The Royal Borough of Kensington and Chelsea Statement of Accounts

2013-14

Financial Year End: 31 March 2014

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 2013-14 and its Balance Sheet at 31 March 2014. This covers the General Fund, Housing Revenue Account, Pension Fund and all the other accounts for which the Council is responsible.

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

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

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

- The **Balance Sheet** is a 'snapshot' of the Council's assets, liabilities and reserves on 31 March 2014. The reserves are always equal to the Council's assets less the Council's liabilities. Assets represent everything owned by the Council and money owed to it. Liabilities are the sums that the Council owes to others.

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

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

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

The foreword also sets out in summary the Council's 2013-14 management accounts which are reported in full to July 2014 Cabinet.

2013-14 OUTTURN

The outturn for 2013-14 includes:

- a General Fund underspend of £30.6 million against the balanced budget set;
- the working balance confirmed at £10 million – the Council's agreed minimum;
- usable reserves at 31 March 2014 of £267 million (£241 million at 31 March 2013); and
- a robust Balance Sheet.

2013-14 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 2013-14 budget included:

- a Council Tax freeze;
- net savings of over £10 million offsetting cost pressures and grant losses; which produced
- a gross budget of £420 million[1] with a council tax requirement of £71 million; and
- a final capital budget of £81 million.

REVENUE SPENDING AND FUNDING

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

The £30.6 million net underspend is 6 per cent of the Council's total gross budget. After agreed budget carry forwards to 2014-15 of £1.6 million, the balance of the underspend has been transferred to fund the 2014-15 efficiency dividend[2] and to the VAT Liability Reserve, Property Strategy Reserve, Transformation Fund and the Council's Capital Expenditure Reserve.

[1] This is the 2013-14 gross budget as presented in the Council's 2013-14 Budget Proposals.
[2] As part of 2014-15 budget setting in March 2014, the Council approved a payment of £100 to all eligible Council Tax payers with an estimated cost of £7.5 million funded from the 2013-14 financial year underspend.

	£m
Working balance 31 March 2013	**10.0**
Add 2013-14 General Fund underspend	(30.6)
Less 2013-14 underspend carried forward to 2014-15	1.6
Transfer to Efficiency Dividend Reserve	7.5
Transfer to VAT Liability Reserve	0.4
Transfer to Property Strategy Reserve	0.5
Transfer to Transformation Fund	5.0
Transfer to Capital Expenditure Reserve	15.6
Working balance 31 March 2014	**10.0**

The management accounts outturn position is as set out below:

	Budget 2013-14 £'000	Actual 2013-14 £'000	Variance 2013-14 £'000
Service Budgets			
Adult Social Care	62,863	56,500	(6,364)
Children's Services	43,569	42,928	(641)
Environment, Leisure and Residents' Services	34,871	32,543	(2,328)
Housing Services	13,678	13,040	(638)
Library, Archive and Heritage Services	6,048	5,810	(238)
Planning and Borough Development	3,881	2,281	(1,600)
Public Health	1,148	1,148	0
Transport and Technical Services	(10,057)	(16,435)	(6,378)
Corporate Services	15,600	11,802	(3,798)
Adult and Family Learning Services	142	98	(44)
Service Total	**171,743**	**149,716**	**(22,027)**
Contingency and Central Budgets	6,779	-	(6,779)
Net Cost of Services	**178,522**	**149,716**	**(28,806)**
External Interest	56	56	(0)
Pension Fund Liabilities	8,706	7,786	(920)
Interest and Investment Income	(1,000)	(1,130)	(130)
Capital Adjustment Account	(8,958)	(9,019)	(62)
Transfer to/from reserves (revenue)	5,842	5,136	(707)
Levies	3,313	3,313	0
Council Tax Freeze Grant	(780)	(804)	(24)
New Homes Bonus	(1,095)	(1,095)	0
Net Spending	**184,607**	**153,959**	**(30,648)**
Transfer to Budget Carry Forward Reserve	-	1,647	1,647
Transfer to Efficiency Dividend Reserve	-	7,500	7,500
Transfer to VAT Liability Reserve	-	400	400
Transfer to Property Strategy Reserve	-	500	500
Transfer to Transformation Fund	-	5,000	5,000
Transfer to Capital Expenditure Reserve	-	15,602	15,602
Total Spending	**184,607**	**184,607**	**(0)**
Funded by			
Revenue Support Grant	(69,240)	(69,240)	0
National Non-Domestic Rates (retained locally)	(78,547)	(78,547)	0
Business Rates Tariff (paid to government)	34,395	34,395	(0)
Council Tax	(71,215)	(71,215)	0
Balanced Budget	**0**	**0**	**(0)**

CAPITAL SPENDING AND FUNDING

The Council invests in its property assets and makes capital investments in services. The Council budgeted to spend £81 million on capital projects in 2013-14. Summary details are set out below.

Service	Budget £'000	Actual £'000	Variance £'000	Variance %
Adult Social Care	1,017	803	(214)	(21%)
Children's Services	38,176	32,462	(5,714)	(15%)
Environment, Leisure and Residents' Services	14,876	11,386	(3,490)	(23%)
Housing General Fund	1,215	861	(354)	(29%)
Housing Revenue Account	9,207	8,683	(524)	(6%)
Library, Archive and Heritage Services	1,310	757	(553)	(42%)
Transport and Technical Services	1,911	1,311	(600)	(31%)
Corporate Services	13,104	10,756	(2,348)	(18%)
Total 2013-14 Capital Programme	**80,816**	**67,019**	**(13,797)**	**(17%)**

£13 million of the £14 million underspend on capital projects is expected to slip into 2014-15.

Capital expenditure in 2013-14 was funded mainly from the Council's own resources with £20 million of external grants and contributions.

Funding Source	£'000
Capital Grants and Contributions	20,077
Capital Expenditure Reserve	20,197
Capital Receipts	17,155
Other Reserves	9,585
Direct Revenue Financing	5
Total Funding	**67,019**

31 MARCH 2014 BALANCE SHEET

The Balance Sheet as at 31 March is summarised overleaf. Aside from pension liabilities that are volatile and re-estimated each year, the overall position is an increase in the net assets of the Council of around £100 million. The key change is an increase in the Council's property valuations (the outcome of the buoyant central London property market).

	31-Mar-14	31-Mar-13
	£m	£m
Long term assets	1,474	1,469
Current assets less current liabilities	197	104
Net Pension liabilities	(199)	(241)
Other long term liabilities	(170)	(178)
Net Assets	**1,302**	**1,154**
Represented by		
Usable reserves	267	241
Unusable reserves	1,035	913
Total Reserves	**1,302**	**1,154**

The breakdown of the usable reserves is set out below:

	31-Mar-14	31-Mar-13
	£m	£m
General Fund	237	211
Schools Reserves	6	9
Housing Revenue Account	20	17
London Residuary Body	4	4
Total	**267**	**241**

HOUSING REVENUE ACCOUNT (HRA)

The Statement of Accounts also includes the ring-fenced Housing Revenue Account for the provision of social housing. The Housing Revenue Account showed a surplus of £2.9 million and increased its working balance by the same amount. Full details are set out in on pages 119 – 127.

LONDON RESIDUARY BODY (LRB)

The accounts also include statements related to functions that transferred to the Council from the former London Residuary Body (residual matters relating to the abolition of the Inner London Education Authority in 1999, which the Council manages on behalf of the rest of the inner London boroughs). Details are set out on pages 151 – 152.

FUTURE OUTLOOK

For 2013-14 and 2014-15, the Council once again froze Council Tax. Funding reductions and cost pressures were matched by £14 million in budget reductions which - including 2014-15 savings – brings the total budget reductions to £57 million over four years. The Council is also planning to fund an ambitious capital programme - £160 million over the next three years - without any additional external borrowing.

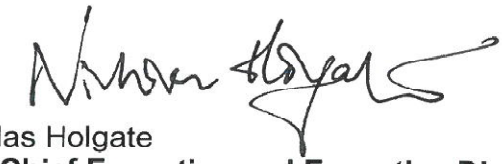
The national economic outlook has improved from that of previous years but the deficit in the UK's public finances remains unsustainably large. Therefore, the Government has delivered substantial cuts to local government funding and may announce more. Major changes to the system of local government financing were introduced from 1 April 2013 (localisation of business rates and the replacement of Council Tax Benefit with the localised Council Tax Support).

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

ACCOUNTING POLICIES

The 2013-14 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 2013/14* (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 2012-13.



Nicholas Holgate
Joint Chief Executive 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 Joint Chief Executive and Executive Director of Finance;

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

- approve the Statement of Accounts.

The Joint Chief Executive and Executive Director of Finance's Responsibilities

The Joint Chief Executive 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 Joint Chief Executive 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 Code.

The Joint Chief Executive 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 2013-14 gives a true and fair view of the financial position of the Council as at 31 March 2014 and its income and expenditure for the year ended 31 March 2014.

Nicholas Holgate
Joint Chief Executive and Executive Director of Finance

I certify on behalf of the Council that the Statement of Accounts 2013-14 was reviewed by the Audit and Transparency Committee on 22 September 2014.

Councillor Paul Warrick
Chairman of the Audit and Transparency Committee

THE ROYAL BOROUGH OF KENSINGTON AND CHELSEA

ANNUAL GOVERNANCE STATEMENT 2013-14

Introduction and purpose of the Annual Governance Statement

This Annual Governance Statement builds upon those of previous years. It summarises key governance mechanisms and records the significant governance issues that need to be addressed over the coming year. The full *Code of Corporate Governance* can be found on the Council's website and forms part of the **Royal Borough's Constitution.**

The purpose of the statement is to enable the Council to meet its requirements of the *Accounts & Audit (England) Regulations 2011*, which requires that the Council prepares such a statement.

A governance framework has been in place for the year ended 31 March 2014 and remained up to the date of approval of the Statement of Accounts.

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

The Governance framework

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

The governance framework enables the Council to monitor the achievement of its strategic objectives. The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. In order to support good governance reliance is placed on the Council's governance framework. Further information about transparency and openness in the Council can be found on the Council's internet page **Council and Democracy.**

The Constitution

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

The Council

During the period of the review the Council comprised 54 Councillors. There were three Councillors for each Ward and 18 Wards in all. The composition of the Council was Conservative 42, Labour 8, Liberal Democrat 3, and Independent 1. All Councillors meet together as the full Council and meetings are generally scheduled to take place five times a year. These meetings are open to the public.

How the Council operates

The Council is a large organisation with a total turnover over £500 million. It is responsible for providing or commissioning several hundred separate services and the three year capital programme is £160 million.

The Council has been recognised as one that achieves high performance. It also has an annual appraisal of its credit rating by Standards and Poors and is currently ranked AAA.

The Council is responsible for the administration of the election process at European, national, and local level.

The Council's Constitution sets out how the Council operates, how decisions are made and the procedures that are followed to ensure that these are efficient, transparent and accountable to local people. Some of these processes are required by law, while others are a matter for the Council to determine.

The Council is required to appoint a Monitoring Officer who monitors and reviews the operation of the Constitution, to ensure that the aims and principles of the Constitution are achieved. The Monitoring Officer advises on compliance with the Constitution and together with the Bi-borough Director of Law ensures that decision making is lawful. The Chief Solicitor has been appointed to this statutory post and has been involved in reviewing the Code of Corporate Governance and preparing this statement from its early stages. The Chief Solicitor is satisfied that the arrangements in place are working effectively and that no matters of significance have been omitted from this Statement.

In November 2013, interim management arrangements were introduced following the retirement of the Joint Chief Executive. The Council's Leader agreed to combine the post of Town Clerk and Executive Director of Finance with the post of Joint Chief Executive on an interim basis. Nicholas Holgate took up this role in November 2013.

Senior staff, led by the Joint Chief Executive, provide policy options and commentary as necessary on possible action to Councillors who take the key decisions. The staff manage the day to day business of the Council.

Following the appointment of a new Leader of the Council at the Annual Meeting in May 2013, the Executive undertook a review of the Council's mission statement. A revised and updated statement was agreed by the Leader in November 2013 and published in the Budget Proposals for 2014-15. The mission statement (entitled *The Council's Mission for the Royal Borough*) seeks to focus on those issues that matter most.

Strategic plans and policies

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

Budget plans are summarised in a document - **Budget Proposals** - which was published after approval of the budget in March.

How we ensure our arrangements are working

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

Sources of Assurances Required

Corporate Governance	Management Team	Services are delivered economically, efficiently & effectively
• Constitution (incl. statutory officers, scheme of delegation, financial management and procurement rules) • Audit and Transparency Committee • Internal and external audit • Independent external sources • Scrutiny function • Council, Cabinet and Panels • Medium Term Financial Strategy • Complaints system • HR policies and procedures • Whistleblowing and other countering fraud arrangements • Risk management framework • Performance management system • Codes of conduct	• The role of Chief Officers • Delivery of Council's aims and objectives • Corporate Planning • Business, Financial and Commissioning Plans • Officer codes of conduct • Performance appraisal • The role of the Chief Financial Officer • The role of the Head of Internal Audit • Roles and responsibilities of Members and Officers • Timely production of a Statement of accounts • External and Internal audit reports recommedations • Review of Corporate Governance	• Management of risk • Effectiveness of internal controls • Democratic engagement and public accountability • Budget and financial management arrangements • Standards of conduct and behaviour • Compliance with laws and regulations, internal policies and procedures • Action plans dealing with significant issues are approved, actioned and reported on • Local Government Ombudsman report • Electoral Commission report • Scrutiny reviews • Effectiveness reviews of Audit and Transparency Committee and Scrutiny Committees, Internal Audit • Employee performance • Budgetary control • Compliance with the Code of Procurement • Stakeholder engagement • Evaluation of benefits gained from investments and projects

Audit and Transparency Committee Key Audit Business

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

March 2013

- Financial Practice in Schools
- Consideration of the external auditor's Annual Audit Plan 2012-2013
- Approval of the Certification of Grant Claims and Returns 2011-2012 report
- Update on MMI (Muncipal Mutal Insurance)
- Review of the progress of internal audit work
- Approval of the Internal Annual Audit Plan for 2013-2014
- Consideration of the Public Sector Internal Audit Standards
- Treasury Management Activity Report

June 2013

- Approval of the 2012-13 Annual Governance Statement
- Approval of the 2012-13 Draft Statement of Accounts
- Review of the report External Audit Progress 2012-13
- MMI (Muncipal Mutal Insurance) Scheme of Arrangement
- The Chairman of the Audit and Transparency Committee's Annual Report
- Approval of the Tri-borough Risk Management Strategy
- Approval of the Internal Audit Charter and Strategy
- Approval of the Corporate Governance Audit Report
- Approval of the Annual Report on Internal and Internal Control
- Review of the progress of internal Audit work
- Approval of the 2012-2013 Annual School Report

September 2013

- Risk management quarterly review
- Capital programme risk management
- Approval of the 2012-2013 Final Statement of Accounts
- Approval of the external auditor's Annual Governance Report (ISA 260) on the Council
- Approval of external auditor's Annual Governance Report (ISA 260) on the Pension Fund
- Review of the progress of internal Audit work
- Approval of the Annual Treasury Report for 2012-2013

January 2014

- Approval of the Certification of Grant Claims and Returns 2012-2013 report
- Review of the external auditor's Annual Audit Letter for 2012-2013
- Approval of the Anti-Fraud Report
- Risk management quarterly review
- Review of the progress of internal audit work
- Follow up of "limited assurance" internal audit report
- Treasury Management Activity Report to 30 September 2013

Audit and Transparency Committee - Seeking assurance

The Audit and Transparency Committee has responsibility for receiving many reports that deal with issues that are key to good governance. It acts as the Council's Audit Committee.
In relation to its principal role in providing the Council with independent assurance on the Council's governance arrangements, including the risk management framework and the associated control environment, the Audit and Transparency Committee gained assurance from a number of sources.

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

- financial management in schools;
- on-going liability issues from the liquidation of Municipal Mutual Insurance;
- Anti-money Laundering Policy; and
- risk management within the capital programme.

The Committee was satisfied that appropriate controls were in place in these areas.

Effectiveness review of Scrutiny Committees

Cabinet Members make up the Executive and are responsible for undertaking all of the Council's functions reserved to full Council or delegated to Committees or officers and, take key decisions either individually or collectively as the Cabinet. The Executive is held to account by five Scrutiny Committees. Each has a specific remit, for example, children's services.

Scrutiny Committees can:

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

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

Scrutiny reviews and the annual work programme

During September each year, Scrutiny Committees identify and agree a programme of work for the coming year, to ensure they are scrutinising the most important topics and issues falling under their remit. Residents, Councillors and officers participate in this. The programme is not fixed and issues can, with the agreement of the Chairman, be added to it at any time.

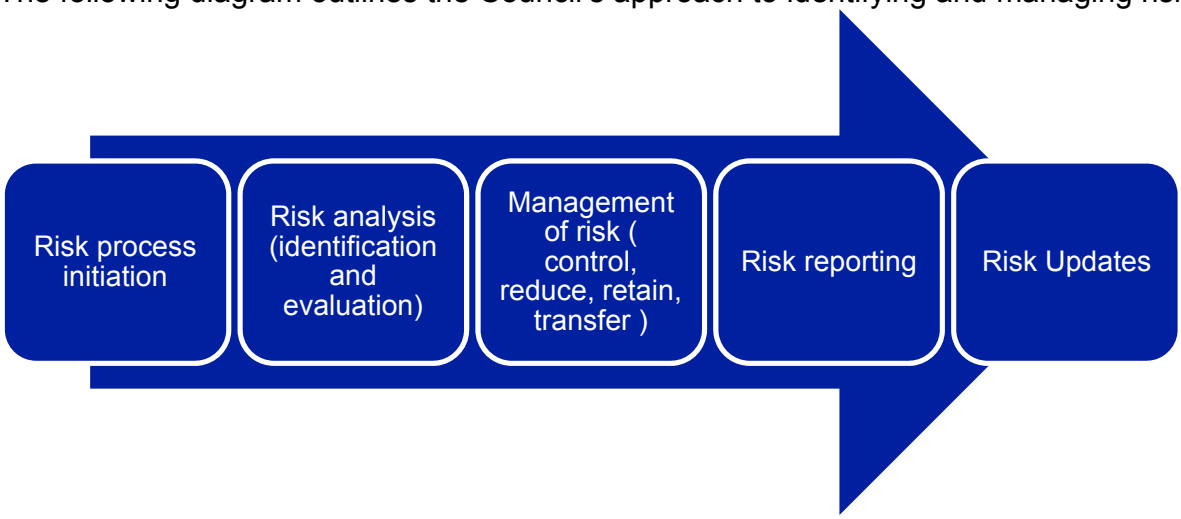
Once the work programme is agreed, the Committees regularly establish time-limited working groups (usually made up of three or four Councillors drawn from that Committee's membership) to look at the issues that have been identified. These working groups consider evidence and views from a wide range of stakeholders, professionals across a range of services, service users and academic experts, as well as studying national best practice and guidance. At the end of the evidence gathering phase, a report is produced with recommendations intended to resolve the issue or improve the way the Council operates.

Managing Key Risks

The successful delivery of the Council's aims and policies depends on the ability to tolerate and manage risk rather than eliminate it altogether. A certain amount of risk taking is inevitable. All Councillors and officers are responsible for ensuring that the implications or risks are considered as part of the decisions they take. The Council has adopted the *Tri-borough Risk Management Strategy*. It was reviewed by the Audit and Transparency Committee in December 2012 to ensure it remains appropriate and reflects the approach the Council wishes to take to the management of risk.

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

The following diagram outlines the Council's approach to identifying and managing risk.



Risk review process

It is recognised by the London Borough of Hammersmith & Fulham, Westminster City Council and the Council, that risk management is an integral part of good governance. Services are undergoing substantial changes that will continue into 2014-15 resulting in a variety of business models being used across the three Councils.

