The Royal Borough of Kensington and Chelsea Statement of Accounts

2011-12

Financial Year End: 31 March 2012

THE ROYAL BOROUGH OF
KENSINGTON
AND CHELSEA

Statement of Accounts

Contents

FOREWORD

INTRODUCTION

The Statement of Accounts sets out details of the Council's income and expenditure for the financial year 2011-12 and its Balance Sheet at 31 March 2012. This covers the General Fund, Housing Revenue Account, Pension Fund and all the other accounts for which the Council is responsible.

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

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

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

- The **Balance Sheet** is a 'snapshot' of the Council's assets, liabilities and reserves on 31 March 2012. The reserves are always equal to the Council's assets less the Council's liabilities. Assets represent everything owned by the Council and money owed to it. Liabilities are the sums that the Council owes to others.

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

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

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

The outturn for 2011-12 includes:

- a General Fund under-spend of £19.8 million; the working balance confirmed at £10 million – the Council's agreed minimum;
- usable reserves at 31 March 2012 of £224 million (compared to £206 million at 31 March 2011); and
- a stable balance sheet (total net assets have decreased, but due substantially to the annually updated and volatile net pension liability).

2011-12 BUDGET

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

In brief, the 2011-12 budget included:

- a council tax freeze;
- savings of over £23 million offsetting cost pressures and grant losses; which produced
- a revenue budget requirement of £186 million funded from the council tax and the Formula Grant received from the Government within a gross budget of £400 million; and
- a final capital budget of over £76 million.[1]

REVENUE SPENDING

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

The net under-spend on the General Fund was £19.8 million, reflecting a 3 per cent under-spending by the Business Groups.[2] After agreed carry forwards of budgets to 2012-13 of £5.4 million, the balance of the under-spend has been transferred to the new Voluntary Sector Fund, the Property Strategy Reserve, the Pension Fund and the remaining balance to the Capital Expenditure Reserve as agreed by Cabinet in June 2012. The General Fund

[1] This excludes the in-year payment of £25 million to the Government as part of the introduction of Housing Revenue Account self-financing from 1 April 2013. The Council's total capital budget including this was £101 million.

[2] After budget carry forwards and the unspent contingency, the 2011-12 under-spend, as a proportion of gross spending, was less than 3 per cent.

working balance is confirmed at £10 million. Although the Council's pension deficit is relatively small, the Council has chosen to transfer £9 million into the Pension Fund as, over the medium to long term, it should offer a higher return than alternative investments; and it may enable the employers' contribution rate to be reduced in the future thereby reducing pressure on the Council Tax.

	£m
Working balance 1 April 2011	**10.0**
Add 2011-12 General Fund underspend	19.8
Less 2011-12 underspend carried forward 2012-13	-5.4
Transfer to Voluntary Sector Fund	-0.5
Transfer to Property Strategy Reserve	-1.0
Transfer to Pension Fund	-9.0
Balance to Capital Expenditure Reserve	-3.9
Working balance 31 March 2012	**10.0**

The summary outturn position is as set out below:

DESCRIPTION	**Budget 2011-12**	**Actual 2011-12**	**Variance 2011-12**
Service Budgets	**£'000**	**£'000**	**£'000**
Family and Children's Services	49,318	47,138	(2,180)
Housing, Health and Adult Social Care	81,471	73,195	(8,276)
Planning and Borough Development	4,630	4,225	(405)
Transport, Environment and Leisure Services	22,373	17,572	(4,801)
Corporate Services	18,108	16,753	(1,355)
Service Total	**175,899**	**158,880**	**(17,020)**
Contingency and Central Budgets	2,699	0	(2,699)
Net Cost of Services	**178,598**	**158,880**	**(19,718)**
External Interest	1,402	2,324	922
Pension Fund Liabilities	7,255	6,430	(825)
Interest and Investment Income	(1,000)	(1,161)	(161)
Capital Adjustment Account	(9,204)	(9,211)	(7)
Transfer to/from reserves (revenue)	7,280	7,264	(15)
Direct Revenue Financing of Capital	338	338	0
Levies	3,279	3,279	0
Council Tax Freeze Grant	(1,947)	(1,947)	(0)
Net Spending	**186,002**	**166,196**	**(19,805)**
Transfer to Budget Carry Forward Reserve	0	5,422	5,422
Transfer to Voluntary Sector Fund	0	500	500
Transfer to Property Strategy Reserve	0	1,000	1,000
Transfer to Pension Fund	0	9,000	9,000
Transfer to Capital Expenditure Reserve	0	3,884	3,884
TOTAL ROYAL BOROUGH EXPENDITURE	**186,002**	**186,002**	**0**

HOUSING REVENUE ACCOUNT (HRA)

The Statement of Accounts also includes the ring-fenced Housing Revenue Account for the provision of social housing. The Housing Revenue Account showed a surplus of £1.6 million and increased its working balance by the same amount. Full details are set out in the Statement of Accounts.

LONDON RESIDUARY BODY (LRB)

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

31 MARCH 2012 BALANCE SHEET

The balance sheet as at 31 March is summarised below. Aside from pension liabilities that are re-estimated each year and thus volatile, the overall position is substantially stable. [3]

	31-Mar-12	31-Mar-11
	£m	£m
Long term assets	1,481	1,532
Current assets less current liabilities	119	118
Net Pension Liabilities	-263	-154
Other long term liabilities	-181	-188
Net Assets	**1,156**	**1,309**
Represented by		
Usable reserves	224	206
Unusable reserves	932	1,103
Total Reserves	**1,156**	**1,309**

The breakdown of the usable reserves is set out below:

	31-Mar-12	31-Mar-11
	£m	£m
General Fund	194	178
Schools Reserves	9	8
Housing Revenue Account	16	15
London Residuary Body	4	4
Total	**224**	**206**

[3] As required, long term assets (non-current assets) have been restated as at 31 March 2011 to include the new category of heritage assets. The net gain to the balance sheet due to this is £24 million.

CAPITAL SPENDING AND FUNDING

The Council invests in its property assets and makes capital investments in services. The Council budgeted to spend £76 million on capital projects in 2011-12:

Business Group/Service	Budget £'000	Actual £'000	Variance £'000	Variance %
Family and Children's Services	582	255	-327	-56%
Housing, Health and Adult Social Care	2,046	1,174	-872	-43%
Housing Revenue Account	8,660	8,544	-116	-1%
Housing Regeneration	810	787	-23	-3%
Planning and Borough Development	98	0	-98	-100%
Transport, Environmental and Leisure Services	17,996	15,681	-2,315	-13%
Corporate Services	7,394	6,176	-1,218	-16%
Property (Children's Services)	36,183	36,155	-28	0%
Property (Housing and Adult Social Care)	576	112	-464	-81%
Property (Environment and Leisure)	1,741	346	-1,395	-80%
Total	**76,086**	**69,230**	**-6,856**	**-9%**

A summary explanation of the £6.9 million under-spend on capital schemes is set out below:

	Underspend 2011-12 £'000	Slippage 2012-13 £'000
Delays on Children's Services ICT projects	-327	327
A range of slippage on housing and Adult social Care projects	-1,336	1,336
Housing Revenue Account and housing regeneration slippage	-139	139
Planning and Borough Development slippage (mainly Public Art)	-98	88
Exhibition Road retention for final accounts	-1,027	1,074
A range of slippage on environment and leisure related projects	-1,288	1,051
Corporate project slippage (mainly office accommodation related)	-1,218	1,189
Schools redevelopment projects net slippage	-28	28
Parks Strategy work reprogrammed for 2012-13	-551	551
Sports centre and parks related slippage	-844	844
Total	**-6,856**	**6,627**

Capital expenditure in 2011-12 was funded mainly from the Council's own resources (£60 million), but also through £9 million of external grants and contributions.

Funding Source	£'000
Capital Grants and Contributions	8,807
Capital Expenditure Reserve	9,969
Capital Receipts	787
Internal borrowing	32,573
Other Reserves	16,706
Direct Revenue Financing	388
Total Funding	**69,230**

FUTURE OUTLOOK

For 2012-13 the Council once again froze council tax. Funding reductions and cost pressures were matched by £13 million in budget reductions – bringing total budget reductions to £36 million over two years. The Council is also planning to fund an ambitious capital programme - £180 million over three years - without any additional external borrowing.

The national economic outlook remains grim. The Government is holding to previously announced and substantial cuts to local government funding for 2013-14 and beyond. Major changes to the system of local government financing are due to be introduced from 1 April 2013 (localisation of business rates and Council Tax Benefit). These present financial challenges in themselves.

The Council remains well positioned to weather economic storms, but is also planning for substantial budget reductions for 2013-14 and future years both as an individual authority and as part of tri-borough and bi-borough working on delivery of shared services with the neighbouring boroughs of the City of Westminster and the London Borough of Hammersmith & Fulham.

ACCOUNTING POLICIES

The 2011-12 accounts are compliant with International Financial Reporting Standards (IFRS). They comply with the Chartered Institute of Public Finance and Accountancy (CIPFA) / Local Authority (Scotland) Accounts Advisory Committee (LASAAC) *Code of Practice on Local Authority Accounting in the United Kingdom 2011* (the Code) which is based on IFRS.

The accounting policies adopted by the Council comply with the Code and are set out on pages 35 to 52. These are substantially unchanged from 2010-11 with the addition, as required under the Code, of the Council's new accounting policy relating to heritage assets.

Nicholas Holgate
Town Clerk and Executive Director of Finance

STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

The Council's Responsibilities

The Council is required to:

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

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

- Approve the Statement of Accounts.

The Town Clerk and Executive Director of Finance's Responsibilities

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

- selected suitable accounting policies and then applied them consistently;

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

- complied with the local authority Code.

The Town Clerk and Executive Director of Finance has also:

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

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

I certify that the Statement of Accounts 2011-12 gives a true and fair view of the financial position of the Council as at 31 March 2012 and its income and expenditure for the year ended 31 March 2012.

Nicholas Holgate
Town Clerk and Executive Director of Finance
29 June 2012

I certify on behalf of the Council that the Statement of Accounts 2011-12 was reviewed in draft by Audit Committee on 18 June 2012 and has been considered and approved in final form by the Audit Committee on 25 September 2012.

Councillor Paul Warrick
Chairman of the Audit Committee

THE ROYAL BOROUGH OF KENSINGTON AND CHELSEA

ANNUAL GOVERNANCE STATEMENT 2011-12

(i) Scope of responsibility

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

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

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

(ii) The purpose of the governance framework

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

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

The governance framework has been in place at the Council for the year ended 31 March 2012 and up to the date of approval of the Statement of Accounts.

(iii) The governance framework

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

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

Through its leadership of the Kensington and Chelsea Partnership, the Council comes together with voluntary and community groups, the Metropolitan Police Service, 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 Royal Borough. The Partnership has published the Community Strategy (*The Future of our Community 2008-2018), w*hich sets out the long-term priorities and the challenges for the whole of the Royal Borough and identified eight shared goals that the Council and its partners will all work to achieve.

Delivery of the Council's objectives is assisted by an annual business and financial planning process, which results in the three-year budget proposals, departmental service delivery plans and personal targets for individuals. The revenue budget and capital programme are subject to full consultation and review by the Scrutiny Committees before recommendation by Cabinet and formal adoption by full Council.

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

The quality of services is assessed through the Council's performance management system. This includes the setting of targets and reporting of the achievement of key performance indicators and other initiatives and reviews. The Cabinet Member for Civil Society has responsibility for ensuring that performance of the Council is reported transparently and accurately both within the Council and externally. Scrutiny Committees and a number of specialist working groups consider relevant issues of interest and importance. The tri-borough and bi-borough initiatives are a key part of the Council's response to the Government's on-going cost cutting and savings plans. The Council, the London Borough of Hammersmith & Fulham and the City of Westminster have agreed to combine some services to improve effectiveness and reduce costs.

Monitoring the delivery of the Council'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
Budget Monitoring Reports - revenue and capital monitoring plus key non-financial indicators with Cabinet approval for any corrective action.	Management Board, Cabinet and Scrutiny Committee members	Quarterly

Item / Content	Aimed at	Frequency
Vital Improvements - reporting progress on key programmes and projects.	Management Board and Cabinet	Bi-annual
Vital Signs - 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 annually
Credit Rating - an independent assessment of the Council's financial management, financial standing and creditworthiness.	Officers, Members, the public and those doing business with the Council	Annual
Gateway Reviews - peer reviews of major programmes	Management Board	Ad Hoc

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

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

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

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

The Standards Committee reports annually to full Council on its activities. The membership of this Committee comprises three Council members and three independent voting members. One of the independent members is appointed Chairman of the Committee and another the Vice-Chairman.

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

The Town Clerk and Executive Director of Finance is a member of the Management Board and reports directly to the Joint Chief Executive. The role of the Town Clerk and Executive Director of Finance and financial responsibilities of Members and officers is set out in the Constitution. Key Decision reports always include detailed financial implications. The Council's financial statements are completed within statutory timescales and are published on the Council's website. *Budget Proposals* set out the Cabinet's policy priorities and budget approach for the next three years. This is up-dated annually. Arrangements have been implemented in relation to tri-borough and bi-borough working to ensure that financial controls are maintained and the benefits realised.

f) Reviewing and updating Standing Orders, the Financial Procedure Rules, the Scheme of Delegation and supporting procedure notes/manuals, which clearly define how decisions are taken and the processes and controls required to manage risks.

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

Directors and heads of service are ultimately responsible for the management of the risks within their areas of responsibility. The Council has a robust risk management process to identify, assess and manage the significant business risks to the Council's objectives including those of its key strategic partnerships. The risk management process includes a *Risk Management Strategy*, corporate and departmental risk registers, the Risk Management Group and appropriate staff training.

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 that appropriate action is being taken by the risk owner.

g) Undertaking the core functions of an Audit Committee.

The Audit Committee comprises both Council members and three independent members who bring a wide range of commercial and governance experience, knowledge and challenge to the Council. It reviews internal audit reports, external audit reports and risk management arrangements, and is responsible for providing independent assurance on the Council’s corporate governance arrangements.

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

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

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

The Council operates a *Reporting Concerns at Work Policy* (whistle blowing scheme) with various channels of communication including an anonymous phone hotline, a reporting form on the Council website and via an independent organisation to whom any concerns can be expressed. The scheme is regularly publicised among employees, key contractors and is publicised on the Council's website.

Most complaints are dealt with at the point of service, but in addition there is a formal system in operation that can escalate complaints to more senior management and ultimately both the Town Clerk and Executive Director of Finance, and the Joint Chief Executive, if necessary, to resolve any issues arising. Complaints are reported annually to a meeting of the Cabinet, the report is published on the Council's website and includes details of the number of complaints received by each business group, any area of concern, action taken and lessons learned.

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

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

Consultation principles and activities are publicised on the Council's website. The primary aim of the Council's consultation activities is to help the Council ensure its services and policies meet the needs of its users. The Council engages and communicates with the local community in various ways including the Residents' Panel, 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 has developed a *Communications Strategy* and *Communication Standards* and adopted a *Statement of Consultation Pri*nciples.

The Council has regularly communicated with residents and those who work in the Royal Borough through the Council's newspaper, delivered to all homes, as well as via the

Council's website and publications such as the *Report to Taxpayers*. Committee agendas, reports and the Forward Plan of Key Decisions are made available in public libraries and online via the Council's website.

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

The Council leads the Kensington and Chelsea Partnership (KCP), in which the Council comes together with voluntary and community groups, the Metropolitan Police Service, 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 Royal Borough. All significant partnerships have partnership frameworks, contain aims and objectives and seek measurable outcomes.

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

(iv) Review of effectiveness

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

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

The functions and areas of responsibility of executive directors, directors and heads of service are summarised in the Constitution. The Chief Solicitor discharges **the Monitoring Officer** role.

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

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 Council's risk management arrangements and monitors risk action plans.

The Council's **external auditors** are not required to form an opinion on the effectiveness of the Council's risk and control systems. However, the Council does have regard to external audit's work in informing its assessment of its controls in conjunction with the work undertaken by Internal Audit. The external auditors meet on a quarterly basis with the Section 151 Officer, and attend the Audit Committee to present the Audit Plan, report on the Statement of Accounts and provide an Annual Report to those 'Charged with Governance'.

The **Standards Committee** is responsible for promoting and maintaining high standards of conduct by Councillors, monitoring the operation of the Code of Conduct and assisting Councillors to observe the Code of Conduct. The Standards Committee reports annually to Council on the discharge of its functions during the year and this report is presented to the Council by the independent Chairman of the Committee.

In 2011-12 six complaints were made to the Standards Committee.

(v) Summary and conclusion

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

- The Council has a robust system of internal control.
- Strong corporate governance arrangements are in place.
- Risk management arrangements are satisfactory and compliant with best practice.

b) In the 2010-11 Annual Governance Statement two control issues were reported on by the Audit Commission as a result of matters raised by residents:

- A review of the arrangements for Members' expenses identified certain expenses that had not been reimbursed in accordance with the terms of the Council's Members' allowances scheme. The review made a number of recommendations, and all of them have been implemented and progressed.

- The Audit Commission reported on objections to the Council's 2008-09 financial statements that were made in September 2009, which alleged the collection of commercial waste without charge and alleged consequential overcharging of street traders for waste collection. The results of the review were published in July 2010 and included a number of recommendations for improvements in the Council's systems and processes for collecting commercial waste and levying market waste collection charges. All of the recommendations have been implemented and progressed.

c) The Audit Commission's *Annual Governance Report 2010-11* regarding the Council's financial statements raised no significant control issues. The report regarding the Pension Fund audit raised three recommendations as follows:

- Provide a set of fully referenced working papers alongside the draft financial statements prior to commencement of the audit.

- Review the approach to recording investment information in the general ledger. As a minimum, action the agreed response to the related recommendations in the Annual Governance Report 2009-10.

- Ensure that admitted and scheduled bodies pay employee contributions to the Council within 19 days of the end of the month to which they relate.

An action plan has been agreed with the Audit Commission to ensure these issues are addressed.

d) No significant control issues were identified by Internal Audit during 2011-12.

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

Signed:

Councillor Sir Merrick Cockell
Leader of the Council

Derek Myers
Joint Chief Executive

On behalf of the Royal Borough of Kensington and Chelsea

ANNEX

Corporate Governance Framework

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

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

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

- Community Strategy
- Medium Term Financial Strategy
- Budget Plan
- Service Delivery Plans
- Statement of Accounts
- Internal/External Audit Protocol
- Report to Taxpayers
- Vital Signs (performance indicators)
- Vital Improvements (programmes and projects)
- Vital Finances (statistics)
- Vital messages (consultation)
- Corporate Risk Register
- Budget Leaflet
- Borough Newsletter
- External Audit Report to those charged with Governance
- External Audit and Inspection Letter
- Budget Monitoring Reports
- Management Assurance Statements
- Annual Reports on Scrutiny, Standards and Internal Audit

[B] Key Documents: Ad hoc Review or Production

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

[C] Contributory Processes / Regulatory Monitoring

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

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

GLOSSARY OF TERMS

Balance Sheet	This is a 'snapshot' of the Council's assets, liabilities and reserves on 31 March 2012. The reserves are always equal to the Council's assets less the Council's liabilities. Assets represent everything owned by the Council and money owed to it. Liabilities are the sums that the Council owes to others.
Budget	A forecast of the Council's planned expenditure; the level of the council tax is set by reference to detailed revenue budgets. Budgets are reviewed during the course of the financial year to take account of pay and price changes and other factors affecting the level or cost of services.
Cabinet	The Cabinet is the executive body responsible for undertaking all of the Council's functions except those functions that are reserved to the full Council or delegated to committees or officers. When the executive meets collectively, it is known as the 'Cabinet'. Individual councillors that are members of the executive are known as 'Cabinet Members'.
Capital Adjustment Account	An account recording financing transactions relating to capital expenditure. This account is not available for general use to fund capital expenditure.
Capital Expenditure	Spending on the acquisition or enhancement of fixed (non-current) assets or advances and loans to other individuals or organisations.
Capital Receipts	Income received from the sale of fixed assets or repayment of capital advances.
CIPFA	Chartered Institute of Public Finance and Accountancy.
Collection Fund	A statutory account into which Council Tax and National Non-Domestic Rates are paid and from which amounts are paid to the Council and the precepting body, the Greater London Authority.
Community Assets	A class of fixed (non-current) assets that are expected to be held by the Council in perpetuity to deliver services. Examples include parks.
Depreciation	A measure of the consumption or wearing out of a fixed (non-current) asset over its useful economic life.

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

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

The Council holds material earmarked reserves for the following purposes:

General Fund Earmarked Reserves

Better City Life - Provides resources for new policy priorities.

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

Building Alterations – Provides finance for special repairs and maintenance works.

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

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

Chelsea Academy Co-sponsorship – Provides funds to meet the Council's financial commitment to co-sponsor the Chelsea Academy school.

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

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

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

Excellence All Round – Funds initiatives to improve services.

