fixed Interest Securities	1,319	1,419
Income from Index Linked Securities	623	642
Dividends from Equities	8,946	6,908
Income from Property	643	237
Other Income	133	0
Interest on Cash Deposits	1,143	672
Subtotal	12,807	9,878
Income from Pooled Investment Vehicles*	2,196	1,466
Total Investment Income	15,003	11,344

* Income from these vehicles is re-invested by the Investment Managers, so is shown in the Fund Account as part of the change in market value.

9. None of the UK Equities is unlisted. The scheme has no material holdings of unlisted investments in other markets
10. Pooled Investment Vehicles (previously known as Managed Funds) are Open Ended Investment Companies investing in equities and bonds.
11. As at 31/03/2008 the Fund held open currency hedge positions as follows:-

Alliance Bernstein £12k (net unrealised profit)
12. As at 31/03/2008 the Fund held a long gilt futures position with contingent liability of £1,78k to be met from the manager's cash deposit. At 31/03/2008 the market value of this position showed a £44k net unrealised profit.
13. **Statement of Investment Principles**
The Investment Committee regularly reviews its Statement of Investment Principles (SIP), which is revised following any change in circumstances. A copy of the latest version is published on the Council's web site www.rbkc.gov.uk or obtained from the Executive Director for Finance, Information Systems and Property.

14. Investments

The market value of assets under management at 31 March was as follows:

Managed by	2008		2007	
	£ '000	% of Total	£ '000	% of Total
Baillie Gifford	143,504	35.2	140,543	34.6
Alliance Bernstein	137,940	33.8	153,621	37.9
M and G	87,000	21.4	82,608	20.4
ING	16,391	4.0	19,012	4.7
Adams Street*	3,783	0.9	874	0.2
Total Managers	388,618	95.3	396,658	97.8
RBKC Cash Inv**	18,962	4.7	8,818	2.2
Total	407,580	100.0	405,476	100.0

*The valuation reflected in the accounts at 31 December 2007 is the latest available valuation at the time of closing the accounts. Subsequent receipt of information reports that the valuation at 31 March 2008 had reduced by £140,000 to £3.6 million (a change of 3.7%).

**Managers' cash is included in their subtotals. Interest on cash held internally is calculated at market rates of interest and credited to the pension fund.

15. The level of activity in the Fund's investments at cost during 2007/08 was as follows:

	2007/08	
	£'000	£'000
Investments at 1 April		310,724
Purchases at cost	151,296	
Sales Proceeds	(126,798)	
Realised Profit *	19,449	43,947
Investments at 31 March		354,671

*Note Sales proceeds less the value of sales at book cost. This excludes an unrealised loss of £41,844k making a total change in market value of (£22,395k).

The total change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses on sales of investments during the year.

16. Private Equity

Private equity asset valuations are not available until three months after each period end. As they are not available for closure of the accounts, the valuation shown is necessarily the asset valuation as at 31 December, plus the value any new payments made into the investment between 1 January and 31 March.

17. Net Current Assets

Amounts due to and from the fund at the balance sheet date have been included within the Fund Account as follows:-

Current Liabilities	£'000
Accrued Fund Managers and Measurement Fees	320
Accrued lump sum payments	221
Total	541
Current Assets	£'000
Dividends and Interest	2,243
Tax on overseas dividends	101
Accrued Income	220
Total	2,564

18. Admitted and Scheduled Bodies:

Admitted Bodies

Medequip
Specialist Schools & Academies Trust
Tenant Management Organisation
Westway Development Trust
Portobello Business Centre

Scheduled Bodies

Kensington & Chelsea College
St Charles RC 6th Form College

The following former admitted bodies have no active members and, with the unpooling of the Fund have now been absorbed into the Royal Borough of Kensington and Chelsea Pool:

Housing Action Centre
Maxilla Nursery
West London Family Service Units

19. Additional Voluntary Contributions (AVCs)

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 do not permit 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 £193k was invested by members of this fund in this way during 2007/08.

**LONDON RESIDUARY BODY TRANSFERRED FUNCTIONS
INCOME AND EXPENDITURE ACCOUNT**

	2007/2008			2006/2007	Notes
	Gross Exp. £'000	Gross Income £'000	Net Exp. £'000	Net Exp. £'000	
INCOME AND EXPENDITURE ON SERVICES					
General Costs	15	0	15	16	
Insurance	0	0	0	236	1
Interest	0	233	(233)	(203)	2
TOTAL EXPENDITURE ON SERVICES	15	233	(218)	49	
Surplus/(Deficit) for the year			218	(49)	

STATEMENT OF MOVEMENT ON THE LONDON RESIDUARY BODY BALANCE

	2007/2008 £'000	2006/2007 £'000	Notes
Balance brought forward at 1 April	4,041	4090	
Surplus/(Deficit) for the year on Income and Expenditure Account	218	(49)	
Balance carried forward at 31 March	4,259	4,041	

**LONDON RESIDUARY BODY TRANSFERRED FUNCTIONS
BALANCE SHEET**

	2008 £'000	2007 £'000	Notes
CURRENT ASSETS			
Current Debtors	9	9	3
Temporary Investment with Royal Borough of Kensington and Chelsea	4,378	4,160	
TOTAL ASSETS	4,387	4,169	
CURRENT LIABILITIES	0	0	
TOTAL ASSETS LESS CURRENT LIABILITIES	4,387	4,169	
LONG TERM LIABILITIES			
Provisions	128	128	4
TOTAL ASSETS LESS LIABILITIES	4,259	4,041	
REPRESENTED BY			
London Residuary Body Balance	4,259	4,041	
TOTAL NET WORTH	4,259	4,041	

Introduction

The Royal Borough 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 HEFCE debt management.