The aim of the Council is to ensure that:

- risk management becomes a natural component of its management and change processes;
- risks are identified, understood and managed to an acceptable level; and
- opportunities are seized.

This Strategy Statement supports a *Tri-borough Risk Management Policy* and its commitment to:

- raise awareness of the benefits of effective risk management;
- adopt and embed a risk aware culture; and
- establish and maintain a consistent and integrated framework that anticipates and meets the changing needs of the councils over time and in doing so ensures that risk management arrangements are in accordance with established best practice.

Managing the risk of fraud

To fulfil the Council's corporate strategy, the Council must maximise its financial resources and ensure fraud and misappropriation is reduced to a minimal level.

The Council will not tolerate fraud or corruption by its Councillors, officers, suppliers, contractors or service users and will take all necessary steps to investigate all allegations of fraud or corruption and pursue sanctions available in each case, including removal from office, dismissal and/or prosecution.

The *Corporate Fraud Strategy* is based upon three key themes: acknowledge, prevent and pursue. It adheres to the *Local Government Fraud Strategy*.

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

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

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

Bribery

Gifts and hospitality need to be dealt with in an appropriate way so that the Council and its staff are seen to be honest, fair and open at all times.

All officers and staff have a responsibility to declare any offer of a gift, hospitality, benefit or service with a value in excess of £20, even if the offer is not accepted. Officers who are offered, or who received unsolicited gifts with a value of £20 or more must record this in the Gifts and Hospitality Register System, and discuss with their line manager what action should follow such an offer or receipt. Members are required to notify the Monitoring Officer of any gifts or hospitality in excess of £50.

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

One internal complaint was made using the corporate complaints system. The same complainant also referred the issue to the Information Commissioners Office. In this case, a third party had previously refused permission to release information, but subsequently agreed that the Council could. Therefore the complainant withdrew his complaint.

Chief Financial Officer

The Council has appointed a Chief Financial Officer. This is a statutory post, responsible for delivering and overseeing the financial management arrangements of the Council. The Interim Joint Chief Executive is the Chief Financial Officer and is a member of and chairs the Council's Chief Officers' Management Team. The role conforms with the good practice requirements within the *CIPFA Statement on the Role of the Chief Financial Officer in Local Government*.

The Chief Financial Officer has been involved in reviewing the Corporate Governance of the Council and overview of the preparation of this Statement from its early stages. He is satisfied with the arrangements that are in place for managing finances and manager compliance with the Code of Procurement. The Chief Financial Officer considers the arrangements are working effectively and that no matters of significance have been omitted from this Statement.

Internal and External Audit Assurance

The Council receives a substantial amount of assurance from the work that is undertaken by its Internal Audit team and external auditors, KPMG. This assurance is further supplemented by the reviews undertaken by external agencies such as OFSTED and the Care Quality Commission. The internal team utilises the services of external providers to undertake specialist reviews such as technical audits of information systems.

Internal Audit

The Audit and Transparency Committee agreed that the *Public Sector Internal Audit Standards* (PSIAS) should be followed from April 2013. These have been developed specifically for public sector organisations.

The Committee approved the *Internal Audit Charter*, which sets out the role of internal audit, its responsibilities, and clarifies its independence. Internal audit is required to review annually how it complies with the charter. The Committee considered the review in June 2014 and decided that there were no issues of 'non-conformance' with the PSIAS that needed to be included in this Statement.

Good practice suggests that internal audit should also be reviewed against the governance arrangements set out in the *CIPFA Statement on the Role of the Head of Internal Audit*. This has not been done as the PSIAS are considered sufficiently challenging. An independent review of internal audit commenced in 2013-14. It will identify opportunities for further improvements to the service.

One of the key assurance statements the Council receives is the Head of Internal Audit Opinion and Annual Report. In respect of the twelve month period ending March 2014, the opinion, based on the work of Internal Audit and other sources of assurance, was that the Council's system of internal control was adequate and operated satisfactorily during the year.

External Audit

The Council's external auditor, KPMG, issued an unqualified value for money (VFM) conclusion for 2012-13 on 30 September 2013.

The report concluded that the Council has proper arrangements for securing financial resilience. To arrive at its conclusion, KPMG reviewed financial governance, financial planning and financial control processes, as well as how the Council was prioritising resources and improving efficiency and productivity. KPMG issued an unqualified opinion on the Council's financial statements on 30 September 2013 and concluded that the financial statements gave a true and fair view of the financial position of the Council and of its expenditure and income for the year. The financial statements also include those of the Pension Fund.

One minor area identified for further improvement was in relation to segregation of duties concerning journal processing. This is being addressing through the introduction of the new finance system under the 'Managed Services' project.

KPMG reviewed the 2012-2013 Annual Governance Statement and concluded that it was consistent with its understanding.

Significant Governance Issues

The progress made on dealing with governance issues previously identified is shown below.

2012-13

As Service Delivery Plans were not consistently produced by all services a new budget and business planning process must now be used by all services.

Formal ratification of a *Tri-borough Risk Management Policy and Strategy* was undertaken. Bi-borough guidance and methodology plan was developed to address the implementation of the strategy.

Progress against the aims of the *Community Strategy* are now being monitored by the Service Improvement Officer.

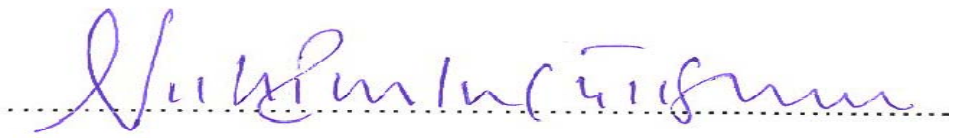
2013-14

Public Health, financial accounting and charging
As of the 1 April 2013 local authorities took over responsibility for Public Health. This involves commissioning and collaborating on a range of public health services. A review of the financial accounting and charging arrangements set out by the Department of Health (DoH) established a limited assurance on expenditure made in accordance with the DoH grant conditions. The conditions cover how the grant may be spent and the activities on which it may be spent. The service business partners, with the assistance of the Business Support Team, have been making significant progress addressing these issues.

Adult Social Care risk management
Management of risk is intrinsically important to the successful delivery of objectives. The department recognises the importance of a risk management process that are embedded and integrated into business processes. There are considerable risks associated with change to health service and social care interfaces (e.g. hospital discharge arrangements). Many elements of operational risk management are considered to be effective. However these are not managed within a structure that is consistent with the *Tri-borough Risk Management Strategy*. These include consideration of a departmental risk register comprised of strategic, business as usual and change risks that are measured, allocated, categorised and reviewed. Departmental procedures have been reviewed and an action plan implemented to address the issues identified.

Signed:

Nicholas Holgate
Joint Chief Executive and Executive Director of Finance



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

GLOSSARY OF TERMS

Balance Sheet	This is a 'snapshot' of the Council's assets, liabilities and reserves on 31 March 2014. 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'.
Business Rates Tariff	Under the local authority grant distribution system, authorities either pay a portion of their retained rates to the Government (a tariff) or are paid back a portion of the national total (a top-up). The Council pays a business rates tariff.
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.
IAS19 Employment Benefits	This International Accounting Standard is based on the principle that an organisation should account for retirement and other benefits when it is committed to give them, even if the actual payments will be made many years into the future.
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 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. As part of the grant distribution system (the Business Rates Retention Scheme) business rates are collected and a share retained by the local authority and the balance paid to the local preceptor and the Government.
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 How the Council Manages Money. The Council holds material and ongoing earmarked reserves for the following purposes:

General Fund Earmarked Reserves

Better City Life - Provides resources for new policy priorities.

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

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

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

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

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

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

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

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

Efficiency Dividend – A temporary reserve to hold the funding for the £100 per eligible local Council Tax payer approved as part of 2014-15 revenue budget and Council Tax setting in March 2014.

Excellence All Round – Funds initiatives to improve services.

Insurance – Earmarked insurance fund to cover future insurance liabilities.

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

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

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

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

Planning and Borough Development Resources – An agreed fund to hold part of the 2013-14 service underspend to strengthen the service's resources over future years and to align resources more accurately to workload.

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

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

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

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

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

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

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

Troubled Families – Holds funding allocated by government for Troubled Families initiatives.

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

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

Housing Revenue Account Earmarked Reserves:

Controlled Repairs – Provides resources for TMO repair projects.

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

Revenue Support Grant	Grant which can be used for any purpose from central government allocation as part of the local authority grant distribution system alongside a share of National Non Domestic Rates.
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 Joint Chief Executive 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 2013-14

THE ROYAL BOROUGH OF
KENSINGTON
AND CHELSEA

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

We have audited the financial statements of the Royal Borough of Kensington and Chelsea for the year ended 31 March 2014 on pages 31 to 152. 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 2013/14.

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

Respective responsibilities of the Joint Chief Executive and Executive Director of Finance and auditor

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

Scope of the audit of the financial statements

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

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2014 and of the Authority's expenditure and income for the year then ended;
- give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2014 and the amount and disposition of the fund's assets and liabilities as at 31 March 2014, and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

Matters on which we are required to report by exception

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

- the annual governance statement set out on pages 9 to18 does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007; or
- the information given in the explanatory foreword and the content of the Annual Report for the financial year for which the financial statements are prepared is not consistent with the financial statements; or
- any matters have been reported in the public interest under section 8 of Audit Commission Act 1998 in the course of, or at the conclusion of, the audit; or
- any recommendations have been made under section 11 of the Audit Commission Act 1998; or
- any other special powers of the auditor have been exercised under the Audit Commission Act 1998.

We have nothing to report in respect of these matters.

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

Authority's responsibilities

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

Auditor's responsibilities

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

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

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

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2013, as to whether the Authority has proper arrangements for:

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

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2014.

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

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2013, we are satisfied that, in all significant respects, the Royal Borough of Kensington and Chelsea put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2014.

Certificate

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

Andrew Sayers
for and on behalf of KPMG LLP, Appointed Auditor
Chartered Accountants
15 Canada Square
Canary Wharf
London
E14 5GL

23 September 2014

Movement in Reserves Statement

	Notes	Revenue Reserves				Capital Reserves					
		General Fund £'000	Earmarked Reserves £'000	Housing Revenue Account £'000	Other Usable Reserves £'000	Major Repairs Reserve £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000	Total Usable Reserves £'000	Total Unusable Reserves £'000	Total Council Reserves £'000
Balance at 31 March 2012		**10,000**	**175,019**	**13,463**	**13,580**	**2,051**	**4,985**	**4,552**	**223,651**	**931,913**	**1,155,564**
Movement in reserves during 2012-13											
Surplus / (deficit) on provision of services		(57,937)	-	(3,191)	-	-	-	-	(61,128)	-	(61,128)
Other Comprehensive Expenditure and Income		-	-	-	118	-	-	-	118	59,908	60,026
Total Comprehensive Expenditure and Income		**(57,937)**	**-**	**(3,191)**	**118**	**-**	**-**	**-**	**(61,010)**	**59,908**	**(1,102)**
Adjustments between accounting basis and funding basis under regulations	7a/b	67,094	-	5,848	-	(1,349)	5,436	1,910	78,939	(78,939)	-
Net increase / decrease before transfers to Earmarked Reserves		**9,157**	**-**	**2,657**	**118**	**(1,349)**	**5,436**	**1,910**	**17,929**	**(19,031)**	**(1,102)**
Transfers to / from Earmarked Reserves		(9,157)	9,327	(59)	(356)	-	6	-	(239)	239	-
Increase / (decrease) in 2012-13	8	**-**	**9,327**	**2,598**	**(238)**	**(1,349)**	**5,442**	**1,910**	**17,690**	**(18,792)**	**(1,102)**
Balance at 31 March 2013		**10,000**	**184,346**	**16,061**	**13,342**	**702**	**10,427**	**6,462**	**241,341**	**913,121**	**1,154,462**
Movement in reserves during 2013-14											
Surplus / (deficit) on provision of services		7,874	-	(1,785)	-	-	-	-	6,089	-	6,089
Other Comprehensive Expenditure and Income		-	-	-	(112)	-	-	-	(112)	141,738	141,626
Total Comprehensive Expenditure and Income		**7,874**	**-**	**(1,785)**	**(112)**	**-**	**-**	**-**	**5,977**	**141,738**	**147,715**
Adjustments between accounting basis and funding basis under regulations	7a/b	(1,619)	-	4,637	-	(310)	16,701	681	20,090	(20,090)	-
Net increase / decrease before transfers to Earmarked Reserves		**6,255**	**-**	**2,852**	**(112)**	**(310)**	**16,701**	**681**	**26,067**	**121,648**	**147,715**
Transfers to / from Earmarked Reserves		(6,255)	(927)	29	(2,558)	-	9,615	-	(97)	97	-
Increase / (decrease) in 2013-14	8	**-**	**(927)**	**2,881**	**(2,670)**	**(310)**	**26,316**	**681**	**25,970**	**121,745**	**147,715**
Balance at 31 March 2014		**10,000**	**183,419**	**18,942**	**10,672**	**392**	**36,743**	**7,143**	**267,311**	**1,034,867**	**1,302,178**

Comprehensive Income and Expenditure Statement

	Year Ended 31 March 2014			Year Ended 31 March 2013			Notes
	Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000	Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000	
Central services to the public	8,606	(4,719)	3,887	11,488	(4,369)	7,119	
Cultural and related services	20,938	(5,703)	15,235	24,606	(5,941)	18,665	
Environment and regulatory services	39,597	(9,374)	30,223	37,871	(8,516)	29,355	
Planning services	12,063	(5,601)	6,462	11,118	(4,326)	6,792	
Education and children's services	202,348	(127,933)	74,415	235,149	(120,227)	114,922	
Highways and transport services	42,184	(52,477)	(10,293)	41,971	(49,428)	(7,457)	
Local authority housing – other	45,060	(52,417)	(7,357)	43,104	(49,548)	(6,444)	
Other housing services	194,623	(177,954)	16,669	198,873	(183,341)	15,532	
Adult social care	65,434	(20,296)	45,138	65,797	(23,600)	42,197	
Public health*	17,380	(16,232)	1,148	-	-	-	
Corporate and democratic core	9,182	(1,162)	8,020	8,769	(1,470)	7,299	
Non distributed costs – past service pension costs	760	-	760	-	-	-	
Non distributed costs – (gain) / loss on settlements	-	(3,038)	(3,038)	1,040	-	1,040	
Non distributed costs – other	13,001	(2,484)	10,517	15,686	(2,138)	13,548	
Cost of services	**671,176**	**(479,390)**	**191,786**	**695,472**	**(452,904)**	**242,568**	27b
Other Operating Expenditure	4,786	(9,611)	(4,825)	1,347	-	1,347	9
Financing and Investment Income and Expenditure	27,713	(30,980)	(3,267)	52,633	(48,581)	4,052	10
Taxation and Non-Specific Grant Income	34,395	(224,178)	(189,783)	-	(186,839)	(186,839)	11
Net (Surplus) / Deficit on Provision of Services			**(6,089)**			**61,128**	27b
(Surplus) or deficit on revaluation of non-current assets			(93,422)			(34,472)	23b
(Surplus) or deficit on revaluation of available for sale financial assets			(15)			107	
Remeasurements of the net defined benefit liability / asset			(48,301)			-	40
Actuarial (gains) / losses on pension assets/liabilities			-			(25,543)	40
Any other (gains) / losses required to be included			112			(118)	
Other Comprehensive Income and Expenditure			**(141,626)**			**(60,026)**	
Total Comprehensive Income and Expenditure			**(147,715)**			**1,102**	

* Public health responsibilities were transferred to local government from the NHS on 1 April 2013.

Balance Sheet

	31 March '14 £'000	31 March '13 £'000	Notes
Long-term Assets			
Property, Plant and Equipment	1,266,510	1,188,583	12a
Heritage Assets	45,516	44,489	13
Investment Property	159,451	139,114	14
Intangible Assets	2,533	3,138	15
Long Term Investments	23	23	16a
Long Term Debtors	102	93,562	17b
Total Long Term Assets	**1,474,135**	**1,468,909**	
Current Assets			
Short Term Investments	256,105	155,504	16a
Assets Held for Sale	4,538	4,803	19
Inventories	114	206	
Short Term Debtors	44,667	39,486	17a
Cash and Cash Equivalents	10,199	20,846	18
Total Current Assets	**315,623**	**220,845**	
Current Liabilities			
Short Term Borrowing	10,216	8,658	16a
Short Term Creditors	106,645	105,257	20
Provisions	2,670	2,154	21
Total Current Liabilities	**119,531**	**116,069**	
Long-term Liabilities			
Long Term Creditors	-	-	
Provisions	5,696	2,997	21
Long Term Borrowing	149,943	157,740	16a
Other Long Term Liabilities	198,846	241,435	44
Capital Grants Receipts in Advance	13,564	17,051	33c
Total Long Term Liabilities	**368,049**	**419,223**	
Net Assets	**1,302,178**	**1,154,462**	
RESERVES			
Usable Reserves	267,311	241,341	7/8
Unusable Reserves	1,034,867	913,121	7/23
Total Reserves	**1,302,178**	**1,154,462**	

Cash Flow Statement

	2013-14 £'000	2012-13 £'000	Notes
Net surplus / (deficit) on the provision of services	6,089	(61,128)	
London Residuary Body	(112)	118	
Net surplus / (deficit)	**5,977**	**(61,010)**	
Adjustments to net surplus or deficit on the provision of services for non-cash movements	111,437	118,421	
Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	(3,007)	(6,040)	
Net cash flows from Operating Activities	**114,407**	**51,371**	24
Investing Activities	(118,780)	(43,653)	25
Financing Activities	(6,274)	(6,273)	26
Net increase / (decrease) in cash and cash equivalents	**(10,647)**	**1,446**	
Net cash and cash equivalents at the beginning of the reporting period	20,846	19,400	
Net cash and cash equivalents at the end of the reporting period	**10,199**	**20,846**	18

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

Notes to the Core Financial Statements

1. Accounting Policies

i. General Principles

The Statement of Accounts summarises the Council's financial transactions for the 2013-14 financial year and its financial position at 31 March 2014. 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 2013/14* (the Code) and the *Service Reporting Code of Practice 2013/14 (SeRCoP)*, supported by International Financial Reporting Standards (IFRS).

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

ii. Revenue Recognition

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

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

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

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

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

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

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

iii. Exceptional Items

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

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

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

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

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

v. Events after the Balance Sheet Date

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

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

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

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

vi. VAT

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

vii. Overheads and Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Service Reporting Code of Practice 2013-14 (SeRCoP). The total absorption costing principle is used: the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

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

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

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

viii. Inventories and Long Term Contracts

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

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

ix. Reserves

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

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

x. Government Grants and Contributions

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

- the Council will comply with the conditions attached to the payments; and

- the grants or contributions will be received.

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied.

Conditions are stipulations that must be met by the recipient as specified or the grant must be repaid.

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

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

xi. Property, Plant and Equipment

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

Recognition

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

Measurement

Assets are initially measured at cost, comprising:

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

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

The cost of assets acquired other than by purchase is deemed to be its fair value, unless the acquisition does not have commercial substance. Where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the Council.
Assets are then carried in the Balance Sheet using the following measurement bases:

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

- **Infrastructure**: depreciated historic cost.

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

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

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

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

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

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

Impairment

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

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

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

Depreciation

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

Depreciation is calculated on the following bases:

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

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

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

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

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

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

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

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

Disposals and Non-current Assets Held for Sale

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

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

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

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

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

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

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

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

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

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

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

xii. Charges to Revenue for Non-Current Assets

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

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

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

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

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

xiii. Heritage Assets

The Council holds a range of Heritage Assets comprising the Council's two museum buildings and land (Leighton House and 18 Stafford Terrace), the museum collections, the art in parks, local regalia and a local studies and archive collection held in Kensington Library. Heritage Assets are accounted for in accordance with UK GAAP under Financial Reporting Standard (FRS) 30.