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

Insurance – Earmarked insurance fund to cover future insurance liabilities.

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

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

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

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

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

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

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

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

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

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

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

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

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

Housing Revenue Account Earmarked Reserves:

Controlled Repairs – Provides resources for TMO repair projects.

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

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

Core Financial Statements 2011-12

THE ROYAL BOROUGH OF KENSINGTON AND CHELSEA

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

Opinion on the Authority financial statements

I have audited the financial statements of the Royal Borough of Kensington and Chelsea for the year ended 31 March 2012 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, the Collection Fund Revenue Account Income and Expenditure Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

This report is made solely to the members of the Royal Borough of Kensington and Chelsea in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

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

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Town Clerk and Executive Director of Finance; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the Foreword to the Statement of Accounts and the Report to Taxpayers 2012 to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies, I consider the implications for my report.

Opinion on financial statements

In my opinion, the financial statements:

- give a true and fair view of the financial position of the Royal Borough of Kensington and Chelsea as at 31 March 2012 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

Opinion on other matters

In my opinion, the information given in the Foreword to the Statement of Accounts and the content of the Report to Taxpayers 2012 for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

I report to you if:

- in my opinion, the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;
- I issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- I designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- I exercise any other special powers of the auditor under the Audit Commission Act 1998.

I have nothing to report in these respects.

Opinion on the pension fund financial statements

I have audited the pension fund financial statements for the year ended 31 March 2012 under the Audit Commission Act 1998. The pension fund financial statements comprise the Introduction (including the Statement of Main Principles Adopted in Compiling the Accounts), the Pension Fund Income and Expenditure Statement, the Pension Fund Net Assets Statement, the Pension Fund Investment Movement Summary and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

This report is made solely to the members of the Royal Borough of Kensington and Chelsea in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

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

As explained more fully in the Statement of Responsibilities for the Statement of Accounts, the Town Clerk and Executive Director of Finance is responsible for the preparation of the

Statement of Accounts, which includes the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Town Clerk and Executive Director of Finance; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the Foreword to the Statement of Accounts and the Report to Taxpayers 2012 to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies, I consider the implications for my report.

Opinion on financial statements

In my opinion, the pension fund financial statements:

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

Opinion on other matters

In my opinion, the information given in the Foreword to the Statement of Accounts and the content of the Report to Taxpayers 2012 for the financial year for which the financial statements are prepared is consistent with the financial statements.

Conclusion on Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources

Respective responsibilities of the Authority and the auditor

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

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

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

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

I have undertaken my audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2011, as to whether the Authority has proper arrangements for:

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

The Audit Commission has determined these two criteria as those necessary for me to consider under the Code of Audit Practice in satisfying myself whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

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

Conclusion

On the basis of my work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2011, I am satisfied that, in all significant respects, the Royal Borough of Kensington and Chelsea put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

Certificate

I certify that I have completed the audit of the accounts of the Royal Borough of Kensington and Chelsea in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Michael Haworth-Maden

District Auditor

Audit Commission, 1st Floor, Millbank Tower, Millbank, London, SW1P 4HQ

26 September 2012

Movement in Reserves Statement

	General Fund £'000	Earmarked Reserves £'000	Housing Revenue Account £'000	Major Repairs Reserve £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000	Other Usable Reserves £'000	Total Usable Reserves £'000	Total Unusable Reserves £'000	Total Council Reserves £'000
Balance at 31 March 2010	**10,000**	**159,592**	**10,595**	**2,166**	**10,812**	**-**	**9,293**	**202,458**	**914,954**	**1,117,412**
Movement in reserves during 2010-11										
Surplus / (deficit) on provision of services	62,002	-	(33,583)	-	-	-	(7)	28,412	-	28,412
Other Comprehensive Expenditure and Income	-	-	-	-	-	-	-	-	162,936	162,936
Total Comprehensive Expenditure and Income	**62,002**	**-**	**(33,583)**	**-**	**-**	**-**	**(7)**	**28,412**	**162,936**	**191,348**
Adjustments between accounting basis and funding basis under regulations	(54,986)	-	35,602	295	(6,626)	1,118	-	(24,597)	24,597	-
Net increase / decrease before transfers to Earmarked Reserves	**7,016**	**-**	**2,019**	**295**	**(6,626)**	**1,118**	**(7)**	**3,815**	**187,533**	**191,348**
Transfers to / from Earmarked Reserves	(7,016)	3,830	(793)	833	-	-	2,901	(245)	245	-
Increase / (decrease) in 2010-11	**-**	**3,830**	**1,226**	**1,128**	**(6,626)**	**1,118**	**2,894**	**3,570**	**187,778**	**191,348**
Balance at 31 March 2011	**10,000**	**163,422**	**11,821**	**3,294**	**4,186**	**1,118**	**12,187**	**206,028**	**1,102,732**	**1,308,760**
Movement in reserves during 2011-12										
Surplus / (deficit) on provision of services	(16,573)	-	(30,793)	-	-	-	(128)	(47,493)	-	(47,493)
Other Comprehensive Expenditure and Income	-	-	-	-	-	-	-	-	(105,703)	(105,703)
Total Comprehensive Expenditure and Income	**(16,573)**	**-**	**(30,793)**	**-**	**-**	**-**	**(128)**	**(47,493)**	**(105,703)**	**(153,196)**
Adjustments between accounting basis and funding basis under regulations	29,843	-	32,528	(1,242)	787	3,433	-	65,349	(65,349)	-
Net increase / decrease before transfers to Earmarked Reserves	**13,271**		**1,735**	**(1,242)**	**787**	**3,433**	**(128)**	**17,856**	**(171,052)**	**(153,196)**
Transfers to / from Earmarked Reserves	(13,271)	11,597	(93)	-	13	-	1,521	(233)	233	-
Increase / (decrease) in 2011-12	**-**	**11,597**	**1,642**	**(1,242)**	**799**	**3,433**	**1,393**	**17,623**	**(170,819)**	**(153,196)**
Balance at 31 March 2012 Carried Forward	**10,000**	**175,019**	**13,463**	**2,051**	**4,985**	**4,552**	**13,580**	**223,651**	**931,913**	**1,155,564**

Comprehensive Income and Expenditure Statement

	2011-12			2010-11			
	Gross Expenditure £'000	**Gross Income £'000**	**Net Expenditure £'000**	**Gross Expenditure £'000**	**Gross Income £'000**	**Net Expenditure £'000**	Notes
Central services to the public	13,900	(2,632)	11,268	6,476	(2,505)	3,971	
Cultural and related services	23,435	(5,496)	17,939	21,624	(5,138)	16,487	
Environment and regulatory services	46,884	(8,367)	38,517	40,459	(8,284)	32,175	
Planning services	11,651	(4,990)	6,661	12,715	(4,813)	7,901	
Education and children's services	161,576	(114,199)	47,377	171,904	(117,715)	54,189	
Highways and transport services	42,452	(47,634)	(5,182)	42,222	(40,136)	2,086	
Local authority housing – settlement payment to Government for HRA self financing	24,960	-	24,960	-	-	-	
Local authority housing – other	45,459	(47,377)	(1,918)	73,015	(49,372)	23,643	
Other housing services	205,709	(189,031)	16,678	203,186	(183,674)	19,512	
Adult social care	67,349	(21,885)	45,464	70,398	(17,959)	52,439	
Corporate and democratic core	9,170	(723)	8,447	10,529	(459)	10,070	
Non distributed costs – past service pension costs	-	-	-	(61,188)	-	(61,188)	
Non distributed costs – other	6,860	(673)	6,187	1,600	(477)	1,123	
Cost of services	**659,405**	**(443,007)**	**216,398**	**592,940**	**(430,532)**	**162,408**	27
Other Operating Expenditure	5,756	-	5,756	8,654	-	8,654	5/9
Financing and Investment Income and Expenditure	63,948	(40,336)	23,612	53,899	(33,403)	20,496	10
Taxation and Non-Specific Grant Income	-	(198,399)	(198,399)	-	(219,977)	(219,977)	11
Net (Surplus) / Deficit on Provision of Services			**47,366**			**(28,419)**	
Surplus or deficit on revaluation of non-current assets		2,116	2,116			(42,571)	23b
Surplus or deficit on revaluation of available for sale financial assets		(708)	(708)			84	
Actuarial (gains) / losses on pension assets/liabilities		104,350	104,350			(120,409)	41
Any other (gains) / losses required to be included		72	72			(33)	
Other Comprehensive Income and Expenditure			**105,830**			**(162,929)**	
Total Comprehensive Income and Expenditure			**153,196**			**(191,348)**	

Balance Sheet

	31 March '12	*Restated 31 March '11	*Restated 31 March '10	Notes
	£'000	**£'000**	**£'000**	
Long-term Assets				
Property, Plant and Equipment	**1,212,208**	1,218,651	1,194,834	12a
Heritage Assets	**43,124**	37,892	37,974	13
Investment Property	**131,514**	145,281	145,220	14
Intangible Assets	**2,779**	2,439	2,070	15
Assets Held for Sale (>1yr)	**-**	-	-	19
Long Term Investments	**23**	39,711	173	16a
Long Term Debtors	**90,889**	88,396	85,891	17b
Total Long-term Assets	**1,480,538**	**1,532,370**	**1,466,162**	
Current Assets				
Short Term Investments	**152,357**	133,918	165,510	16a
Assets Held for Sale (<1yr)	**8,074**	-	-	19
Inventories	**222**	199	308	
Short Term Debtors	**37,321**	43,756	52,756	17a
Cash and Cash Equivalents	**19,400**	23,564	29,192	18
Total Current Assets	**217,374**	**201,437**	**247,766**	
Current Liabilities				
Short Term Borrowing	**8,664**	14,604	12,654	16a
Short Term Creditors	**87,469**	66,804	69,675	20
Provisions (<1yr)	**1,986**	2,351	1,215	21
Total Current Liabilities	**98,119**	**83,759**	**83,544**	
Long-term Liabilities				
Long Term Creditors	**-**	-	-	
Provisions	**3,073**	3,230	3,316	21
Long Term Borrowing	**163,971**	170,196	182,345	16a
Other Long Term Liabilities	**263,676**	154,503	322,824	47
Donated Assets Account	**-**	-	-	
Capital Grants Receipts in Advance	**13,509**	13,359	4,487	34c
Total Long-term Liabilities	**444,229**	**341,288**	**512,972**	
Net Assets	**1,155,564**	**1,308,760**	**1,117,412**	
RESERVES				
Usable Reserves	**223,651**	206,028	202,458	7/8
Unusable Reserves	**931,913**	1,102,732	914,954	7/23
Total Reserves	**1,155,564**	**1,308,760**	**1,117,412**	

* The 31 March 2010 and 31 March 2011 balance sheets have been restated to reflect *FRS 30: Heritage Assets*, a UK GAAP accounting standard with which the Code now requires compliance. Please see Note 13 for further details including further details of the impact on the balance sheet.

Cash Flow Statement

	2012 £'000	2011 £'000	Notes
Net surplus / (deficit) on the provision of services	(47,366)	28,419	
London Residuary Body	(128)	(6)	
Net surplus / (deficit)	**(47,493)**	**28,413**	
Adjustments to net surplus or deficit on the provision of services for non-cash movements	95,750	24,907	
Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	(10,265)	(16,996)	
Net cash flows from Operating Activities	**37,991**	**36,324**	24
Investing Activities	(29,955)	(31,651)	25
Financing Activities	(12,200)	(10,301)	26
Net increase / (decrease) in cash and cash equivalents	**(4,164)**	**(5,628)**	
Net cash and cash equivalents at the beginning of the reporting period	23,564	29,192	
Net cash and cash equivalents at the end of the reporting period	**19,400**	**23,564**	18

The cash flow statement has been prepared using the indirect method in accordance with proper practice. It therefore contains significant adjustments for non-cash items.

Notes to the Core Financial Statements

1. Accounting Policies

i. General Principles

The Statement of Accounts summarises the Council's financial transactions for the 2011-12 financial year and its financial position its year-end of 31 March 2012. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2011 in accordance with proper accounting practices. Proper practices primarily comprise the Code *of Practice on Local Authority Accounting in the United Kingdom 2011/12* (the Code) and the *Service Reporting Code of Practice 2011/12* (SeRCOP), supported by International Financial Reporting Standards (IFRS).
The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments. The Statement of Accounts has been prepared on a 'going concern' basis.

ii. Accruals of Income and Expenditure

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

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

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

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

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

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

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

iii. Cash and Cash Equivalents

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

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

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

iv. Exceptional Items

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

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

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

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

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

vi. Charges to Revenue for Non-Current Assets

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

- **depreciation** attributable to the assets used by the relevant service;
- **revaluation and impairment** losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off; and
- **amortisation** of intangible fixed assets attributable to the service.

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

vii. Employee Benefits

Benefits Payable During Employment

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

Termination Benefits

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

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

Post Employment Benefits

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

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

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

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

The Local Government Pension Scheme

The Local Government Scheme is accounted for as a defined benefits scheme.
The liabilities of the Pension Fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on actuarial assumptions about mortality rates, employee turnover rates and projected earnings of current employees etc.
Liabilities are discounted to their value at current prices, using a discount rate determined by the actuary that is based on the indicative rate of return on high quality corporate bonds: the iBoxx 'AA' rated, over 15-year corporate bond index.
The assets of the Pension Fund attributable to the Council are included in the Balance Sheet at their fair value:

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

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

- **Current service cost**: the increase in liabilities as a result of years earned in the financial year, allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked.
- **Past service cost**: the increase in liabilities arising from fund performance relating to years of service earned in earlier years; debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non-Distributed Costs.

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

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

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

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

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

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

Discretionary Benefits

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

viii. Events After the Balance Sheet Date

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

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

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

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

ix. Financial Instruments

Financial Liabilities

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

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

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

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

Financial Assets

Financial assets are classified into two types:

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

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

Loans and Receivables

Loans and receivables are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument classified as such. They are initially measured at fair value and are subsequently measured at amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

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

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

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

Available-for-Sale Assets

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

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

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

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

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

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

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

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

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

x. Government Grants and Contributions

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

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

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

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

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

xi. Heritage Assets

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

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

Heritage assets are accounted for in accordance with the Council's accounting policies on property, plant and equipment except "where it is not practical to obtain a valuation at a cost which is commensurate with the benefits to users of the financial statements, heritage assets shall be measured at historic cost" (paragraph 4.10.2.8 of the Accounting Code of Practice). "Valuations may be made by any method that is appropriate and relevant. There is no requirement for valuations to be carried out or verified by external valuers nor is there any prescribed minimum period between revaluations" (paragraph 4.10.2.9 of the Code). The Council self insures assets valued below £250,000 and is therefore not required to produce valuation certificates for these items.

The heritage property assets (the museums) are valued and accounted for in accordance with the Council's accounting policies on property, plant and equipment.

The museum collections and the art in parks are reported in the balance sheet at insurance valuation (based on market values). These valuations are reviewed periodically as deemed appropriate for insurance purposes. Acquisitions are recognised at cost. These are deemed to have indeterminate lives and high residual value. Hence the Council does not deem it appropriate to charge depreciation for these assets.

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

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

xii. Intangible Assets

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

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

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

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

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

xiii. Inventories and Long Term Contracts

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

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

xiv. Investment Property

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

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

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

xv. Leases

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

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

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

The Council as Lessee

Finance Leases

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

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

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

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

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

Operating Leases

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

The Council as Lessor

Finance Leases

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

Lease rentals receivable are apportioned between:

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

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

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

Operating Leases

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

xvi. Overheads and Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Service Reporting Code of Practice 2011-12 (SeRCOP). The total absorption costing principle is used: the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

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

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

xvii. Property, Plant and Equipment

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

Recognition

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

Measurement

Assets are initially measured at cost, comprising:

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

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

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

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

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

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

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

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

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

Impairment

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

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

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

Depreciation

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

Depreciation is calculated on the following bases:

- **Dwellings**: the Major Repairs Allowance is used as a proxy for depreciation and componentisation.

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

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

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

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

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

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

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

Disposals and Non-current Assets Held for Sale

When it is probable that the value of a non-current asset will be recovered through its sale, the asset is reclassified as an Asset Held for Sale if the criteria set out in the Code are met. The asset is revalued immediately prior to reclassification using the valuation basis specified in the Code for that category of assets. Following reclassification, the asset is carried at the lower of this revaluation or its fair value less costs to sell. If the carrying amount of the asset is reduced, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Increases in the value of an asset are not recognised except where a loss has been posted to the Comprehensive Income and Expenditure Statement, when an amount up to the value of that loss can be recognised. Depreciation is not charged on Assets Held for Sale.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale, adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable amount at the date of the decision not to sell.

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

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

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

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

xviii. Provisions, Contingent Liabilities and Contingent Assets

Provisions

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

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

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

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

Contingent Liabilities

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

Contingent Assets

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

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

xix. Reserves

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

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

xx. Revenue Expenditure Funded from Capital under Statute

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

xxi. VAT

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

xxii. Collection Fund

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

xxiii. Carbon Reduction Commitment Allowances

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

2. Accounting Standards Issued Not Yet Adopted

The International Accounting Standards Board (IASB) has amended *IFRS 7 Financial Instruments: Disclosures* to help users of financial statements:

- evaluate the risk and exposures relating to the transfer of financial assets by an entity to another entity when either those assets are not derecognised or an entity has continued involvement in financial assets transferred to another entity;
- consider the effect of those risks on an entity's financial position; and
- promote transparency in the reporting of such transfers, particularly those that involve the securitisation of financial assets.

The transfer of financial assets to or from local authorities is extremely rare. Therefore, the changes to IFRS 7 have no impact on the accounting policies of the Council, the financial position of the Council and the disclosures required in this Statement of Accounts.

3. Critical Judgements in Applying Accounting Policies

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

- There is a high degree of uncertainty concerning future funding for local government. The Council believes that this uncertainty is neither sufficient nor significant enough in its likely impact to warrant impairment of assets due to reduced levels of service provision or a need to close facilities. Furthermore, property prices in the Royal Borough are such that any asset the Council deems surplus is unlikely to be disposed of for less than its current fair value.
- The Council is entering into joint working arrangements with neighbouring local authorities, the City of Westminster and the London Borough of Hammersmith & Fulham. These arrangements are currently referred to as 'tri-borough working'. Current proposals will not reduce the level of service provided by the Council and plans to align systems are not yet fully developed. Therefore, the Council believes that it is not necessary to impair any non-current asset in light of tri-borough and bi-borough working.
- The Council has reduced the size of its workforce. The level of local government funding and further tri-borough working may require further reductions in the size of the workforce. The Council funds redundancies initially from any under-spends and thereafter from the Severance Reserve. The Council does not believe that measures beyond those taken thus far, for example an additional contribution to the Severance Reserve in 2010-11, are necessary because adequate provision has been made to fund likely workforce reductions and reductions beyond these are sufficiently uncertain that no further provision is warranted at this time.
- The Council has been required to take a view on which school assets are recognised on the Council's balance sheet. The Council has recognised Community schools. The Council has not recognised Voluntary Aided, Free, or Academy Schools as it is of the view that these school assets are - to varying degree - beyond the control of the Authority.

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

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

The items in the Council's Balance Sheet at 31 March 2012 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Non-current Assets	Asset valuations are based on market prices and are periodically reviewed to ensure that the Council does not materially misstate its non-current assets and investment properties. During the past financial year, the property market in the Royal Borough appeared to grow slowly, but the number and relevance of asset sales against which the Council could judge the fair value of its property assets was low. Therefore, the Council judged that no alteration to the estimates that underpin the valuation of its properties and dwellings was required at year end. Should evidence emerge in 2012-13 that causes the Council to amend these estimates, the estimated fair value of its property and dwellings could change.	A reduction in estimated valuations would result in reductions to the Revaluation Reserve and / or a loss recorded as appropriate in the Comprehensive Income and Expenditure Statement. For example, a 10 per cent reduction in the value of the Council's investment properties would result in a £13 million charge to the Comprehensive Income and Expenditure Statement. Conversely, an increase in value would result in increases to the Revaluation Reserve and / or reversals of previous negative revaluations to the Comprehensive Income and Expenditure Statement and / or gains being recorded as appropriate in the Comprehensive Income and Expenditure Statement. Depreciation charges for operational buildings will change in direct proportion to the change in estimated fair value. The net book value of non-current assets subject to potential revaluation is £1.3 billion.
Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex estimates relating to, amongst others, the discount rate used, the rate at which salaries are projected to increase, changes in retirement age, mortality rates and expected returns on pension fund assets. Consulting actuaries provide advice concerning these estimates.	The effect of changes in these estimates on the net pension liability of the Council can be measured, but are complex and interact in a complex manner. The Council is reliant on the advice of its actuaries regarding estimates and the calculations of their effects. For example, changes in estimates, such as the measure of inflation and rate of inflation, could either reduce or increase the net pensions liability.