The Royal Borough was given endowments for Education Awards, Late Rating Claims, and Other Functions, from which the net spending has been met. The Royal Borough 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 Inner London Boroughs or, if it is not sufficient, to request funds from these Boroughs. These accounts show the position on these endowments.

Notes

- Following re-assessment of risk cover arrangements, it was decided to no longer maintain external insurance cover from 1 April 2007. An appropriate provision will be made should claims be received in any future financial year.
- Interest on the endowment has been calculated at money market rates.
- The debtors figure is made up of:-

Balance at 31 March	2008 £'000	2007 £'000
Sundry Debts	9	9
Total	9	9

- The provisions figure is made up of:-

	Balance at 1 April £'000	Provision in Year £'000	Payments in Year £'000	Balance at 31 March £'000
Education Claims	128	0	0	128
Total	128	0	0	128

- Contingent Liabilities: During 1992/93, the London Residuary Body's insurers, Municipal Mutual Insurance (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. Current outstanding claims amount to a maximum of £365,000 as at 31 March 2008. It is not possible at this time to determine the likelihood of these claims being called upon.

SECTION 3

RESERVES AND PROVISIONS

BETTER CITY LIFE RESERVE

This is to provide resources for new local policy priorities, such as upgrading Worlds End Place.

	2007/08		2006/07	
	£'000	£'000	£'000	£'000
Balance at 1st April		1,259		1,042
INCOME				
Contributions from Revenue Accounts	600		600	
EXPENDITURE				
Releases to General Fund	204		383	
Surplus/(Deficit) for year		396		217
Balance at 31st March		1,655		1,259

BRIDGE REPAIRS RESERVE

The object of the reserve is to provide funds to cover the periodic repairs required to the bridges.

	2007/08		2006/07	
	£'000	£'000	£'000	£'000
Balance at 1st April		96		177
INCOME				
Contribution from Revenue Accounts	68		0	
EXPENDITURE				
Releases to General Fund	3		81	
Surplus/(Deficit) for year		65		(81)
Balance at 31st March		161		96

BRIGHTEN UP THE BOROUGH RESERVE

The object is to provide a reserve from which selected environmental projects can be funded. Contributions are based on the level of resources required for these works as assessed by the Council in conjunction with overall financial policy at the time.

	2007/08		2006/07	
	£'000	£'000	£'000	£'000
Balance at 1st April		9		6
INCOME				
Contribution from General Fund	15		15	
EXPENDITURE				
Environmental Projects	24		12	
Surplus/(Deficit) for year		(9)		3
Balance at 31st March		0		9

BUDGET CARRY FORWARD RESERVE

The object of the reserve is to earmark funds for budgets carried forward from the previous year's revenue underspends to meet specific projects

	2007/08		2006/07	
	£'000	£'000	£'000	£'000
Balance at 1st April		1,121		2,221
INCOME				
Transfer from General Fund	1,625		424	
EXPENDITURE				
Releases to General Fund	687		1,524	
Transfer to Other Reserves				
Surplus/(Deficit) for year		938		(1,100)
Balance at 31st March		2,059		1,121

BUILDING ALTERATIONS RESERVE

The object of the reserve is to provide finance for special repairs and maintenance works. Contributions to the fund are based on the level of resources required for those works as assessed by the Council in conjunction with overall financial policy at the time.

	2007/08		2006/07	
	£'000	£'000	£'000	£'000
Balance at 1st April		396		576
INCOME				
Contributions from Revenue Accounts	0		0	
EXPENDITURE				
Releases to General Fund	51		180	
Surplus/(Deficit) for year		(51)		(180)
Balance at 31st March		345		396

CANALSIDE HOUSE RESERVE

The object of the reserve is to provide funds from which major repairs and equipment replacement for Canalside House can be funded.

	2007/08		2006/07	
	£'000	£'000	£'000	£'000
Balance at 1st April		53		53
INCOME				
Contributions from Revenue Accounts	0		0	
EXPENDITURE				
Releases to General Fund	0		0	
Surplus/(Deficit) for year		0		0
Balance at 31st March		53		53

CAPITAL EXPENDITURE RESERVE

The object of the reserve is to provide a source of funding for capital expenditure not funded from use of borrowing or usable capital receipts.

	2007/08		2006/07	
	£'000	£'000	£'000	£'000
Balance at 1st April		60,428		56,302
INCOME				
Contribution from General Fund	14,174		17,173	
EXPENDITURE	10,562		13,047	
Surplus/(Deficit) for year		3,612		4,126
Balance at 31st March		64,040		60,428

CAR PARKING RESERVE

The Car Parking Reserve is controlled by the provisions in the Highways Act 1980, Road Traffic Regulation Act 1984 and the Greater London Authority Act 1999 and the Traffic Management Act 2004. The object of the fund is to set aside surpluses from on-street car parking to provide finance for the future provision of off-street parking, meeting costs incurred on the provision of public transport services, for highway and environmental improvements.