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

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

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

The museum collections and the art in parks are reported in the Balance Sheet at insurance valuation (based on market values). These valuations are reviewed periodically as deemed appropriate for insurance purposes. The Council self insures assets valued below £250,000 and it therefore does not have valuation certificates for all items worth less than this amount. Acquisitions are recognised at cost. The museum collections and art are deemed to have indeterminate lives and high residual value. Hence the Council does not deem it appropriate to charge depreciation for these assets.

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

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

xiv. Investment Property

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

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

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

xv. Intangible Assets

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

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

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

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

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

xvi. Financial Instruments

Financial Liabilities

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

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

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

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

Financial Assets

Financial assets are classified into two types:

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

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

Loans and Receivables

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

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

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

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

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

Available-for-Sale Assets

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

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

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

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

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

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

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

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

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

xvii. Cash and Cash Equivalents

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

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

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

xviii. Provisions, Contingent Liabilities and Contingent Assets

Provisions

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

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

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

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

Contingent Liabilities

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

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

Contingent Assets

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

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

xix. Revenue Expenditure Funded from Capital under Statute

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

xx. Leases

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

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

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

The Council as Lessee

Finance Leases

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

Lease payments are apportioned between:

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

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

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

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

Operating Leases

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

The Council as Lessor

Finance Leases

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

Lease rentals receivable are apportioned between:

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

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

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

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

Operating Leases

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

xxi. Employee Benefits

Benefits Payable During Employment

Short-term employee benefits are those due to be settled within the 12 months following year-end. They include benefits for current employees such as salaries, paid annual leave, paid sick

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

Termination Benefits

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

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

Post Employment Benefits

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

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

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

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

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

The Local Government Pension Scheme

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

Liabilities are discounted to their value at current prices, using a discount rate determined by the actuary that is based on the indicative rate of return on high quality corporate bonds: the iBoxx 'AA' rated, over 15-year corporate bond index. This is currently 4.5 per cent.

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

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

The change in the net pensions liability is analysed into the following:

Service cost, comprising:

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

Remeasurements, comprising:

- ***Return on plan assets*****:** investment returns, excluding amounts included in net interest on the net defined benefit liability (asset); debited to the Pensions Reserve.
- ***Actuarial gains and losses:*** changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or

because the actuaries have updated their assumptions; debited to the Pensions Reserve.

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

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

Discretionary Benefits

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

xxii. Collection Fund

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

xxiii. Carbon Reduction Commitment Allowances

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

2. Accounting Standards Issued Not Yet Adopted

The International Accounting Standards Board (IASB) has issued a number of revised accounting standards that have not yet been adopted by either the Code or the Council, but will apply to the Council from the 1 April 2014. These are outlined below.

- *IFRS 10 Consolidated Financial Statements*
- *IFRS 11 Joint Arrangements*
- *IFRS 12 Disclosures of Interests in Other Entities*
- *IAS 27 Separate Financial Statements (as amended in May 2011)*
- *IAS 28 Investments in Associates and Joint Ventures (as amended in May 2011)*
- *Annual Improvements to IFRSs 2009 – 2011 Cycle*

The introduction of IFRS 10, IFRS 11 and IFRS 12, and the changes to IAS 27 and IAS 28 are closely related. The changes to IAS 27 and IAS 28 are deletions that result from the introduction of the three new standards. Taken together the three new standards significantly alter the test of control and disclosure requirements in relation to group accounting and interests in other entities. The Council does not believe that the new and revised accounting standards significantly affect either its financial statements or disclosures.

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’ or ‘Bi-borough working’. The proposals have not reduced the level of service provided by the Council. Therefore, the Council believes that it is not necessary to impair any non-current asset in light of Tri-borough and Bi-borough working. Property prices in the Royal Borough are such that any asset the Council deems surplus is unlikely to be disposed of for less than its current fair value.

- The Council has significant reserves set aside to meet the costs of its transformation projects and potential redundancies, whether due to Tri-borough and Bi-borough working, or any other reconfiguration of services that delivers greater efficiency, or is the result of Government changes to funding or service arrangements. Therefore, the Council does not believe that it is necessary to set aside any additional funds or to make any provision to meet such costs.

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

4. Assumptions Made about the Future and Other Major Sources of Estimation 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 2014 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 grew, particularly for high-end residential properties, but the number and relevance of asset sales against which the Council could judge the fair value of its property assets was low. Therefore, the Council judged that no fundamental alteration to the estimates that underpin the valuation of its properties and dwellings was required. Should evidence emerge in 2014-15 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 £16 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 around £1.5 billion.

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
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

Holland Park School converted to academy status on 1 September 2013. In line with statutory requirements the site has been let to the academy trust at a peppercorn rent. Therefore, the Council's external valuers, Deloitte Real Estate, revalued the land occupied by the academy and determined that the value of the site is a notional £1 because the Council is unable to realise the full economic value of the freehold. As a result, the Council debited an impairment of £11,369,192 to the Surplus or Deficit on the Provision of Services under the schools element of Children's and Education Services.

6. Events after the Balance Sheet Date

The Latimer Education Centre converted to academy status on 1 April 2014. The Council had been discussing with the school options to replace its existing buildings, including the possible relocation of the school to a different site and a potential Bi-borough arrangement with the London Borough of Hammersmith & Fulham. These discussions continue and prior to their conclusion and the negotiation of lease arrangements with the academy and its financial separation from the Council, the permanent impact of the conversion on the Council's financial statements cannot be determined. The maximum possible accounting loss in 2014-15 due to conversion is £2 million comprising the write-out of the academy's current assets from the Council's accounts and a possible reduction in the value of the current land site if it is let to the academy for a considerable period at a peppercorn rent.

7. Adjustments between Accounting Basis and Funding Basis under Regulations

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

Movement on Usable Reserves 2013-14	Revenue Reserves					Capital Reserves			
	General Fund Balance £'000	Earmarked Reserves £'000	Housing Revenue Account £'000	Schools Reserves £'000	London Residuary Body £'000	Major Repairs Reserve £'000	Capital Receipts Reserves £'000	Capital Grants Unapplied £'000	Total Usable Reserves £'000
Balance at 1 April 2013	**10,000**	**184,346**	**16,061**	**9,052**	**4,289**	**702**	**10,427**	**6,462**	**241,341**
Surplus or (deficit) on provision of services	7,874	-	(1,785)	-	-	-	-	-	**6,089**
Other comprehensive expenditure and income	-	-	-	-	(112)	-	-	-	**(112)**
Total Comprehensive Expenditure and Income	**7,874**	**-**	**(1,785)**	**-**	**(112)**	**-**	**-**	**-**	**5,977**
Adjustments between accounting basis and funding basis under regulations									
Reversal of items debited or credited to the CIES									
Depreciation of tangible non-current assets (excluding HRA depreciation)	9,586	-	-	-	-	-	-	-	**9,586**
Amortisation of intangible non-current assets (excluding HRA amortisation)	754	-	-	-	-	-	-	-	**754**
HRA depreciation / amortisation	-	-	2,791	-	-	-	-	-	**2,791**
Impairment / revaluation losses (charged to the CIES)	20,726	-	9,087	-	-	-	-	-	**29,813**
Capital grants and contributions applied	(2,036)	-	-	-	-	-	-	-	**(2,036)**
Revenue Expenditure Funded from Capital Under Statute	13,712	-	11	-	-	-	-	-	**13,723**
Movement in the market value of investment property	(17,148)	-	-	-	-	-	-	-	**(17,148)**
Amounts of non-current assets written off on disposal or sale as part of the gain / loss on disposal to the CIES	4,417	-	-	-	-	-	-	-	**4,417**
Capital grants and contributions unapplied credited to the CIES	(960)	-	-	-	-	-	-	960	**-**
Transfer of sale proceeds credited as part of the gain / loss on disposal to the CIES	(14,297)	-	-	-	-	-	14,297	-	**-**
Use of capital grants to finance capital expenditure	-	-	-	-	-	-	-	(279)	**(279)**
Use of capital receipts reserve to finance capital expenditure	-	-	-	-	-	-	(80,745)	-	**(80,745)**
Reversal of items relating to retirement benefits debited or credited to the CIES	28,448	-	-	-	-	-	-	-	**28,448**
Amount by which council tax income and residual community charge adjustment included in the CIES is different from the amount taken to the General Fund in accordance with regulations	(280)	-	-	-	-	-	-	-	**(280)**
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	(347)	-	-	-	-	-	-	-	**(347)**
Amount by which finance costs calculated in accordance with the Code are different from the amount of finance costs calculated in accordance with statutory requirements	(56)	-	-	-	-	-	-	-	**(56)**
Insertion of items not debited or credited to the CIES									
Statutory provision for the repayment of debt - Minimum Revenue Provision	(1,038)	-	-	-	-	-	-	-	**(1,038)**
Statutory repayment of debt (finance lease liabilities)	(35)	-	-	-	-	-	-	-	**(35)**
Voluntary provision above the Minimum Revenue Provision	(304)	-	-	-	-	-	-	-	**(304)**
Contribution to disposal costs of capital sales	268	-	-	-	-	-	(268)	-	**-**
HRA capital receipts to housing central pool	1,473	-	-	-	-	-	(1,473)	-	**-**
Revenue contribution to finance capital	(21,906)	-	-	-	-	-	-	-	**(21,906)**
Employers' contributions to pension schemes	(22,596)	-	-	-	-	-	-	-	**(22,596)**
Reversal of Major Repairs Allowance credited to the HRA	-	-	(7,252)	-	-	7,252	-	-	**-**
Use of the Major Repairs Reserve to finance new capital expenditure	-	-	-	-	-	(7,562)	-	-	**(7,562)**
Transfer of Deferred Capital Receipts to Capital Receipts Reserve (Holland Park School)	-	-	-	-	-	-	84,890	-	**84,890**
Total adjustment between accounting basis and funding basis under regulations	**(1,619)**	**-**	**4,637**	**-**	**-**	**(310)**	**16,701**	**681**	**20,090**
Net increase / decrease before transfers to earmarked reserves	**6,255**	**-**	**2,852**	**-**	**(112)**	**(310)**	**16,701**	**681**	**26,067**
Transfers to / from earmarked reserves (see Note 8)	(6,255)	(927)	29	(2,558)	-	-	9,615	-	**(97)**
Increase / decrease (movement) in-year	**-**	**(927)**	**2,881**	**(2,558)**	**(112)**	**(310)**	**26,316**	**681**	**25,970**
Balance at 31 March 2014 carried forward	**10,000**	**183,419**	**18,942**	**6,495**	**4,177**	**392**	**36,743**	**7,143**	**267,311**

Movement on Usable Reserves 2012-13	Revenue Reserves					Capital Reserves			
	General Fund Balance £'000	Earmarked Reserves £'000	Housing Revenue Account £'000	Schools Reserves £'000	London Residuary Body £'000	Major Repairs Reserve £'000	Capital Receipts Reserves £'000	Capital Grants Unapplied £'000	Total Usable Reserves £'000
Balance at 1 April 2012	**10,000**	**175,019**	**13,463**	**9,409**	**4,171**	**2,051**	**4,985**	**4,552**	**223,651**
Surplus or (deficit) on provision of services	(57,937)	-	(3,191)	-	-	-	-	-	**(61,128)**
Other comprehensive expenditure and income	-	-	-	-	118	-	-	-	**118**
Total Comprehensive Expenditure and Income	**(57,937)**	**-**	**(3,191)**	**-**	**118**	**-**	**-**	**-**	**(61,010)**
Adjustments between accounting basis and funding basis under regulations									
Reversal of items debited or credited to the CIES									
Depreciation of tangible non-current assets (excluding HRA depreciation)	13,390	-	-	-	-	-	-	-	**13,390**
Amortisation of intangible non-current assets (excluding HRA amortisation)	581	-	-	-	-	-	-	-	**581**
HRA depreciation / amortisation	-	-	2,901	-	-	-	-	-	**2,901**
Local authority housing: settlement payment to the Government for HRA self-financing	-	-	-	-	-	-	-	-	**-**
Impairment / revaluation losses (charged to the CIES)	81,978	-	9,629	-	-	-	-	-	**91,607**
Capital grants and contributions applied	(3,392)	-	-	-	-	-	-	-	**(3,392)**
Revenue Expenditure Funded from Capital Under Statute	2,156	-	570	-	-	-	-	-	**2,726**
Movement in the market value of investment property	(7,714)	-	-	-	-	-	-	-	**(7,714)**
Amounts of non-current assets written off on disposal or sale as part of the gain / loss on disposal to the CIES	4,494	-	-	-	-	-	-	-	**4,494**
Capital grants and contributions unapplied credited to the CIES	(2,649)	-	-	-	-	-	-	2,649	**-**
Transfer of sale proceeds credited as part of the gain / loss on disposal to the CIES	(6,999)	-	-	-	-	-	6,999	-	**-**
Use of capital grants to finance capital expenditure	-	-	-	-	-	-	-	(739)	**(739)**
Use of capital receipts reserve to finance capital expenditure	-	-	-	-	-	-	(949)	-	**(949)**
Reversal of items relating to retirement benefits debited or credited to the CIES	29,103	-	-	-	-	-	-	-	**29,103**
Amount by which council tax income and residual community charge adjustment included in the CIES is different from the amount taken to the General Fund in accordance with regulations	20	-	-	-	-	-	-	-	**20**
Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	111	-	-	-	-	-	-	-	**111**
Amount by which finance costs calculated in accordance with the Code are different from the amount of finance costs calculated in accordance with statutory requirements	(56)	-	-	-	-	-	-	-	**(56)**
Insertion of items not debited or credited to the CIES									
Statutory provision for the repayment of debt - Minimum Revenue Provision	(1,070)	-	-	-	-	-	-	-	**(1,070)**
Statutory repayment of debt (finance lease liabilities)	(35)	-	-	-	-	-	-	-	**(35)**
Voluntary provision above the Minimum Revenue Provision	(298)	-	-	-	-	-	-	-	**(298)**
Contribution to disposal costs of capital sales	330	-	-	-	-	-	(330)	-	**-**
HRA capital receipts to housing central pool	284	-	-	-	-	-	(284)	-	**-**
Revenue contribution to finance capital	(17,622)	-	(50)	-	-	-	-	-	**(17,671)**
Employers' contributions to pension schemes	(25,521)	-	-	-	-	-	-	-	**(25,521)**
Reversal of Major Repairs Allowance credited to the HRA	-	-	(7,202)	-	-	7,202	-	-	**-**
Use of the Major Repairs Reserve to finance new capital expenditure	-	-	-	-	-	(8,551)	-	-	**(8,551)**
Total adjustment between accounting basis and funding basis under regulations	**67,094**	**-**	**5,848**	**-**	**-**	**(1,349)**	**5,436**	**1,910**	**78,939**
Net increase / decrease before transfers to earmarked reserves	**9,157**	**-**	**2,657**	**-**	**118**	**(1,349)**	**5,436**	**1,910**	**17,929**
Transfers to / from earmarked reserves (see Note 8)	(9,157)	9,327	(59)	(356)	-	-	6	-	**(239)**
Increase / decrease (movement) in-year	**(0)**	**9,327**	**2,598**	**(356)**	**118**	**(1,349)**	**5,442**	**1,910**	**17,690**
Balance at 31 March 2013 carried forward	**10,000**	**184,346**	**16,061**	**9,052**	**4,289**	**702**	**10,427**	**6,462**	**241,341**

Movement in Unusable Reserves 2013-14	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 2013	**521,121**	**(241,242)**	**551,338**	**84,821**	**(854)**	**-**	**31**	**(2,095)**	**913,121**	**241,341**	**1,154,462**
Movement in reserves during 2013-14											
Surplus or (deficit) on provision of services	-	-	-	-	-	-	-	-	**-**	**6,089**	**6,089**
Revaluation gains and losses	94,577	-	-	-	-	-	-	-	**94,577**	**-**	**94,577**
Impairment losses (chargeable to the Revaluation Reserve)	(1,155)	-	-	-	-	-	-	-	**(1,155)**	**-**	**(1,155)**
Movement in Available for Sale Financial Instruments	-	-	-	-	-	15	-	-	**15**	**-**	**15**
Movement in the Pensions Reserve	-	48,301	-	-	-	-	-	-	**48,301**	**-**	**48,301**
Other comprehensive expenditure and income	-	-	-	-	-	-	-	-	**-**	**(112)**	**(112)**
Total Comprehensive Expenditure and Income	**93,422**	**48,301**	**-**	**-**	**-**	**15**	**-**	**-**	**141,738**	**5,977**	**147,715**
Adjustments between accounting basis and funding basis under regulations											
Reversal of items debited or credited to the CIES											
Depreciation of tangible non-current assets (excluding HRA depreciation)	-	-	(9,586)	-	-	-	-	-	**(9,586)**	**9,586**	**-**
Amortisation of intangible non-current assets (excluding HRA amortisation)	-	-	(754)	-	-	-	-	-	**(754)**	**754**	**-**
HRA depreciation / amortisation	-	-	(2,791)	-	-	-	-	-	**(2,791)**	**2,791**	**-**
Impairment / revaluation losses (charged to the CIES)	-	-	(29,813)	-	-	-	-	-	**(29,813)**	**29,813**	**-**
Capital grants and contributions applied	-	-	2,036	-	-	-	-	-	**2,036**	**(2,036)**	**-**
Revenue Expenditure Funded from Capital Under Statute	-	-	(13,723)	-	-	-	-	-	**(13,723)**	**13,723**	**-**
Movement in the market value of investment property	-	-	17,148	-	-	-	-	-	**17,148**	**(17,148)**	**-**
Amounts of non-current assets written off on disposal or sale as part of the gain / loss on disposal to the CIES	-	-	(4,417)	-	-	-	-	-	**(4,417)**	**4,417**	**-**
Use of capital grants to finance capital expenditure	-	-	278	-	-	-	-	-	**278**	**(278)**	**-**
Use of capital receipts reserve to finance capital expenditure	-	-	80,745	-	-	-	-	-	**80,745**	**(80,745)**	**-**
Reversal of items relating to retirement benefits debited or credited to the CIES	-	(28,448)	-	-	-	-	-	-	**(28,448)**	**28,448**	**-**
Amount by which council tax income and residual community charge adjustment included in the CIES is different from the amount taken to the General Fund in accordance with regulations	-	-	-	-	-	-	281	-	**281**	**(281)**	**-**
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	-	-	-	-	-	-	-	347	**347**	**(347)**	**-**
Amount by which finance costs calculated in accordance with the Code are different from the amount of finance costs calculated in accordance with statutory requirements	-	-	-	-	55	-	-	-	**55**	**(55)**	**-**
Insertion of items not debited or credited to the CIES										**-**	
Statutory provision for the repayment of debt - Minimum Revenue Provision	-	-	1,038	-	-	-	-	-	**1,038**	**(1,038)**	**-**
Statutory repayment of debt (finance lease liabilities)	-	-	35	-	-	-	-	-	**35**	**(35)**	**-**
Voluntary provision above the Minimum Revenue Provision	-	-	304	-	-	-	-	-	**304**	**(304)**	**-**
Revenue contribution to finance capital	-	-	21,904	-	-	-	-	-	**21,904**	**(21,904)**	**-**
Employers' contributions to pension schemes	-	22,599	-	-	-	-	-	-	**22,599**	**(22,599)**	**-**
Reversal of Major Repairs Allowance credited to the HRA	-	-	-	-	-	-	-	-	**-**	**-**	**-**
Use of the Major Repairs Reserve to finance new capital expenditure	-	-	7,562	-	-	-	-	-	**7,562**	**(7,562)**	**-**
Adjustment between the CAA and Revaluation Reserve for the difference between current cost depreciation and historic cost depreciation	-	-	-	-	-	-	-	-	**-**	**-**	**-**
Adjustment between the CAA and Revaluation Reserve in respect of assets disposed of or scrapped	(3,506)	-	3,506	-	-	-	-	-	**-**	**-**	**-**
Transfer of Deferred Capital Receipts to Capital Receipts Reserve (Holland Park School)	-	-	-	(84,890)	-	-	-	-	**(84,890)**	**84,890**	**-**
Total adjustment between accounting basis and funding basis under regulations	**(3,506)**	**(5,849)**	**73,474**	**(84,890)**	**55**	**-**	**281**	**347**	**(20,090)**	**20,090**	**-**
Net increase / decrease before transfers to earmarked reserves	**89,916**	**42,452**	**73,474**	**(84,890)**	**55**	**15**	**281**	**347**	**121,648**	**26,067**	**147,715**
Transfers to / from earmarked reserves (see Note 8)	**-**	**-**	**-**	**97**	**-**	**-**	**-**	**-**	**97**	**(97)**	**-**
Increase / decrease (movement) in-year	**89,916**	**42,452**	**73,474**	**(84,793)**	**55**	**15**	**281**	**347**	**121,745**	**25,970**	**147,715**
Balance at 31 March 2014 carried forward	**611,037**	**(198,790)**	**624,812**	**28**	**(799)**	**15**	**312**	**(1,748)**	**1,034,867**	**267,311**	**1,302,178**