5. Material Items of Income and Expense

In 2011-12 the council made a payment of £24.9 million to central government (Communities and Local Government department) for the change to Housing Revenue Account self-financing. The settlement figure has been presented separately on the face of the Comprehensive Income and Expenditure Statement.

Property revaluation losses and impairments totalling £33 million have been charged to net cost of services within the Comprehensive Income and Expenditure Account.

6. Events After the Balance Sheet Date

There are no events after the balance sheet date to report.

7. Adjustments between Accounting Basis and Funding Basis under Regulations

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

Movement on Usable Reserves 2011-12

Movement on Usable Reserves 2011-12	General Fund Balance £'000	Earmarked Reserves £'000	Housing Revenue Account £'000	Major Repairs Reserve £'000	Capital Receipts Reserves £'000	Capital Grants Unapplied £'000	Schools Reserves £'000	London Residuary Body £'000	Total Usable Reserves £'000
Balance at 1 April 2011	**10,000**	**163,422**	**11,821**	**3,293**	**4,186**	**1,118**	**7,888**	**4,299**	**206,028**
Surplus or (deficit) on provision of services	(16,573)	-	(30,793)	-	-	-	-	(128)	**(47,493)**
Other Comprehensive Expenditure and Income	-	-	-	-	-	-	-	-	**-**
Total Comprehensive Expenditure and Income	**(16,573)**	**-**	**(30,793)**	**-**	**-**	**-**	**-**	**(128)**	**(47,493)**
Adjustments between accounting basis and funding basis under regulations									
Reversal of items debited or credited to CIES									
Depreciation of tangible non-current assets (excluding HRA depreciation)	9,593	-	-	-	-	-	-	-	**9,593**
Amortisation of intangible assets (excluding HRA amortisation)	513	-	-	-	-	-	-	-	**513**
HRA depreciation / amortisation	-	-	263	-	-	-	-	-	**263**
Local authority housing: settlement payment to the Government for HRA self-financing	-	-	24,960	-	-	-	-	-	**24,960**
Impairment / revaluation losses (charged to the CIES)	25,970	-	7,355	-	-	-	-	-	**33,325**
Capital grant and contributions applied	(6,832)	-	-	-	-	-	-	-	**(6,832)**
Revenue Expenditure Funded from Capital under Statute (England and Wales)	2,075	-	-	-	-	-	-	-	**2,075**
Movement in market value of investment property	13,775	-	-	-	-	-	-	-	**13,775**
Amounts of non-current assets written off on disposal or sale as part of the gain / loss on disposal to the CIES	4,177	-	-	-	-	-	-	-	**4,177**
Capital grant and contributions unapplied credited to the CIES	(3,433)	-	-	-	-	3,433	-	-	**-**
Transfer of sale proceeds credited as part of the gain / loss on disposal to the CIES	(2,716)	-	-	-	2,716	-	-	-	**-**
Use of capital receipts reserve to finance capital expenditure	-	-	-	-	(914)	-	-	-	**(914)**
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	22,204	-	-	-	-	-	-	-	**22,204**
Employer's contributions to pension schemes	(17,101)	-	-	-	-	-	-	-	**(17,101)**
Amount by which council tax income and residual community charge adjustment included in the Comprehensive Income and Expenditure Statement is different from the amount taken to the General Fund in accordance with regulation	(184)	-	-	-	-	-	-	-	**(184)**
Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(273)	-	-	-	-	-	-	-	**(273)**
Soft loans adjustments	-	-	-	-	-	-	-	-	**-**
Insertion of items not debited or credited to CIES									
Statutory provision for the repayment of debt - Minimum Revenue Provision (MRP)	(1,107)	-	-	-	-	-	-	-	**(1,107)**
Statutory repayment of debt (finance lease liabilities)	(102)	-	-	-	-	-	-	-	**(102)**
Voluntary provision above MRP	(291)	-	-	-	-	-	-	-	**(291)**
Contribution to disposal costs of capital sales	85	-	-	-	(85)	-	-	-	**-**
HRA capital receipts to housing central pool	930	-	-	-	(930)	-	-	-	**-**
Revenue contribution to finance capital	(17,439)	-	(50)	-	-	-	-	-	**(17,489)**
Reversal of Major Repairs Allowance credited to the HRA	-	-	-	7,202	-	-	-	-	**7,202**
Use of the Major Repairs Reserve to finance capital expenditure	-	-	-	(8,444)	-	-	-	-	**(8,444)**
TOTAL adjustment between accounting basis and funding basis under regulations	**29,843**	-	**32,528**	**(1,242)**	**787**	**3,433**	-	-	**65,349**
Net increase / decrease before transfers to earmarked reserves	**13,271**	-	**1,735**	**(1,242)**	**787**	**3,433**	-	**(128)**	**17,856**
Transfers to / from earmarked reserves (see Note 8)	(13,271)	11,597	(93)	-	13	-	1,521	-	**(233)**
Increase / decrease (movement) in-year	-	**11,597**	**1,642**	**(1,242)**	**799**	**3,433**	**1,521**	**(128)**	**17,623**
Balance at 31 March 2012 carried forward	**10,000**	**175,019**	**13,463**	**2,051**	**4,985**	**4,552**	**9,409**	**4,171**	**223,651**

Movement on Usable Reserves 2010-11	General Fund Balance £'000	Earmarked Reserves £'000	Housing Revenue Account £'000	Major Repairs Reserve £'000	Capital Receipts Reserves £'000	Capital Grants Unapplied £'000	Schools Reserves £'000	London Residuary Body £'000	Total Usable Reserves £'000
Balance at 1 April 2010	**10,000**	**159,592**	**10,595**	**2,166**	**10,812**	**-**	**4,987**	**4,306**	**202,458**
Surplus or (deficit) on provision of services	62,002	-	(33,583)	-	-	-	-	(7)	**28,413**
Other Comprehensive Expenditure and Income	-	-	-	-	-	-	-	-	-
Total Comprehensive Expenditure and Income	**62,002**	-	**(33,583)**	-	-	-	-	**(7)**	**28,413**
Adjustments between accounting basis and funding basis under regulations									
Reversal of items debited or credited to CIES									
Depreciation of tangible non-current assets (excluding HRA depreciation)	9,064	-	-	-	-	-	-	-	**9,064**
Amortisation of intangible assets (excluding HRA depreciation)	393	-	-	-	-	-	-	-	**393**
HRA depreciation / amortisation	-	-	179	-	-	-	-	-	**179**
Impairment / revaluation losses (charged to the CIES)	1,683	-	37,427	-	-	-	-	-	**39,110**
Capital grant and contributions applied	(13,923)	-	(1,954)	-	-	-	-	-	**(15,877)**
Revenue Expenditure Funded from Capital under Statute (England and Wales)	7,351	-	-	-	-	-	-	-	**7,351**
Non-current assets written out on disposal to the CIES	6,951	-	-	-	-	-	-	-	**6,951**
Capital grant and contributions unapplied credited to the CIES	(1,118)	-	-	-	-	1,118	-	-	-
Transfer of sale proceeds credited as part of the gain / loss on disposal to the CIES	(3,638)	-	-	-	3,638	-	-	-	-
Use of capital receipts reserve to finance capital expenditure	-	-	-	-	(8,600)	-	-	-	**(8,600)**
Reversal of items relating to retirement benefits (IAS19)	(26,775)	-	-	-	-	-	-	-	**(26,775)**
Employer's pension contributions	(20,789)	-	-	-	-	-	-	-	**(20,789)**
Amount by which council tax income and residual community charge adjustment included in the CIES is different from the amount taken to the General Fund in accordance with regulation	69	-	-	-	-	-	-	-	**69**
Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(160)	-	-	-	-	-	-	-	**(160)**
Insertion of items not debited or credited to CIES									
Statutory provision for the repayment of debt - Minimum Revenue Provision (MRP)	(1,222)	-	-	-	-	-	-	-	**(1,222)**
Statutory repayment of debt (finance lease liabilities)	(122)	-	-	-	-	-	-	-	**(122)**
Voluntary provision above MRP	(284)	-	-	-	-	-	-	-	**(284)**
Contribution to disposal costs of capital sales	215	-	-	-	(215)	-	-	-	-
HRA capital receipts to housing central pool	1,449	-	-	-	(1,449)	-	-	-	-
Revenue contribution to finance capital	(14,130)	-	(50)	-	-	-	-	-	**(14,180)**
Reversal of Major Repairs Allowance credited to the HRA	-	-	0	6,834	-	-	-	-	**6,834**
Use of the Major Repairs Reserve to finance capital expenditure	-	-	0	(6,539)	-	-	-	-	**(6,539)**
TOTAL adjustment between accounting basis and funding basis under regulations	**(54,986)**	-	**35,602**	**295**	**(6,626)**	**1,118**	-	-	**(24,597)**
Net Increase / decrease before transfers to earmarked reserves	**7,016**	-	**2,019**	**295**	**(6,626)**	**1,118**	-	**(7)**	**3,815**
Transfers to / from earmarked reserves (See Note 8)	(7,016)	3,830	(793)	833	-	-	2,901	-	**(245)**
Increase / decrease (movement) in Year	-	**3,830**	**1,226**	**1,128**	**(6,626)**	**1,118**	**2,901**	**(7)**	**3,570**
Balance at 31 March 2011 carried forward	**10,000**	**163,422**	**11,821**	**3,293**	**4,186**	**1,118**	**7,888**	**4,299**	**206,028**

Movement in Unusable Reserves 2011-12	Revaluation Reserve £000	Pensions Reserve £000	CAA £000	Deferred Capital Receipts £000	FIAA £000	AFS FI Reserve £000	CFAA £000	STACA Reserve £000	Unusable Reserves £'000	Total Usable Reserves £'000	All Reserves £'000
Balance at 1 April 2011	**498,834**	**(153,750)**	**677,255**	**84,349**	**(966)**	**(601)**	**(133)**	**(2,257)**	**1,102,732**	**206,028**	**1,308,760**
Movement in reserves during 2011-12											
Surplus or (deficit) on provision of services	-	-	-	-	-	-	-	-	-	(47,493)	-
Revaluation gains	-	-	-	-	-	-	-	-	-		-
Revaluation losses (chargeable to the Revaluation Reserve)	(2,116)	-	-	-	-	-	-	-	(2,116)	-	(2,116)
Movement in Available for Sale Financial Instruments	-	-	-	-	-	708	-	-	708	-	708
Movement in the Pensions Reserve	-	(104,350)	-	-	-	-	-	-	(104,350)	-	(104,350)
Other comprehensive expenditure and income	-	-	-	-	56	-	-	-	56	-	56
Total Comprehensive Expenditure and Income	**(2,116)**	**(104,350)**	**-**	**-**	**56**	**708**	**-**	**-**	**(105,703)**	**(47,493)**	**(153,196)**
Adjustments between accounting basis and funding basis under regulations											
Reversal of items debited or credited to CIES											
Depreciation of tangible non-current assets (excluding HRA depreciation)	-	-	(9,612)	-	-	-	-	-	(9,612)	9,612	-
Amortisation of intangible assets (excluding HRA depreciation)	-	-	(513)	-	-	-	-	-	(513)	513	-
HRA depreciation / amortisation	-	-	(263)	-	-	-	-	-	(263)	263	-
Local authority housing: settlement payment to the Government for HRA self-financing			(24,960)						(24,960)	24,960	
Impairment / revaluation losses (charged to the CIES)	-	-	(33,306)	-	-	-	-	-	(33,306)	33,306	-
Capital grant and contributions applied	-	-	6,832	-	-	-	-	-	6,832	(6,832)	-
Revenue Expenditure Funded from Capital under Statute (England and Wales)	-	-	(2,075)	-	-	-	-	-	(2,075)	2,075	-
Movement in market value of investment property			(13,775)						(13,775)	13,775	
Amounts of non-current assets written off on disposal or sale as part of the gain / loss on disposal to the CIES	-	-	(4,177)	-	-	-	-	-	(4,177)	4,177	-
Use of capital receipts reserve to finance capital expenditure	-	-	914	-	-	-	-	-	914	(914)	-
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	-	(22,204)	-	-	-	-	-	-	(22,204)	22,204	-
Employers contributions to pension schemes		17,101							17,101	(17,101)	
Amount by which council tax income and residual community charge adjustment included in the Comprehensive Income and Expenditure Statement is different from the amount taken to the General Fund in accordance with regulation	-	-	-	-	-	-	184	-	184	(184)	-
Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	-	-	-	-	-	-	-	273	273	(273)	-
Insertion of items not debited or credited to CIES											
Statutory provision for the repayment of debt - Minimum Revenue Provision (MRP)	-	-	1,107	-	-	-	-	-	1,107	(1,107)	-
Statutory repayment of debt (finance lease liabilities)	-	-	102	-	-	-	-	-	102	(102)	-
Voluntary provision above MRP	-	-	291	-	-	-	-	-	291	(291)	-
Revenue contribution to finance capital	-	-	17,489	-	-	-	-	-	17,489	(17,489)	-
Reversal of Major Repairs Allowance credited to the HRA	-	-	(7,202)	-	-	-	-	-	(7,202)	7,202	-
Use of the Major Repairs Reserve to finance new capital expenditure	-	-	8,444	-	-	-	-	-	8,444	(8,444)	-
Adjustment between the CAA and Revaluation Reserve for difference in depreciation charges between current cost and historic cost.	(1,227)	-	1,227	-	-	-	-	-	-	-	-
Adjustment between CAA and Revaluation Reserve for revaluations in respect of disposed assets	(2,481)	-	2,481	-	-	-	-	-	-	-	-
TOTAL Adjustment between accounting basis and funding basis under regulations	**(3,708)**	**(5,103)**	**(56,995)**	**-**	**-**	**-**	**184**	**273**	**(65,349)**	**65,349**	**-**
Net increase / decrease before transfers to earmarked reserves	**(5,824)**	**(109,453)**	**(56,995)**	**-**	**56**	**708**	**184**	**273**	**(171,052)**	**17,856**	**(153,196)**
Transfers to / from earmarked reserves (see Note 8)	**-**	**-**	**-**	**233**	**-**	**-**	**-**	**-**	**233**	**(233)**	**-**
Increase / decrease (movement) in-year	**(5,824)**	**(109,453)**	**(56,995)**	**233**	**56**	**708**	**184**	**273**	**(170,819)**	**17,623**	**(153,196)**
Balance at 31 March 2012 carried forward	**493,009**	**(263,203)**	**620,260**	**84,582**	**(910)**	**107**	**51**	**(1,984)**	**931,913**	**223,651**	**1,155,564**

Movement on Unusable Reserves 2010-11	Revaluation Reserve	Pensions Reserve	CAA	Deferred Capital Receipts	FIAA	AFS FI Reserve	CFAA	STACA Reserve	Unusable Reserves	Total Usable Reserves	All Reserves
	£000	£000	£000	£000	£000	£000	£000	£000	£'000	£'000	£'000
Balance at 1 April 2010	**457,560**	**(321,723)**	**699,016**	**84,120**	**(1,022)**	**(516)**	**(65)**	**(2,416)**	**914,954**	**202,458**	**1,117,412**
Movement in reserves during 2010-11											
Surplus or (deficit) on provision of services	-	-	-	-	-	-	-	-	-	28,413	28,413
Revaluation gains	73,800	-	-	-	-	-	-	-	**73,800**	-	**73,800**
Revaluation losses (chargeable to the Revaluation Reserve)	(31,229)	-	-	-	-	-	-	-	**(31,229)**	-	**(31,229)**
Movement in Available for Sale Financial Instruments	-	-	-	-	-	(84)	-	-	**(84)**	-	**(84)**
Movement in the Pensions Reserve	-	120,409	-	-	-	-	-	-	**120,409**	-	**120,409**
Other Comprehensive Expenditure and Income	-	-	-	(16)	56	-	-	-	**40**	-	**40**
Total Comprehensive Expenditure and Income	**42,571**	**120,409**	**-**	**(16)**	**56**	**(84)**	**-**	**-**	**162,935**	**28,413**	**191,348**
Adjustments between accounting basis and funding basis under regulations											
Reversal of items debited or credited to CIES											
Depreciation of tangible non-current assets (excluding HRA depreciation)	-	-	(9,064)	-	-	-	-	-	**(9,064)**	**9,064**	-
Amortisation of intangible assets (excluding HRA depreciation)	-	-	(393)	-	-	-	-	-	**(393)**	**393**	-
HRA depreciation / amortisation	-	-	(179)	-	-	-	-	-	**(179)**	**179**	-
Impairment / revaluation losses (charged to the CIES)	-	-	(39,110)	-	-	-	-	-	**(39,110)**	**39,110**	-
Capital grant and contributions applied	-	-	15,877	-	-	-	-	-	**15,877**	**(15,877)**	-
Revenue Expenditure Funded from Capital under Statute	-	-	(7,351)	-	-	-	-	-	**(7,351)**	**7,351**	-
Non-current assets written out on disposal to the CIES	-	-	(6,951)	-	-	-	-	-	**(6,951)**	**6,951**	-
Use of capital receipts reserve to finance capital expenditure	-	-	8,600	-	-	-	-	-	**8,600**	**(8,600)**	-
Reversal of items relating to retirement benefits	-	47,564	-	-	-	-	-	-	**47,564**	**(47,564)**	-
Amount by which council tax income adjustment included in the CIES is different from the amount taken to the General Fund in accordance with regulation	-	-	-	-	-	-	(69)	-	**(69)**	**69**	-
Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in accordance with statutory requirements	-	-	-	-	-	-	-	160	**160**	**(160)**	-
Insertion of items not debited or credited to CIES											
Statutory provision for the repayment of debt - Minimum Revenue Provision (MRP)	-	-	1,222	-	-	-	-	-	**1,222**	**(1,222)**	-
Statutory repayment of debt (finance lease liabilities)	-	-	122	-	-	-	-	-	**122**	**(122)**	-
Voluntary provision above MRP	-	-	284	-	-	-	-	-	**284**	**(284)**	-
Revenue contribution to finance capital	-	-	14,180	-	-	-	-	-	**14,180**	**(14,180)**	-
Reversal of Major Repairs Allowance credited to the HRA	-	-	(6,834)	-	-	-	-	-	**(6,834)**	**6,834**	-
Use of the Major Repairs Reserve to finance capital expenditure	-	-	6,539	-	-	-	-	-	**6,539**	**(6,539)**	-
Adjustment between the CAA and Revaluation Reserve for difference in depreciation charges between current cost and historic cost.	(498)	-	498	-	-	-	-	-	-	-	-
Adjustment to revaluations in respect of disposed assets	(800)	-	800	-	-	-	-	-	-	-	-
TOTAL adjustment between accounting basis and funding basis under regulations	**(1,298)**	**47,564**	**(21,761)**	**-**	**-**	**-**	**(69)**	**160**	**24,597**	**(24,597)**	**-**
Net Increase / decrease before transfers to earmarked reserves	**41,273**	**167,973**	**(21,761)**	**(16)**	**56**	**(84)**	**(69)**	**160**	**187,532**	**3,815**	**191,348**
Transfers to / from earmarked reserves (See Note 8)	-	-	-	**245**	-	-	-	-	**245**	**(245)**	-
Increase / decrease (movement) in Year	**41,273**	**167,973**	**(21,761)**	**229**	**56**	**(84)**	**(69)**	**160**	**187,778**	**3,570**	**191,348**
Balance at 31 March 2011 carried forward	**498,834**	**(153,750)**	**677,255**	**84,349**	**(966)**	**(601)**	**(133)**	**(2,257)**	**1,102,732**	**206,028**	**1,308,760**

8. Transfers to and from Earmarked Reserves and Usable Reserves

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

The Council has two capital reserves: the Usable Capital Receipts Reserve and the Capital Grants Unapplied Account. These two reserves totalled £9.5 million at 31 March 2012. All other reserves are revenue reserves. Capital grants may be applied to certain items of revenue where regulations and statute permit.