	2007/08		2006/07	
	£'000	£'000	£'000	£'000
Balance at 1st April		39,595		36,349
INCOME				
Surplus on Car Parking Account		23,738		25,000
EXPENDITURE				
Revenue				
Subsidised Transport	8,055		7,371	
Street Lighting	2,005		2,008	
Footways	5,743		5,226	
Carriageways	5,204		5,106	
Off Street Parking	875		881	
Street Cleaning	7,678		7,511	
Parks and Open Spaces	2,892		2,954	
Miscellaneous	2,069		1,310	
TOTAL ELIGIBLE REVENUE	34,521		32,367	
Contribution to Revenue		20,518		19,861
Capital				
Highways	3,517		1,261	
Miscellaneous	796		632	
Contribution to Capital		4,313		1,893
Surplus/(Deficit) for year		(1,093)		3,246
Balance at 31st March		38,502		39,595

CHELSEA ACADEMY CO-SPONSORSHIP RESERVE

This reserve has been created to provide funds to meet the Council's financial commitment to co-sponsorship of the Chelsea Academy School.

	2007/08		2006/07	
	£'000	£'000	£'000	£'000
Balance at 1st April		2,000		2,000
INCOME				
Transfer from Revenue	0		0	
EXPENDITURE				
Surplus/(Deficit) for year		0		0
Balance at 31st March		2,000		2,000

COLVILLE LEARNING SUPPORT RESERVE

Colville Learning Support Club was created to provide additional support at Colville School funded from fees from parents.

	2007/08		2006/07	
	£'000	£'000	£'000	£'000
Balance at 1st April		0		3
INCOME				
Contributions from Revenue Accounts	0		0	
EXPENDITURE				
Releases to General Fund	0		3	
Surplus/(Deficit) for year		0		(3)
Balance at 31st March		0		0

COMMUNITY SAFETY RESERVE

To fund Community Safety Initiatives within the Royal Borough.

	2007/08		2006/07	
	£'000	£'000	£'000	£'000
Balance at 1st April		82		94
INCOME				
Contributions to fund	0		0	
EXPENDITURE				
Payments to projects	0		12	
Surplus/(Deficit) for year		0		(12)
Balance at 31st March		82		82

CORPORATE I.S. INITIATIVES RESERVE

The object of the reserve is to provide funds for the financing of corporate IS initiatives.

	2007/08		2006/07	
	£'000	£'000	£'000	£'000
Balance at 1st April		1,286		1,531
INCOME				
Contributions from General Fund	124		448	
EXPENDITURE				
Releases to General Fund	562		693	
Surplus/(Deficit) for year		(438)		(245)
Balance at 31st March		848		1,286

COST REDUCTION RESERVE

This reserve has been created to provide resources for 'invest to save' opportunities identified as part of the financial planning and budgeting process.

	2007/08		2006/07	
	£'000	£'000	£'000	£'000
Balance at 1st April		712		756
INCOME				
Contributions from Revenue Accounts	2,318		105	
EXPENDITURE				
Capital Financing	30		149	
Surplus/(Deficit) for year		2,288		(44)
Balance at 31st March		3,000		712

DEMAND GROWTH RESERVE

A resource to meet the effects of volatile demands on budgets has been created to increase resilience against future increases.

	2007/08		2006/07	
	£'000	£'000	£'000	£'000
Balance at 1st April		5,297		3,947
INCOME				
Contributions from Revenue Accounts	0		1,350	
EXPENDITURE				
Releases to General Fund	0		0	
Surplus/(Deficit) for year		0		1350
Balance at 31st March		5,297		5,297

ECONOMIC DEVELOPMENT RESERVE

Contributions made up of surplus rents over costs on Baseline Studios to fund schemes which will benefit the local community.

	2007/08		2006/07	
	£'000	£'000	£'000	£'000
Balance at 1st April		154		2,231
INCOME				
Surplus on Business Units	170		107	
EXPENDITURE				
Transfer to Strategic Regeneration Reserve re LAGBI grant	0		2,184	
Cost of Economic Development Team	170		0	
Surplus/(Deficit) for year		0		(2,077)
Balance at 31st March		154		154

EDUCATION MATCHED FUNDING RESERVE

This reserve has been created to provide resources for 'matched funding' for Schools initiatives, which will allow additional external resources to be obtained for the service.

	2007/08		2006/07	
	£'000	£'000	£'000	£'000
Balance at 1st April		0		250
INCOME				
Contributions from Revenue Accounts	0		0	
EXPENDITURE				
Releases to General Fund	0		250	
Surplus/(Deficit) for year		0		(250)
Balance at 31st March		0		0

GENERAL SERVICES BUILDING MAINTENANCE RESERVE

A fixed annual contribution will be made into the reserve from General Services maintenance budgets which will allow for a constant charge to be made against the revenue accounts whilst the level of maintenance required may vary from year to year.

	2007/08		2006/07	
	£'000	£'000	£'000	£'000
Balance at 1st April		259		556
INCOME				
Contributions from Revenue Accounts	43		95	
EXPENDITURE				
Capital Financing	100		392	
Surplus/(Deficit) for year		(57)		(297)
Balance at 31st March		202		259

INSURANCE RESERVE

The object of the reserve is to earmark surplus Insurance Fund sums where specific liabilities have not yet been identified.

	2007/08		2006/07	
	£'000	£'000	£'000	£'000
Balance at 1st April		6,667		6,171
INCOME				
Transfer from General Fund	0		496	
EXPENDITURE				
Releases to General Fund	0		0	
Surplus/(Deficit) for year		0		496
Balance at 31st March		6,667		6,667

LEGAL ADVICE TO SCHOOLS

Schools contribute a fixed amount each year towards paying for any advice from Legal Services. At the end of each financial year the surplus or deficit of costs against this fund is transferred into this Reserve

	2007/08		2006/07	
	£'000	£'000	£'000	£'000
Balance at 1st April		27		18
INCOME				
Contributions from Revenue Accounts	0		9	
EXPENDITURE				
Releases to General Fund	6		0	
Surplus/(Deficit) for year		(6)		9
Balance at 31st March		21		27

LICENSING AND PLANNING COSTS RESERVE

The reserve will provide funds to meet costs arising from unexpected planning and licensing legal cases that the Council deems appropriate to contest.