Movement in Unusable Reserves 2012-13	Revaluation Reserve £000	Pensions Reserve £000	CAA £000	Deferred Capital Receipts £000	FIAA £000	AFS FI Reserve £000	CFAA £000	STACA Reserve £000	Unusable Reserves £'000	Total Usable Reserves £'000	All Reserves £'000
Balance at 1 April 2012	**493,009**	**(263,203)**	**620,260**	**84,582**	**(910)**	**107**	**51**	**(1,984)**	**931,913**	**223,651**	**1,155,564**
Movement in reserves during 2012-13											
Surplus or (deficit) on provision of services	-	-	-	-	-	-	-	-	**-**	**(61,128)**	**(61,128)**
Revaluation gains and losses	45,604	-	-	-	-	-	-	-	**45,604**	**-**	**45,604**
Impairment losses (chargeable to the Revaluation Reserve)	(11,132)	-	-	-	-	-	-	-	**(11,132)**	**-**	**(11,132)**
Movement in Available for Sale Financial Instruments	-	-	-	-	-	(107)	-	-	**(107)**	**-**	**(107)**
Movement in the Pensions Reserve	-	25,543	-	-	-	-	-	-	**25,543**	**-**	**25,543**
Other comprehensive expenditure and income	-	-	-	-	-	-	-	-	**-**	**118**	**118**
Total Comprehensive Expenditure and Income	**34,472**	**25,543**	**-**	**-**	**-**	**(107)**	**-**	**-**	**59,908**	**(61,010)**	**(1,102)**
Adjustments between accounting basis and funding basis under regulations											
Reversal of items debited or credited to the CIES											
Depreciation of tangible non-current assets (excluding HRA depreciation)	-	-	(13,390)	-	-	-	-	-	**(13,390)**	**13,390**	**-**
Amortisation of intangible non-current assets (excluding HRA amortisation)	-	-	(581)	-	-	-	-	-	**(581)**	**581**	**-**
HRA depreciation / amortisation	-	-	(2,901)	-	-	-	-	-	**(2,901)**	**2,901**	**-**
Local authority housing: settlement payment to the Government for HRA self-financing	-	-	-	-	-	-	-	-	**-**	**-**	**-**
Impairment / revaluation losses (charged to the CIES)	-	-	(91,608)	-	-	-	-	-	**(91,608)**	**91,608**	**-**
Capital grants and contributions applied	-	-	3,392	-	-	-	-	-	**3,392**	**(3,392)**	**-**
Revenue Expenditure Funded from Capital Under Statute	-	-	(2,726)	-	-	-	-	-	**(2,726)**	**2,726**	**-**
Movement in the market value of investment property	-	-	7,714	-	-	-	-	-	**7,714**	**(7,714)**	**-**
Amounts of non-current assets written off on disposal or sale as part of the gain / loss on disposal to the CIES	-	-	(4,494)	-	-	-	-	-	**(4,494)**	**4,494**	**-**
Use of capital grants to finance capital expenditure	-	-	739	-	-	-	-	-	**739**	**(739)**	**-**
Use of capital receipts reserve to finance capital expenditure	-	-	949	-	-	-	-	-	**949**	**(949)**	**-**
Reversal of items relating to retirement benefits debited or credited to the CIES	-	(29,103)	-	-	-	-	-	-	**(29,103)**	**29,103**	**-**
Amount by which council tax income and residual community charge adjustment included in the CIES is different from the amount taken to the General Fund in accordance with regulations	-	-	-	-	-	-	(20)	-	**(20)**	**20**	**-**
Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	-	-	-	-	-	-	-	(111)	**(111)**	**111**	**-**
Amount by which finance costs calculated in accordance with the Code are different from the amount of finance costs calculated in accordance with statutory requirements	-	-	-	-	56	-	-	-	**56**	**(56)**	**-**
Insertion of items not debited or credited to the CIES											
Statutory provision for the repayment of debt - Minimum Revenue Provision	-	-	1,070	-	-	-	-	-	**1,070**	**(1,070)**	**-**
Statutory repayment of debt (finance lease liabilities)	-	-	35	-	-	-	-	-	**35**	**(35)**	**-**
Voluntary provision above the Minimum Revenue Provision	-	-	298	-	-	-	-	-	**298**	**(298)**	**-**
Revenue contribution to finance capital	-	-	17,671	-	-	-	-	-	**17,671**	**(17,671)**	**-**
Employers' contributions to pension schemes	-	25,521	-	-	-	-	-	-	**25,521**	**(25,521)**	**-**
Reversal of Major Repairs Allowance credited to the HRA	-	-	-	-	-	-	-	-	**-**	**-**	**-**
Use of the Major Repairs Reserve to finance new capital expenditure	-	-	8,551	-	-	-	-	-	**8,551**	**(8,551)**	**-**
Adjustment between the CAA and Revaluation Reserve for the difference between current cost depreciation and historic cost depreciation	(2,841)	-	2,841	-	-	-	-	-	**-**	**-**	**-**
Adjustment between the CAA and Revaluation Reserve in respect of assets disposed of or scrapped	(3,519)	-	3,519	-	-	-	-	-	**-**	**-**	**-**
Total adjustment between accounting basis and funding basis under regulations	**(6,360)**	**(3,582)**	**(68,922)**	**-**	**56**	**-**	**(20)**	**(111)**	**(78,939)**	**78,939**	**-**
Net increase / decrease before transfers to earmarked reserves	**28,112**	**21,961**	**(68,922)**	**-**	**56**	**(107)**	**(20)**	**(111)**	**(19,031)**	**17,929**	**(1,102)**
Transfers to / from earmarked reserves (see Note 8)	**-**	**-**	**-**	**239**	**-**	**-**	**-**	**-**	**239**	**(239)**	**-**
Increase / decrease (movement) in-year	**28,112**	**21,961**	**(68,922)**	**239**	**56**	**(107)**	**(20)**	**(111)**	**(18,792)**	**17,690**	**(1,102)**
Balance at 31 March 2013 carried forward	**521,121**	**(241,242)**	**551,338**	**84,821**	**(854)**	**-**	**31**	**(2,095)**	**913,121**	**241,341**	**1,154,462**

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 £43.8 million at 31 March 2014. The increase in Usable Capital Receipts is due to the sales completion of the Holland Park School southern site in 2013-14. 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 2012 £'000	Transfers Out 2012-13 £'000	Transfers In 2012-13 £'000	31 March '13 £'000	Transfers Out 2013-14 £'000	Transfers In 2013-14 £'000	31 March 2014 £'000
General Fund	**10,000**	-	-	**10,000**	-	-	**10,000**
Earmarked Reserves (General Fund) [see 8c]	**174,695**	(62,364)	71,632	**183,963**	(80,166)	79,266	**183,064**
Schools' reserves	**9,409**	(1,487)	1,130	**9,052**	(3,564)	1,006	**6,494**
London Residuary Body balance	**4,171**	-	118	**4,289**	(112)	-	**4,177**
Housing Revenue Account	**15,838**	(8,551)	9,859	**17,146**	(7,608)	10,150	**19,689**
Usable Capital Receipts	**4,985**	(949)	6,391	**10,427**	(80,745)	107,061	**36,743**
Capital Grants Unapplied	**4,552**	(739)	2,649	**6,462**	(260)	941	**7,143**
Total Usable Reserves	**223,651**	**(74,089)**	**91,779**	**241,341**	**(172,455)**	**198,425**	**267,311**

8b. Transfer to and from Housing Revenue Account Reserves

	1 April 2012 £'000	Transfers Out 2012-13 £'000	Transfers In 2012-13 £'000	31 March '13 £'000	Transfers Out 2013-14 £'000	Transfers In 2013-14 £'000	31 March 2014 £'000
Housing Revenue Account	**13,463**	-	2,598	**16,061**	-	2,881	**18,942**
Major Repairs Reserve	**2,051**	(8,551)	7,202	**702**	(7,580)	7,270	**392**
HRA Controlled Repairs (Earmarked Reserves)	**223**	-	47	**271**	(8)	-	**263**
HRA Lancaster West Estate Management Board (Earmarked Reserves)	**101**	-	12	**113**	(20)	-	**92**
Total Housing Revenue Account Reserves	**15,838**	**(8,551)**	**9,859**	**17,146**	**(7,608)**	**10,150**	**19,689**

8c. Transfer to and from General Fund Earmarked Reserves

	1 April 2012	Transfers Out 2012-13	Transfers In 2012-13	31 March 2013	Transfers Out 2013-14	Transfers In 2013-14	31 March 2014
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Better City Life	**2,837**	(593)	300	**2,544**	(20)	300	**2,824**
Budget Carry Forward	**8,188**	(2,253)	2,379	**8,314**	(3,684)	1,647	**6,277**
Capital Expenditure	**67,079**	(16,730)	19,356	**69,704**	(30,058)	22,235	**61,881**
Car Parking	**24,220**	(30,174)	29,600	**23,646**	(33,451)	32,752	**22,948**
Corporate Information Systems (IS) Initiatives	**295**	(21)	132	**406**	(81)	132	**457**
Cost Reduction (Transformation Fund)	**792**	(1,584)	7,024	**6,232**	(2,214)	7,500	**11,517**
Community Safety	**332**	-	585	**917**	(60)	-	**857**
Demand Growth	**5,297**	-	-	**5,297**	-	-	**5,297**
Economic Development	**154**	-	51	**205**	-	177	**383**
Efficiency Dividend	**-**	-	-	**-**	-	7,500	**7,500**
Excellence All Round	**3,093**	(167)	-	**2,926**	(156)	-	**2,770**
Insurance	**4,500**	(487)	870	**4,883**	(250)	374	**5,006**
Lead Flood Authority	**132**	-	-	**132**	-	130	**262**
Licensing and Planning Costs	**250**	-	-	**250**	-	-	**250**
Local Elections	**148**	-	75	**223**	-	75	**298**
Local Initiatives (Transformation Fund)	**4,792**	(21)	-	**4,771**	-	-	**4,771**
Planning and Borough Development Resources	**-**	-	-	**-**	-	573	**573**
Property Strategy	**2,138**	(516)	500	**2,122**	(400)	500	**2,223**
Repairs and Renewals	**3,553**	(391)	461	**3,623**	(361)	386	**3,647**
Service Risks	**6,253**	-	500	**6,753**	(2,750)	-	**4,003**
Service Risks Housing	**-**	-	-	**-**	-	3,543	**3,543**
Severance (Transformation Fund)	**8,269**	-	325	**8,594**	-	325	**8,919**
Specific Grant Loss	**2,566**	-	1,606	**4,172**	-	-	**4,172**
Strategic Regeneration	**13,462**	(120)	885	**14,227**	(69)	-	**14,158**
Supporting People	**4,706**	-	-	**4,706**	-	-	**4,706**
Troubled Families	**-**	-	-	**-**	-	367	**367**
Value Added Tax (VAT) Liability	**1,070**	-	730	**1,800**	-	400	**2,200**
Voluntary Sector Fund	**500**	-	-	**500**	(178)	-	**322**
Other Earmarked Reserves (<£250k balance)	**10,069**	(9,307)	6,254	**7,017**	(6,433)	350	**934**
Total General Fund Earmarked Reserves	**174,695**	**(62,364)**	**71,632**	**183,963**	**(80,166)**	**79,266**	**183,064**

9. Other Operating Expenditure

	2013-14 £'000	2012-13 £'000
Levies	3,313	3,238
Payments to the Government Housing Capital Receipts Pool	1,473	284
(Gains) / losses on the disposal of non-current assets	(9,611)	(2,175)
Total	**(4,825)**	**1,347**

10. Financing and Investment Income and Expenditure

	2013-14 £'000	2012-13 £'000
Interest payable and similar charges	11,031	11,582
Interest payable on finance leases	7	7
Premium on early repayment of debt	-	-
Net interest on the net defined benefit liability	10,418	-
Pensions interest cost	-	34,714
Expected return on pensions assets	-	(26,078)
Interest receivable and similar income	(1,773)	(3,515)
Income and expenditure in relation to investment properties	(5,689)	(4,862)
Changes to fair value of investment properties	(17,148)	(7,714)
Other investment income – (surplus) / deficit on trading operations that are not allocated back to services	(112)	(82)
Total	**(3,267)**	**4,052**

11. Taxation and Non-Specific Grant Income

	2013-14 £'000	2012-13 £'000
National Non Domestic Rates	(78,546)	(98,962)
Business rates tariff	34,395	-
Non-ring fenced Government grants	(71,140)	(3,869)
Total Government funding*	**(115,291)**	**(102,831)**
Council tax income	(71,496)	(77,968)
Capital grants and contributions	(2,996)	(6,040)
Total	**(189,783)**	**(186,839)**

*Please note that the comparable government funding figure for 2013-14, calculated by the Government, is £93 million – a Government funding reduction of £10 million. The £115 million Government funding is after the transfer of pre-existing specific grants into non-specific grant income including £9 million for Council Tax Support (formerly Council Tax Benefit Grant) and £5 million of Early Intervention Grant.

12. Property, Plant and Equipment

12a. Movement on Balances

Movements in 2013-14	Council Dwellings £'000	Other Land and Buildings £'000	Vehicles, Equipment Plant and Furniture £'000	Infrastructure Assets £'000	Community Assets £'000	Surplus Assets £'000	Assets Under Construction £'000	Total £'000
Cost or Valuation								
At 1 April 2013	**597,454**	**576,743**	**15,337**	**70,718**	**7,599**	**-**	**5,978**	**1,273,829**
Additions	8,146	15,646	646	33	1,382	-	8,733	34,586
Revaluation increases / (decreases) and impairments recognised in the Revaluation Reserve	35,455	42,070	(62)	-	-	-	-	77,463
Revaluation increases / (decreases) and impairments recognised in the CIES	(534)	(20,574)	(454)	-	-	-	(486)	(22,047)
Transfers to Assets Held for Sale	-	-	-	-	-	-	-	-
Transfers in	529	1,522	-	-	-	-	-	2,051
Transfers out	-	(4,997)	-	-	-	-	(975)	(5,972)
Derecognition - disposals	(864)	(59,706)	(386)	-	-	-	(1,808)	(62,764)
At 31 March 2014	**640,186**	**550,704**	**15,081**	**70,751**	**8,981**	**-**	**11,442**	**1,297,145**
Accumulated Depreciation and Impairment								
At 1 April 2013	**-**	**59,204**	**6,056**	**19,986**	**-**	**-**	**-**	**85,246**
Depreciation charge	2,781	4,062	1,438	3,919	-	-	-	12,201
Revaluations	(10,709)	(3,905)	(251)	-	-	-	-	(14,865)
Impairments	7,974	(164)	(322)	-	-	-	-	7,488
Assets reclassified to Assets Held for Sale	-	-	-	-	-	-	-	-
Transfers in	-	8	-	-	-	-	-	8
Transfers out	-	-	-	-	-	-	-	-
Derecognition - disposals	(47)	(59,202)	(194)	-	-	-	-	(59,442)
At 31 March 2014	**-**	**2**	**6,728**	**23,905**	**-**	**-**	**-**	**30,635**
Net Book Value								
At 31 March 2014	**640,186**	**550,702**	**8,353**	**46,846**	**8,981**	**-**	**11,442**	**1,266,510**
At 31 March 2013	597,454	517,539	9,280	50,732	7,599	-	5,978	1,188,583

Comparative Movements in 2012-13

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

12b. Depreciation rates

Council Dwellings:
Dwellings are depreciated on a straight line basis over their estimated remaining useful economic life. Land is not depreciated because it has an indefinite useful life.

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

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

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

12c. Capital Commitments

Outstanding capital commitments:	31 March 2014		31 March 2013	
	General* Fund	Housing Revenue Account**	General Fund	Housing Revenue Account
	£m	£m	£m	£m
Schemes contracted for	34.8	3.7	86.6	0.7
Schemes not contracted for	75.8	0.2	52.1	0.2
Total	**110.6**	**3.9**	**138.7**	**0.9**

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 2014-15 to 2016-17 excluding schools that have converted to Academies. An assumption is made that specific named schemes having spent more than 10 per cent of the budget are contracted.

** 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 2014** and **31 March 2013** are / were as follows:

	2014		2013	
	Total Cost £m	Total Outstanding £m	Total Cost £m	Total Outstanding £m
GENERAL FUND:				
Kensington Leisure Centre	29.8	18.5	29.8	26.7
Central Library Condition Works	5.8	5.0	-	-
Pembroke Road Depot Relocation Leaseholder Buyout	3.0	2.5	-	-
Office Accommodation (SPACE)	24.1	2.2	23.9	11.2
HOUSING REVENUE ACCOUNT:				
Decent Homes - kitchens, bathrooms and electrical rewiring	5.2	2.0	4.8	0.5
Roof renewal and associated external works	1.6	1.6	-	-

12d. Effects of Changes in Estimates

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

Deloitte Real Estate updated the valuations as at 31 March 2014 in light of rising property prices in central London. In compliance with IAS 16, where an asset in any class saw a significant change to its value, the Council recorded the updated valuations for all assets in that class. The updated valuations have not had a material impact on the expected depreciation charges for 2014-15.

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 Council does not hold material amounts of such items on its Balance Sheet and in most cases there is no active market for such items.

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 HRA dwellings, the valuation takes account of plant and machinery normally associated with valuation of land and buildings, including mains services, heating and permanent structures and other relevant installations.

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

	Council Dwellings £'000	Other Land and Buildings £'000	Plant £'000	Vehicles, Furniture and Equipment £'000	Heritage Assets held under Current Cost Model £'000	Surplus Assets £'000	Total £'000
Carrying amount if assets had been carried under the cost model	**392,555**	**211,897**	**-**	**3,619**	**4,834**	**-**	**612,905**
Valued at fair value as at:							
1 April 2013	-	-	-	-	-	-	-
1 April 2012	-	-	-	-	-	-	-
1 April 2011	-	526,504	5,742	-	18,683	-	-
1 April 2010	585,712	-	-	-	-	-	-
1 April 2009	-	-	-	-	-	-	-
Current carrying value	**640,186**	**551,357**	**4,767**	**3,586**	**20,800**	**-**	**1,220,696**

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 2012	18,518	22,703	1,903	43,123
Additions	-	-	-	-
Disposals	-	-	-	-
Revaluation increases / (decreases) and impairments recognised in the Revaluation Reserve	1,533	-	-	1,533
Revaluation increases / (decreases) and impairments recognised in the surplus / deficit on the provision of services	-	-	-	-
Depreciation	(167)	-	-	(167)
31 March 2013	**19,883**	**22,703**	**1,903**	**44,489**
Cost or Valuation				
1 April 2013	19,883	22,703	1,903	44,489
Additions	-	50	60	110
Disposals	-	-	-	-
Revaluation increases / (decreases) and impairments recognised in the Revaluation Reserve	1,094	-	-	1,094
Revaluation increases / (decreases) and impairments recognised in the surplus / deficit on the provision of services	-	-	-	-
Depreciation	(177)	-	-	(177)
31 March 2014	**20,800**	**22,753**	**1,963**	**45,516**

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

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

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

The Council's Heritage Asset holdings are largely static with no disposals above the Council's de minimis threshold in 2013-14 and only two acquisitions totalling £110,000 in 2013-14.