8a. Summary of Usable Reserves

	1 April '10 £'000	Transfers Out 2010-11 £'000	Transfers In 2010-11 £'000	31 March '11 £'000	Transfers Out 2011-12 £'000	Transfers In 2011-12 £'000	31 March '12 £'000
General Fund	**10,000**	-	-	**10,000**	-	-	**10,000**
Earmarked Reserves (General Fund) [see 8c]	**159,322**	(38,782)	42,651	**163,191**	(48,342)	59,846	**174,695**
Schools' reserves	**4,987**	(414)	3,315	**7,888**	(1,450)	2,971	**9,409**
London Residuary Body Balance	**4,306**	(7)	-	**4,299**	(128)	-	**4,171**
Housing Revenue Account	**10,595**	-	1,226	**11,821**	-	1,642	**13,463**
Major Repairs Reserve	**2,166**	(6,539)	7,666	**3,293**	(8,444)	7,202	**2,051**
Earmarked Reserves (HRA) [see 8b]	**271**	(117)	78	**230**	-	93	**324**
Usable Capital Receipts Reserve	**10,812**	(10,049)	3,423	**4,186**	(1,929)	2,728	**4,985**
Capital Grants Unapplied	**-**	-	1,118	**1,118**	-	3,433	**4,552**
Total Usable Reserves	**202,458**	**(55,908)**	**59,478**	**206,028**	**(60,293)**	**77,916**	**223,651**

8b. Transfer to and from HRA Earmarked Reserves

	1 April '10 £'000	Transfers Out 2010-11 £'000	Transfers In 2010-11 £'000	31 March '11 £'000	Transfers Out 2011-12 £'000	Transfers In 2011-12 £'000	31 March '12 £'000
HRA Controlled Repairs	**103**	-	38	**141**	-	82	**223**
HRA Lancaster West Estate Management Board	**168**	(117)	40	**90**	-	10	**101**
Total HRA Earmarked Reserves	**271**	**(117)**	**78**	**231**	**-**	**93**	**324**

8c. Transfer to and from General Fund Earmarked Reserves

	1 April '10	Transfers Out 2010-11	Transfers In 2010-11	31 March '11	Transfers Out 2011-12	Transfers In 2011-12	31 March '12
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Better City Life	**2,463**	(106)	300	**2,657**	(120)	300	**2,837**
Budget Carry Forward	**2,858**	(1,964)	3,246	**4,140**	(1,374)	5,422	**8,188**
Capital Expenditure	**63,758**	(10,103)	12,464	**66,119**	(11,089)	12,049	**67,079**
Car Parking	**31,824**	(21,912)	20,206	**30,118**	(33,003)	27,106	**24,220**
Corporate Information Systems (IS) Initiatives	**344**	(204)	238	**378**	(215)	132	**295**
Cost Reduction (Transformation Fund)	**2,001**	(714)	-	**1,287**	(495)	-	**792**
Demand Growth	**5,297**	-	-	**5,297**	-	-	**5,297**
Excellence All Round	**3,131**	(412)	553	**3,272**	(179)	-	**3,093**
Insurance	**4,836**	(523)	-	**4,313**	(250)	436	**4,500**
Licensing and Planning Costs	**250**	-	-	**250**	-	-	**250**
Local Initiatives (Transformation Fund)	**4,942**	(290)	-	**4,652**	-	140	**4,792**
Pension Fund Contribution	**-**	-	-	**-**	-	9,000	**9,000**
Property Strategy	**1,633**	(37)	-	**1,597**	(458)	1,000	**2,138**
Repairs and Renewals	**3,853**	(746)	417	**3,525**	(400)	428	**3,553**
Service Risks	**4,713**	(10)	-	**4,703**	-	1,550	**6,253**
Severance (Transformation Fund)	**3,085**	-	4,882	**7,967**	(23)	325	**8,269**
Specific Grant Loss	**2,566**	-	-	**2,566**	-	-	**2,566**
Strategic Regeneration	**13,703**	(598)	-	**13,105**	(316)	673	**13,462**
Street Trading Account	**220**	(4)	-	**216**	-	65	**281**
Supporting People	**4,706**	-	-	**4,706**	-	-	**4,706**
Value Added Tax (VAT) Liability	**1,070**	-	-	**1,070**	-	-	**1,070**
Voluntary Sector Fund	**-**	-	-	**-**	-	500	**500**
Other Earmarked Reserves (<£250k balance)	**2,069**	(1,159)	345	**1,255**	(420)	720	**1,554**
Total General Fund Earmarked Reserves	**159,322**	(38,782)	42,651	**163,191**	(48,342)	59,846	**174,695**

9. Other Operating Expenditure

	2011-12 £'000	2010-11 £'000
Levies	3,279	3,677
Payments to the Government Housing Capital Receipts Pool	930	1,450
(Gains) / losses on the disposal of non-current assets	1,546	3,527
Total	**5,756**	**8,654**

10. Financing and Investment Income and Expenditure

	2011-12 £'000	2010-11 £'000
Interest payable and similar charges	12,424	13,954
Interest payable on finance leases	9	21
Premium on early repayment of debt	56	56
Pensions interest cost	34,618	38,328
Expected return on pensions assets	(28,608)	(25,269)
Interest receivable and similar income	(4,112)	(3,848)
Income and expenditure in relation to investment properties and changes in their fair value	8,927	(2,716)
Other investment income – (surplus) / deficit on trading accounts	298	(30)
Total	**23,612**	**20,496**

11. Taxation and Non-Specific Grant Income

	2011-12 £'000	2010-11 £'000
Council tax income	(77,920)	(78,155)
Non domestic rates	(82,703)	(92,523)
Non-ring fenced Government grants	(27,511)	(32,303)
Capital grants and contributions	(10,265)	(16,996)
Total	**(198,399)**	**(219,977)**

The decrease in the Council's share of non domestic rates shown in the table above reflects the lower grant allocation from the Government (smaller share of the national total) and is unrelated to the value of rates collected locally.

12. Property, Plant and Equipment

12a. Movement on Balances

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

Comparative Movements in 2010-11

Movements in 2010-11	Council Dwellings £'000	Other Land and Buildings £'000	Vehicles, Equipment Plant and Furniture £'000	Infrastructure Assets £'000	Community Assets £'000	Surplus Assets £'000	Assets Under Construction £'000	Total £'000
<u>**Cost or Valuation**</u>								
At 1 April 2010	**572,236**	**562,581**	**14,093**	**43,600**	**5,849**	-	**11,181**	**1,209,540**
Additions	8,742	5,314	1,257	13,224	820	-	13,841	43,198
Revaluation increases / (decreases) and impairments recognised in the Revaluation Reserve	42,571	-	-	-	-	-	-	42,571
Revaluation increases / (decreases) and impairments recognised in the CIES	(28,763)	-	-	-	-	-	-	(28,763)
Transfers in	-	-	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-	-	-
Derecognition - disposals	(131)	(905)	(75)	-	-	-	(5,869)	(6,980)
At 31 March 2011	**594,656**	**566,991**	**15,274**	**56,824**	**6,669**	-	**19,152**	**1,259,566**
Accumulated Depreciation and Impairment								
At 1 April 2010	**-**	**-**	**3,632**	**11,075**	-	-	-	**14,707**
Depreciation charge	6,834	5,678	1,231	2,148	-	-	-	15,891
Revaluations	-	-	-	-	-	-	-	**-**
Impairments	8,664	1,683	-	-	-	-	-	10,347
Transfers in	-	-	-	-	-	-	-	**-**
Transfers out	-	-	-	-	-	-	-	**-**
Derecognition - disposals	-	-	(29)	-	-	-	-	(29)
At 31 March 2011	**15,498**	**7,361**	**4,834**	**13,223**	-	-	-	**40,915**
Net Book value								
At 31 March 2011	**579,158**	**559,630**	**10,441**	**43,601**	**6,669**	-	**19,152**	**1,218,651**
At 31 March 2010	572,236	562,581	10,461	32,525	5,849	-	11,181	1,194,834

12b. Depreciation rates

Council Dwellings:
The Major Repairs Allowance, calculated by the Government, has been used as a proxy for depreciation in line with Government guidance. The most recent valuation of the housing stock estimated the remaining useful lives of individual dwellings at between 50 and 100 years. Use of the Major Repairs Allowance in lieu of a calculation based on the estimated useful lives of the dwellings has no material impact on the accounts. Land is not depreciated because it has an indefinite useful life.

Other Land and Buildings:
Holland Park School, Kensington Leisure Centre and Middle Row Primary School are being rebuilt and are therefore being depreciated over 2.5 years or less. The basements at Elm Park Gardens that are not yet available for use so are not depreciated. All other buildings are depreciated on a straight line basis over their estimated useful lives, generally between 25 and 50 years. Land is not depreciated because it has an indefinite useful life.

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

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

12c. Capital Commitments

Outstanding capital commitments:	**31 March 2012**		**31 March 2011**	
	General* Fund	**Housing Revenue Account****	**General Fund**	**Housing Revenue Account**
	£m	**£m**	**£m**	**£m**
Schemes contracted for	50.0	5.0	71.6	2.9
Schemes not contracted for	102.7	0.2	60.6	6.2
Total	152.8	5.2	132.2	9.1

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

* Figures for the General Fund are estimates based in the Capital Budget 2012-13 to 2014-15. An assumption is made that specific named schemes having spent more than 10 per cent of the budget are contracted.

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

Significant outstanding capital commitments at **31 March 2012** and **31 March 2011** are/were as follows:

	2012		2011	
	Total Cost £m	**Total Outstanding £m**	**Total Cost £m**	**Total Outstanding £m**
GENERAL FUND:				
Office Accommodation (SPACE)	23.8	17.4	23.8	21.9
Holland Park School Redevelopment	80.0	24.8	80.0	57.7
Albert Bridge Major Structural Repairs	8.8	0.3	7.2	2.7
Exhibition Road - Design and Phase 1	24.6	1.5	24.4	9.5
Chelsea Academy Sponsorship Costs	-	-	-	-
HOUSING REVENUE ACCOUNT:				
Trellick Tower: Fire Strategy Works	1.5	-	1.5	1.2
Various Boroughwide Decent Homes – Kitchens/Bathrooms and Electrical Wiring	4.3	2.4	-	-

12d. Effects of Changes in Estimates

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

The revaluations and attendant revisions to the estimated useful lives of the properties had no material impact on the overall depreciation charges; reductions in asset values were largely offset by reductions in the estimated useful lives. Overall, depreciation charges, excluding dwellings, increased from £10 million to £10.4 million on a like-for-like basis.

12e. Revaluations

The Council carries out a rolling programme that ensures that all Property, Plant and Equipment required to be measured at fair value is revalued at least every five years and reviewed as appropriate. All valuations of dwellings and other land and buildings have been undertaken by external surveyors who are fully qualified with the RICS and agreed by the Council's Corporate Property department.

Valuations of land, buildings and associated plant are carried out in accordance with the methodologies and bases for estimation set out by the RICS, except for Council Dwellings, which are valued in accordance with Government Guidance *Stock Valuation for Resource Accounting: Guidance for Valuers - 2010*. Associated plant is held under the current cost model as a component of its parent building and therefore has no associated historic cost.

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

The significant assumptions applied in estimating the fair values are:

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

	Council Dwellings	Other Land and Buildings	Plant	Vehicles, Furniture and Equipment	Heritage Assets held under Current Cost Model	Surplus Assets	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Carrying amount if assets had been carried under the cost model	**396,426**	**226,736**	**-**	**5,440**	**5,109**	**-**	**633,711**
Valued at fair value as at:							
1 April 2011		526,504	5,742		18,683		
1 April 2010	585,712						
1 April 2009							
1 April 2008		609,765					
1 April 2007							
Current carrying value	**575,083**	**515,067**	**5,125**	**10,650**	**18,518**	**-**	**1,124,442**

*Please note that prior to 1 April 2010, the Council was not required to conduct rolling valuation of its vehicles, plant, furniture and equipment. The Council currently has no surplus assets.

13. Heritage Assets

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

Cost or Valuation	Heritage Properties £'000	Museum Collections £'000	Art in Parks £'000	Total Assets £'000
1 April 2010	13,418	22,653	1,903	37,974
Additions	100	-	-	100
Disposals	-	-	-	-
Revaluation increases / (decreases) and impairments recognised in the Revaluation Reserve	-	-	-	-
Revaluation increases / (decreases) and impairments recognised in the surplus / deficit on the provision of services	-	-	-	-
Depreciation	(182)	-	-	(182)
31 March 2011	**13,336**	**22,653**	**1,903**	**37,892**
Cost or Valuation 1 April 2011	13,336	22,653	1,903	37,892
Additions	2	50	-	52
Disposals	-	-	-	-
Revaluation increases / (decreases) and impairments recognised in the Revaluation Reserve	6,685	-	-	6,685
Revaluation increases / (decreases) and impairments recognised in the surplus / deficit on the provision of services	(1,339)	-	-	(1,339)
Depreciation	(167)	-	-	(167)
31 March 2012	**18,518**	**22,703**	**1,903**	**43,123**

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

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

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

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

13b. Heritage Assets Additional Disclosures

Five Year Summary of Transactions

	2007-08	2008-09	2009-10	2010-11	2011-12
Museums held at current cost	£'000	£'000	£'000	£'000	£'000
Opening Carrying Value	7,622	7,799	12,545	13,418	13,336
Additions and enhancements	177	313	1,279	100	2
Revaluations	-	4,578	(261)	-	5,347
Depreciation	-	(145)	(145)	(182)	(167)
Closing Carrying Value	**7,799**	**12,545**	**13,418**	**13,336**	**18,518**

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

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

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

Further Information

The Council holds two heritage property assets – its museums – which are valued at fair value (existing use valuation). These are Leighton House Museum and 18 Stafford Terrace (also known as Linley Samborne House).

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

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

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

Art in Parks

The Council displays artworks in a range of settings around the Royal Borough mainly in Holland Park. More details can be found on the Council's website - **Sculpture and Art Around**

The Borough. Please note that the artworks detailed in this publication are not all owned by the Council.

Heritage Assets: Change in Accounting Policy

For 2011-12, the Council is required to change its accounting policy for heritage assets and recognise them at valuation. Previously, heritage assets were either recognised as operational assets or community assets (at cost) in the property, plant and equipment classification in the Balance Sheet or were not recognised in the Balance Sheet as it was not possible to obtain cost information on the assets. Community Assets (now classified as heritage assets) that were donated to the authority were held at valuation as a proxy for historical cost. The Council's accounting policies for recognition and measurement of heritage assets are set out in the Council's accounting policies.

In applying the new accounting policy, the Council identified Heritage Assets worth £13.9 million held as property, plant and equipment as at 31 March 2011. These assets were Leighton House, Linley Sanborne House and some art works. The Council has also recognised an additional £24 million Heritage Assets that were not previously recognised in the Balance Sheet.

The effects of the restatement are as follows:

Effect on the opening balance at 31 March 2010

	Opening Balances as at 1 April '10 £'000	**Restatement £'000**	**Restatement required to opening balances as at 1 April '10 £'000**
Property, Plant and Equipment	1,208,786	(13,952)	1,194,834
Heritage Assets	-	37,974	37,974
Long-term Assets	**1,442,140**	**24,022**	**1,466,162**
Total Net Assets	**1,093,390**	**24,022**	**1,117,412**
Unusable Reserves	890,932	24,022	914,954
Net Worth / Total Reserves	**1,093,390**	**24,022**	**1,117,412**

Movement in Reserves Restatement

The restatement of the relevant lines of the Movement in Reserves Statement, as of 31 March 2011, as a result of the application of this new accounting policy is presented in the table below.

	As Previously Stated 31 March '11 £'000	As Restated 31 March '11 £'000	Restatement 31 March '11 £'000
Balance as at the end of the previous reporting period 31 March 2010	**1,093,390**	**1,117,412**	**24,022**
Surplus or deficit on the provision of services	28,412	28,412	-
Other Comprehensive Income and Expenditure	162,936	162,936	-
Adjustments between the accounting basis and the funding basis under regulations	-	-	-
Increase / (decrease) in the year	**191,348**	**191,348**	**24,022**
Balance at the end of the current reporting period 31-3-11	**1,284,738**	**1,308,760**	**24,022**

The resulting restated Balance Sheet for 31 March 2011 is provided on page 33. The adjustments that have been made to that Balance Sheet compared to the published 2010-11 Statement of Accounts are as follows:

Effect on Balance Sheet 31 March 2011

	As Previously Stated 31 March '11 £'000	As Restated 31 March '11 £'000	Restatement 31 March '11 £'000
Property, Plant and Equipment	1,232,521	(13,870)	1,218,651
Heritage Assets	-	37,892	37,892
Long-term Assets	**1,508,348**	**24,022**	**1,532,370**
Total Net Assets	**1,284,738**	**24,022**	**1,308,760**
Unusable Reserves	1,078,710	24,022	1,102,732
Net Worth / Total Reserves	**1,284,738**	**24,022**	**1,308,760**

14. Investment Properties

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

	2011-12 £'000	2010-11 £'000
Rental income from investment property	6,751	3,836
Direct operating expenses arising from investment property	(1,902)	(1,120)
Net gain / (loss)	**4,849**	**2,716**

There are no restrictions on the Council's ability to realise the value inherent in its investment property or on its right to the remittance of income and the proceeds of disposal.

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

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

	2011-12 £'000	2010-11 £'000
Balance at start of the year	**145,281**	**145,220**
Additions:		
Purchases	-	-
Construction	8	61
Subsequent expenditure	-	-
Disposals	-	-
Net gains / losses from fair value adjustments	(13,775)	-
Transfers:		
To / from Inventories	-	-
To / from Property, Plant and Equipment	-	-
Other changes	-	-
Balance at end of the year	**131,514**	**145,281**

In 2011-12, the Council undertook a full revaluation of its investment properties, including an inspection of each property. The work was undertaken by Drivas Jonas Deloitte, whose staff are qualified surveyors with the Royal Institution of Chartered Surveyors (RICS). In light of the uncertain economic conditions and that generally, the Council's investment properties cannot be redeveloped to benefit from the currently buoyant high-end residential market either due to their location or planning constraints, the value of the investment properties fell by £13.8 million.

15. Intangible Assets

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

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

In 2011-12 amortisation was charged to services under the Service Reporting Code of Practice as follows:

- £69,879 to Support Service and Management Costs within Children's and Education Services
- £54,781 to Regulatory Services within Environmental and Regulatory Services
- £20,055 to Support Service and Management Costs within Adult Social Care
- £10,507 to Service Management and Support Services within Planning Services
- £6,442 to the Libraries Service within Cultural and Related Services

The remainder, totalling £354,887 is absorbed as an overhead across all service headings in the Net Expenditure of Services.

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

	2011-12			2010-11		
	Internally Generated Assets	**Other Assets**	**Total**	**Internally Generated Assets**	**Other Assets**	**Total**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Balance at start of year:						
Gross carrying amounts	230	4,577	4,807	-	4,040	4,040
Accumulated amortisation	-	(2,368)	(2,368)		(1,970)	(1,970)
Net carrying amount at start of year	**230**	**2,209**	**2,439**	**-**	**2,070**	**2,070**
Additions:						
Internal development	**61**	**-**	**61**	230	**-**	**230**
Purchases	**-**	796	**796**	-	537	**537**
Acquired through business combinations	-	-	-	-	-	-
Other disposals	-	-	-	-	-	-
Impairment losses*	-	-	-	-	-	-
Amortisation for the period	(24)	(493)	(517)	-	(397)	(397)
Other changes	-			-	-	-
Net carrying amount at end of year	**267**	**2,512**	**2,779**	**230**	**2,209**	**2,439**
Comprising:						
Gross carrying amounts	291	5,372	5,663	230	4,577	4,807
Accumulated amortisation	(24)	(2,860)	(2,884)	-	(2,368)	(2,368)

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

16. Financial Instruments

16a. Financial Instruments - Balances

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

	31 March 2012		31 March 2011	
	Long Term £'000	**Current** £'000	**Long Term £'000**	**Current** £'000
Borrowings				
Financial liabilities (principal amount)	**(163,971)**	**(6,226)**	(170,196)	(12,150)
+ Accrued interest (all short term)	**-**	**(2,438)**	-	(2,454)
Financial liabilities at amortised cost (1)	**(163,971)**	**(8,664)**	(170,196)	(14,604)
Financial liabilities at fair value through CIES (2)	**-**	**-**	-	-
Total borrowings	**(163,971)**	**(8,664)**	(170,196)	(14,604)
Debtors				
Long term debtors	**90,889**	**-**	88,396	-
Current debtors	**-**	**33,827**	-	36,934
Total debtors	**90,889**	**33,827**	88,396	36,934
Cash				
Cash and cash equivalents	**-**	**22,674**	-	29,347
Bank accounts in overdraft	**-**	**(3,274)**	-	(5,783)
Total cash and cash equivalents	**-**	**19,400**	-	23,564
Creditors				
Short term creditors	**-**	**(79,923)**	-	(60,117)
Investments				
Loans and receivables (principal amount)	**-**	**73,191**	-	93,510
+ Accrued interest	**-**	**21**	-	74
Loans and receivables at amortised cost (1)	**-**	**73,211**	-	93,584
Available-for-sale financial assets	**-**	**38,466**	39,388	-
Financial assets at fair value through CIES (2)	**-**	**40,679**	-	40,334
Other investments	**23**		323	
Total investments (3)	**23**	**152,356**	39,711	133,918

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

The large change in available-for-sale financial assets is due to an investment that was due to mature in more than 12 months and is now reclassified as current (less than 12 months).