	2007/08		2006/07	
	£'000	£'000	£'000	£'000
Balance at 1st April		0		0
INCOME				
Contributions from Revenue Accounts	250		0	
EXPENDITURE				
Releases to General Fund	0		0	
Surplus/(Deficit) for year		250		0
Balance at 31st March		250		0

LOCAL ELECTIONS RESERVE

Funds set aside each year to cushion the effect of the Local Government Elections due every 4 years which is funded by the Council. There was an election in 2006/07.

	2007/08		2006/07	
	£'000	£'000	£'000	£'000
Balance at 1st April		50		150
INCOME				
Contributions from Revenue Accounts	75		50	
EXPENDITURE				
Releases to General Fund	0		150	
Surplus/(Deficit) for year		75		(100)
Balance at 31st March		125		50

LOCAL INITIATIVES RESERVE

This reserve has been created to provide resources to support the introduction of locally determined projects.

	2007/08		2006/07	
	£'000	£'000	£'000	£'000
Balance at 1st April		4,942		5,191
INCOME				
Contributions from Revenue Accounts	0		10	
EXPENDITURE				
Releases to General Fund	0		259	
Surplus/(Deficit) for year		0		(249)
Balance at 31st March		4,942		4,942

MANRESA RD DILAPIDATIONS RESERVE

An amount of money collected from the previous tenants of the property, which will form part of the negotiations of any building works, required to modify this listed premises for new leaseholders.

	2007/08		2006/07	
	£'000	£'000	£'000	£'000
Balance at 1st April		351		351
INCOME				
Contributions from Revenue Accounts	0		0	
EXPENDITURE				
Releases to General Fund	101		0	
Surplus/(Deficit) for year		(101)		0
Balance at 31st March		250		351

MARKET IMPROVEMENT RESERVE

This reserve has been created to fund investment in improving conditions for street trading across the Royal Borough.

	2007/08		2006/07	
	£'000	£'000	£'000	£'000
Balance at 1st April		0		0
INCOME				
Contributions to fund	22		0	
EXPENDITURE				
Releases to General Fund	0		0	
Surplus/(Deficit) for year		22		0
Balance at 31st March		22		0

MORTUARY RESERVE

The reserve will provide funds for the prospective capital works on Horseferry Road Mortuary, which the Council provides jointly with Westminster City Council.

	2007/08		2006/07	
	£'000	£'000	£'000	£'000
Balance at 1st April		75		75
INCOME				
Contributions from Revenue Accounts	0		0	
EXPENDITURE				
Releases to General Fund	0		0	
Surplus/(Deficit) for year		0		0
Balance at 31st March		75		75

PENSION FUND REVALUATION RESERVE

This reserve has been created to mitigate the effect of employers' contribution increases arising from actuarial revaluation.

	2007/08		2006/07	
	£'000	£'000	£'000	£'000
Balance at 1st April		5,376		5,450
INCOME				
Contributions from Revenue Accounts	0		0	
EXPENDITURE				
Releases to General Fund	5,376		74	
Surplus/(Deficit) for year		(5,376)		(74)
Balance at 31st March		0		5,376

PRIVATE HEALTH CARE RESERVE

This reserve has been created to provide for variances on the Private Health Care contract.

	2007/08		2006/07	
	£'000	£'000	£'000	£'000
Balance at 1st April		14		183
INCOME				
Contributions from Revenue Accounts	0		0	
EXPENDITURE				
Releases to General Fund	0		169	
Surplus/(Deficit) for year		0		(169)
Balance at 31st March		14		14

PROPERTY STRATEGY RESERVE

This reserve has been created to meet the cost of feasibility studies and condition surveys to assist in capital budget planning.

	2007/08		2006/07	
	£'000	£'000	£'000	£'000
Balance at 1st April		303		329
INCOME				
Contributions from Revenue Accounts	1,820		0	
EXPENDITURE				
Releases to General Fund	93		26	
Capital Financing				
Surplus/(Deficit) for year		1,727		(26)
Balance at 31st March		2,030		303

PUBLIC ART RESERVE

This reserve has been created for the purchase and installation of public art in the Borough.

	2007/08		2006/07	
	£'000	£'000	£'000	£'000
Balance at 1st April		102		102
INCOME				
Contributions from Revenue Accounts	0		0	
EXPENDITURE				
Releases to General Fund	0		0	
Surplus/(Deficit) for year		0		0
Balance at 31st March		102		102

REPAIRS AND RENEWALS RESERVE

The object of the reserve is to equalise over a period of years the charge to revenue for the replacement of vehicles and plant, office machinery and special items. Contributions to the reserve are based on the replacement cost of the asset split into equal instalments over the expected life of the asset.

	2007/08		2006/07	
	£'000	£'000	£'000	£'000
Balance at 1st April		3,647		3,436
INCOME				
Contributions from Revenue Accounts	490		518	
EXPENDITURE				
Releases to General Fund	538		307	
Surplus/(Deficit) for year		(48)		211
Balance at 31st March		3,599		3,647

RISK MANAGEMENT RESERVE

The object of the reserve is to provide pump-priming for risk management initiatives.