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

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

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

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

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

13b. Five Year Movements

Museums held at current cost	2009-10 £'000	2010-11 £'000	2011-12 £'000	2012-13 £'000	2013-14 £'000
Opening carrying value	12,545	13,418	13,336	18,518	19,883
Additions and enhancements	1,279	100	2	-	-
Revaluations	(261)	-	5,347	1,533	1,094
Depreciation	(145)	(182)	(167)	(167)	(177)
Closing carrying value	**13,418**	**13,336**	**18,518**	**19,883**	**20,800**

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

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

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

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

14. Investment Properties

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

	2013-14 £'000	2012-13 £'000
Rental income from investment property	7,438	7,329
Direct operating expenses arising from investment property	(2,224)	(2,467)
Net gain / (loss)	**5,214**	**4,862**

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:

	2013-14 £'000	2012-13 £'000
Balance at start of the year	**139,114**	**131,514**
Additions:		
Purchases	-	-
Construction	-	-
Subsequent expenditure	91	-
Disposals	(146)	-
Net gains / (losses) from fair value adjustments	17,148	7,714
Transfers:		
(To) / from Inventories	-	-
(To) / from Property, Plant and Equipment	3,244	(114)
Other changes	-	-
Balance at end of the year	**159,451**	**139,114**

In 2011-12, the Council undertook a full revaluation of its investment properties, including an inspection of each property. The work was undertaken by Deloitte Real Estate (formerly Drivas Jonas Deloitte), whose staff are qualified surveyors with the Royal Institution of Chartered Surveyors (RICS). In accordance with IAS 40, the valuation of the investment properties is updated each year to reflect movements in their market value. Deloitte Real Estate undertook this work for 2013-14.

15. Intangible Assets

The Council's intangible assets consist of purchased licences 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 licence is not purchased from a supplier, but a right to use software is granted in return for an annual fee, that software is not capitalised.

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

In 2013-14, amortisation was charged to services under the Service Reporting Code of Practice as follows:

£123,981 to Support Service and Management Costs within Children's and Education Services;
£109,521 to Support Service and Managements Costs within Adult Social Care;
£54,781 to Regulatory Services within Environmental and Regulatory Services;
£27,923 to the Libraries Service within Cultural and Related Services;
£10,507 to Service Management and Support Services within Planning Services; and
£1,200 to General Fund Housing Services.

The remainder, totalling £425,844 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:

	2013-14			2012-13		
	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	318	6,285	6,603	291	5,372	5,663
Accumulated amortisation	(66)	(3,399)	(3,465)	(24)	(2,860)	(2,884)
Net carrying amount at start of year	**252**	**2,886**	**3,138**	**267**	**2,512**	**2,779**
Additions:						
Internal development	53	-	53	28	-	28
Purchases	-	374	374	-	912	912
Other disposals	-	-	-	-	-	-
Impairment losses*	-	(278)	(278)	-	-	-
Amortisation for the period	(48)	(705)	(753)	(43)	(539)	(581)
Net carrying amount at end of year	**257**	**2,276**	**2,533**	**252**	**2,886**	**3,138**
Comprising:						
Gross carrying amounts	372	6,638	7,010	318	6,285	6,603
Accumulated amortisation	(115)	(4,362)	(4,477)	(66)	(3,399)	(3,465)

**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 2014		31 March 2013	
	Long Term £'000	Current £'000	Long Term £'000	Current £'000
Borrowings				
Financial liabilities (principal amount)	(149,944)	(7,798)	(157,740)	(6,233)
Accrued interest (all short term)	-	(2,417)	-	(2,425)
Financial liabilities at amortised cost (1)	**(149,944)**	**(10,216)**	**(157,740)**	**(8,658)**
Financial liabilities at fair value through CIES (2)				
Total borrowings	**(149,944)**	**(10,216)**	**(157,740)**	**(8,658)**
Debtors				
Long term debtors	102	-	93,562	-
Current debtors	-	36,861	-	33,557
Total debtors	**102**	**36,861**	**93,562**	**33,557**
Cash				
Cash and cash equivalents	-	18,980	-	24,640
Bank accounts in overdraft	-	(8,780)	-	(3,794)
Total cash and cash equivalents	**-**	**10,199**	**-**	**20,846**
Creditors				
Short term creditors	**-**	**(99,727)**	**-**	**(98,640)**
Investments				
Loans and receivables (principal amount)	-	97,300	-	114,670
Accrued interest	-	29	-	20
Loans and receivables at amortised cost (1)	**-**	**97,329**	**-**	**114,690**
Available-for-sale financial assets	-	129,250	-	-
Accrued interest	-	44	-	-
Financial assets held at fair value through the CIES (2)	-	29,483	-	40,814
Other investments	23	-	23	-
Total investments (3)	**23**	**256,105**	**23**	**155,504**

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.

During the year more use has been made of Available for Sale assets, which is reflected in the above table.

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:

	2013-14					2012-13				
	Financial Liabilities	Financial Assets			Total	Financial Liabilities	Financial Assets			Total
	Liabilities measured at amortised cost £'000	Loans and receivables £'000	Available for Sale Assets(1) £'000	At fair value through CIES (2) £'000	£'000	Liabilities measured at amortised cost £'000	Loans and receivables £'000	Available for Sale Assets £'000	At fair value through CIES £'000	Total £'000
Interest expenses	(11,031)	-	-	-	(11,031)	(11,582)	-	-	-	(11,582)
Losses on derecognition	-	-	-	-	-	-	-	-	-	-
Impairment losses	-	-	-	-	-	-	-	-	-	-
Interest payable and similar charges	(11,031)	-	-	-	(11,031)	(11,582)	-	-	-	(11,582)
Interest income	-	372	195	113	680	-	396	-	99	495
Gains on derecognition	-	-	-	5	5	-	-	-	45	45
Losses on derecognition	-	-	-	(89)	(89)	-	-	-	-	-
Interest and investment income	-	372	195	29	596	-	396	-	144	540
Gains on revaluation	-	-	15	-	15	-	-	-	-	-
Losses on revaluation	-	-	-	-	-	-	-	-	-	-
Amounts recycled to the CIES after impairment	-	-	-	-	-	-	-	-	-	-
Surplus arising on revaluation of financial assets	-	-	15	-	15	-	-	-	-	-
Net gain / (loss) for the year	(11,031)	372	210	29	(10,420)	(11,582)	396	-	144	(11,042)

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

(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 certainty rates published by the DMO on 31 March 2014.
- 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 2014		31 March 2013	
	Carrying Amount £'000	Fair Value £'000	Carrying Amount £'000	Fair Value £'000
PWLB Debt	**149,944**	**185,590**	**157,740**	**203,473**
Loans and receivables				
Money market loans <1 year	97,329	97,329	114,960	114,960
Money market loans > 1 year	-	-	-	-
Available for Sale < 1 year	129,294	129,294	-	-
Available for Sale> 1 year	-	-	-	-
Total loans and receivables	**226,623**	**226,623**	**114,960**	**114,960**

The fair value for financial liabilities is greater than the carrying amount because the Council's portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the rates available for similar loans in the market at the Balance Sheet Date. The commitment to pay interest above current market rates increases the amount that the Council would have to pay if the lender requested or agreed to early repayment of the loans. The calculation above uses the PWLB new borrowing certainty rate as the discount factor. If the premature redemption rate were to be used, the fair value would be £201,658 (£225,774 as at 31 March 2013).

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 2014, all money market loans and receivables are repayable within one year. Therefore, the carrying amount is assumed to approximate fair value; the figures for both years include accrued interest. The prevailing comparator market rates have been taken from

indicative investment rates at the Balance Sheet Date. In practice, rates will be determined by the size of the transaction and the counterparty, but it is impractical to use these figures and the difference is not likely to be material.

During the year, the Council increased its use of available for sale assets; assets that are tradable and have a quoted market price. The Council's portfolio at 31 March 2014 consisted of UK Treasury Bills, Network Rail corporate bonds and Transport for London commercial paper. The preceding table reflects the movement into this asset class from money market loans.

17. Debtors

17a. Current Debtors

	2014 £'000	2013 £'000
Government bodies	4,915	3,100
Other local authorities	9,543	11,772
NHS bodies	5,018	898
Public corporations and trading funds	2	2
Other entities and individuals	25,189	23,714
Total	**44,667**	**39,486**

17b. Long Term Debtors

	2014 £'000	2013 £'000
Advances - housing	51	144
Advances - other	51	51
Deferred Capital Receipts	-	93,367
Total	**102**	**93,562**

18. Cash and Cash Equivalents

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

	2014 £'000	2013 £'000
Cash held by the Council	9,535	12,335
Bank current accounts	70	77
Short-term deposits	9,376	12,228
Bank accounts in funds	**18,980**	**24,640**
Bank accounts in overdraft*	**(8,780)**	**(3,794)**
Cash and cash equivalents	**10,199**	**20,846**

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

19. Assets Held for Sale

	2013-14 £'000	2012-13 £'000
Balance at Start of the Year	**4,803**	**8,074**
Assets newly classified as Held for Sale:		
Property, Plant and Equipment	685	950
Intangible assets	-	-
Other assets	-	-
Revaluation losses	-	-
Revaluation gains	-	-
Impairment losses	-	-
Assets declassified as Held for Sale:	-	-
Property, Plant and Equipment newly classified as Held for Sale	-	-
Intangible assets	-	-
Other assets	-	-
Assets sold	(950)	(4,221)
Other movements	-	-
Balance at year-end	**4,538**	**4,803**

20. Creditors

	2014 £'000	2013 £'000
Government bodies	25,218	36,133
Other local authorities	12,719	11,713
NHS bodies	3,259	955
Public corporations and trading funds	6	11
Other entities and individuals	65,444	56,445
Total	**106,645**	**105,257**

21. Provisions

	Insurance	Mental Health Act	Termination Benefits	Single Status	Non Domestic Rates Appeal	Other Provisions	**Total**
	£'000	**£'000**	**£'000**	**£'000**		**£'000**	**£'000**
Balance at 1 April 2013	**3,397**	**309**	**861**	**438**	**-**	**146**	**5,151**
Additional provisions made in 2013-14	995	-	701	-	3,708	61	**5,465**
Amounts used in 2013-14	(655)	-	(398)	(288)	-	(22)	**(1,364)**
Unused amounts reversed in 2013-14	(612)	-	(263)	-	-	(10)	**(885)**
Balance at 31 March 2014	**3,124**	**309**	**902**	**151**	**3,708**	**174**	**8,366**
Of which:							
Next twelve months	568	309	902	151	742	-	**2,670**
Over twelve months	2,556	-	-	-	2,966	174	**5,696**
Balance at 31 March 2014	**3,124**	**309**	**902**	**151**	**3,708**	**174**	**8,366**

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.

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

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

	2013-14 £'000	2012-13 £'000
Revaluation Reserve	611,037	521,121
Pensions Reserve	(198,790)	(241,242)
Capital Adjustment Account	624,812	551,339
Deferred Capital Receipts	28	84,821
Financial Instruments Adjustment Account	(799)	(854)
Available-for-Sale Financial Instruments Reserve	15	-
Collection Fund Adjustment Account	312	31
Short-term Accumulating Compensated Absences Account	(1,747)	(2,094)
Total Unusable Reserves	**1,034,867**	**913,121**

23b. Revaluation Reserve

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

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

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

	2013-14 £'000	2012-13 £'000
Balance at 1 April	**521,121**	**493,009**
Upward revaluations to assets*	148,709	106,578
Downward revaluation of assets*	(54,133)	(60,974)
Impairments written off to the revaluation reserve*	(1,155)	(11,132)
Sub total surplus / (deficit) on revaluation of non-current assets	*93,422*	*34,472*
Difference between current cost depreciation and historic cost depreciation	(2,447)	(2,841)
Accumulated gains on assets sold or scrapped	(1,058)	(3,519)
Movement in year	89,915	28,112
Closing balance at 31 March	**611,037**	**521,121**

**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.

	2013-14 £'000	2012-13 £'000
Balance at 1 April	**(241,242)**	**(263,203)**
Remeasurements of the net defined benefit liability / asset	48,301	-
Actuarial gains or losses on pensions assets and liabilities	-	25,543
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	(28,448)	(29,103)
Employers' contributions payable to scheme	22,599	25,521
Movement in year	42,452	21,961
Closing balance at 31 March	**(198,790)**	**(241,242)**

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:

	2013-14 £'000	2012-13 £'000
Balance at 1 April	**551,338**	**620,260**
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	(36,962)	(102,404)
Reversal of depreciation charged in respect of dwellings	(2,781)	(2,652)
Amortisation of intangible assets	(754)	(581)
Revenue expenditure funded from capital under statute	(13,723)	(2,726)
Amounts of non current assets written off on disposal or sale as part of the gain / loss on disposal to the CIES	(4,417)	(4,494)
Adjusting amounts written out of the Revaluation Reserve:		
Accumulated revaluation gains on assets sold or scrapped	1,058	3,519
Capital financing applied in the year:		
Use of the Capital Receipts Reserve to finance new capital expenditure	80,745	949
Use of the Major Repairs Reserve to finance new capital expenditure	7,580	8,550
Capital grants and contributions credited to the CIES that have been applied to capital financing	2,018	4,130
Application of grants to capital financing from the Capital Grants Unapplied Account	278	-
Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	1,377	1,402
Capital expenditure charged against the General Fund and HRA balances	21,906	17,672
Other Movements:		
Movements in the market value of investment properties	17,148	7,714
Movement in the Donated Assets Account	-	-
Movement in year	73,473	(68,922)
Closing balance at 31 March	**624,812**	**551,338**

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 sale of the Holland Park School southern site was received in 2013-14.

Deferred Capital Receipts	2013-14 £'000	2012-13 £'000
Balance at 1 April	**84,787**	**84,542**
Transfer of deferred sale proceeds credited as part of the gain / loss on disposal to the CIES	-	-
Unwind notional credit in respect of leaseback arrangement	-	245
Transfer to the Capital Receipts Reserve upon receipt of cash	(84,787)	-
Closing balance at 31 March	**-**	**84,787**

Deferred Credits	2013-14 £'000	2012-13 £'000
Balance at 1 April	**34**	**40**
Transfer to the Capital Receipts Reserve upon receipt of cash	(6)	(6)
Closing balance at 31 March	**28**	**34**

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 2014 will be charged to the General Fund over the next 14 years.

	2013-14 £'000	2012-13 £'000
Balance at 1 April	**(854)**	**(910)**
Premiums incurred in the year and charged to the CIES	-	-
Proportion of premiums incurred in previous financial years to be charged against the General Fund balance in accordance with statutory requirements	56	56
Amount by which finance costs charged to the CIES are different from finance costs chargeable in the year in accordance with statutory requirements	-	-
Closing balance at 31 March	**(798)**	**(854)**

23g. Available-for-Sale Financial Instruments Reserve

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

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

	2013-14 £'000	2012-13 £'000
Balance at 1 April	**-**	**107**
Upward / (downward) movement in book cost	15	(107)
Closing balance at 31 March	**15**	**-**

23h. Collection Fund Adjustment Account

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

	2013-14 £'000	2012-13 £'000
Balance at 1 April	**31**	**51**
Amount by which Council Tax income credited to the CIES is different from Council Tax income calculated for the year in accordance with statutory and expenditure requirements	281	(20)
Closing balance at 31 March	**312**	**31**

23i. Short-term Accumulating Compensated Absences Account

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

	2013-14 £'000	2012-13 £'000
Balance at 1 April	**(2,095)**	**(1,983)**
Settlement or cancellation of accrual made at the end of the preceding year	2,095	1,983
Amounts accrued at the end of the current year	(1,748)	(2,095)
Closing balance at 31 March	**(1,748)**	**(2,095)**

24. Net Cash Flow from Operating Activities

	2013-14 £'000	2012-13 £'000
Total revenue surplus / (deficit) on the provision of services	6,089	(61,128)
Total revenue surplus / (deficit) (LRB)	(112)	118
Total	**5,977**	**(61,010)**
Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities:		
Capital Grants	(3,007)	(6,040)
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	42,944	108,480
Other non-cash movements*	-	-
Change in value of investment property recognised in the CIES	(17,148)	(7,714)
Surplus or deficit on revaluation of available for sale financial assets	15	(107)
Net adjustments made in respect of IAS19 (pensions adjustment)	5,849	3,582
(Gain) / loss on disposal of fixed assets	(9,611)	(2,175)
**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	93	18
(Increase) / decrease in debtors	(5,181)	(2,159)
(Increase) / decrease change in long term debtors	93,460	(2,673)
Liabilities		
Increase / (decrease) in creditors	1,389	17,781
Increase / (decrease) in provisions	3,215	91
Increase / (decrease) deferred liabilities	(102)	(245)
Increase / (decrease) in capital grants received in advance	(3,487)	3,542
Cash flow from revenue activities	**114,407**	**51,371**

25. Investing Activities

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

	2013-14 £'000	2012-13 £'000
Purchase of non-current assets	(35,214)	(53,215)
Purchase and disposal of short-term and long-term investments	(100,601)	(3,147)
Other payments for investing activities	3,007	6,040
Proceeds from the sale of non-current assets	14,028	6,669
Net cash flows from investing activities	**(118,780)**	**(43,653)**

26. Financing Activities

	2013-14 £'000	2012-13 £'000
Cash payments for the reduction of outstanding finance lease liabilities	(35)	(35)
Repayments of short-term and long-term borrowing	(6,239)	(6,238)
Net cash flows from financing activities	**(6,274)**	**(6,273)**

27. Segmental Reporting - Amounts Reported for Resource Allocation Decisions

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

27a Analysis of Service Income and Expenditure

Service Income and Expenditure **2013-14**	Adult and Family Learning Services	Adult Social Care	Children's Services	Environment Leisure and Resident's Services	Housing General Fund	Library and Heritage Services	Planning and Borough Development	Public Health	Transport, and Technical Services	Corporate Services	Total
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Fees, charges and other service income	-	(4,424)	(12,003)	(10,744)	(295)	(199)	(6,413)	(59)	(51,124)	(15,136)	(100,397)
Government grants	(1,314)	-	(84,014)	-	-	-	(148)	(16,055)	(1,727)	(153,341)	(256,599)
Other grants and contributions	-	(14,860)	(12,699)	(1,260)	(22,922)	(520)	-	(119)	(683)	(5,677)	(58,740)
Total Income	**(1,314)**	**(19,284)**	**(108,716)**	**(12,004)**	**(23,217)**	**(719)**	**(6,561)**	**(16,233)**	**(53,534)**	**(174,154)**	**(415,735)**
Employee expenses	297	16,026	86,919	5,311	5,003	2,362	5,006	178	8,917	31,673	161,693
Other service expenses	975	56,682	58,973	36,148	30,375	2,754	2,063	16,487	22,716	178,290	405,464
Support service recharges	141	3,075	6,474	3,087	880	1,413	1,772	715	5,465	(24,006)	(983)
Total Expenditure	**1,413**	**75,783**	**152,365**	**44,546**	**36,258**	**6,529**	**8,841**	**17,380**	**37,098**	**185,957**	**566,173**
Net Expenditure	**99**	**56,499**	**43,649**	**32,542**	**13,041**	**5,810**	**2,280**	**1,147**	**(16,436)**	**11,803**	**150,438**

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

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

	2013-14 £'000	2012-13 £'000
Net expenditure in the Service Analysis	**150,438**	**146,432**
Net expenditure of services and support services not included in the Analysis:		
Amounts in the Comprehensive Income and Expenditure Statement Cost of Services not reported in the Service Analysis:		
General Fund Revenue Expenditure Funded from Capital Under Statute	13,712	2,155
General Fund impairments	20,726	81,978
Employee benefits – leave accrual	(347)	111
Pension Fund deficit recovery	5,093	5,045
Non-distributed pension costs	(1,873)	1,040
Revenue in support of capital expenditure	301	770
IAS19	(2)	-
Academy transfer	1,836	-
Advances – mortgages	-	7
Voluntary Pension Fund contribution	6,000	9,000
Amounts included in the Service Analysis not included in the Cost of Services in the Comprehensive Income and Expenditure Statement:		
General Fund investment property income and expenditure	3,208	2,419
Finance lease principal	(35)	(35)
Interest payable on finance leases	(6)	(6)
Depreciation adjustment	(21)	14
Trading Accounts	112	82
REFCUS included in management reporting	-	-
	199,143	**249,012**
(Surplus) / deficit on the Housing Revenue Account	(7,357)	(6,444)
Total Cost of Services per Comprehensive Income and Expenditure Statement	**191,786**	**242,568**

Continued overleaf

Amounts in the Comprehensive Income and Expenditure Statement Surplus / Deficit on Provision of Services not reported in the Cost of Services per Comprehensive Income and Expenditure Account:	**2013-14 £'000**	**2012-13 £'000**
Levies	3,313	3,239
Payments to the Government Housing Capital Receipts Pool	1,473	284
(Gains) / losses on the disposal of non-current assets	(9,611)	(2,175)
Interest payable and similar charges	11,031	11,582
Premium on early repayment of debt	-	-
Net pension interest cost	10,418	-
Pension interest cost	-	34,714
Expected return on pension assets	-	(26,078)
Interest receivable and similar income	(1,773)	(3,515)
Changes in fair value of investment properties	(17,148)	(7,714)
Council Tax income	(71,496)	(77,967)
National non-domestic rates	(78,547)	(98,962)
Business rates tariff	34,395	-
Non-ring fenced Government grants	(71,140)	(3,869)
Capital grants and contributions	(2,996)	(6,040)
Income and expenditure in relation to investment properties	(5,689)	(4,863)
Interest payable on finance leases	7	6
Other investment income – (surplus) / deficit on trading accounts	(112)	(82)
	(197,875)	**(181,440)**
Total (Surplus) / Deficit on Provision of Services per Comprehensive Income and Expenditure Statement	**(6,089)**	**61,128**

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.