16b. Financial Instruments – Gains / Losses

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

	2011-12					2010-11				
	Financial Liabilities	Financial Assets			Total	Financial Liabilities	Financial Assets			Total
	Liabilities measured at amortised cost £'000	Loans and receivables £'000	Available for Sale Assets(1) £'000	At fair value through CIES (2) £'000	£'000	Liabilities measured at amortised cost £'000	Loans and receivables £'000	Available for Sale Assets £'000	At fair value through CIES £'000	Total £'000
Interest expense	(12,424)	-	-	-	(12,424)	(13,954)	-	-	-	(13,954)
Losses on derecognition	-	-	-	-	-	-	-	-	(2)	(2)
Impairment losses	-	-	-	-	-	-	-	-	-	-
Interest payable and similar charges	(12,424)	-	-	-	(12,424)	(13,954)	-	-	(2)	(13,956)
Interest income	-	958	-	253	1,211	-	811	-	273	1,084
Gains on derecognition	-	-	-	103	103	-	-	-	26	26
Interest and investment income	-	958	-	356	1,314	-	811	-	299	1,110
Gains on revaluation	-	-	-	-	-	-	-	-	-	-
Losses on revaluation	-	-	(921)	-	-	-	-	(601)	-	-
Amounts recycled to the CIES account after impairment	-	-	-	-	-	-	-	-	-	-
Surplus arising on revaluation of financial assets	-	-	(921)	-	(921)	-	-	(601)	-	(601)
Net gain / (loss) for the year	(12,424)	958	(921)	356	(12,031)	(13,954)	811	(601)	297	(13,447)

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

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

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

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

- Public Works Loan Board (PWLB) loans have been valued using the new borrowing rates published by the DMO on 31 March 2012.
- No early repayment or impairment is recognised.
- Where an instrument will mature in the next 12 months the carrying amount is assumed to approximate to fair value.

The fair values are calculated as follows:

	31 March 2012		**31 March 2011**	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
	£'000	**£'000**	£'000	£'000
PWLB Debt	**163,971**	**208,462**	**170,196**	**203,112**
Loans and receivables				
Money market loans <1 year	73,211	73,211	93,584	93,584
Money market loans > 1 year	-	-	-	-
Gilts < 1 year	38,466	38,466	-	-
Gilts > 1 year	-	-	39,388	39,388
Total loans and receivables	**111,677**	**111,677**	**132,972**	**132,972**

The fair value for financial liabilities is greater than the carrying amount because the Council's portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the rates available for similar loans in the market at the Balance Sheet date. The commitment to pay interest above current market rates increases the amount that the Council would have to pay if the lender requested or agreed to early repayment of the loans. The calculation above uses the PWLB new borrowing rate as the discount factor. If the premature redemption rate were to be used, the fair value would be £231,645 (£224,006 as at 31 March 2011).

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

At 31 March 2012, all money market loans and receivables are repayable within one year. Therefore, the carrying amount is assumed to be approximate fair value; the figures for both years include accrued interest. The prevailing comparator market rates have been taken from indicative investment rates at the Balance Sheet date. In practice, rates will be determined by the size of the transaction and the counterparty, but it is impractical to use these figures and the difference is not likely to be material.

17. Debtors

17a. Current Debtors

	2012 £'000	2011 £'000
Central government bodies	3,603	6,471
Other local authorities	9,958	10,814
NHS bodies	1,723	1,726
Public corporations and trading funds	-	-
Other entities and individuals	22,037	24,745
Total	**37,321**	**43,756**

17b. Long Term Debtors

	2012 £'000	2011 £'000
Advances - housing	165	181
Advances - other	51	157
Deferred Capital Receipts	90,673	88,058
Total	**90,889**	**88,396**

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

18. Cash and Cash Equivalents

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

	2012 £'000	2011 £'000
Cash held by the Council	12,663	7,914
Bank current accounts	1,651	1,378
Short-term deposits	8,359	20,055
Bank accounts in funds	**22,674**	**29,347**
Bank accounts in overdraft	**(3,274)**	**(5,783)**
Cash and cash equivalents	**19,400**	**23,564**

19. Assets Held for Sale

	2011-12 £'000	2010-11 £'000
Balance at Start of the Year	**-**	**-**
Assets newly classified as Held for Sale:		
Property, Plant and Equipment newly classified as Held for Sale	9,302	-
Intangible assets	-	-
Other assets	-	-
Revaluation losses	-	-
Revaluation gains	-	-
Impairment losses	-	-
Assets declassified as Held for Sale	-	-
Property, Plant and Equipment newly classified as Held for Sale	-	-
Intangible assets	-	-
Other assets	-	-
List of transfers		
Assets sold	(1,301)	-
Other movements	73	-
Balance at year-end	**8,074**	**-**

20. Creditors

	2012 £'000	2011 £'000
Central government bodies	25,044	8,500
Other local authorities	7,654	6,039
NHS bodies	1,055	1,192
Public corporations and trading funds	111	130
Other entities and individuals	53,605	50,943
Total	**87,469**	**66,804**

The increase in creditors is substantially National Non-Domestic Rates due to be paid to government. The change between years is due to the increase in the overall total due for 2011-12 which is paid over after the financial year end.

21. Provisions

	Insurance	Mental Health Act	Termination Benefits	Single Status	Other Provisions	**Total**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Balance at 1 April 2011	3,809	375	866	229	301	**5,580**
Additional provisions made in 2011-12	571	-	369	114	17	**1,071**
Amounts used in 2011-12	(793)	(61)	(709)	-	(16)	**(1,580)**
Unused amounts reversed in 2011-12	-	-	(13)	-	-	**(13)**
Balance at 31 March 2012	**3,586**	**314**	**513**	**343**	**302**	**5,059**
Of which:						
Next twelve months	793	314	513	343	22	**1,986**
Over twelve months	2,793	-	-	-	280	**3,073**
Balance at 31 March 2012	**3,586**	**314**	**513**	**343**	**302**	**5,059**

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

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

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

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

22. Usable Reserves

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

23. Unusable Reserves

23a. Total Unusable Reserves

	2011-12 £'000	**2010-11 £'000**
Revaluation Reserve	493,009	498,834
Pensions Reserve	(263,203)	(153,750)
Capital Adjustment Account	620,260	677,255
Deferred Capital Receipts	84,582	84,349
Financial Instruments Adjustment Account	(910)	(966)
Available-for-Sale Financial Instruments Reserve	107	(601)
Collection Fund Adjustment Account	51	(133)
Unequal Pay Back Pay Account	-	-
Short-term Accumulating Compensated Absences Account	(1,984)	(2,257)
Total Unusable Reserves	**931,913**	**1,102,732**

23b. Revaluation Reserve

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

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

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

	2011-12 £'000	2010-11 £'000
Balance at 1 April	**498,834**	**457,560**
Upward revaluations to assets*	82,238	73,800
Downward revaluation of assets*	(74,278)	(31,228)
Impairments written off to the revaluation reserve	(10,076)	-
Difference between fair value depreciation and historical cost depreciation	(1,227)	(498)
Accumulated gains on assets sold or scrapped	(2,481)	(800)
Movement in Year	(5,824)	41,273
Closing balance at 31 March	**493,009**	**498,834**

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

23c. Pensions Reserve

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

	2011-12 £'000	2010-11 £'000
Balance at 1 April	**(153,750)**	**(321,723)**
Actuarial gains or losses on pensions assets and liabilities	(104,350)	120,409
Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	(22,204)	26,775
Employers' contributions payable to scheme	17,101	20,789
Movement in Year	(109,453)	167,973
Closing balance at 31 March	**(263,203)**	**(153,750)**

23d. Capital Adjustment Account

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

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

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

	2011-12 £'000	2010-11 £'000
Balance at 1 April	**677,255**	**699,016**
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:		
Charges for depreciation and impairment of non-current assets	(41,949)	(48,353)
Reversal of depreciation charged in respect of dwellings	(7,202)	(6,834)
Amortisation of intangible assets	(517)	(393)
Revenue expenditure funded from capital under statute	(2,075)	(7,351)
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(4,177)	(6,951)
HRA self-financing settlement / payment	(24,960)	-
Adjusting amounts written out of the Revaluation Reserve:		
Net written out amount of the cost of non-current assets consumed in the year	2,481	1,298
Capital financing applied in the year:		
Use of the Capital Receipts Reserve to finance new capital expenditure	914	8,600
Use of the Major Repairs Reserve to finance new capital expenditure	8,444	6,539
Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	6,832	15,876
Application of grants to capital financing from the Capital Grants Unapplied Account	-	-
Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	1,500	1,627
Capital expenditure charged against the General Fund and HRA balances	17,489	14,180
Other Movements:		
Movements in the market value of investment properties	(13,775)	-
Movement in the Donated Assets Account	-	-
Movement in-year	(56,995)	(21,761)
Closing balance at 31 March	**620,260**	**677,255**

23e. Deferred Capital Receipts and credits

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

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

Deferred Capital Receipts	2011-12 £'000	2010-11 £'000
Balance at 1 April	**84,296**	84,051
Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	-	-
Unwind notional credit in respect of leaseback arrangement	245	245
Transfer to the Capital Receipts Reserve upon receipt of cash	-	-
Closing balance at 31 March	**84,541**	**84,296**

Deferred Credits	2011-12 £'000	2010-11 £'000
Balance at 1 April	**53**	69
Transfer to the Capital Receipts Reserve upon receipt of cash	(12)	(16)
Closing balance at 31 March	**41**	**53**

23f. Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions. The Council uses the Account to manage premiums paid on the early redemption of loans. Premiums are debited to the Comprehensive Income and Expenditure Statement when they are incurred, but reversed out of the General Fund to the Account in the Movement in Reserves Statement. Over time, the expense is posted back to the General Fund in accordance with statutory arrangements for spreading the burden on council tax. In the Council's case, this period is the unexpired term that was outstanding on the loans when they were redeemed. As a result, the balance on the Account at 31 March 2012 will be charged to the General Fund over the next 17 years.

	2011-12 £'000	2010-11 £'000
Balance at 1 April	**(966)**	(1,022)
Premiums incurred in the year and charged to the Comprehensive Income and Expenditure Statement	-	-
Proportion of premiums incurred in previous financial years to be charged against the General Fund balance in accordance with statutory requirements	56	56
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	-	-
Closing balance at 31 March	**(910)**	**(966)**

23g. Available-for-Sale Financial Instruments Reserve

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

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

	2011-12 £'000	2010-11 £'000
Balance at 1 April	(601)	(516)
Downward movement in book cost	708	(85)
Closing balance at 31 March	**107**	**(601)**

23h. Collection Fund Adjustment Account

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

	2011-12 £'000	2010-11 £'000
Balance at 1 April	**(133)**	(65)
Amount by which council tax income credited to the Comprehensive Income Statement is different from council tax income calculated for the year in accordance with statutory and expenditure requirements	184	(68)
Closing balance at 31 March	**51**	**(133)**

23i. Short-term Accumulating Compensated Absences Account

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

	2011-12 £'000	2010-11 £'000
Balance at 1 April	**(2,256)**	(2,416)
Settlement or cancellation of accrual made at the end of the preceding year	2,256	2,416
Amounts accrued at the end of the current year	(1,983)	(2,256)
Closing balance at 31 March	**(1,983)**	**(2,256)**

24. Net Cash Flow from Operating Activities

	2011-12 £'000	2010-11 £'000
Total revenue surplus / (deficit) on the provision of services	(47,366)	28,419
Total revenue surplus / (deficit) (LRB)	(128)	(7)
Total	**(47,493)**	**28,412**
Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities:		
Capital Grants	(10,266)	(16,996)
Adjust net surplus or deficit on the provision of services for noncash movements:		
Non-cash Items in the Income and Expenditure Account		
Depreciation and impairment charged to revenue	50,595	55,580
Other non-cash movements*	56	40
Change in value of investment property recognised in CIES	13,775	-
Surplus or deficit on revaluation of available for sale financial assets	708	(84)
Net adjustments made in respect of IAS19 (pensions adjustment)	5,103	(47,564)
(Gain) / loss on disposal of fixed assets	1,546	3,527
**Other movements comprise movement in deferred credits and the amortisation of premia and discounts*		
Movement in non-cash Assets and Liabilities		
Assets		
(Increase) / decrease in stock and work in progress	(23)	108
(Increase) / Decrease in debtors	6,434	9,000
(Increase) / Decrease change in long term debtors	(2,493)	(2,505)
Liabilities		
Increase / (decrease) in creditors	20,665	(2,870)
Increase / (decrease) in provisions	(521)	1,049
Increase / (decrease) deferred liabilities	(245)	(245)
Increase / (decrease) in capital grants received in advance	150	8,872
Cash flow from revenue activities	**37,991**	**36,324**
Items included in net cash flow from operating activities include:		
Financing and Investment Income		
Interest payable on debt (including finance leases)	(12,433)	(13,974)
Investment interest income	4,112	3,848
Rentals received on investment properties net of expenses incurred	4,849	2,716
Surplus on trading account activity	(298)	30

25. Investing Activities

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

	2011-12 £'000	2010-11 £'000
Purchase of non-current assets	(64,100)	(44,125)
Purchase and disposal of short-term and long-term investments	21,249	(7,945)
Other payments for investing activities	10,265	16,996
Proceeds from the sale of non-current assets	2,631	3,423
Net cash flows from investing activities	**(29,955)**	**(31,651)**

26. Financing Activities

	2011-12 £'000	2010-11 £'000
Cash payments for the reduction of outstanding finance lease liabilities	(35)	(102)
Repayments of short-term and long-term borrowing	(12,165)	(10,199)
Net cash flows from financing activities	**(12,200)**	**(10,301)**

27. Segmental Reporting - Amounts Reported for Resource Allocation Decisions

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

27a Analysis of Directorate Income and Expenditure

Directorate Income and Expenditure 2011-12	Family and Children's Services **£'000**	Housing, Health and Adult Social Care **£'000**	Planning and Borough Development **£'000**	Transport, Environment and Leisure Services **£'000**	Corporate Services **£'000**	Total **£'000**
Fees, charges and other service income	(19,713)	(35,462)	(3,895)	(57,914)	(10,714)	(127,698)
Government grants	(95,156)	(6,448)	(138)	-	(169,252)	(270,994)
Total Income	**(114,869)**	**(41,910)**	**(4,034)**	**(57,914)**	**(179,968)**	**(398,692)**
Employee expenses	90,170	27,999	4,917	12,060	9,942	145,087
Other service expenses	61,401	78,926	1,359	55,840	177,946	375,472
Support service recharges	8,912	8,181	1,983	7,585	8,831	35,491
Total Expenditure	**160,483**	**115,105**	**8,259**	**75,485**	**196,719**	**556,051**
Net Expenditure	**45,614**	**73,195**	**4,225**	**17,572**	**16,753**	**157,359**

Directorate Income and Expenditure **2010-11**	Family and Children's Services **£'000**	Housing, Health and Adult Social Care **£'000**	Planning and Borough Development **£'000**	Transport, Environment and Leisure Services **£'000**	Corporate Services **£'000**	Total **£'000**
Fees, charges and other service income	(21,991)	(32,610)	(3,822)	(51,229)	(11,110)	(120,762)
Government grants	(96,416)	(4,263)	(34)	(228)	(166,152)	(267,093)
Total Income	**(118,407)**	**(36,872)**	**(3,856)**	**(51,457)**	**(177,262)**	**(387,855)**
Employee expenses	41,203	33,618	5,397	14,539	12,056	106,813
Other service expenses	125,605	77,215	1,657	54,701	176,221	435,398
Support service recharges	8,536	7,575	2,044	7,196	9,925	35,276
Total Expenditure	**175,345**	**118,408**	**9,098**	**76,435**	**198,201**	**577,487**
Net Expenditure	**56,937**	**81,535**	**5,241**	**24,978**	**20,940**	**189,631**

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

	2011-12 **£'000**	**2010-11** **£'000**
Net expenditure in the Directorate Analysis	**157,359**	**189,631**
Net expenditure of services and support services not included in the Analysis:		
Amounts in the Comprehensive Income and Expenditure Statement not reported in the Council's Management Accounts:		
Revenue Expenditure Funded from Capital Under Statute	2,075	7,351
Impairments	25,950	1,683
Holiday pay accrual	(273)	(160)
Corporate income (VAT refund)	-	(446)
Pension Fund deficit recovery	5,208	-
Non-distributed pension costs	188	(61,691)
Revenue in support of capital expenditure	1,081	787
IAS19	127	-
Amounts included in the Directorate Analysis not included in the cost of services in the Comprehensive Income and Expenditure Statement:		
General Fund Investment Property Income and Expenditure	2,535	2,716
Finance Lease Adjustment	(111)	(142)
Trading Accounts	(298)	29
REFCUS included in management reporting	(484)	(993)
	193,356	**138,764**
Surplus / Deficit on the Housing Revenue Account	(1,918)	23,643
Local Authority Housing – settlement payment to Government for HRA self financing	24,960	-
Total Cost of Services per Comprehensive Income and Expenditure Statement	**216,398**	**162,407**

28. Trading Operations

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

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

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

	2011-12			2010-11		
	Income £'000	**Exp £'000**	**Net £'000**	**Income £'000**	**Exp £'000**	**Net £'000**
Trading Operation						
Family and Children's Services						
Pupil support services	570	(570)	-	518	(619)	(101)
Transport, Environment and Leisure Services						
Street Trading	754	(819)	(65)	808	(812)	(4)
Holland Park Theatre	2,381	(3,101)	(720)	2,152	(3,073)	(921)
Corporate Services						
Professional Development Centre catering	103	(177)	(74)	175	(194)	(19)
Professional Development Centre conferences	301	(551)	(250)	423	(331)	92
Cash collection	461	(436)	25	450	(421)	29
Planning and Borough Development						
Building Control	891	(1,093)	(202)	1,117	(1,232)	(115)
Total surplus / (deficit)	**5,461**	**(6,747)**	**(1,286)**	**5,643**	**(6,682)**	**(1,039)**

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

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

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

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

Professional Development Centre Conferences
Income earned from the hosting of conferences and meetings at the Isaac Newton Professional Development Centre.

Cash Collection
Contract with another local authority for the daily collection, counting and banking of cash from pay and display machines within its area.

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

29. Pooled Budgets

Community Service Equipment	**2011-12 £'000**	**2010-11 £'000**
Gross Funding in Year		
Royal Borough of Kensington and Chelsea	373	373
Kensington and Chelsea Primary Care Trust	538	468
Total funding	**911**	**841**
Expenditure		
Total expenditure	(846)	(707)
Net (overspend) / under-spend in Year	**65**	**134**
Balance brought forward	250	116
Net (overspend) / under-spend in Year	65	134
Balance carried forward	**315**	**250**

30. Members' Allowances

	2011-12 £'000	**2010-11 £'000**
Basic Allowance	555	562
Special Responsibility Allowance	555	558
Travel / Subsistence / Dependent Carers' Allowance	1	2
Reimbursement of expenses	44	40
Total	**1,155**	**1,162**

31. Officer Remuneration

31a. Disclosure of remuneration for senior employees 2011-12

The remuneration as paid through the Council's payroll to the Council's Chief Executive, Executive Directors and employees earning over £150,000 in 2011-12 are as follows:

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

Disclosure of remuneration for senior employees 2010-11

Job Title	Name	Notes	Salary, Fees and Allowances £	Bonuses £	Expenses Allowances £	Other Emoluments £	Total remuneration (excluding pension contribution) £	Employer's Pension Contribution £	Total Remuneration (including pension contribution) £
Town Clerk and Chief Executive	Derek Myers		209,809	10,490	40	637	220,976	47,499	268,475
Exec Director of Finance, Information Systems and Property	Nicholas Holgate		149,547	7,210	1,032	-	157,789	33,698	191,487
Exec Director of Family and Children's Services	Anne-Marie Carrie	4	95,039	4,440	-	-	99,479	21,388	120,867
Exec Director of Transport, Environment and Leisure Services	Tot Brill	2	118,800	5,940	1,050	637	126,427	26,956	153,383
Exec Director of Housing, Health and Adult Social Care	Jean Daintith		132,583	6,510	-	637	139,730	30,042	169,772
Exec Director of Family and Children Services	Libby Blake	4	77,541	-	775	425	78,741	16,762	95,503
Exec Director of Planning and Borough Development	Jonathan Bore		110,306	-	-	-	110,306	23,650	133,956
Director of Strategy and Service Improvement	Tony Redpath		96,500	4,825	1,032	637	102,994	21,922	124,916
Director of Personnel and General Services	George Bishop		126,537	12,270	-	637	139,444	29,954	169,398
Head of Media and Communications	Martin Fitzpatrick		56,875	2,830	-	637	60,342	12,974	73,316

1 From November 2011 costs were shared 50:50 with London Borough of Hammersmith & Fulham.
2 The role of this officer changed and the duties concerning Transport and Technical Services and Environment, Leisure and Residents' Services are carried out by two Bi Borough Executive Directors, Nigel Pallace and Lyn Carpenter who are employed by the London Borough of Hammersmith & Fulham. The costs of which will be shared.
3 The cost of the Tri Borough Executive Director of Adult Social Care, Andrew Webster who is employed by the London Borough of Hammersmith & Fulham will be shared with the London Borough of Hammersmith & Fulham and the City of Westminster.
4 Part year post reported. The cost of the Tri Borough Executive Director of Children's Services will be shared with the London Borough of Hammersmith & Fulham and the City of Westminster.