	2007/08		2006/07	
	£'000	£'000	£'000	£'000
Balance at 1st April		219		219
INCOME				
Transfer from General Fund	0		0	
EXPENDITURE				
Releases to General Fund	30		0	
Surplus/(Deficit) for year		(30)		0
Balance at 31st March		189		219

SERVICE RISKS RESERVE

This is to meet unexpected additional service requirements and to fund the cost of reducing unplanned risks as identified during the year.

	2007/08		2006/07	
	£'000	£'000	£'000	£'000
Balance at 1st April		1,875		1,250
INCOME				
Contributions from Revenue Accounts	1,425		625	
EXPENDITURE				
Releases to General Fund	0		0	
Surplus/(Deficit) for year		1,425		625
Balance at 31st March		3,300		1,875

SEVERANCE RESERVE

This reserve provides resources to meet the costs arising from potential job losses.

	2007/08		2006/07	
	£'000	£'000	£'000	£'000
Balance at 1st April		1,233		1,027
INCOME				
Contributions from Revenue Accounts	726		540	
EXPENDITURE				
Releases to General Fund	40		334	
Surplus/(Deficit) for year		686		206
Balance at 31st March		1,919		1,233

SOUTHERN ROW RESERVE

Originally known as "Southern Row Sinking Fund" which is now designated a Reserve. It is made up of the contributions from tenants of Southern Row in order that the cost of major works to the property are fully funded, when they arise.

	2007/08		2006/07	
	£'000	£'000	£'000	£'000
Balance at 1st April		14		20
INCOME				
Contributions from Revenue Accounts	2		0	
EXPENDITURE				
Releases to General Fund	0		6	
Surplus/(Deficit) for year		2		(6)
Balance at 31st March		16		14

SPECIFIC GRANT LOSS RESERVE

This reserve has been created to provide resources to safeguard the Council against adverse changes in specific grant regimes where there are unavoidable commitments.

	2007/08		2006/07	
	£'000	£'000	£'000	£'000
Balance at 1st April		2,910		2,250
INCOME				
Contributions from Revenue Accounts	0		660	
EXPENDITURE				
Releases to General Fund	0		0	
Surplus/(Deficit) for year		0		660
Balance at 31st March		2,910		2,910

STANDARDS FUND CARRY FORWARD RESERVE

The object of this reserve is to carry forward unspent Standards Funds matched funding into the new financial year in order to qualify for the DfES grants.

	2007/08		2006/07	
	£'000	£'000	£'000	£'000
Balance at 1st April		246		565
INCOME				
Contributions from Revenue Accounts re various Standards Fund Grants	132		246	
EXPENDITURE				
Releases to General Fund	246		565	
Surplus/(Deficit) for year		(114)		(319)
Balance at 31st March		132		246

STRATEGIC COMMUNICATION RESERVE

To provide a campaigning, lobbying and communications capacity towards Council projects.

	2007/08		2006/07	
	£'000	£'000	£'000	£'000
Balance at 1st April		16		289
INCOME				
Contributions from Revenue Accounts	200		0	
EXPENDITURE				
Releases to General Fund	94		273	
Surplus/(Deficit) for year		106		(273)
Balance at 31st March		122		16

STRATEGIC REGENERATION RESERVE

To provide financing in support of regeneration activities from the Local Authority Business Growth Incentives grant from the Government.

	2007/08		2006/07	
	£'000	£'000	£'000	£'000
Balance at 1st April		8,828		0
INCOME				
Contributions from Revenue Accounts			6,705	
LAGBI grant	4,650		2,184	
EXPENDITURE				
Releases to General Fund	145		61	
Surplus/(Deficit) for year		4,505		8,828
Balance at 31st March		13,333		8,828

STREET TRADING ACCOUNT RESERVE

Income is derived from permanent and temporary street trading site lettings. Under present legislation, the Council is limited to recovering specific associated costs from the income. Surplus income is held in this reserve and is taken into account when the charges are reviewed each year.

	2007/08		2006/07	
	£'000	£'000	£'000	£'000
Balance at 1st April		43		99
INCOME				
Contributions to Fund	34		0	
EXPENDITURE				
Releases to General Fund	0		56	
Surplus/(Deficit) for year		34		(56)
Balance at 31st March		77		43

SUPPORTING PEOPLE RESERVE

This is to allow for the impact of reducing annual specific Government Grant allocations being phased in over more than one year.

	2007/08		2006/07	
	£'000	£'000	£'000	£'000
Balance at 1st April		2,598		1,975
INCOME				
Contributions from Revenue Accounts	1,367		623	
Transfer from Budget Carry Forward Reserve				
EXPENDITURE				
Releases to General Fund	0		0	
Surplus/(Deficit) for year		1,367		623
Balance at 31st March		3,965		2,598

VAT LIABILITY RESERVE

Following a change by Customs and Excise to the way in which they calculate recoverable VAT on exempt activities, it became apparent that the Council could be in the position of being unable to reclaim the tax which it does at present. It was therefore considered prudent to establish a reserve to meet possible future liabilities in this area.

The Council can recover *input* VAT on exempt activities up to 5% of its total VAT bill. If this threshold is breached we will be unable to recover most of our input VAT. Given the increased scale of the Council's exempt VAT activities this reserve has been established to meet potential future liabilities.