	2013-14			2012-13		
	Income £'000	Exp £'000	Net £'000	Income £'000	Exp £'000	Net £'000
Trading Operation						
Family and Children's Services						
Pupil support services	294	(327)	(33)	480	(480)	-
Transport, Environment and Leisure Services						
Street trading	752	(862)	(110)	837	(808)	29
Holland Park Opera	2,592	(3,425)	(833)	2,265	(3,260)	(995)
Corporate Services						
Professional Development Centre catering	55	(112)	(57)	115	(187)	(72)
Cash collection	478	(478)	-	464	(449)	15
Legal Services	3,612	(3,444)	168	4,083	(3,944)	139
Planning and Borough Development						
Building Control	694	(766)	(72)	602	(1,102)	(500)
Total surplus / (deficit)	**8,477**	**(9,414)**	**(937)**	**8,846**	**(10,230)**	**(1,384)**

Pupil Support Services

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

Street Trading

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

Holland Park Opera

This covers the 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.

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

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

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

29. Members' Allowances

	2013-14 £'000	2012-13 £'000
Basic Allowance	580	559
Special Responsibility Allowance	552	555
Expenses	75	59
Total	**1,207**	**1,173**

30. Officer Remuneration

30a. Disclosure of remuneration for senior employees 2013-14

The remuneration - as paid through the Council's payroll to the Council's Chief Executive, Executive Directors and employees earning over £150,000 in 2013-14 - is as follows:

Job Title	Name	Notes	Salary, Fees and Allowances £	Bonuses £	Expenses Allowances £	Compensation for Loss of Employment £	Total Remuneration (excluding pension contribution) £	Employer's Pension Contribution £	Total Remuneration (including pension contribution) £
Joint Chief Executive	Derek Myers	1	145,755	20,980	-	-	166,735	-	166,735
Town Clerk and Executive Director of Finance	Nicholas Holgate	1	163,816	7,575	1,184	-	172,575	36,335	208,910
Bi-borough Executive Director of Transport and Technical Services	Nigel Pallace	2	-	-	-	-	-	-	-
Bi-borough Executive Director of Environment, Leisure and Residents' Services	Lyn Carpenter	2	-	-	-	-	-	-	-
Tri-borough Executive Director of Adult Social Care	Elizabeth Bruce	3	-	-	-	-	-	-	-
Tri borough Executive Director of Children's Services	Andrew Christie	4	156,242	12,148	-	-	168,390	35,699	204,089
Executive Director of Planning and Borough Development	Jonathan Bore		116,747	7,973	1,216	-	125,936	26,381	152,317
Director of Strategy and Local Services	Tony Redpath		100,275	4,895	1,180	-	106,350	22,296	128,646
Bi-borough Director of Human Resources	Deborah Morris	5	-	-	-	-	-	-	-
Head of Media and Communications	Martin Fitzpatrick		57,500	2,845	-	-	60,345	12,793	73,138
Head of Holland Park School	Colin Hall	6	66,680	-	-	-	66,680	9,401	76,081
Tri-borough Director of Public Health	Meradin Peachey	7	-	-	-	-	-	-	-
Bi-borough Director of Law	Tasnim Shawkat	8	-	-	-	-	-	-	-

Disclosure of remuneration for senior employees 2012-13

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

30a. Disclosure of remuneration for senior employees 2013-14 (continued)

Notes:

1. The costs of the Joint Chief Executive were shared 50:50 with the London Borough of Hammersmith & Fulham in 2013-14. Derek Myers retired in December 2013. Nicholas Holgate was appointed interim Joint Chief Executive in November 2013 but also retains the role of Town Clerk and Executive Director of Finance. The cost of the Joint Chief Executive and Executive Director of Finance is shared 58 (RBKC): 42 (LBHF).
2. The post of Assistant Chief Executive ended on 31 December 2012. These duties 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 cost of the Bi-borough Executive Director of Transport and Technical Services is shared 25 (RBKC): 75 (LBHF). The cost of the Bi-borough Executive Director of Environment, Leisure and Residents' Services posts is shared 50 (RBKC): 50 (LBHF). Details of the salaries paid by London Borough of Hammersmith & Fulham can be found in its 2013-14 Statement of Accounts: http://www.lbhf.gov.uk/Directory/Council_and_Democracy/Plans_performance_and_statistics/Performance_information/Statement_of_accounts/68526_Statement_of_accounts.asp (Note 30).
3. The cost of the Tri-borough Executive Director of Adult Social Care, who is employed by the London Borough of Hammersmith & Fulham, was shared with the London Borough of Hammersmith & Fulham (LBHF) and the City of Westminster (COW). Andrew Webster left the role in April 2013 with Sue Redmond taking the role on an interim basis from April 2013 to October 2013. Elizabeth Bruce was appointed to the role on a permanent basis from October 2013. The share was 21 (RBKC): 46 (LBHF): 33 (COW). Details of the salary paid by London Borough of Hammersmith & Fulham can be found in its 2013-14 Statement of Accounts: http://www.lbhf.gov.uk/Directory/Council_and_Democracy/Plans_performance_and_statistics/Performance_information/Statement_of_accounts/68526_Statement_of_accounts.asp (Note 30).
4. The cost of the Tri-borough Executive Director of Children's Services was shared with the London Borough of Hammersmith & Fulham (LBHF) and the City of Westminster (COW). The share was 33.3 (RBKC): 33.3 (LBHF): 33.3 (COW).
5. The cost of the Bi-borough Director of Human Resources, Deborah Morris, was shared 50:50 with the London Borough of Hammersmith & Fulham in 2013-14. Details of the salary paid by the London Borough of Hammersmith & Fulham can be found in the senior officers' salaries disclosure at: http://www.lbhf.gov.uk/Directory/Council_and_Democracy/Data_Protection_and_Freedom_of_Information/Freedom_of_Information_Act/170643_Senior_officer_salaries.asp
6. This post transferred to Academy status from 31 August 2013.
7. Following the introduction of the new Public Health responsibilities for local government on 1 April 2013, a statutory Director of Public Health role was established on a Tri-borough basis. Meradin Peachey is the current post holder and is employed by the City of Westminster (COW). This role is shared on the following basis 30.9 (RBKC): 40.0 (COW): 29.1 (LBHF). Details of the salary paid by the City of Westminster can be found in its 2013-14 Statement of Accounts: https://www.westminster.gov.uk/annual-accounts (Note 36).
8. The cost of the Bi-borough Director of Law, who is employed by the London Borough of Hammersmith & Fulham, was shared with the London Borough of Hammersmith & Fulham (LBHF). The share was 50 (RBKC): 50 (LBHF). Details of the salary paid by London Borough of Hammersmith & Fulham can be found in its 2013-14 Statement of Accounts: http://www.lbhf.gov.uk/Directory/Council_and_Democracy/Plans_performance_and_statistics/Performance_information/Statement_of_accounts/68526_Statement_of_accounts.asp (Note 30).

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

30b. Officer Remuneration in Bands

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

	2013-14 Officers	2012-13 Officers
£50,000 - £54,999	117	125
£55,000 - £59,999	67	58
£60,000 - £64,999	37	36
£65,000 - £69,999	21	25
£70,000 - £74,999	19	22
£75,000 - £79,999	13	8
£80,000 - £84,999	4	8
£85,000 - £89,999	8	10
£90,000 - £94,999	5	8
£95,000 - £99,999	4	1
£100,000 - £104,999	1	3
£105,000 - £109,999	2	1
£110,000 - £114,999	1	–
£115,000 - £119,999	1	–
£120,000 - £124,999	–	2
£125,000 - £129,999	1	–
£130,000 - £134,999	–	–
£135,000 - £139,999	–	–
£140,000 - £144,999	–	–
£145,000 - £149,999	–	–
£150,000 - £154,999	–	–
£155,000 - £159,999	–	1
£160,000 - £164,999	–	1
£165,000 - £169,999	2	1
£170,000 - £174,999	1	–
£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
Total	**304**	**311**

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

30c. Costs of Staff Departures - All Administrations Disclosure Note for 2013-14 Accounts

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

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

Cost Band (including special payments)	Number of compulsory redundancies		Number of other departures agreed		Total number of departures by cost band		Total cost of departures in each band	
	2013-14	2012-13	2013-14	2012-13	2013-14	2012-13	2013-14	2012-13
£0 - £20,000	11	35	9	22	20	57	171,188	401,975
£20,001 - £40,000	2	7	6	4	8	11	213,811	286,807
£40,001 - £60,000	1	2	2	3	3	5	139,544	253,170
£60,001 - £80,000	-	-	3	5	3	5	204,858	344,188
£80,001 - £100,000	-	-	1	1	1	1	91,871	81,603
£100,001 - £200,000	-	-	1	1	1	1	114,092	100,242
Total	14	44	22	36	36	80	935,364	1,467,985

31. External Audit Costs

	2013-14 £'000	2012-13 £'000
Fees payable to external auditors in respect of:		
- External audit services carried out by the appointed auditor for the year	180	180
- The certification of grant claims and returns for the year	28	37
- Other services	-	-
Total	**208**	**217**

32. Dedicated Schools Grant

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

Details of the deployment of Dedicated Schools Grant receivable for 2013-14 are as follows:

2013-14	Central Expenditure £'000	Individual School Budgets £'000	Total £'000
Final DSG for 2013-14 before academy recoupment			87,231
Academy figure recouped for 2013-14			(9,481)
Total DSG after academy recoupment for 2013-14			**77,750**
Brought forward from 2012-13			1,661
Carry-forward to 2014-15 agreed in advance			(761)
Agreed initial budgeted distribution in 2013-14	**21,699**	**56,951**	**78,650**
In-year adjustments	(988)	1,069	81
Final budgeted distribution for 2013-14	**20,711**	**58,020**	**78,731**
Less actual central expenditure	(16,121)	-	(16,121)
Less actual ISB* deployed to schools	-	(58,020)	(58,020)
Plus local authority contribution for 2013-14	-	-	-
Carry-forward to 2014-15	**4,590**	**-**	**4,590**
TOTAL DSG Carried Forward	**-**	**-**	**5,351**

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

*ISB stands for Individual Schools Budget.

33. Grant Income

The Council credited the following revenue grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2013-14:

33a. Credited to Taxation and Non Specific Grant Income

	2013-14 £'000	2012-13 £'000
Council Tax	71,496	77,968
National Non-Domestic Rates	78,547	98,962
Revenue Support Grant	69,240	1,918
New Homes Bonus Scheme	1,095	-
Council Tax Freeze Grant	804	1,951
Total	**221,182**	**180,799**

33b. Credited to Services

	2013-14 £'000	2012-13 £'000
Housing Benefit Subsidy	145,799	141,662
Dedicated Schools Grant	74,141	79,326
Public Health Grant	16,055	-
Council Tax Subsidy	-	12,762
Early Intervention Grant	-	7,398
Pupil Premium Grant	3,692	2,812
Education Funding Agency Post-16 Grant	-	4,138
Learning Disability and Health Reform Grant	-	3,750
Education Funding Agency School Grant	3,053	-
Homelessness Grant	-	2,300
Discretionary Housing Payments	2,192	1,308
Housing Benefit Administration Subsidy	1,693	1,877
Transport for London Revenue Grant	1,478	989
Education Service Grant	1,432	-
Skills Funding Agency Grants	1,211	1,312
Troubled Families Grant	795	-
Academies Funding Transfer Refunds	-	579
Unaccompanied Asylum Seekers Grant	417	502
Youth Justice Grants	500	362
New Homes Bonus	390	885
Housing Benefit Reforms Transitional Funding	46	461
Capitalisation Provision Redistribution Grant	365	-
Local Support Fund	417	3
Welfare Reform Changes Grant	235	268
Other Grants (under £250k)	2,687	2,073
Total	**256,599**	**264,767**

33c. Capital Grants Receipts in Advance

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

	2013-14 £'000	2012-13 £'000
Standards Fund Capital (Primary Programme)	21	6,111
Section 106 and private contributions	10,479	8,513
Community Capacity Grant	1,508	1,042
Section 278 contributions	1,357	-
Social Services - Single Capital Pot	198	850
Disabled Facilities Grant	-	240
71 Academies	-	192
Other	-	103
Total	**13,564**	**17,051**

34. Related Parties

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

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

Councillors
Councillors have direct control of the Council's policies and strategies. Day-to-day responsibility lies with the Council's executive, or "Cabinet", which in 2013-14 comprised ten Members with authority within their respective portfolios to approve decisions of a value less than £250,000. Decisions with a value greater than £250,000 are taken by Cabinet collectively or by full Council as appropriate.

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

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

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

During 2013-14, the Leader of the Council, Councillor Nicholas Paget-Brown, was a member of the London Waste and Recycling Board and Managing Director of Pelham Research.

Councillor Sir Merrick Cockell was Chairman of the Local Government Association, Deputy Chairman of the London Pensions Fund Authority, a member of the advisory board for de Poel (a limited UK company providing consultancy services) and a Senior Advisor for PA Consulting.

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

During 2013-14 Councillor Fiona Buxton, Councillor Terence Buxton, Councillor Rock Feilding-Mellen, Councillor David Lindsay and Councillor Pat Mason were trustees of and on the board of the Westway Development Trust (registered charity 1123127 – details of which can be found on the Charity Commission website).

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

During 2013-14, Councillor Jonathon Read was Chairman of the Board of the Kensington and Chelsea Credit Union (trading as Your Credit Union).

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

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

Other Public Bodies
The Council delivers services in close co-operation with other public bodies such as the Greater London Authority, Transport for London, the Kensington and Chelsea Partnership, Metropolitan Police Service, National Health Service trusts and commissioning groups, the London Fire and Civil Defence Authority and other local authorities. At times, the Council will influence and be influenced by these bodies. Where the Council receives significant grant funding from another public body, this is disclosed in **Note 33 Grant Income**. The Council has made no material financial payments to another public body.

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

35. Capital Expenditure and Capital Financing

	2013-14 £'000	2012-13 £'000
Opening Capital Financing Requirement	**308,151**	**284,914**
Capital investment		
Property, Plant and Equipment	34,586	52,275
Long Term Investments	-	-
Heritage Assets	110	-
Investment Properties	91	-
Intangible Assets	427	940
Assets Held for Sale	-	-
Revenue Expenditure Funded from Capital Under Statute	31,502	6,024
Sources of finance		
Capital receipts	(80,833)	(949)
Government grants and other contributions	(20,075)	(7,429)
Sums set aside from revenue:		
Direct revenue contributions	(21,906)	(17,672)
Direct Revenue Funding (Major Repairs Reserve)	(7,580)	(8,550)
MRP / loans fund principal	(1,377)	(1,402)
Closing Capital Financing Requirement	**243,096**	**308,151**
Provision to reduce the underlying need to borrow (MRP)	(1,377)	(1,402)
Decrease in underlying need to borrow (supported by capital receipts)	(63,678)	-
Increase in underlying need to borrow (unsupported by government financial assistance)	-	24,639
Assets acquired under finance leases	-	-
Assets acquired under PFI / PPP contracts	-	-
Increase / (decrease) in Capital Financing Requirement	**(65,055)**	**23,237**

36. Leases

Council as Lessee

Finance Leases

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

	31 March 2014 £'000	31 March 2013 £'000
Other Land and Buildings	2,180	1,980
Vehicles, Plant, Furniture and Equipment	20	55
Total	**2,200**	**2,035**

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 2014 £'000	31 March 2013 £'000
Present value of the minimum lease payments:		
Current	-	39
Non-current	1	1
Future interests costs	-	3
Unguaranteed residual value of assets	-	-
Total minimum lease payments	**1**	**43**

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

	Present Value of Minimum Lease Payments		Finance Lease Liabilities	
	31 March 2014 £'000	31 March 2013 £'000	**31 March 2014 £'000**	31 March 2013 £'000
Not later than one year	-	39	-	3
Later than one year and not later than five years	1	1	-	-
Later than five years	-	-	-	-
Total	**1**	**40**	**-**	**3**

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 2014 £'000	31 March 2013 £'000
Not later than one year	128	181
Later than one year and not later than five years	325	414
Later than five years	393	556
Total	**846**	**1,151**

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

	31 March 2014 £'000	31 March 2013 £'000
Adult Social Care	5	5
Cultural and Related Services	2	8
Children's and Education	79	79
Cultural, Environmental, Regulatory and Planning Services	6	6
Housing GF Services	11	11
Allocated across service lines	26	34
Total	**128**	**143**

Council as Lessor

Finance Leases

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

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

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

Operating Leases

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

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

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

	31 March 2014 £'000	31 March 2013 £'000
Not later than one year	6,478	6,236
Later than one year and not later than five years	22,755	21,301
Later than five years	39,131	36,062
Total	**68,363**	**63,598**

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

37. Impairment Losses

Both Holland Park School and Middle Row School converted to academy status in 2013-14. In line with statutory requirements the sites have been let to the respective academy trusts at a peppercorn rent. Therefore, the Council’s external valuers, Deloitte Real Estate, have revalued the land occupied by each academy and determined that the value of each site is a notional £1 because the Council is unable to realise the full economic value of the freehold. As a result, the Council has debited impairments of £11,369,192 in relation to Holland Park School and £3,706,064 in relation to Middle Row School to the Surplus or Deficit on the Provision of Services under the schools element of Children's and Education Services.