31b. Officer Remuneration in Bands

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, allowances and the monetary value of any other benefits received other than in cash. Pension contributions payable by either employee or employer are excluded. Voluntary Aided Schools are not included in this analysis.

	2011-12 Officers	2010-11 Officers
£50,000 - £54,999	126	125
£55,000 - £59,999	51	61
£60,000 - £64,999	36	40
£65,000 - £69,999	34	33
£70,000 - £74,999	20	22
£75,000 - £79,999	7	15
£80,000 - £84,999	15	10
£85,000 - £89,999	12	5
£90,000 - £94,999	3	7
£95,000 - £99,999	2	3
£100,000 - £104,999	2	3
£105,000 - £109,999	1	2
£110,000 - £114,999		2
£115,000 - £119,999	2	
£120,000 - £124,999		1
£125,000 - £129,999	1	1
£130,000 - £134,999		
£135,000 - £139,999	1	2
£140,000 - £144,999	1	1
£145,000 - £149,999	1	
£150,000 - £154,999		
£155,000 - £159,999		1
£160,000 - £164,999	1	
£165,000 - £169,999		
£170,000 - £174,999		
£175,000 - £179,999		
£180,000 - £184,999		
£185,000 - £189,999		
£190,000 - £194,999		
£195,000 - £199,999		
£200,000 – £204,999		
£205,000 - £209,999		
£210,000 - £214,999		
£215,000 - £219,999		
£220,000 - £224,999	1	1
£225,000 - £229,999		
Total	317	335

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

31c. Exit Packages - All Administrations Disclosure Note for 2011-12 Accounts

The costs included within the exit packages table below include termination benefits, all relevant redundancy costs including compulsory and voluntary redundancy costs, pension contributions in respect of added years, ex gratia payments and other departure costs.

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

Cost Band (including special payments)	Number of compulsory redundancies		Number of other departures agreed		Total number of exit packages by cost band		Total cost of exit packages in each band	
	2010-11	2011-12	2010-11	2011-12	2010-11	2011-12	2010-11	2011-12
£0-£20,000	23	59	36	34	59	93	588,570	648,939
£20,001-£40,000	7	9	9	7	16	16	383,251	424,476
£40,001-£60,000	2	-	2	2	4	2	209,788	94,954
£60,001-£80,000	1	3	2	8	3	11	206,208	738,691
£80,001-£100,000	-	-	-	2	-	2	-	177,349
£100,001-£200,000	-	-	2	4	2	4	325,683	613,430
Total	**33**	**71**	**51**	**57**	**84**	**128**	**1,713,500**	**2,697,839**

32. External Audit Costs

	2011-12 £'000	2010-11 £'000
Fees payable to external auditors in respect of:		
- External audit services carried out by the appointed auditor for the year	276	298
- The certification of grant claims and returns for the year	72	95
- Other services	-	-
Total	348	393

33. Dedicated Schools Grant

The Council's expenditure on schools is funded primarily by grant monies provided by the Department for Education (formerly the Department for Children, Schools and Families) via the Dedicated Schools Grant (DSG). DSG is ring-fenced and can only be applied to meet expenditure properly included in the Schools Budget, as defined in the *School Finance (England) Regulations 2008*. The Schools Budget includes elements for a range of educational services provided on an authority-wide basis and for the Individual Schools Budget, which is divided into a budget share for each maintained school.

2011-12	**Central Expenditure £'000**	**Individual School Budgets £'000**	**Total £'000**
Final DSG	8,332	70,903	79,235
Brought forward from previous year	62	-	62
Carry Forward to next year agreed in advance	-	-	-
Agreed Budget Distribution	8,394	70,903	79,297
Reallocations of DSG	-	-	-
Final Budget Distribution	8,394	70,903	79,297
Actual Central Expenditure	(7,903)	-	(7,903)
Actual ISB Deployed to Schools*	-	(69,902)	(69,902)
Council contribution	-	-	-
Total	**491**	**1,001**	**1,492**

2010-11	**Central Expenditure £'000**	**Individual School Budgets £'000**	**Total £'000**
Final DSG	7,987	59,592	67,579
Brought forward from previous year	(350)	-	(350)
Carry Forward to next year agreed in advance	-	-	-
Agreed Budget Distribution	7,637	59,592	67,229
Reallocations of DSG	(245)	245	-
Final Budget Distribution	7,392	59,837	67,229
Actual Central Expenditure	(7,687)	-	(7,687)
Actual ISB Deployed to Schools*	-	(60,080)	(60,080)
Council contribution	357	243	600
Total	62	-	62

*ISB is the Individual Schools Budget

34. Grant Income

The Council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2011-12:

34a. Credited to Taxation and Non Specific Grant Income

	2011-12 £'000	2010-11 £'000
Area Based Grant	-	18,868
Council tax	77,920	78,155
National non-domestic rates	82,703	92,523
Revenue Support Grant	25,564	13,435
Council Tax Freeze Special Grant	1,947	-
Total	**188,135**	**202,981**

34b. Credited to Services

	2011-12 £'000	2010-11 £'000
Housing Benefit Subsidy	151,117	148,660
Dedicated School's Grant	77,805	67,229
Council Tax Subsidy	13,467	13,725
Early Intervention Grant	6,852	-
Skills Funding Agency/ Young People Learning Agency (formerly Learning and Skills Council) Grants	5,735	8,314
Learning Disability and Health Reform Grant	3,645	-
Homelessness Grant	2,300	844
Housing Benefit Admin Subsidy	2,085	2,319
Pupil Premium	1,511	-
Standards Funds Grant	1,810	11,319
Transport for London Revenue Grant	1,429	1,033
HRA Subsidy	847	4,446
Drug Intervention Programme Grant	767	712
New Homes Bonus Scheme Grant	673	-
Supporting People Grant	-	587
Unaccompanied Asylum Seekers Grant	514	606
Youth Offending Team	418	-
Disabled Facilities Grant	321	478
Community Safety Grant	65	-
Sure Start Grant	-	5,270
School Standards Grant	-	2,329
Social Care Reform Grant	-	1,062
DCLG - Regeneration	-	553
Rough Sleepers	-	450
HIV grant	-	372
Hospital Discharge Grant	-	359
London Pay Addition Grant	-	355
Children and Young People Grant	-	318
Other Grants (under £250k)	2,996	5,486
Health Contributions	13,004	12,229
Total	**287,361**	**289,055**

34c. Capital Grants Receipts in Advance

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

	2011-12 £'000	2010-11 £'000
Standards Fund Capital (Primary Programme)	8,018	8,200
S106 and private contributions	4,017	4,050
Social Services - Single Capital Pot	850	850
Community Capacity Grant	521	-
Other	103	259
Total	**13,509**	**13,359**

35. Related Parties

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

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

Councillors

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

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

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

- The Leader of the Council, Councillor Sir Merrick Cockell, is chairman of the Local Government Group (June 2011 onwards).

- Councillor Moylan, member of the Cabinet and Corporate Services Scrutiny Committee and the Colville and Pembridge Streetscape Advisory Group is:

    - Deputy Chairman of Transport for London (at the balance sheet date);

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

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

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

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

Officers

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

Other Public Bodies

The Council delivers services in close co-operation with other public bodies such as the Greater London Authority, Transport for London, the Kensington and Chelsea Partnership, Metropolitan Police Service, National Health Service trusts, the London Fire and Civil Defence Authority and other local authorities. At times, the Council will influence and be influenced by these bodies. Where the Council receives significant grant funding from another public body, this is disclosed in Note 34 Grant Income. The Council has made no material financial payments to another public body.

The Council is entering into joint working arrangements with neighbouring local authorities, the City of Westminster and the London Borough of Hammersmith & Fulham. These arrangements are currently referred to as tri-borough or bi-borough working and the bulk of these arrangements are in place from 1 April 2012. The Council did not have material transactions in 2011-12, but may do so in the future. Work to develop the arrangements does mean that each borough influences the others.

36. Capital Expenditure and Capital Financing

	2011-12 £'000	2010-11 £'000
Opening Capital Financing Requirement	**228,881**	**224,042**
Capital investment		
Property, Plant and Equipment	63,110	43,198
Long Term Investments	-	150
Heritage Assets	52	100
Investment Properties	8	61
Intangible Assets	857	767
Assets Held for Sale	73	-
Revenue Expenditure Funded from Capital under Statute	4,046	7,351
Sources of finance		
Capital receipts	(837)	(8,565)
Government grants and other contributions	(8,803)	(15,877)
Sums set aside from revenue:		
Direct revenue contributions	(17,489)	(14,180)
Direct Revenue Funding (Major Repairs Reserve)	(8,444)	(6,539)
MRP / loans fund principal	(1,500)	(1,627)
Closing Capital Financing Requirement	**259,954**	**228,881**
Provision to reduce underlying need to borrow (MRP)	(1,500)	(1,627)
Increase in underlying need to borrow (supported by government financial assistance)	-	-
Increase in underlying need to borrow (unsupported by government financial assistance)	32,573	6,466
Assets acquired under finance leases	-	-
Assets acquired under PFI / PPP contracts	-	-
Increase / (decrease) in Capital Financing Requirement	**31,073**	**4,839**

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

Closing Capital Financing Requirement	**259,954**	**228,881**
HRA self-financing settlement	24,960	-
Revised Closing Capital Financing Requirement	**284,914**	**228,881**

37. Leases

Council as Lessee

Finance Leases

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

	31 March 2012	31 March 2011
	£'000	£'000
Other Land and Buildings	1,923	839
Vehicles, Plant, Furniture and Equipment	110	212
Total	**2,033**	**1,051**

The other land and buildings held under finance leases were revalued as at 1 April 2011, increasing the balance sheet value nearly £1.1 million. The reduction in the value of the vehicles, plant, furniture and equipment reflects depreciation of those assets.

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

	31 March 2012	31 March 2011
	£'000	£'000
Present value of the minimum lease payments:		
Current	37	79
Non-current	40	77
Future interests costs	7	17
Unguaranteed residual value of assets	-	-
Total minimum lease payments	**85**	**173**

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

	Present Value of Minimum Lease Payments		Finance Lease Liabilities	
	31 March 2012 £’000	31 March 2011 £’000	**31 March 2012 £’000**	31 March 2011 £’000
Not later than one year	**37**	79	**5**	9
Later than one year and not later than five years	**40**	77	**3**	7
Later than five years	**-**	-	**-**	-
Total	**77**	156	**8**	16

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

Operating Leases

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

	31 March 2012 £'000	31 March 2011 £'000
Not later than one year	286	298
Later than one year and not later than five years	422	512
Later than five years	567	623
Total	**1,276**	**1,433**

The Council is also leasing back the Holland Park School southern site at a peppercorn rent until September 2013 whilst the new school is completed. This is valued at £900,000 for accounting purposes.

The Council does not sublet any of the space let to it under operating leases and the Council is not paying contingent rents on any property let to it.

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

	31 March 2012 £'000	31 March 2011 £'000
Adult Social Care	5	5
Cultural and Related Services	8	8
Children's and Education	223	306
Cultural, Environmental, Regulatory and Planning Services	6	6
Housing GF Services	11	11
Allocated across service lines	34	34
Total	**286**	**369**

Council as Lessor

Finance Leases

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

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

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

Operating Leases

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

Some assets are leased to companies delivering services on behalf of the Council, but income from such properties is not reported below. Such assets are recorded as operational properties and the relevant service contracts normally take account of the lease rentals, which are therefore effectively recorded as a cost under the relevant service line of the Comprehensive Income and Expenditure Statement as well as income. To report such rents as income under operating leases could potentially present a misleading view of the Council's operating lease income.

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

	31 March 2012	31 March 2011
	£'000	£'000
Not later than one year	5,780	5,426
Later than one year and not later than five years	18,824	12,031
Later than five years	28,732	14,811
Total	**53,336**	**32,269**

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

38. Impairment Losses

The Council has approved plans to build the Kensington Aldridge Academy and to rebuild Kensington Leisure Centre. To reflect the reduced useful economic life and service potential of the existing leisure centre, the Council has impaired the buildings by £2,032,733, the associated plant by £343,571 and the sports pitch by £13,226 in 2011-12. The impairment to the building was fully absorbed by the Revaluation Reserve. Those relating to the plant and sports pitch have been charged to the Surplus or Deficit on the Provision of Services under the recreation and sport element of Cultural and Related Services.

During 2011-12, the Council impaired Holland Park School to reflect the ongoing decommissioning and demolition of the current buildings, which are being replaced. The Council debited the loss of £1,024,985 to the Surplus or Deficit on the Provision of Services under the schools element of Children's and Education Services.

The Latymer Family Centre has been taken out of use and will be demolished as part of the Silchester Garages project. The land upon which the centre is situated will be leased to the Peabody Trust at a peppercorn rent and given the high proportion of social and affordable housing that will be built, will provide little economic benefit to the Council. Therefore, the Council has fully impaired both the buildings and the land, resulting in a charge of £921,250 of which £598,741 was absorbed by the Revaluation Reserve and the remaining £322,509 charged to the Housing Revenue Account.

The Council has approved plans to replace the existing school buildings at Middle Row Primary School. The Council has therefore impaired those buildings by £742,857 to reflect their reduced useful economic life and service potential. The loss has been charged to the Surplus or Deficit on the Provision of Services under the schools element of Children's and Education Services.

The Council values its dwellings in accordance with the proper practice set out in the Government guidance Stock Valuation *for Resource Accounting: Guidance for Valuers - 2010*. Under the requirements of the ‘beacon system’ of valuation and 70 per cent discount applied to the open market valuation of the dwellings using the ‘Existing Use Valuation - Social Housing’ methodology, the Council's capital expenditure on its dwelling stock does not increase the value of the assets on a pound-for-pound basis; at best the value of a dwelling will be increased by only 30 per cent of the capital expenditure incurred upon it. The Code and associated *Guidance Notes for Practitioners* require the Council to impair an asset accordingly where the value of an asset increases by less than the capital expenditure incurred on it. Therefore, the Council has impaired the value of its dwellings by £6,150,076 with the charge taken to the Housing Revenue Account.

The Council commissioned full revaluations of its operational and “other” properties together with associated plant and components as at 1 April 2011. Net of losses absorbed to the Revaluation Reserve £20.3 million was charged to the Surplus or Deficit on the Provision of Services in relation to the buildings and £5.1 million in relation to plant and equipment.

39. Termination Benefits

There are no estimable additional termination benefit costs as at the balance sheet date. The Council has an ear-marked Severance Reserve held specifically to cover future termination benefit costs. The balance of this reserve at 31 March 2012 was £8.3 million.

40. Pension Schemes Accounted for as Defined Contribution Schemes

In 2011-12, the council paid £4,178,328 to Teachers' Pensions in respect of teachers' retirement benefits, representing 14.1 per cent of pensionable pay. The figures for 2010-11 were £4,107,219 and 14.1 per cent. There were no contributions remaining payable at the year-end.

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

41. Defined Benefit Pension Schemes

Participation in Pension Schemes

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

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

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

Transactions Relating to Post-employment Benefits

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

	RBKC Pension Scheme		LPFA Pension Scheme	
	31 March 2012 £'000	31 March 2011 £'000	31 March 2012 £'000	31 March 2011 £'000
Comprehensive Income and Expenditure Statement (CIES)				
Cost of Services:				
Current service cost	**15,801**	21,636	**205**	266
Past service costs	**-**	(59,075)	**-**	(2,113)
Settlements and curtailments	**140**	(548)	**48**	-
Financing and Investment Income and Expenditure:				
Interest cost	**33,188**	36,818	**1,430**	1,510
Expected return on scheme assets	**(27,484)**	(24,155)	**(1,124)**	(1,114)
Total Post Employment Benefit Charged to the Deficit on the Provision of Services	**21,645**	(25,324)	**559**	(1,451)
Other Post Employment Benefit Charged to the CIES:				
Actuarial (gains) and losses*	**102,047**	(111,592)	**2,303**	(8,817)
Total Post Employment Benefit Charged to the CIES	**123,692**	(136,916)	**2,862**	(10,268)
Movement in Reserves Statement				
Reversal of net charges made to the deficit for the Provision of Services for post employment benefits in accordance with the Code	**(21,645)**	25,324	**(559)**	1,451
Actual amount charged against the General Fund Balance for pensions in the year				
Employers' contributions payable to scheme	**16,602**	20,452	**499**	337

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

Assets and Liabilities in Relation to Post-employment Benefits

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

	Funded liabilities: RBKC Pension Scheme £'000		Funded liabilities: LPFA Pension Scheme £'000	
	2011-12	**2010-11**	**2011-12**	**2010-11**
Opening balance at 1 April	604,076	714,167	26,498	33,312
Current service cost	15,801	20,150	205	266
Interest cost	33,188	36,818	1,430	1,510
Contributions by scheme participants	5,281	5,701	61	62
Actuarial gains and losses	97,523	(95,155)	2,300	(5,143)
Benefits paid	(23,728)	(17,198)	(1,283)	(1,264)
Past service costs	-	(59,075)	-	(2,113)
Curtailments	1,507	44	110	-
Unfunded Pension Payments	-	(1,376)	(135)	(132)
Closing balance at 31 March	**733,648**	**604,076**	**29,186**	**26,498**

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

	Funded liabilities: RBKC Pension Scheme £'000		Funded liabilities: LPFA Pension Scheme £'000	
	2011-12	**2010-11**	**2011-12**	**2010-11**
Opening fair value of scheme assets	454,278	407,001	22,546	18,755
Expected rate of return	27,484	24,155	1,124	1,114
Actuarial gains and losses	(3,806)	16,437	(3)	3,674
Employer contributions (including unfunded)	17,251	19,558	561	337
Contributions by scheme participants	5,281	5,701	61	62
Benefits paid	(23,728)	(18,574)	(1,418)	(1,396)
Entity combinations	-	-	-	-
Settlements	-	-	-	-
Closing balance at 31 March	**476,760**	**454,278**	**22,871**	**22,546**

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

Scheme History

	31 Mar'09 £000	31 Mar '10 £000	31 Mar '11 £000	31 Mar '12 £000
Present value of liabilities:				
RBKC Pension Scheme	443,712	714,167	604,076	733,648
LPFA Pension Scheme	23,175	33,312	26,498	29,186
Fair value of assets				
RBKC Pension Scheme	294,924	407,001	454,278	476,760
LPFA Pension Scheme	17,517	18,755	22,546	22,871
Surplus / (deficit) in the scheme:				
RBKC Pension Scheme	(148,788)	(307,166)	(149,798)	(256,888)
LPFA Pension Scheme	(5,658)	(14,557)	(3,952)	(6,315)
Total	**(154,446)**	**(321,723)**	**(153,750)**	**(263,203)**

The liabilities show the underlying long-run commitments that the Council has to meet to pay post employment retirement benefits. The total liability of £263 million has a substantial impact on the net worth of the Council recorded in the Balance Sheet. However, statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy: the deficit scheme will be made good by maintaining a high level contributions over the remaining working life of employees i.e. before payments fall due, as assessed by the scheme actuary.

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

The total contribution the Council expects to make to the Pension Fund in the financial year to 31 March 2013 is £17,200,000. Expected contributions for the LPFA scheme in the year to 31 March 2013 are £364,000.

Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using: the projected unit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels and etc. Both the Local Government Pension Scheme and discretionary benefits liabilities have been assessed by Barnett Waddingham LLP, an independent firm of actuaries. Estimates for the Pension Fund are based on the latest full valuation of the scheme as at 1 April 2010.