	2007/08		2006/07	
	£'000	£'000	£'000	£'000
Balance at 1st April		1,070		1,070
INCOME				
Contributions from Revenue Accounts	0		0	
EXPENDITURE				
Releases to General Fund	0		0	
Surplus/(Deficit) for year		0		0
Balance at 31st March		1,070		1,070

WEST CHELSEA INITIATIVE RESERVE

Rent received from a temporary letting of part of Cremorne Gardens from which the West Chelsea Initiative Advisory Group makes recommendations on proposals to improve the West Chelsea area.

	2007/08		2006/07	
	£'000	£'000	£'000	£'000
Balance at 1st April		242		216
INCOME				
Rent received	41		218	
EXPENDITURE				
Payments to projects	185		192	
Surplus/(Deficit) for year		(144)		26
Balance at 31st March		98		242

HRA - ALLOCATIONS RESERVE

The reserve has been set up to fund the HRA Common Housing Register development and other closely related initiatives.

	2007/08		2006/07	
	£'000	£'000	£'000	£'000
Balance at 1st April		13		13
INCOME	0		0	
EXPENDITURE	13		0	
Surplus/(Deficit) for year		(13)		0
Balance at 31st March		0		13

HRA - CONTROLLED REPAIRS RESERVE

The object of the reserve is to fund Housing Revenue Account repairs projects which are committed but which are managed at a local level.

	2007/08		2006/07	
	£'000	£'000	£'000	£'000
Balance at 1st April		160		416
INCOME				
Contribution from Hsg Revenue Account	104		12	
EXPENDITURE				
Expenditure on Repairs	0		268	
Surplus/(Deficit) for year		104		(256)
Balance at 31st March		264		160

HRA - IT RESERVE

The IT Reserve represents the sum that has been earmarked in the HRA to fund ongoing IT development to support the needs of the Tenant Management Organisation and the Council.

	2007/08		2006/07	
	£'000	£'000	£'000	£'000
Balance at 1st April		27		87
INCOME				
Contribution from Hsg Revenue Account	0		0	
EXPENDITURE	27		60	
Surplus/(Deficit) for year		(27)		(60)
Balance at 31st March		0		27

HRA - LANCASTER WEST ESTATE MANAGEMENT BOARD RESERVE

The Lancaster West reserve relates to underspent grant which is earmarked to the Estate Management Board under the terms of its management agreement with the Council.

	2007/08		2006/07	
	£'000	£'000	£'000	£'000
Balance at 1st April		533		423
INCOME				
Contribution from Hsg Revenue Account	57		144	
EXPENDITURE	43		34	
Surplus/(Deficit) for year		14		110
Balance at 31st March		547		533

HRA - MAJOR REPAIRS RESERVE

The reserve has been created to fund increased investment in the housing stock over the next few years.

	2007/08		2006/07	
	£'000	£'000	£'000	£'000
Balance at 1st April		12,946		18,012
INCOME				
Contribution from Hsg Revenue Account	6,962		6,489	
EXPENDITURE	12,799		11,555	
Surplus/(Deficit) for year		(5,837)		(5,066)
Balance at 31st March		7,109		12,946

BANKED LEAVE PROVISION

A sum has been set aside within Transport, Environment and Services, Planning and Borough Development and Environmental Health(HHASC) to compensate departments where employees have put leave by for a mini-sabbatical and temporary staff may be needed to cover some of their work. The scheme has now been withdrawn but a number of staff members have 'banked leave' which they may choose to take at some point.

	2007/08		2006/07	
	£'000	£'000	£'000	£'000
Balance at 1st April		81		97
INCOME				
Contributions to fund	2		1	
EXPENDITURE				
Release to Revenue re payments to third parties	24		17	
Surplus/(Deficit) for year		(22)		(16)
Balance at 31st March		59		81

EQUITY SHARE SCHEME PROVISION

The object of the provision is to provide for the estimated costs of winding up the Equity Share Scheme.

	2007/08		2006/07	
	£'000	£'000	£'000	£'000
Balance at 1st April		21		141
INCOME				
Contribution from General Fund	0		0	
EXPENDITURE				
	0		120	
Surplus/(Deficit) for year		0		120
Balance at 31st March		21		21

HOUSING ASSOCIATIONS PROVISION

The purpose of this provision is to provide against possible losses on housing association schemes.

	2007/08		2006/07	
	£'000	£'000	£'000	£'000
Balance at 1st April		11		11
EXPENDITURE				
Losses written off	0		0	
Contribution to General Fund	2		0	
Surplus/(Deficit) for year		(2)		0
Balance at 31 st March		9		11

INSURANCE PROVISION

The object of the provision is to provide self-insurance in respect of motor, fire, tree root and other liabilities. A premium is paid into the fund each year which provides a resource from which to meet any claims arising.

The balance on the Insurance Fund represents the amount of self-insurance held to cover the cost of claims arising. The risks covered by the Insurance Fund comprise Tree Root Damage, Fire, Liabilities, Motor, Fidelity and Miscellaneous Risks (including theft and cash).

The change from full insurance with an insurance company to carrying a level of self-insurance has not resulted in any amendment to the Council's policy on risks and insurance cover provided.

	2007/08		2006/07	
	£'000	£'000	£'000	£'000
Balance at 1st April		1,773		1,481
INCOME				
Provision for Future Claims	983		1,210	
EXPENDITURE				
Release to Revenue	300		496	
Previous Years' Claims Settled	425		422	
Surplus/(Deficit) for year		258		292
Balance at 31 st March		2,031		1,773

MENTAL HEALTH ACT PROVISION

The object of the provision is to provide for the estimated costs of payments under S.117 of the Mental Health Act.