The Latimer Education Centre converted to academy status on 1 April 2014. In line with its treatment of Holland Park School and Middle Row School in its 2012-13 accounts, the Council has fully impaired the value of the Latimer Education Centre. Thus an impairment of £1,440,000 has been charged to the Surplus or Deficit on the Provision of Services under the schools element of Children's and Education Services.

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. In the opinion of Mazars, the external valuers who complete an annual valuation of the Council's dwelling stock, under the requirements of the 'Existing Use Valuation - Social Housing' method of valuation mandated by the Government, the Council's capital expenditure on its dwelling stock does not increase the value of those assets. Therefore, the Council has matched the capital expenditure on its existing dwellings with an impairment of £8,145,738 taken to the Housing Revenue Account.

Similarly, Deloitte Real Estate reviewed the valuations of the Council's property assets, other than dwellings, as at the 31 March 2014, which has resulted in a number of impairments to assets where capital expenditure has not resulted in an equivalent increase in value. These include:

- £2,073,164 in relation to Kensington Town Hall;
- £262,739 in relation to Colville Primary School;
- £248,081 in relation to the Holland Park Ecology Centre;
- £186,758 in relation to Chelsea Sports Centre;
- £142,352 in relation to Chelsea Creek Depot;
- £47,469 in relation to Marlborough Primary School;
- £39,039 in relation to 75, Chesterton Square; and
- £19,977 in relation to Bevington Primary School.

The Council has considered its accounting treatment of the Kensington Aldridge Academy and agreed with its auditors that expenditure on the school will not be capitalised because the Council will not benefit directly from the school and the Department for Education is funding the construction costs. Therefore, an impairment of £486,125 has been charged to the Surplus or Deficit on the Provision of Services under the schools element of Children's and Education Services reflecting the write-off of costs incurred by the Council to date. A further impairment of £68,336 has been charged to the Surplus or Deficit on the Provision of Services due to the demolition and decommissioning of assets on the site that will be occupied the Kensington Aldridge Academy and the new Kensington Leisure Centre.

Where possible, the Council is seeking to increase the number of dwellings it has available by converting surplus offices and commercial space into dwellings where it is possible to do so. The Council is required to impair the value of the office space as works commence. As a result, impairments of £206,250 in relation to Grenfell Tower and £275,379 in relation to Greaves Tower have been charged to the Housing Revenue Account.

Other revaluation and impairment losses charged to the Surplus or Deficit on the Provision of Services:

- £362,313 relating to the revaluation of dwellings losses charged to the Housing Revenue Account;
- £277,592 due to the pending replacement of the Council's financial systems under the Managed Services programme;
- £97,125 from a reduced valuation of 1 Wayneflete Square charged to the Housing Revenue Account;
- £95,106 due to the replacement of Munro Mews Traders Stores;
- £89,310 due to the pending decommissioning and sale of the Denyer Street Depot site; and

- £82,773 relating to the Holland Park Playgroup site, which is now occupied by the Holland Park Ecology Centre.

38. Termination Benefits

There are no additional estimable termination benefit costs as at the Balance Sheet Date. The Council has an earmarked Severance Reserve held specifically to cover future termination benefit costs. The balance of the reserve at 31 March 2014 was £8.9 million.

39. Pension Schemes Accounted for as Defined Contribution Schemes

In 2013-14, the Council paid £3,945,003 to Teachers' Pensions in respect of teachers' retirement benefits, representing 14.1 per cent of pensionable pay. The figures for 2012-13 were £4,197,642 and 14.1 per cent. There were no contributions remaining payable at the year-end.

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

40. Defined Benefit Pension Schemes

Participation in Pension Schemes

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

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

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

Transactions Relating to Post-employment Benefits

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

	RBKC Pension Scheme			LPFA Pension Scheme		
	31 March 2014 £'000	31 March 2013 £'000 (had the revised IAS19 standard applied)	31 March 2013 £'000 disclosed	31 March 2014 £'000	31 March 2013 £'000 (had the revised IAS19 standard applied)	31 March 2013 £'000 disclosed
Comprehensive Income and Expenditure Statement (CIES)						
Cost of Services:						
Current service cost	19,675	19,212	19,212	228	215	215
Past service costs	636	1,040	-	124	-	-
(Gain) / loss on settlements	(3,038)	-	1,040	-	-	-
Financing and Investment Income and Expenditure:						
Net interest expense***	10,099	11,264	-	319	280	-
Interest cost	-	-	33,408	-	-	1,306
Expected return on scheme assets***	-	-	(25,114)	-	-	(964)
Administration expenses***	369	430	-	36	36	-
Total Post Employment Benefits Charged to the Surplus or Deficit on the Provision of Services	**27,741**	**31,946**	**28,546**	**707**	**531**	**557**
Other Post Employment Benefit Charged to the CIES:						
Remeasurement of the net defined benefit liability / asset*	(43,006)	(31,875)	-	(5,295)	2,958	-
Actuarial (gains) and losses	-	-	(28,475)	-	-	2,932
Total Post Employment Benefit Charged to the CIES	**(15,265)**	**71**	**71**	**(4,588)**	**3,489**	**3,489**
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	(27,741)	(31,946)	(28,546)	(707)	(531)	(557)
Actual amount charged against the General Fund Balance for pensions in the year						
Employers' contributions payable to scheme**	22,167	25,042	25,042	432	479	479

* As reported in the CIES: Remeasurements of the net defined benefit liability / asset
** The Council made an additional voluntary contribution of £6 million in 2013-14.
*** Due to the changes in the IAS19 standard, the main changes are:

- Removal of the expected return on assets, replaced by a net interest cost comprising interest income on the assets and interest expense on the liabilities, which are both calculated with reference to the discount rate.
- *Administration expenses are now accounted for within non-distributed costs in the Comprehensive Income and Expenditure Statement, previously administration expenses was deducted from the expected return on assets.*

Pension Assets and Liabilities Recognised in the Balance Sheet

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

	RBKC Pension Scheme		LPFA Pension Scheme	
	31 March 2014 £'000	31 March 2013 £'000	31 March 2014 £'000	31 March 2013 £'000
Present value of the defined benefit obligation	807,167	789,345	29,414	31,287
Fair value of plan assets	612,682	557,428	26,893	23,780
Sub-total	**194,485**	**231,917**	**2,521**	**7,507**
Present value of unfunded obligation	-	-	1,784	1,818
Net liability arising from defined benefit obligation	**194,485**	**231,917**	**4,305**	**9,325**

Reconciliation of the movements in the fair value of scheme assets

	RBKC Pension Scheme			LPFA Pension Scheme		
	31 March 2014 £'000	31 March 2013 £'000 (had the revised IAS19 standard applied)	31 March 2013 £'000 disclosed	31 March 2014 £'000	31 March 2013 £'000 (had the revised IAS19 standard applied)	31 March 2013 £'000 disclosed
Opening balance at 1 April	**557,428**	**476,760**	**476,760**	**23,780**	**22,871**	**22,871**
Expected return on scheme assets	-	-	25,114	-	-	964
Interest on assets	25,553	22,144	-	811	1,026	-
Return on assets less interest	13,023	49,598	-	18	1,052	-
Other actuarial gains / (losses)	21,557	-	-	3,557	-	-
Total actuarial gains / (losses)	-	-	46,198	-	-	1,078
Administration expenses	(369)	(430)	-	(36)	(36)	-
Contributions by employer including unfunded contributions	22,805	25,557	25,557	430	475	475
Contributions by scheme participants	5,113	5,068	5,068	42	49	49
Estimated benefits paid plus unfunded net of transfers in	(25,429)	(21,269)	(21,269)	(1,709)	(1,657)	(1,657)
Settlement prices received / (paid)	(6,999)	-	-	-	-	-
Closing balance at 31 March	**612,682**	**557,428**	**557,428**	**26,893**	**23,780**	**23,780**

Reconciliation of present value of the scheme liabilities

	RBKC Pension Scheme			LPFA Pension Scheme		
	31 March 2014 £'000	31 March 2013 £'000 (had the revised IAS19 standard applied)	31 March 2013 £'000 disclosed	31 March 2014 £'000	31 March 2013 £'000 (had the revised IAS19 standard applied)	31 March 2013 £'000 disclosed
Opening balance at 1 April	**789,345**	**733,648**	**733,648**	**33,105**	**29,186**	**29,186**
Current service cost	19,675	19,212	19,212	228	215	215
Interest cost	35,652	33,408	33,408	1,130	1,306	1,306
Change in financial assumptions	26,247	18,238	-	(2,173)	4,006	-
Change in demographic assumptions	33,123	-	-	139	-	-
Experience loss / (gain) on defined benefit obligation	(67,158)	-	-	312	-	-
Total actuarial losses / (gains)	-	-	18,238	-	-	4,006
Losses / (gains) on curtailments	-	-	1,040	-	-	
Liabilities assumed / (extinguished) on settlements	(10,037)	-	-	-	-	-
Estimated benefits paid net of transfers in	(25,429)	(21,269)	(21,269)	(1,573)	(1,519)	(1,519)
Past service cost	-	-	-	-	-	-
Past service costs, including curtailments	636	1,040	-	124	-	-
Contributions by scheme participants	5,113	5,068	5,068	42	49	49
Unfunded pension payments	-	-	-	(136)	(138)	(138)
Closing balance at 31 March	**807,167**	**789,345**	**789,345**	**31,198**	**33,105**	**33,105**

Local Government Pension Scheme assets comprised:

Royal Borough of Kensington and Chelsea Pension Fund

	Fair value of scheme assets					
	31 March 2014			31 March 2013		
	Quoted £'000	Unquoted £'000	Total £'000	Quoted £'000	Unquoted £'000	Total £'000
UK equities	30,634	-	30,634	16,723	-	16,723
Overseas equities	122,536	-	122,536	105,911	-	105,911
Global equities	238,947	-	238,947	222,972	-	222,972
Private equity	-	30,634	30,634	-	27,871	27,871
Property	-	24,507	24,507	-	16,723	16,723
Absolute return portfolio	159,297	-	159,297	156,080	-	156,080
Cash	-	6,127	6,127	-	5,574	5,574
Gilts	-	-	-	-	5,574	5,574
Total	**551,414**	**61,268**	**612,682**	**501,686**	**55,742**	**557,428**

London Pension Fund Authority Pension Fund

	Fair value of scheme assets					
	31 March 2014			31 March 2013		
	Quoted £'000	Unquoted £'000	Total £'000	Quoted £'000	Unquoted £'000	Total £'000
Equities - segregated	7,124	-	7,124	6,081	-	6,081
Equities - investment funds	319	5,380	5,699	406	4,246	4,652
Equities - private equity	-	1,827	1,827	-	1,864	1,864
Liability driven investments	-	1,657	1,657	-	2,329	2,329
Target return	878	-	878	772	-	772
Investment funds and unit trusts	3,613	3,447	7,060	2,555	3,121	5,676
Infrastructure	80	864	944	68	786	854
Property	-	713	713	-	884	884
Commodity	215	79	294	207	60	267
Cash	616	-	616	464	-	464
Derivatives	-	81	81	9	(72)	(63)
Total	**12,845**	**14,048**	**26,893**	**10,562**	**13,218**	**23,780**

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 etc.

Both the Local Government Pension Scheme and discretionary benefits liabilities have been assessed by Barnett Waddingham LLP, an independent firm of actuaries. Estimates for the Pension Fund are based on the latest full valuation of the scheme as at 31 March 2013.

The principal assumptions used by the actuary are:

	RBKC Pension Scheme		LPFA Pension Scheme	
	2013-14	2012-13	2013-14	2012-13
Mortality assumptions:				
Longevity at 65 for current pensioners (in years):				
Men	22.3	19.2	21.3	20.4
Women	25.5	23.2	24.2	23.1
Longevity at 65 for future pensioners:				
Men retiring in 20 years	24.5	21.1	23.7	22.4
Women retiring in 20 years	27.9	25.1	26.4	25.0
Rate of RPI inflation	3.6%	3.4%	3.4%	3.2%
Rate of CPI Inflation	2.8%	2.6%	2.6%	2.4%
Rate of increase in salaries	4.6%	4.8%	4.4%	4.1%
Rate of increase in pensions	2.8%	2.6%	2.6%	2.4%
Rate for discounting scheme liabilities	4.5%	4.6%	4.2%	3.5%

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table above. The sensitivity analysis below has been based on realistic changes of the assumptions occurring at the end of the reporting period and assumes for each change that the assumption varied while all the other assumptions remain constant.

	Impact on the defined benefit obligation in the scheme	
	Increase in assumption £'000	Decrease in assumption £'000
Longevity (increase or decrease in 1 year)	16,637	17,829
Rate of inflation (increase or decrease in 0.1%)	16,842	17,628
Rate of increase in salaries (increase or decrease in 0.1%)	17,230	17,230
Rate of increase in pensions (increase or decrease in 0.1%)	17,634	16,835
Rate of discounting scheme liabilities (increase or decrease in 0.1%)	16,842	17,628

Impact on the Council's cash flows

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

The scheme will need to take account of the national changes to the Local Government Pension Scheme under the Public Pensions Services Act 2013. The Act provides for scheme

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

The Council expects to pay contributions of £13.6 million to the Pension Fund in 2014-15.

The weighted average distribution of the defined benefit obligation for members of the Council's Pension Fund was 45 years at the end of 2013-14 (44 years for 2012-13).

The weighted average distribution of the defined benefit obligation for the members of the London Pension Fund Authority scheme members was 58 years at the end of 2013-14 (56 years for 2012-13).

41. Contingent Liabilities

At 31 March 2014, the Council had the following contingent liabilities:

- As part of the Business Rates Retention Scheme, introduced on 1 April 2013, the Council has a share of the financial liability for any refunds relating to back-dated appeals. A crude estimate of the exposure (based on an analysis of outstanding appeals at 31 March 2014 and assuming that the historic appeal driven reductions in rateable value are repeated) is £12.4 million for this exposure, of which the Council's share is £3.7 million. The final loss on outstanding appeals could be either more or less than this. The Council is disclosing any potential additional exposure as a contingent liability. However, the Business Rates Retention Scheme includes a safety net and the Council's maximum funding loss, if the financial impact of the settled appeals is higher than provided for, is £2.7 million.

- During 1992-93, the then Council's insurers, Municipal Mutual Insurance (MMI), ceased accepting new business. The Council is a member of a scheme of arrangement that has been put into place to try to ensure an orderly settlement of the run-off of MMI. The scheme of arrangement was triggered in 2012-13 and the Council paid a levy of £247,000 in 2013-14. The Council's maximum estimated additional exposure to future claims payments of £1.4 million (based on the current outstanding claims). The Council has sufficient funds in its Insurance Reserve to cover this exposure.

- As part of the wind-up of the Greater London Council (GLC), the London Pension Fund Authority took over responsibility for the managing the pension fund of former GLC employees. This is potentially underfunded and there may potentially be a financial call on the London boroughs, under the existing levy arrangements, for any shortfall in the fund. There is no reliable estimate of this financial exposure.

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

42. Contingent Assets

The Council 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 2014, the Council had contingent assets relating to the following VAT claims, none of which are individually material to the Council:

Nature of Claim	Amount of Claim £'000
Off Street Car Parking	3,363
Off Street Car Parking (Fleming Claim)	1,750
Trade Waste	2,866
Total	**7,979**

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

43. Nature and Extent of Risks Arising from Financial Instruments

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

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

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

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

- by the adoption of a Treasury Policy Statement and treasury management clauses within its constitution;

- by approving annually in advance prudential and treasury indicators for the following three years limiting the Council's:

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

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

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

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

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

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

The Council's maximum exposure to credit risk in relation to its investments in banks cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities not to be able to meet their commitments. A risk of irrecoverability applies to all of the Council's deposits, but there was no evidence at the 31 March 2014 that this was likely to crystallise.

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

Liquidity Risk
The Council manages its liquidity position through the risk management procedures set out above and through cash flow management procedures required by the *Code of Practice on*

Treasury Management in the Public Services. This seeks to ensure that cash is available when needed.

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

Refinancing and Maturity Risk

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

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

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

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

The maturity analysis of financial liabilities is as follows:

	2013-14 £'000
Less than one year	10,216
Between one and two years	8,571
Between two and five years	22,527
Between five and ten years	39,627
Between ten and fifteen years	25,740
More than fifteen years	53,478
Total	**160,159**

The maturity analysis of financial assets is as follows:

	2013-14 £'000
Less than one year	256,105
Between one and two years	-
Between two and three years	-
More than three years	-
Total	**256,105**

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

Market risk

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

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

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

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

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

	2013-14 £'000
Increase in interest payable on variable rate borrowings	-
Increase in interest receivable on variable rate investments	(2,269)
Impact on the Comprehensive Income and Expenditure Statement	(2,269)
Increase in Government grant receivable for financing costs	-
Decrease in fair value of fixed rate investment assets	-
Decrease in fair value of fixed rate borrowings liabilities (no impact on the CIES)	10,958

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 normally make significant investments in marketable bonds other than Gilts and does not invest in equities.

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

44. Long Term Liabilities

	2013-14 £'000	2012-13 £'000
Net pensions liability	198,790	241,242
Long term lease liability	6	40
Deferred liabilities	50	152
Total	**198,846**	**241,435**

Supplementary Financial Statements 2013-14

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 '14	31 March '13	Notes
	£'000	£'000	
Expenditure			
Repairs and maintenance	13,216	11,776	
Supervision and management	13,525	12,489	
Special	6,075	5,452	
Rents, rates, taxes and other charges	136	130	
Depreciation and impairment of fixed assets			
On dwellings	2,780	2,652	1a
On non-dwellings	11	249	
Impairments	9,087	9,629	
Debt management costs	81	81	
Revenue Expenditure Funded from Capital Under Statute	11	570	
Bad debt provision made in year	122	59	8
Total expenditure	**45,044**	**43,087**	
Income			
Dwelling rents	(40,009)	(38,386)	
Non-dwelling rents	(3,683)	(3,551)	
Charges for services and facilities	(10,971)	(9,721)	
Contributions towards expenditure	(235)	(256)	
HRA subsidy receivable (including the MRA element)	-	(79)	2
Total income	**(54,898)**	**(51,993)**	
Net cost of HRA services as included in the Council's Income and Expenditure Statement	(9,854)	(8,906)	
HRA's share of Corporate and Democratic Core	16	17	
Net cost of HRA services	**(9,838)**	**(8,889)**	
HRA share of the operating income and expenditure included in the Comprehensive Income and Expenditure Statement:			
Interest payable and similar charges*	11,697	12,158	6
Amortisation of premiums and discounts	-	-	
Interest and investment income	(74)	(78)	
Government grants applied	-	-	
(Surplus) / deficit for the year on HRA services	**1,785**	**3,191**	

* Interest payable and similar charges include £666,000 of additional interest charged from the General Fund.