The principal assumptions used by the actuary have been:

	RBKC Pension Scheme		LPFA Pension Scheme	
	2011-12	**2010-11**	**2011-12**	**2010-11**
Long-term expected rate of return on assets in the scheme:				
Equity investments	5.3%	6.4%	6.3%	7.2%
Gilts	3.3%	4.4%	3.3%	4.4%
Other bonds	4.6%	5.5%		
Target return portfolio			4.5%	5.0%
Property	4.3%	5.4%		
Alternative assets	5.3%	6.4%		
Cash	3.0%	3.0%	3.0%	3.0%
Mortality assumptions:				
Longevity at 65 for current pensioners (in years):				
Men	19.0	18.9	20.3	20.2
Women	23.1	23.0	23.0	22.9
Longevity at 65 for future pensioners:				
Men retiring in 20 years	21.0	20.9	22.3	22.2
Women retiring in 20 years	25.0	24.9	24.9	24.8
Rate of RPI inflation	3.3%	3.5%	3.3%	3.5%
Rate of CPI Inflation	2.5%	2.7%	2.5%	2.7%
Rate of increase in salaries	4.7%	5.0%	4.2%	4.5%
Rate of increase in pensions	2.5%	2.7%	2.5%	2.7%
Rate for discounting scheme liabilities	4.6%	5.5%	4.6%	5.5%
Take-up of option to convert annual pension into retirement lump sum	50%	50%	50%	50%

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

	31 March 2012	31 March 2011
	%	%
Equity investments	64.0	83.0
Gilts	1.0	10.0
Alternative assets	30.0	0.0
Property	4.0	4.0
Private equity	0.0	0.0
Cash	1.0	3.0
	100.0	**100.0**

History of Experience Gains and Losses

The actuarial gains identified as movements on the Pensions Reserve in 2011-12 can be analysed into the following categories, measured as a percentage of assets or liabilities at 31 March 2012:

	2008-09	2009-10	2010-11	2011-12
	%	%	%	%
Differences between the expected and actual return on assets	2.45	0.61	(0.77)	(0.9)
Experience gains and losses on liabilities	1.12	0.18	(0.57)	0

42. Contingent Liabilities

At 31 March 2012, the Council had the following contingent liabilities:

- During 1992-93, the then Council's insurers, Municipal Mutual Insurance (MMI), ceased accepting new business. The Council is a member of a scheme of arrangement that has been put into place to try to ensure an orderly settlement of the run-off of MMI. Claim payments to date that are liable to 'claw-back' if the scheme of arrangement is triggered, amount to a maximum of £1.894 million as at 31 March 2012, of which, £365,000 relates to the London Residuary Body (LRB) functions. In addition, estimated claims amounting to £390,000 (of which £240,000 relates to the LRB) remain outstanding. It is not possible at this time to determine the likelihood of the scheme of arrangement being called upon, but the decision of the Supreme Court in the 'trigger litigation' increases the likelihood that the scheme of arrangement will be invoked.

- The Government has decided that local authority planning departments can no longer charge for personal searches and that previous customers can request refunds. The Council estimates its maximum exposure to refunds is £250,000.

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

43. Contingent Assets

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

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

At 31 March 2012, the Council had contingent assets relating to the following VAT claims, none of which are individually material to the Council:

Nature of Claim	Amount of Claim £'000
Off Street Car Parking	3,023
Off Street Car Parking (Fleming Claim)	1,750
Building Control Fees (Fleming Claim)	692
Trade Waste	2,866
Total	**8,331**

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

44. Nature and Extent of Risks Arising from Financial Instruments

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

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

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

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

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

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

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

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

Credit Risk

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

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

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

	Amount at 31 March 2012	Historical experience of default	Adjustment for market conditions at 31 March 2012	Estimated maximum exposure to default
	£'000	%	%	£'000
Deposits with banks and financial institutions				
'AAA' rated counterparties	**113,225**	0.00	0.00	0.00
'AA' rated counterparties	**0**	0.00	0.03	0.00
'A' rated counterparties	**211**	0.00	0.08	0.17
Other counterparties *	**38,900**	0.00	0.00	0.00
	152,336			0.17

* Other counterparties represent investments with other local authorities

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

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

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

In the unlikely event that the payment due for the sale of the Holland Park School southern site (the deferred capital receipt is disclosed in Note 17b Debtors) is not paid to the Council, the Council will be able to resell the land site to potentially recover the amount due as the debt is protected by a legal charge over the site.

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

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

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

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

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

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

The maturity analysis of financial liabilities is as follows:

	£'000
Less than one year	8,663
Between one and two years	6,231
Between two and five years	23,877
Between five and ten years	49,626
Between ten and fifteen years	27,746
More than fifteen years	56,491
Total	**172,634**

The maturity analysis of financial assets is as follows:

	£'000
Less than one year	152,357
Between one and two years	-
Between two and three years	-
More than three years	-
Total	**152,357**

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

Market risk

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

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

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

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

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

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

	£'000
Increase in interest payable on variable rate borrowings	-
Increase in interest receivable on variable rate investments	(1,757)
Impact on the CIES	(1,757)
Increase in Government grant receivable for financing costs	-
Share of overall impact debited to the HRA	459
Decrease in fair value of fixed rate investment assets	-
Decrease in fair value of fixed rate borrowings liabilities (no impact on the CIES)	16,384

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

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

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

45. 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 three year rolling period.

	2011-12 £'000	2010-11 £'000
Expenditure		
Employee costs	**737**	782
Transport	**9**	18
Supplies and services	**159**	152
Support services	**188**	280
Total expenditure	**1,093**	**1,232**
Income		
Building regulation charges	**(891)**	(1,117)
Total income	**(891)**	**1,117**
(Surplus) / deficit	**202**	115
(Surplus) / deficit on a rolling 3 year period	**568**	**442**

46. Expenditure on Publicity

	2011-12 £'000	2010-11 £'000
Press and public relations		
Salaries	**431**	429
Other costs	**116**	147
Miscellaneous advertising	**296**	338
Staff recruitment costs	**178**	150
Total	**1,021**	**1,064**

47. Long Term Liabilities

	2012 £'000	2011 £'000
Net pensions liability	**263,203**	153,750
Long term lease liability	**75**	110
Deferred liabilities	**398**	643
Total	**263,676**	**154,503**

Supplementary Financial Statements 2011-12

THE ROYAL BOROUGH OF
KENSINGTON
AND CHELSEA

The Housing Revenue Account Income and Expenditure Statement

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

	31 March '12 £'000	31 March '11 £'000	Notes
Expenditure			
Repairs and maintenance	**12,194**	11,104	
Supervision and management	**18,232**	17,686	
Rents, rates, taxes and other charges	**172**	139	
Depreciation and impairment of fixed assets			
On dwellings	**7,202**	6,834	1a
On non-dwellings	**263**	179	
Impairments	**7,355**	37,427	1a
Debt management costs	**119**	123	
Bad debt provision made in year	**(109)**	(515)	8
Settlement payment	**24,960**	-	
Total expenditure	**70,388**	**72,977**	
Income			
Dwelling rents	**(35,683)**	(32,636)	
Non-dwelling rents	**(3,413)**	(3,048)	
Charges for services and facilities	**(9,290)**	(8,774)	
Contributions towards expenditure	**(458)**	(468)	
HRA subsidy receivable (including the MRA element)	**(847)**	(4,446)	2
Total income	**(49,691)**	**(49,372)**	
Net cost of HRA services as included in the Council's Income and Expenditure Statement	**20,697**	23,605	
HRA service's share of Corporate and Democratic Core	**31**	38	
Net cost of HRA services	**20,728**	**23,643**	
HRA share of the operating income and expenditure included in the Comprehensive Income and Expenditure Statement:			
Interest payable and similar charges	**10,156**	11,989	6
Amortisation of premiums and discounts	**-**	-	
Interest and investment income	**(90)**	(95)	
Government grants applied	**-**	(1,954)	
(Surplus) / deficit for the year on HRA services	**30,793**	**33,583**	

Movement on the HRA Statement

	31 March '12 £'000	31 March '11 £'000	Notes
(Surplus) / deficit for the year on the HRA Income and Expenditure Account	**30,793**	**33,583**	
Transfers to / (from) Major Repairs Reserve	**(263)**	(179)	
Contributions to / (from) reserves	**93**	793	
Capital expenditure funded by the Housing Revenue Account	**50**	50	
Government grants applied	**-**	1,954	3
Impairment of non-current assets	**(7,355)**	(37,427)	1a
Neutralisation of REFCUS	**-**	-	
Settlement payment	**(24,960)**	-	
(Increase) / decrease in the Housing Revenue Account balance	**(1,642)**	**(1,226)**	
Housing Revenue Account surplus brought forward	**(11,821)**	**(10,595)**	
Housing Revenue Account surplus carried forward	**(13,463)**	**(11,821)**	

Notes to the HRA Statement

1a. Movement on Balances 2011-12

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

1a. Movement on Balances 2010-11

Cost or Valuation	Council Dwellings £'000	Other Land and Buildings £'000	Vehicles, Equipment Plant and Furniture £'000	Infrastructure Assets £'000	Community Assets £'000	Surplus Assets £'000	Assets Under Construction £'000	Investment Properties £'000	Total £'000
At 1 April 2010	**572,236**	**20,888**	**48**	**-**	**-**	**-**	**730**	**39,434**	**633,336**
Additions	8,742	1,472	-	-	-	-	-	-	10,214
Revaluation increases / (decreases) and impairments recognised in the Revaluation Reserve	42,571	-	-	-	-	-	-	-	42,571
Revaluation increases / (decreases) and impairments recognised in the CIES	(28,763)	-	-	-	-	-	-	-	(28,763)
Assets reclassified (to) / from Held for Sale	-	-	-	-	-	-	-	-	-
Transfers in	-	-	-	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-	-	-	-
Derecognition - disposals	(131)	(905)	-	-	-	-	-	-	(1,035)
At 31 March 2011	**594,656**	**21,455**	**48**	**-**	**-**	**-**	**730**	**39,434**	**656,324**
Accumulated Depreciation and Impairment									
At 1 April 2010	**-**	**-**	**7**	**-**	**-**	**-**	**-**	**-**	**7**
Depreciation charge	6,834	168	7	-	-	-	-	-	7,009
Revaluations	-	-	-	-	-	-	-	-	-
Impairments	8,664	-	-	-	-	-	-	-	8,664
Assets reclassified (to) / from Held for Sale									
Transfers in	-	-	-	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-	-	-	-
Derecognition - disposals	-	-	-	-	-	-	-	-	-
At 31 March 2011	**15,498**	**168**	**14**	**-**	**-**	**-**	**-**	**-**	**15,680**
Net Book value									
At 31 March 2011	**579,158**	**21,287**	**35**	**-**	**-**	**-**	**730**	**39,434**	**640,644**
At 31 March 2010	572,236	20,888	41	-	-	-	730	39,434	633,329

1b. Value of Land and Dwellings

Within the dwellings category, the 31 March 2012 Net Book Value comprises £377,400,450 land and £197,682,434 dwellings. The total value of the property in other balance sheet categories is £61,484,673. On the 1 April 2010, Net Book Value comprised £377,457,750 land and £208,254,600 dwellings. The total value of the property in other balance sheet categories was £60,483,771.

1c. Number and Types of Dwelling

MRA Archetype	01/04/2012	01/04/2011	Difference
Houses Small Terraced <1945	0	0	0
Houses Semi Detached <1945	1	1	0
Houses Other <1945	57	57	0
Houses Small Terraced 1945-1964	0	0	0
Houses SD/Large Terraced 1945-1964	7	7	0
Houses 1965-1974	10	10	0
Houses 1974+	67	67	0
Houses (Non Traditional)	0	0	0
Bungalows	12	12	0
Low-Rise Flats <1945	210	210	0
Low-Rise Flats >1945	200	200	0
Medium	3,666	3,661	+5
High Rise	2,650	2,650	0
Multi-Occupancy	44	46	-2
Total	**6,924**	**6,921**	+3

1d. Depreciation

Council Dwellings:
The Major Repairs Allowance, calculated by the Government, has been used as a proxy for depreciation and componentisation in line with Government guidance. The most recent valuation of the housing stock estimated the remaining useful lives of individual dwellings at between 50 and 100 years. Use of the Major Repairs Allowance in lieu of a calculation based on the estimated useful lives of the dwellings has no material impact on the accounts. Land is not depreciated because it has an indefinite useful life.

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

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

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

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

1e. Vacant Possession Value and Valuation Basis

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

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

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

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

The difference between the open market price and the EUV-SH valuation is known as the 'Adjustment Factor' and is the economic cost of providing social housing. The Council uses an adjustment factor of 70 per cent. The gross balance sheet value of the Council's dwellings and the land they occupy is therefore 30 per cent of the open market price. The table below sets out the value of the Council's dwellings and the land they occupy based on the historic cost model, their market value, EUV-SH valuation and current carrying value. The current carrying value is the EUV-SH valuation after depreciation, disposals, capital investment, revaluations and impairments that took place in 2010-11 and 2011-12.

	Council Dwellings £'000
Carrying amount if assets had been carried under the cost model	396,426
Market value as at 1 April 2010	1,952,375
Gross EUV-SH valuation as at 1 April 2010	585,712
Current carrying value	575,083

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

1f. Impairments

The Council values its dwellings in accordance with the proper practice set out in the Government guidance *Stock Valuation for Resource Accounting: Guidance for Valuers - 2010*. Under the requirements of the 'beacon system' of valuation and 70 per cent discount applied to the open market valuation of the dwellings using the 'Existing Use Valuation - Social Housing' methodology, the Council's capital expenditure on its dwelling stock does not increase the value of the assets on a pound-for-pound basis; at best the value of a dwelling will be increased by only 30 per cent of the capital expenditure incurred upon it. The Code and associated *Guidance Notes for Practitioners* require the Council to impair an asset accordingly where the value of an asset increases by less than the capital expenditure incurred on it. Therefore, the Council has impaired the value of its dwellings by £6,150,076.

The Latymer Family Centre has been taken out of use and will be demolished as part of the Silchester Garages project. The land upon which the centre is situated will be leased to the Peabody Trust at a peppercorn rent and given the high proportion of social and affordable housing that will be built, will provide little economic benefit to the Council. Therefore, the Council has fully impaired both the buildings and the land, resulting in a charge of £921,250 of which £598,741 was absorbed by the Revaluation Reserve.

The Council commissioned full revaluations of its operational and "other" properties together with associated plant and components as at 1 April 2011. Net of losses absorbed to the revaluation reserve, the revaluations resulted in a charge of £1,024,598 to the Housing Revenue Account.

Investment properties are carried at fair value with gains and losses relating to changes in fair value taken directly to the relevant income and expenditure statement. A full revaluation of the Council's investment properties as at 1 April 2011 resulted in a charge of £5,581,661 to the Housing Revenue Account.

2. HRA Subsidy

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

	2011-12 £'000	2010-11 £'000
Received in–year	915	4,584
Prior year adjustment	31	15
Total received	**946**	**4,599**
Due:		
Management and maintenance	17,851	17,424
Rents	(35,130)	(33,317)
Interest on receipts	(3)	(5)
Debt charges	10,896	10,020
ALMO Allowance	-	3,475
Major Repairs Allowance	7,202	6,834
Total due	**816**	**4,431**
Prior year adjustment	31	15
Total due	**847**	**4,446**
Amount due to / (from) Government	**99**	**153**

3. Capital Expenditure

Capital Expenditure	£'000	Funding Sources	£'000
HRA self-financing settlement	24,960	Borrowing	24,960
Dwellings	9,331	Capital grants and contributions	-
Other property	-	Usable capital receipts	837
Land	-	Direct revenue financing	50
		Major Repairs Reserve	8,444
Total	**34,291**		**34,291**

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

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

	2011-12 Net Expenditure £'000	**2010-11 Net Expenditure £'000**
Capital expenditure written to revenue	**-**	**-**

5. Capital receipts in Year

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

	2011-12 £'000	**2010-11 £'000**
Land	-	-
Dwellings (net of sale expenses)	1,248	1,938
Other property	1,231	1,283
Loan repayments	13	16
Total	**2,492**	**3,237**

6. Capital Charges in the HRA

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

	2011-12 £'000	**2010-11 £'000**
Item 8 charge based on actual interest paid by the Council	10,156	11,989
Value of amortised premia	-	-
Total	**10,156**	**11,989**

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

7. Major Repairs Reserve

	2011-12		2010-11	
	£'000	**£'000**	£'000	£'000
Balance at 1 April		**3,294**		2,166
INCOME				
Contribution from the HRA	7,202		7,667	
EXPENDITURE				
Dwellings	8,444		6,539	
Surplus / (deficit) for year		(1,242)		1,128
Balance at 31 March		**2,051**		**3,294**

8. Rent Arrears and Provision for Bad or Doubtful Debts

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

Tenant Arrears	**2011-12 £'000**	**2010-11 £'000**
Gross arrears	2,291	1,024
Net arrears		
Former tenants *	277	(28)
Current tenants *	(851)	(874)
Net arrears at 31 March	**(574)**	**(902)**

*Also includes credit balances representing receipts in advance

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

Other Arrears	**2011-12 £'000**	**2010-11 £'000**
Gross arrears	4,201	5,147
Net arrears		
Leaseholder charges*	3,404	4,386
Commercial properties	436	301
Net arrears at 31 March	**3,840**	**4,687**

*Also includes credit balances representing receipts in advance

Provision for bad debts has been made as follows:

Provision	**2011-12 £'000**	**2010-11 £'000**
Provision at 1 April	**2,975**	3,863
Provision made in year	(109)	(515)
Write-offs during year	(200)	(373)
Provision at 31 March	**2,666**	**2,975**

The Collection Fund Revenue Account Income and Expenditure Statement

	31 March '12 £'000	31 March '11 £'000	Notes
Expenditure			
Precepts			
Royal Borough of Kensington and Chelsea	**77,887**	77,915	
Greater London Authority	**30,835**	30,845	
Total precepts	**108,722**	**108,760**	
Business rates			
Payment to national 'Pool'	**242,689**	211,277	
Costs of collection	**628**	629	
Business Rate Supplement			
Payment to Greater London Authority	**9,971**	10,000	
Costs of collection	**50**	83	
Bad and doubtful debts / appeals			
Write-offs	**112**	3,767	
Provisions	**378**	(3,789)	
Contributions towards previous year's estimated collection Fund surplus / (deficit)	**(211)**	431	
Total expenditure	**362,339**	**331,158**	
Income			
From council tax	**95,941**	95,542	4
Transfers from the General Fund			
Council Tax Benefit	**13,318**	13,510	
Collectable from business rate-payers	**243,317**	211,906	2
Collectable from Business Rate Supplement payers	**10,021**	10,103	3
Total income	**362,597**	**331,061**	
Movement on Collection Fund balance	**258**	**(97)**	

Collection Fund Reserve

	31 March '12 £'000	31 March '11 £'000
Balance at the end of the previous year	**(187)**	(90)
Movement on Collection Fund balance	**258**	(97)
Balance at the end of the year	**71**	**(187)**

Notes to the Collection Fund Revenue Account Income and Expenditure Statement

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

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

	2011-12 £'000	2010-11 £'000
Non Domestic Rates Due	273,384	252,734
Less Allowances and other adjustments		
Transitional relief	(16,526)	(29,634)
Mandatory reliefs	(11,025)	(9,143)
Discretionary reliefs	(187)	(171)
Provision for bad debts	(2,217)	(1,578)
Transfer to General Fund	(112)	(302)
Collectable from business rate payers net contribution to Pool	**243,317**	**211,906**

The National Non-Domestic Rateable Value at 31 March 2012 was £663,330,897. The standard NNDR multiplier for 2011-12 was 43.3 pence (41.4 pence in 2010-11). The Small Business Rate Relief multiplier for 2011-12 was 42.6 pence (40.7 pence for 2010-11).

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

	2011-12 £'000	2010-11 £'000
Non Domestic Rates Due	10,715	10,692
Less Allowances and other adjustments		
Mandatory reliefs	(618)	(582)
Discretionary reliefs	(7)	(7)
Provision for bad debts	(69)	-
Collectable from Business Rate Supplement payers	**10,021**	**10,103**

The Business Rate Supplement Rateable Value at 31 March 2012 was £549,805,350. The standard BRS multiplier for 2011-12 was 2 pence, unchanged form 2010-11.

4. **Council Tax**

The tax base for the Financial Year 2011-12 was calculated as follows:

Band	Capital Valuation £'000	Number Of Dwellings	Number of Discounted Dwellings	Multiplier	Add back 2nd Home Discount	Discounted Band D Equivalents
A	0 - 40	1,362	994	6/9	15	677
B	40 - 52	3,550	2,716	7/9	26	2,138
C	52 - 68	9,224	7,268	8/9	136	6,596
D	68 - 88	13,585	10,656	1	290	10,946
E	88 - 120	13,250	10,578	11/9	425	13,354
F	120 - 160	11,829	9,554	13/9	534	14,335
G	160 - 320	19,609	15,920	15/9	1,392	27,925
H	over 320	14,458	12,492	18/9	1,071	26,055
Total:		**86,867**	**70,178**		**3,889**	**102,026**

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

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

The Council set a Band D charge of £1,079.12 (unchanged from 2010-11). The amounts credited to the Collection Fund are analysed as follows:

		2011-12 £'000	**2010-11 £'000**
Charges for the year including Garden Square Levies		131,450	131,044
Less	- Exemptions	(22,191)	(21,993)
	- Council Tax Benefit	(13,318)	(13,509)
Net charges payable		**95,941**	**95,542**

5. **Council Tax Precept Adjustments**

The estimated balance on the Collection Fund as at 15 January 2012 has to be distributed amongst or collected from the precepting authorities. Although the deficit on the Collection Fund was £71,000 at the 31 March, the sum of £48,000 will be additionally credited to the account in 2012-13 by way of payments from precepting authorities. The adjustment of £211,000 in 2011-12 represents the recovery of the estimated deficit as at 31 March 2011.

The Pension Fund

Introduction

The Council's Pension Fund is 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. The Council is the administering authority for the Fund.

The Fund is financed by contributions from employers and employees of the Council, admitted and scheduled bodies and by earnings arising from fund's investments. A full list of the admitted and scheduled bodies is shown in Note 10.