	2007/08		2006/07	
	£'000	£'000	£'000	£'000
Balance at 1st April		933		933
INCOME				
Contribution from General Fund	0		0	
EXPENDITURE				
Payments made to clients	0		0	
Surplus/(Deficit) for year		0		0
Balance at 31st March		933		933

REPAYMENTS TO STREET TRADERS

The object is to provide to a provision to make repayments to Street Traders backdated to April 2002 to settle an outstanding matter where there has been an overcharge for waste disposal costs in the licence fees.

	2007/08		2006/07	
	£'000	£'000	£'000	£'000
Balance at 1st April		0		0
INCOME				
Provision for Future Claims	728		0	
EXPENDITURE				
Release to Revenue	0		0	
Surplus/(Deficit) for year		728		0
Balance at 31 st March		728		0

SECTION 4

REVENUE ACCOUNT SERVICE DETAILS

CORPORATE SERVICES

CORPORATE SERVICES	2007/08			2006/07		
	Exp £'000	Inc £'000	Net £'000	Exp £'000	Inc £'000	Net £'000
CULTURAL, ENVIRONMENTAL AND PLANNING SERVICES						
Licensing	0	0	0	0	2	(2)
Community Safety	3,889	1,787	2,102	4,358	2,094	2,264
Economic Development	6,686	9,751	(3,065)	4,773	10,756	(5,983)
GENERAL FUND HOUSING	125,798	124,047	1,751	118,803	116,850	1,953
CENTRAL SERVICES						
Corporate and Democratic Core	8,016	498	7,518	8,689	1,169	7,520
Non Distributed Costs	2,097	102	1,995	2,111	157	1,954
CENTRAL SERVICES TO THE PUBLIC						
Local Tax Collection	3,472	1,585	1,887	3,042	1,340	1,702
Registrars	947	608	339	921	566	355
Elections	496	13	483	667	21	646
Emergency Planning	201	0	201	155	0	155
Local Land Charges	342	1,474	(1,132)	320	1,736	(1,416)
TOTAL CORPORATE SERVICES	151,944	139,865	12,079	143,839	134,691	9,148

PLANNING AND BOROUGH DEVELOPMENT

PLANNING AND BOROUGH DEVELOPMENT	2007/08			2006/07		
	Exp £'000	Inc £'000	Net £'000	Exp £'000	Inc £'000	Net £'000
PLANNING SERVICES						
Development Control, Planning Information and Land Charges	3,894	1,067	2,827	3,287	1,278	2,009
Policy Team and Graphics	1,024	105	919	937	105	832
Design and Conservation	816	4	812	928	3	925
Arboriculture	822	0	822	877	1	876
BUILDING CONTROL	1,655	1,517	138	1,490	1,312	178
Corporate and Democratic Core	340	0	340	362	0	362
TOTAL PLANNING AND BOROUGH DEVELOPMENT	8,551	2,693	5,858	7,881	2,699	5,182

FAMILY AND CHILDREN'S SERVICES

FAMILY AND CHILDREN'S SERVICES	2007/08			2006/07		
	Exp £'000	Inc £'000	Net £'000	Exp £'000	Inc £'000	Net £'000
EDUCATION SERVICES						
Corporate and Democratic Core	240	0	240	226	0	226
Individual School Funds	71,326	20,126	51,200	67,085	20,184	46,901
LEA Centrally Held School Funds						
- Schools Strategic Management	3,018	684	2,334	3,023	589	2,434
- Non-delegated schools grants	3,336	1,665	1,671	3,735	699	3,036
- Facilitating School Improvement	2,040	958	1,082	2,263	872	1,391
- Supporting Special Educational Needs (SEN)	8,886	1,886	7,000	8,585	1,282	7,303
- Assuring Access to Schools	3,338	2,445	893	3,253	2,139	1,114
Inter Authority Recoupment	2,411	3,796	(1,385)	2,399	3,391	(992)
Dedicated School Grant		59,340	(59,340)	0	56,218	(56,218)
Non Schools Funding						
- Strategic Management of Non School Services	4,320	211	4,109	3,447	325	3,122
- Pre School Education	3,933	2,323	1,610	3,649	2,027	1,622
- Adult Education	1,310	1,293	17	1,352	1,233	119
- Community Education	1,210	774	436	917	422	495
- Support for Students	336	31	305	315	36	279
- Children and Young Peoples Services	4,675	2,129	2,546	4,561	2,202	2,359
- Central London Connexions	2,379	2,379	0	1,966	1,966	0
- Grants to Voluntary Organisations - Children and Young People	1,386	4	1,382	1,337	(3)	1,340
- Training and Employment	249	180	69	230	212	18
TOTAL EDUCATION SERVICES	114,393	100,224	14,169	108,343	93,794	14,549
CHILDREN'S SERVICES						
- Management and Support Services	868	776	92	826	588	238
- Corporate and Democratic Core	31	0	31	29	0	29
- Service Strategy	43	0	43	94	0	94
- Children and Families Commissioning	7,883	523	7,360	7,336	393	6,943
- Children Looked After	8,432	1,483	6,949	8,743	1,208	7,535
- Family Support Services	7,252	2,115	5,137	7,120	2,226	4,894
- Youth Justice	1,256	409	847	1,028	374	654
- Other Children's and Family Services	3,883	1,611	2,272	3,479	1,505	1,974
- Asylum	1,135	1,339	(204)	1,951	1,209	742
TOTAL CHILDREN'S SERVICES	30,783	8,256	22,527	30,606	7,503	23,103
CULTURAL AND RELATED SERVICES						
Corporate and Democratic Core	9	0	9	42	0	42
Libraries Management and Support Services	78	27	51	50	28	22
Libraries Services	6,043	364	5,679	5,862	392	5,470
Archives and Heritage	78	0	78	78	0	78
Sports Development and Community Recreation	1,078	296	782	1,022	289	733
TOTAL CULTURAL AND RELATED SERVICES	7,286	687	6,599	7,054	709	6,345
TOTAL FAMILY AND CHILDREN'S SERVICES	152,462	109,167	43,295	146,003	102,006	43,997

HOUSING HEALTH AND ADULT SOCIAL CARE

HOUSING, HEALTH AND ADULT SOCIAL CARE	2007/08			2006/07		
	Exp £'000	Inc £'000	Net £'000	Exp £'000	Inc £'000	Net £'000
HOUSING SERVICES						
Registered Social Landlords	1,205	341	864	1,076	133	943
Housing Advice	568	0	568	578	0	578
Housing Advances	1	6	(5)	1	8	(7)
Homelessness	14,735	16,238	(1,503)	13,985	14,990	(1,005)
Housing Strategy	355	0	355	504	0	504
Supporting People	10,633	11,622	(989)	11,470	11,724	(254)
Other Council Property	12	11	1	68	0	68
Corporate and Democratic Core	65	0	65	56	0	56
TOTAL HOUSING SERVICES	27,574	28,218	(644)	27,738	26,855	883
ENVIRONMENTAL HEALTH						
Food and Training	1,157	182	975	1,187	213	974
Trading Standards	449	29	420	478	10	468
Environmental Quality	647	165	482	652	68	584
Health and Safety	718	3	715	770	97	673
Mortuary, Coroners and Pest Control Services	970	190	780	938	163	775
Noise and Nuisance	1,589	8	1,581	1,637	16	1,621
Housing Private Sector	1,792	307	1,485	1,759	254	1,505
Corporate and Democratic Core	81	0	81	71	0	71
TOTAL ENVIRONMENTAL HEALTH	7,403	884	6,519	7,492	821	6,671
ADULT SOCIAL CARE						
Service Strategy	244	0	244	252	0	252
Older People	28,550	9,084	19,466	31,312	8,101	23,211
Adults with a Physical Disability	6,343	755	5,588	6,049	704	5,345
Adults with Learning Disabilities	13,074	5,225	7,849	11,349	5,120	6,229
Adults Under 65 with Mental Health Needs	9,434	2,437	6,997	9,157	2,372	6,785
Other Adult Services	2,319	1,144	1,175	2,405	1,254	1,151
Supported Employment	46	0	46	43	0	43
Public Transport	5,985	0	5,985	5,411	0	5,411
Miscellaneous	0	0	0	0	428	(428)
Corporate and Democratic Core	110	0	110	119	0	119
TOTAL ADULT SOCIAL CARE	66,105	18,645	47,460	66,097	17,979	48,118
TOTAL HOUSING, HEALTH AND ADULT SOCIAL CARE	101,082	47,747	53,335	101,327	45,655	55,672

TRANSPORT, ENVIRONMENT AND LEISURE SERVICES

TRANSPORT, ENVIRONMENT AND LEISURE SERVICES	2007/08			2006/07		
	Exp £'000	Inc £'000	Net £'000	Exp £'000	Inc £'000	Net £'000
CULTURAL, ENVIRONMENTAL AND PLANNING SERVICES						
Licensing Team	987	634	353	1,009	613	396
Environmental Strategy	293	82	211	200	0	200
WASTE MANAGEMENT AND LEISURE						
Operations - Cleansing	11,239	159	11,080	10,974	157	10,817
Commercial Waste and Revenue Services	2,379	4,360	(1,981)	2,333	4,137	-1,804
Waste Disposal	7,324	20	7,304	6,669	0	6,669
Recycling	2,286	282	2,004	2,382	267	2,115
Regulation of Street Trading	836	870	(34)	916	865	51
Traders Stores	65	182	(117)	74	177	(103)
Notting Hill Carnival and Other Events	608	150	458	589	129	460
Sports Centres	895	150	745	982	183	799
Parks and Open Spaces	3,992	172	3,820	4,071	204	3,867
Cemeteries	632	694	(62)	638	604	34
Arts Development and Support	519	88	431	336	22	314
Holland Park Theatre	2,294	1,736	558	2,057	1,558	499
Museums and Galleries	751	384	367	910	558	352
HIGHWAYS, ROADS AND TRANSPORT SERVICES						
TRANSPORTATION AND HIGHWAYS						
Highway Maintenance	10,541	994	9,547	9,906	748	9,158
Public Lighting	2,208	37	2,171	2,206	38	2,168
Rechargeables and Other Street Works	741	647	94	939	530	409
Traffic Section	2,480	114	2,366	2,399	142	2,257
Transportation and Road Safety	728	107	621	764	106	658
Car Parking Off-Street	1,062	1,913	(851)	1,004	1,996	(992)
Car Parking On-Street	15,846	39,636	(23,790)	16,379	41,504	(25,125)
WASTE MANAGEMENT AND LEISURE						
Operations - Cleansing	1,268	0	1,268	1,234	0	1,234
Parks and Open Spaces	10	0	10	10	0	10
CENTRAL SERVICES						
Corporate and Democratic Core	344	0	344	381	0	381
Non Distributed Costs	0	0	0	240	0	240
TOTAL TRANSPORT, ENVIRONMENT AND LEISURE SERVICES	70,328	53,411	16,917	69,602	54,538	15,064

Additional Information

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