The total numbers of active members and beneficiaries at 31 March were as follows:

	2011-12	2010-11
Active members	**3,385**	3,562
Pensioners and dependents	**2,430**	2,331
Former employees - deferred benefits	**3,706**	3,429
Total	**9,521**	9,322

The Fund is governed by the Superannuation Act 1972 and is administered in accordance with the following secondary legislation: the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (as amended); the Local Government Pension Scheme (Administration) Regulations 2008 (as amended); and the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (as amended). The regulations are updated on a regular basis by central government.

The Council has delegated the investment arrangements of the scheme to the Investment Committee, which decides on the investment policy most suitable to meet the liabilities of the Fund. The Committee is made up of six elected representatives of the Council, including one opposition party representative. Each has voting rights. Co-opted members attend the committee meetings as advisers, but have no voting rights.

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

Statements of Main Principles Adopted in Compiling the Accounts

The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2011-12 (the Code) issued by the Chartered Institute of Public Finance and Accountancy ("CIPFA") which is based upon International Financial Reporting Standards (IFRS) as amended for the UK public sector. The accounts have been prepared on an accrual basis in accordance with the Code, apart from inter-fund transfer values which have been accounted for on a cash basis.

Investments
In accordance with the requirements of the Code, investments are stated at market value with any surplus or deficit on revaluation being credited direct to the Fund. The market value of securities is determined by closing bid prices on 31 March. Valuations in foreign currencies are converted to sterling using a pooled average exchange rate by the Fund's global custodian. The property fund of funds is valued at the bid price quoted for 31 March. The private equity investment is the Fund's only unquoted investment and is valued from the manager's 31 December 2011 valuation of the investment assets and the cash cost of new investments made between 1 January and 31 March 2012 as permitted by the Code.

External managers' costs are shown in the Fund. Internal administration expenses are charged directly to the Pension Fund on the basis of direct costs plus apportioned overheads.

Cash and cash equivalents
Cash comprises cash in hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

Fund account - revenue recognition

Contribution income
Normal contributions, both from the members and from the employer, are accounted for on an accruals basis at the percentage rate recommended by the fund actuary in the payroll period to which they relate.

Employers' pensions strain contributions (to compensate the Fund for early retirement costs) are accounted for in the period in which the liability arises. Any amount due in year but unpaid will be classed as a current financial asset.

Transfers to and from other schemes
Transfer values represent the amounts received and paid during the year for members who have either joined or left the fund during the financial year and are calculated in accordance with the Local Government Pension Scheme Regulations.

Individual transfers in/out are accounted for when received/paid, which is normally when the member liability is accepted or discharged.

Transfers in from members wishing to use the proceeds of their additional voluntary contributions to purchase scheme benefits are accounted for on a receipts basis and are included in Transfers In.

Investment income
i. Interest on cash
Interest income is recognised on the date it is paid. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset.

ii. Dividend income
Dividend income is recognised on the date the shares are quoted ex-dividend. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset.

iii. Distribution from pooled funds

Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset.

iv. Movement in the net market value of investments

Changes in the net market value of investments (including investment properties) are recognised as income and comprise all realised and unrealised profits/losses during the year.

<u>Fund accounts – expense items</u>

Benefits payable

Pensions and lump-sum benefits payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed in the net assets statement as current liabilities.

Staff pensions are provided from the Fund, whose summarised accounts are shown below. All pension payments, including added years relating to early retirements prior to 1998-99, were paid from the Fund and from 1998-99 to 2010–11, added year payments were made directly from the Council's Revenue Account. Employers' contributions, at rates advised by the Fund's actuaries - Barnett Waddingham - at the 2010 valuation, were credited to the Fund when received. Since 1998-99, additional employers' 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.

Taxation

The fund is a registered public service scheme under section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a fund expense as it arises. Tax on UK Dividends is irrecoverable. All Value Added Tax paid is recoverable.

Administrative expenses

All administrative expenses are accounted for on an accruals basis. All staff costs of the pensions administration team are charged direct to the fund, management, accommodation and other overheads are apportioned to the fund in accordance with council policy.

Investment management expenses

All investment management expenses are accounted for on an accruals basis.

Fees of the external investment managers and custodian are agreed in the respective mandates governing their appointments. Broadly, these are based on the market value of the investments under their management and therefore increase or reduce as the value of these investments change.

A proportion of the council's costs representing management time spent by officers on investment management is charged to the fund.

Other information

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.

The Fund excludes transactions in respect of teachers, lecturers and youth workers. Pensions for these employees are administered by the Department for Education, to whom the Council makes a payment for this purpose.

Tri-Borough Working

The City of Westminster, London Borough of Hammersmith & Fulham and the Royal Borough of Kensington and Chelsea have combined certain parts of their operational areas to provide a more efficient service and greater resilience. One of the first areas that have been joined together has been the treasury and pension teams of the three boroughs. The combined team was formed in February 2012 and is responsible for the management of the pension fund investments and the treasury operations across the three boroughs. The team is based at the City of Westminster's offices.

The pension funds and treasury operations will continue to be managed separately in accordance with Government Regulations and the current strategies agreed by each borough, who will continue to have sovereignty over their pension fund and treasury strategy.

The Pension Fund Income and Expenditure Statement

	31 March '12 £'000	31 March '11 £'000	Notes
Expenditure – Pension Benefits			
Benefits payable			
Pensions	**17,435**	14,747	2/3
Lump sums	**6,136**	4,209	2/3
Payments to and on behalf of leavers			
Refund of contributions	**11**	27	
Transfer values Paid	**2,861**	4,913	
Pension administration and other expenses	**515**	650	
Total expenditure	**26,958**	**24,546**	
Income – Contributions			
Employers' contributions	**(19,012)**	(20,825)	4
Employers' contributions - early retirements	**(1,366)**	(644)	
Employees' contributions	**(6,187)**	(6,762)	4
Transfer values received	**(1,548)**	(4,911)	
Other income	**(796)**	-	
Total income	**(28,908)**	**(33,142)**	
Net (addition)	**(1,950)**	**(8,596)**	
Returns on Investments			
Investment income	**(5,251)**	(6,987)	6
Other investment Income	**(179)**	(234)	6
Change in market value (realised and unrealised)	**(16,988)**	(42,380)	
Taxation (irrecoverable Withholding Tax)	**196**	244	
Investment management expenses	**2,634**	1,725	
Net returns on investments	**(19,589)**	**(47,632)**	
Net increase / (decrease) in the Fund during the year	**21,539**	56,228	
Opening net assets of the Fund	**519,254**	463,026	
Closing net assets of the Fund	**540,793**	**519,254**	

The Pension Fund Net Assets Statement

	2012		2011	
	%	**£'000**	**%**	**£'000**
Fixed Interest Securities				
UK public sector	**-**	**-**	-	-
Index Linked Securities				
UK public sector	**-**	**-**	-	-
UK other	**-**	**-**	-	-
Equities				
United Kingdom	2.2	**11,883**	2.0	10,563
Overseas	18.3	**99,231**	18.0	93,286
Pooled Investment Vehicles				
Overseas equities	-	**-**	-	-
Global equities	39.2	**212,105**	59.1	306,687
UK index-linked gilt funds	0.8	**4,250**	9.9	51,532
UK property	4.0	**21,678**	-	-
Global absolute return funds	29.5	**159,735**	4.0	20,937
Overseas private equity	4.5	**24,386**	3.8	19,952
Derivative Contracts	**-**	**-**	-	-
Short Term Investments				
Fixed term bank deposit	-	**-**	1.0	5,000
Cash				
Non-current (with managers)	0.3	**1,606**	0.2	829
Current (held directly by Fund)	1.0	**5,347**	2.1	10,924
Accrued investment income	-	**269**	-	211
Current assets				
Contributions due	0.2	**896**	0.1	340
Current liabilities				
Accrued fees due	(0.1)	**(340)**	(0.1)	(364)
Accrued lump sums payable	-	**(254)**	(0.1)	(643)
Net assets and liabilities	**100.0**	**540,793**	**100**	**519,254**

The Pension Fund Investment Movement Summary

	Market Value at 31/3/2011 £'000	Purchases at Cost £'000	Sales Proceeds £'000	Change in Market Value £'000	**Market Value at 31/3/2012 £'000**
Baillie Gifford Global Equities	104,161	-	-	1,577	**105,739**
Longview Global Equities	104,677	30,824	(29,219)	6,439	**112,721**
Legal and General Global Equities	104,753	-	-	1,613	**106,367**
Northern Trust Global Equities	97,772	-	(96,016)	(1,756)	**-**
Barings Global Absolute Return	-	76,628	-	3,585	**80,213**
Pyrford Global Absolute Return	-	77,039	(427)	2,910	**79,522**
Legal and General Indexed Gilts	51,531	4,000	(51,397)	116	**4,250**
CBRE (formerly ING) Property	20,937	-	-	740	**21,678**
Adams Street Private Equity	19,952	5,479	(2,809)	1,764	**24,386**
Fixed Term Bank Deposits	5,000	6,000	(11,000)	-	**-**
Total investments	508,785	199,970	(190,868)	16,988	**534,876**
Debtors	551				**1,164**
Creditors	(1,007)				**(594)**
Cash	10,924				**5,347**
Net assets	519,254				**540,793**

Notes to the Pension Fund Account

1. The Scheme Regulations require that a full actuarial **valuation** is carried out every third year. The purpose of this is to establish that the Royal Borough of Kensington and Chelsea Pension Fund is able to meet its liabilities to past and present contributors and to review employer contribution rates.

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

The 2010 valuation certified a common contribution rate of 21.2 per cent of pensionable pay to be paid by each employing body participating in the Royal Borough of Kensington and Chelsea Pension Fund, based on a funding level of 89 per cent. In addition to this, each employing body has to pay an individual adjustment to reflect its own particular circumstances and funding position within the Fund. Details of each employer's contribution rate are contained in the Statement to the Rates and Adjustment Certificate in the triennial valuation report.

(a) The market value of the scheme's assets at 31 March 2010 was £463 million and the actuary assessed the present value of the funded obligation at £509 million indicating a net deficit of £58 million. As at 31 March 2012 the market value of the scheme's assets was £541 million and the actuary assessed the present value of the funded obligation at £833 million indicating a net liability of £292 million under International Accounting Standard (IAS) 26.

(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 and etc, and pension increases.
iii. Withdrawals from membership due to mortality, ill health and ordinary retirement.
iv. Progression of pensionable pay due to promotion.

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

(d) The 2010 Actuarial Valuation and the 2012 IAS26 update are published with these accounts.

(e) The next actuarial revaluation of the Fund will be as at 31 March 2013.

2. **Benefits payable** were as follows (including all pension and lump sum payments):

Body	2011-12 £'000	2010-11 £'000
Administering authority	**21,567**	17,575
Admitted bodies	**1,620**	1,239
Scheduled bodies	**384**	142
Total	**23,571**	**18,956**

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

3. **Lump sum payments** included above are summarised as shown below:

Payment Type	2011-12 £'000	2010-11 £'000
Commutation of pensions and lump Sum retirement benefits	**5,615**	4,019
Lump sum death benefits	**521**	190
Total	**6,136**	**4,209**

4. **Contributions** were received from the following sources:

Body	Employer's 2011-12 £'000	Employer's 2010-11 £'000
Administering authority	**16,602**	17,591
Admitted bodies	**1,578**	2,347
Scheduled bodies	**832**	887
Total	**19,012**	**20,825**
Of which deficit funding through payroll	**5,670**	**7,661**

Body	Employees' 2011-12 £'000	Employees' 2010-11 £'000
Administering authority	**5,271**	5,646
Admitted bodies	**599**	828
Scheduled bodies	**317**	288
Total	**6,187**	**6,762**

The contributions receivable from employers relating to early retirements will vary from year to year, depending on the number of early retirements.

5. Related Party Transactions

Pension administration and other expenses were £515,000 and included: the costs of administering pension entitlements; contributions and etc; the apportioned costs of Council time spent on pension administration; and direct costs. The exact costs and benefits of key management personnel cannot be apportioned on a reasonable basis between the authority and pension fund and have therefore not been disclosed in detail.

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 2010-11 and 2011-12.

6. Investment Income

	2011-12	2010-11
	£'000	£'000
Dividends from equities	**3,500**	5,635
Income from property	**1,213**	848
Income from private equity	**456**	308
Interest on cash deposits	**82**	196
Investment income	**5,251**	**6,987**
Other investment income	**179**	**234**

Now that so much of the income from the Fund's investments is through pooled investment vehicles, income is also included within the change in market value of these investments.

None of the UK Equities is unlisted. The scheme has no material holdings of unlisted investments in other markets except for the Adams Street holdings in private equity, which are shown separately in these accounts.

Pooled Investment Vehicles (previously known as Managed Funds) are Open Ended Investment Companies investing in equities and bonds.

7. 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 website or can be obtained from the Town Clerk and Executive Director of Finance.

8. Investments

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

Managed by:	2012 £'000	2012 % of Total	2011 £'000	2011 % of Total
Baillie Gifford	**105,739**	**19.6**	104,163	20.0
Longview	**112,721**	**20.9**	104,678	20.1
Legal and General	**106,367**	**19.7**	104,753	20.2
Northern trust	**-**	**-**	97,772	18.8
Barings	**80,213**	**14.8**	-	-
Pyrford	**79,522**	**14.7**	-	-
Legal and General	**4,250**	**0.8**	51,531	9.9
ING	**21,678**	**4.0**	20,937	4.0
Adams Street*	**24,386**	**4.5**	19,952	3.9
Total managers	**534,875**	**99.0**	**503,786**	**96.9**
RBKC cash investment	**5,347**	**1.0**	15,924	3.1
Subtotal	**540,222**	**100.0**	**519,710**	**100.0**
Debtors	**1,164**		551	
Creditors	**(594)**		(1,007)	
Net assets	**540,793**		**519,254**	

* The valuation is taken from the 31 December 2011 valuation of the investment assets and the cash cost of new investments made between 1 January and 31 March 2012.
Please note: Cash held by managers is included in the totals. Interest on cash held internally is calculated at market rates of interest and credited to the Pension Fund.

The level of activity in the Fund's investments at cost during 2011-12 is shown in the Investment Movement Summary.

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.

9. 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 fees due	340
Accrued lump sum payments	254
Total	**594**

Current Assets	**£'000**
Dividends and interest	269
Accrued income	896
Total	**1,165**

10. Admitted and Scheduled Bodies:

Admitted Bodies

Medequip

Specialist Schools & Academies Trust

Tenant Management Organisation

Westway Development Trust

Scheduled Bodies
Kensington and Chelsea College
St Charles Roman Catholic Sixth Form College
Chelsea Academy

The following former admitted bodies have no active members and are included within the Royal Borough of Kensington and Chelsea Pool:

Housing Action Centre
Maxilla Nursery
Portobello Business Centre
West London Family Service Units

11. Nature and Extent of Risks arising from Financial Instruments

(a) Market Risk
The Fund's primary long-term risk is that the Fund's assets will fall short of its liabilities. The Fund's liabilities are sensitive to inflation via pension and pay increases, to interest rates and to mortality rates. The assets that would most closely match the liabilities are a combination of index-linked gilts as the liabilities move in accordance with changes in the relevant gilt yields.

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

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

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

The fund is exposed to price risk. This arises from investments held by the fund for which the future price is uncertain. All securities represent a risk of loss of capital. The maximum risk resulting from financial instruments is determined by the fair value of the financial instruments. The Fund's investment managers aim to mitigate this price risk through diversification and the selection of securities and other financial instruments.

The following table indicates the potential for movements in market prices for different asset classes for the 2012-13 reporting period to affect the value of the Fund's assets. The degree of volatility has been determined by State Street Global Services from changes in the values of similar assets over the last three years. These potential movements assume the observed historical volatility of asset returns will be repeated and that the Fund's overall asset allocation and individual asset positions remain constant.

Asset Type	Market Value as at 31st March 2012	Movement	Value on Increase	Value on Decrease
	£'000	%	£'000	£'000
UK equities	11,883	13.20%	13,452	10,314
Overseas equities	99,231	14.60%	113,719	84,743
Global equities	212,105	14.60%	243,072	181,138
UK index-linked Gilts	4,250	6.40%	4,522	3,978
UK property	21,678	5.80%	22,935	20,421
Global absolute return funds	159,735	6.50%	170,118	149,352
Private equity	24,386	6.50%	25,971	22,801
Cash	6,954	0.00%	6,954	6,954
Total assets	**540,222**		**600,743**	**479,701**

(c) Interest Rate Risk

The fund invests in financial assets for the primary purpose of obtaining a return on investments. Fixed Interest securities and cash are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Investment Committee recognises that interest rates can vary and can affect both income to the fund and the value of the net assets available to pay benefits. A 25 basis point (BPS) movement in interest rates is consistent with the movement in interest rates over the last three years. The analysis below assumes that all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits of a +/- 25 basis point change in interest rates:

Asset Type	Market Value as at 31st March 2012	Movement	Change in Year on Increase	Change in Year on Decrease
	£'000	%	£'000	£'000
UK index-linked Gilts	4,250	0.25	11	(11)
Cash	6,954	0.25	17	(17)

(d) Currency Risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than pounds sterling.

Following analysis of historical data by State Street Global Services, the Fund considers the likely volatility associated with foreign exchange rate movements to be 6.5 per cent. A 6.5 per cent fluctuation in currency values is considered reasonable based on the analysis of long-term historical movements in the month-end exchange rates over a rolling 36-month period. This analysis assumes that all other variables, in particular interest rates, remain constant.

A 6.5 per cent strengthening/weakening of the pound against the various currencies in which the fund holds investments would increase/decrease the net assets available to pay benefits as follows:

Asset Type	Market Value as at 31st March 2012	Movement	Value on Increase	Value on Decrease
	£'000	%	£'000	£'000
Overseas equities	99,231	6.50	105,681	92,781
Global equities	212,105	6.50	225,892	198,318
Global absolute return funds	159,735	6.50	170,118	149,352
Private equity	24,386	9.80	26,776	21,996
Total assets with currency risk	**495,457**		**528,466**	**462,448**

(e) Credit Risk

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the fund to incur a financial loss. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the fund's financial assets and liabilities.

In essence the Fund's entire investment portfolio is exposed to some form of credit risk. However, the selection of high quality fund managers, counterparties, brokers and financial institutions minimises credit risk that may occur through the failure to settle a transaction in a timely manner.

(f) Liquidity Risk

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

12. Post Balance Sheet Events

Since the Balance Sheet date, one of the Fund's admitted bodies, the Specialist Schools Trust, has become insolvent. Officers and the Fund's actuary are working to establish the extent of any losses and how they might be recovered.

13. Additional Voluntary Contributions (AVCs)

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 do not permit Additional Voluntary Contributions 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 £679,000 was invested by members of this fund in this way during 2011-12.

The London Residuary Body Transferred Functions Income and Expenditure Statement

	2011-12 Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000	2010-11 Net Expenditure £'000	Notes
Income and expenditure on services					
General costs	**132**	**-**	**132**	26	**1**
Adjustment to provisions	**17**	**-**	**17**	-	**2**
Adjustment to assets and liabilities	**-**	**-**	**-**	-	
Interest	**-**	**20**	**(20)**	(19)	**4**
Total expenditure on services	**149**	**20**	**129**	**7**	
Surplus / (deficit) for the year			**(129)**	**(7)**	

Statement of Movement on the London Residuary Body Balance

	2011-12 £'000	2010-11 £'000
Balance brought forward at 1 April	**4,299**	**4,306**
Surplus / (deficit) for the year on Income and Expenditure Account	(129)	(7)
Total assets	**4,171**	**4,299**

London Residuary Body Transferred Functions Balance Sheet

	2011-12 £'000	2010-11 £'000	Notes
Current assets			
Current debtors	**-**	-	
Temporary investment with the Council	4,406	4,517	
Total assets	**4,406**	**4,517**	
Current liabilities			
Creditors	**-**	-	
Total assets less current liabilities	**4,406**	**4,517**	
Long term liabilities			
Provisions	(235)	(218)	**2**
Total assets less current liabilities	**4,171**	**4,299**	
Represented by			
London Residuary Body balance	4,171	4,299	
Total net worth	**4,171**	**4,299**	

Introduction

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

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

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

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

Notes

1. The increase in **general costs** is due to payment of claims throughout the year.

2. A requirement to provide for identified **public liability claims** arose in 2009. There has been some movement on this during 2011-12 and the table below shows the sum set aside to cover any resulting claims.

Balance at 31 March	**2011-12 £'000**	**2010-11 £'000**
Public liability claims	235	218

3. **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. Claim payments to date that are liable to 'clawback' if the scheme of arrangement is triggered, amount to a maximum of £365,000 as at 31 March 2012. In addition estimated claims amounting to £240,000 remain outstanding. It is not possible at this time to determine the likelihood of the scheme of arrangement being called upon.

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

Other Useful Information

Website address – www.rbkc.gov.uk

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

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