Movement on the HRA Statement

	31 March '14	31 March '13	Notes
	£'000	£'000	
(Surplus) / deficit for the year on the HRA Income and Expenditure Account	**1,785**	**3,191**	
Transfers to / (from) Major Repairs Reserve	4,460	4,301	
Contributions to / (from) reserves	(28)	59	
Capital expenditure funded by the Housing Revenue Account	-	50	
Government grants applied	-	-	3
Impairment of non-current assets	(9,087)	(9,629)	
Neutralisation of REFCUS	(11)	(570)	
(Increase) / decrease in the Housing Revenue Account balance	**(2,881)**	**(2,598)**	
Housing Revenue Account surplus brought forward	**(16,061)**	**(13,463)**	
Housing Revenue Account surplus carried forward	**(18,942)**	**(16,061)**	

Notes to the HRA Statement

1a. Movement of HRA Dwellings and Other Assets 2013-14	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 2013	**597,454**	**11,866**	**48**	**-**	**-**	**-**	**129**	**46,416**	**655,913**
Additions	8,146	86	-	-	-	-	401	51	8,684
Revaluation increases / (decreases) and impairments recognised in the Revaluation Reserve	35,455	1,251	-	-	-	-	-	-	36,706
Revaluation increases / (decreases) and impairments recognised in the surplus / deficit on the provision of services	(534)	(576)	-	-	-	-	-	7,823	6,713
Assets reclassified (to) / from Held for Sale	-	-	-	-	-	-	-	-	-
Transfers in	529	726	-	-	-	-	-	-	1,255
Transfers out	-	-	-	-	-	-	(529)	(726)	(1,255)
Derecognition - disposals	(864)	(66)	-	-	-	-	-	-	(930)
At 31 March 2014	**640,186**	**13,287**	**48**	**-**	**-**	**-**	**-**	**53,564**	**707,085**
Accumulated Depreciation and Impairment									
At 1 April 2013	**-**	**2**	**27**	**-**	**-**	**-**	**-**	**-**	**29**
Depreciation charge	2,781	317	7	-	-	-	-	-	3,105
Revaluations	(10,709)	(314)	-	-	-	-	-	-	(11,023)
Impairments	7,974	(3)	-	-	-	-	-	-	7,972
Assets reclassified (to) / from Held for Sale	-	-	-	-	-	-	-	-	-
Transfers in	-	-	-	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-	-	-	-
Derecognition - disposals	(47)	-	-	-	-	-	-	-	(47)
At 31 March 2014	**-**	**2**	**34**	**-**	**-**	**-**	**-**	**-**	**36**
Net Book value									
At 31 March 2014	**640,186**	**13,285**	**14**	**-**	**-**	**-**	**-**	**53,564**	**707,050**
At 31 March 2013	597,454	11,864	21	-	-	-	129	46,416	655,884

1a. Movement of HRA Dwellings and Other Assets 2012-13	Council Dwellings	Other Land and Buildings	Vehicles, Equipment Plant and Furniture	Infrastructure Assets	Community Assets	Surplus Assets	Assets Under Construction	Investment Properties	Total
Cost or Valuation	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
At 1 April 2012	**603,929**	**12,066**	**48**	**-**	**-**	**-**	**-**	**44,316**	**660,359**
Additions	9,325	226	-	-	-	-	129	-	9,679
Revaluation increases / (decreases) and impairments recognised in the Revaluation Reserve	(15,380)	427	-	-	-	-	-	-	(14,953)
Revaluation increases / (decreases) and impairments recognised in the surplus / deficit on the provision of services	(269)	(36)	-	-	-	-	-	2,232	1,928
Assets reclassified (to) / from Held for Sale	-	-	-	-	-	-	-	-	-
Transfers in	-	629	-	-	-	-	-	145	774
Transfers out	(2)	(1,445)	-	-	-	-	-	(277)	(1,724)
Derecognition - disposals	(150)	-	-	-	-	-	-	-	(150)
At 31 March 2013	**597,454**	**11,866**	**48**	**-**	**-**	**-**	**129**	**46,416**	**655,913**
Accumulated Depreciation and Impairment									
At 1 April 2012	**28,846**	**146**	**20**	**-**	**-**	**-**	**-**	**-**	**29,013**
Depreciation charge	2,652	256	7	-	-	-	-	-	2,915
Revaluations	(40,790)	(399)	-	-	-	-	-	-	(41,189)
Impairments	9,325	-	-	-	-	-	-	-	9,325
Assets reclassified (to) / from Held for Sale	-	-	-	-	-	-	-	-	-
Transfers in	-	10	-	-	-	-	-	-	10
Transfers out	(2)	(10)	-	-	-	-	-	-	(12)
Derecognition - disposals	(32)	-	-	-	-	-	-	-	(32)
At 31 March 2013	**-**	**2**	**27**	**-**	**-**	**-**	**-**	**-**	**29**
Net Book value									
At 31 March 2013	**597,454**	**11,864**	**21**	**-**	**-**	**-**	**129**	**46,416**	**655,884**
At 31 March 2012	575,083	11,919	28	-	-	-	-	44,316	631,346

1b. Value of Land and Dwellings

Within the dwellings Balance Sheet category, the 31 March 2014 Net Book Value comprises £447,230,825 land and £192,955,175 dwellings. The total value of the property in other Balance Sheet categories is £68,216,847.

On the 1 April 2010, the last full valuation, the 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	01-04-2014	01-04-2013	Difference
Houses Small Terraced <1945	-	-	-
Houses Semi Detached <1945	1	1	-
Houses Other <1945	56	56	-
Houses Small Terraced 1945-1964	-	-	-
Houses SD/Large Terraced 1945-1964	7	7	-
Houses 1965-1974	10	10	-
Houses 1974+	67	67	-
Houses (Non Traditional)	-	-	-
Bungalows	12	12	-
Low-Rise Flats <1945	210	210	-
Low-Rise Flats >1945	198	200	(2)
Medium	3,648	3,663	(15)
High Rise	2,642	2,650	(8)
Multi-Occupancy	44	44	-
Total	**6,895**	**6,920**	**(25)**

1d. Depreciation

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

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

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

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

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

1e. Vacant Possession Value and Valuation Basis

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

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

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

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

The difference between the open market price and the EUV-SH valuation is known as the "Adjustment Factor" and is the economic cost of providing social housing. The Council uses an adjustment factor of 75 per cent. The gross Balance Sheet value of the Council's dwellings and the land they occupy is therefore 25 per cent of the open market price. The table below sets out the value of the Council's dwellings and the land they occupy based on the historic cost model, their market value, EUV-SH valuation and current carrying value. The current carrying value is the EUV-SH valuation after depreciation, disposals, capital investment, revaluations and impairments that took place in 2011-12, 2012-13 and 2013-14.

	Council Dwellings £'000
Carrying amount if assets had been carried under the cost model	392,555
Market value as at 1 April 2010	2,560,744
Gross EUV-SH valuation as at 1 April 2010	585,712
Current carrying value	640,186

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

1f. Impairments

The Council values its dwellings in accordance with the proper practice set out in the Government guidance Stock Valuation *for Resource Accounting: Guidance for Valuers - 2010*. In the opinion of Mazars, the external valuers who complete an annual valuation of the Council's dwelling stock, under the requirements of the 'Existing Use Valuation - Social

Housing' method of valuation, the Council's capital expenditure on its dwelling stock does not increase the value of those assets. The Code and associated *Guidance Notes for Practitioners* require the Council to impair an asset accordingly where the value of an asset increases by less than the capital expenditure incurred on it. Therefore, the Council has impaired the value of its capital expenditure on its existing dwellings by £8,145,738 with the charge taken to the Housing Revenue Account.

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

- £362,313 relating to the revaluation of dwellings;
- £206,250 due to the conversion of surplus office space in Grenfell Tower into dwellings;
- £275,379 resulting from the conversion of surplus office space in Greaves Tower to dwellings; and
- £97,125 from a reduced valuation of 1 Wayneflete Square.

2. HRA Subsidy

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

	2013-14 £'000	2012-13 £'000
Received in–year	-	-
Prior year adjustment	-	79
Total received	**-**	**79**
Due:		
Management and maintenance	-	-
Rents	-	-
Interest on receipts	-	-
Debt charges	-	-
ALMO Allowance	-	-
Major Repairs Allowance	-	-
Total due	**-**	**-**
Prior year adjustment	-	79
Total due	**-**	**79**
Amount due to / (from) Government	**-**	**-**

3. Capital Expenditure

Capital Expenditure	£'000	Funding Sources	£'000
Dwellings	8146	Borrowing	-
Other land and buildings	86	Capital grants and contributions	106
Investment properties	51	Usable capital receipts	997
Other assets	400	Direct revenue financing	-
		Major Repairs Reserve	7,580
Total	**8,683**		**8,683**

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

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

	2013-14 Net Expenditure £'000	2012-13 Net Expenditure £'000
Capital expenditure written to revenue	**11**	**570**

5. Capital Receipts in Year

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

	2013-14 £'000	2012-13 £'000
Land	-	-
Dwellings (net of sale expenses)	7,456	2,065
Other property	1,912	4,245
Loan repayments	6	6
Total	**9,374**	**6,316**

6. Interest on Borrowing in the HRA

Interest on borrowing paid by the HRA as follows:

	2013-14 £'000	2012-13 £'000
Interest on borrowing	11,697	12,158
Value of amortised premia	-	-
Total	**11,697**	**12,158**

7. Major Repairs Reserve

	2013-14 £'000	2013-14 £'000	2012-13 £'000	2012-13 £'000
Balance at 1 April		**702**		**2,051**
Income:				
Contribution from the HRA	7,270		7,202	
Expenditure:				
Dwellings	7,580		8,551	
Surplus / (deficit) for year		(310)		(1,349)
Balance at 31 March		**392**		**702**

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	**2013-14 £'000**	**2012-13 £'000**
Gross arrears	2,674	2,251
Net arrears		
Former tenants *	360	317
Current tenants *	(810)	(912)
Net arrears at 31 March	**(450)**	**(595)**

*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	**2013-14 £'000**	**2012-13 £'000**
Gross arrears	3,471	3,682
Net arrears		
Leaseholder charges*	2,758	2,787
Commercial properties	368	504
Net arrears at 31 March	**3,126**	**3,291**

*Also includes credit balances representing receipts in advance

Provision for bad debts has been made as follows:

Provision	**2013-14 £'000**	**2012-13 £'000**
Provision at 1 April	**2,516**	**2,666**
Provision made in year	122	59
Write-offs during year	(345)	(209)
Provision at 31 March	**2,293**	**2,516**

Collection Fund Accounts

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

	2013-14			2012-13			
	Business Rates £000	Council Tax £000	Total £000	Business Rates £000	Council Tax £000	Total £000	Notes
Income							
Council Tax Collectable	-	(101,279)	(101,279)	-	(96,325)	(96,325)	1
Add: Council Tax Benefits*	-	-	-	-	(12,569)	(12,569)	
Business Rates Collectable	(277,840)	-	(277,840)	(266,115)	-	(266,115)	2
Business Rate Supplement Collectable	(10,020)	-	(10,020)	(9,913)	-	(9,913)	
Total Income	**(287,860)**	**(101,279)**	**(389,139)**	**(276,028)**	**(108,894)**	**(384,922)**	
Expenditure							
Precepts and Demands:							
Central Government (CLG)	130,912	-	130,912	-	-	-	
Royal Borough of Kensington and Chelsea	78,547	71,083	149,630	-	78,022	78,022	
Greater London Authority	52,364	27,522	79,886	-	30,580	30,580	
Payment to the national pool	-	-	-	265,490	-	265,490	2
Business Rate Supplement							
Payment to the Greater London Authority	9,981	-	9,981	9,868	-	9,868	3
Cost of collection	39	-	39	45	-	45	
Charges to Collection Fund							
Write-offs of uncollectable amounts	1,045	446	1,491	-	301	301	
Increase / (Decrease) in Bad Debt Provision	949	1,655	2,604	-	66	66	
Increase / (Decrease) in Provision for Appeals	12,360	-	12,360	-	-	-	
Distribution / (Recovery) of previous year's estimated surplus / (deficit)	-	185	185	-	(48)	(48)	
Cost of collection	619	-	619	625	-	625	
Transitional Protection Payment	1,044	-	1,044	-	-	-	
Total Expenditure	**287,860**	**100,891**	**388,751**	**276,028**	**108,921**	**384,949**	
Movement on Fund balance	-	(388)	**(388)**	-	27	**27**	
(Surplus) / Deficit as at 1 April	-	(43)	**(43)**	-	(71)	(71)	
(Surplus) / Deficit as at 31 March	-	(431)	**(431)**	-	**(43)**	**(43)**	**6**

* From 1 April 2013, Council Tax Benefits is replaced by localised Council Tax support, which forms part of the collectable amount of Council Tax.

Notes to the Collection Fund Accounts

1. General

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

2. National Non-Domestic Rates (NNDR)

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 divided between the Council (30 per cent), Greater London Authority (20 per cent) and the Government (50 per cent).

The National Non Domestic Rateable Value at 31 March 2014 was £658 million. The standard NNDR multiplier for 2013-14 was 47.1 pence (45.8 pence in 2012-13). The Small Business Rate Relief multiplier for 2013-14 was 46.2 pence (45.0 pence for 2012-13).

3. Business Rate Supplement (BRS)

Under the arrangements for the Business Rate Supplement, the Council collects a supplement for its area based on local rateable values in excess of £55,000 multiplied by the designated rate poundage. The total amount, less 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:

The Business Rate Supplement Rateable Value at 31 March 2014 was £550,880,600. The standard BRS multiplier for 2013-14 was 2 pence, unchanged from previous years.

4. Council Tax

The tax base for the Financial Year 2013-14 was calculated as follows:

Band	Dwellings	Less Exemptions Disregards Discounts	No. of dwellings after disregards exemptions discounts	Band ratio	Total Band D	Add Second and Empty Homes	Less Council Tax Support	Band D Equivalent 2013-14 Forecast	Band D Equivalent 2012-13 Forecast
A	1,800	(692)	1,108	6/9	739	50	(230)	559	739
B	3,601	(829)	2,772	7/9	2,156	66	(1,032)	1,191	2,163
C	9,270	(1,924)	7,346	8/9	6,530	280	(2,767)	4,043	6,663
D	13,626	(2,920)	10,706	1	10,706	508	(3,268)	7,946	10,957
E	13,224	(2,659)	10,565	11/9	12,913	811	(2,453)	11,270	13,436
F	11,821	(2,302)	9,519	13/9	13,750	1,013	(1,419)	13,344	14,321
G	19,482	(3,720)	15,762	15/9	26,270	2,462	(920)	27,812	27,821
H	14,573	(2,073)	12,500	18/9	25,000	2,066	(121)	26,946	26,105
Class O					50			50	50
Subtotal	**87,397**	**(17,119)**	**70,278**		**98,114**	**7,256**	**(12,210)**	**93,160**	**102,254**
							Collection Loss	(2,329)	(2,555)
							Net Taxbase	**90,831**	**99,699**

The 2013-14 Council Tax Base was 90,831. The significant difference in Band D Equivalents (and thus Council Tax Base) between 2012-13 and 2013-14 is largely due to the impact of the calculation for the new Council Tax Support Scheme. Residents that used to receive Council Tax Benefit now receive a Council Tax discount. This reduced the taxbase.

The Council set a 2013-14 Band D charge of £768.65 and the Greater London Authority's Band D precept for 2013-14 was £303.00, making a total Band D Council Tax charge for 2013-14 of £1,071.65.

5. Council Tax Precept Adjustments

The estimated balance on the Collection Fund as at 15 January 2014 has to be distributed to or collected from the precepting authorities. Although the surplus on the Collection Fund was £430,553 at the 31 March, the sum of £579,796 will be additionally debited to the account in 2014-15 by way of payments from precepting authorities. The adjustment of £184,747 in 2013-14 represents the recovery of the estimated deficit as at 31 March 2013.

6. Collection Fund Balance

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

	2013-14			2012-13		
	Business Rates	Council Tax	Total	Business Rates	Council Tax	Total
	£000	£000	£000	£000	£000	£000
Royal Borough of Kensington and Chelsea	-	(312)	(312)	-	(31)	(31)
Greater London Authority	-	(119)	(119)	-	(12)	(12)
Central Government (CLG)	-	-	-	-	-	-
	-	**(431)**	**(431)**	**-**	**(43)**	**(43)**

The Pension Fund

The Pension Fund Account

Dealings with members, employers and others directly involved in the fund	2013-14 £'000	2012-13 £'000	Notes
Contributions			
From employers (normal)	(18,409)	(18,199)	6
From employers (special)	(6,000)	(9,000)	6
From members	(5,682)	(5,695)	6
Transfers in from other pension funds	(4,039)	(3,722)	
Other income	-	-	
	(34,130)	**(36,616)**	
Benefits			
Pension	20,209	19,118	7
Commutation and lump sum retirement benefits	5,860	5,678	7
Payments to and on account of leavers	20	117	
Individual transfers out to other pension funds	2,582	2,058	
Other expenditure	-	-	
Administration expenses	434	530	8
	29,105	**27,501**	
Net (additions) / withdrawals with members	**(5,025)**	**(9,115)**	
Returns on investments			
Investment income	(8,167)	(5,499)	9
Other income	-	(530)	
Taxes on income	141	116	
Profit and loss on disposal of investments and changes in the market value of investments			
Realised	(13,339)	(14,199)	
Unrealised	(39,100)	(66,392)	
	(52,439)	**(80,591)**	12
Investment management expenses	3,317	2,923	10
Net return on investments	**(57,148)**	**(83,581)**	
Net (increase) / decrease in the net assets available for benefits during the year	**(62,173)**	**(92,696)**	
Opening Net Assets of the Scheme	**633,489**	**540,793**	
Closing Net Assets of the Scheme	**695,662**	**633,489**	

The Pension Fund Net Assets Statement*

	31 March 2014 £'000	31 March 2013 £'000	Notes
Investment Assets			
Fixed interest securities			
Equities:			
United Kingdom	28,732	15,696	13
Overseas	134,235	124,532	13
Pooled index-linked Gilts	-	4,745	13
Pooled global equities	285,258	257,211	13
Pooled global absolute return funds	176,264	174,667	13
Pooled property investments	22,781	20,834	13
Pooled private equity funds	33,500	30,237	13
Cash (with managers)	3,656	2,215	12/13
Investment income due	103	264	13
Investment liabilities	-	-	
Net value of investment assets	**684,529**	**630,401**	12/13
Current assets	1,540	762	12/20
Current liabilities	(451)	(403)	12/21
Cash (held directly by fund)	10,044	2,729	12/13
Net assets of the fund available to fund benefits at the period end	**695,662**	**633,489**	

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

Notes to the Pension Fund Account

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

(a) General

The Pension Fund (the 'Fund') is part of the Local Government Pension Scheme (LGPS) and is administered by the Council. It is a contributory defined benefits scheme established in accordance with statute, which provides for the payment of benefits to employees and former employees of the Council and the admitted and scheduled bodies to the Fund.

These benefits include retirement pensions, early payment of benefits on medical grounds and payment of death benefits where death occurs either in service or in retirement. The benefits payable are based on an employee's final salary and the number of years of eligible service. Pensions are increased each year in line with the Consumer Price Index.

From 1 April 2014, revised regulations will be effective, changing the scheme from a final salary scheme to a career average revalued earnings based scheme. All benefits payable on employees' service from 1 April 2014 will be based on the average of each year of salary revalued in line with the Consumer Price Index.

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

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

(b) Investment Committee

The Council has delegated the investment arrangements of the scheme to the Investment Committee (the Committee), which decides on the investment policy most suitable to meet the liabilities of the Fund and has ultimate responsibility for the investment policy.

The Committee is made up of six elected representatives of the Council, including one opposition party representative, each of whom has voting rights. In addition, there are up to four co-opted members who may attend committee meetings, but have no voting rights.

The Committee reports to the full Council and has full delegated authority to make investment decisions. The Committee obtains and considers advice from the Joint Chief Executive and, as necessary, from the Fund's appointed investment advisers, managers and actuary.

(c) Investment Principles

The *Local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 1999* require administering authorities to prepare and review from time to time a written statement recording the investment policy of their Pension

Fund. The purpose of this document is to satisfy the requirements of the regulations, to explain how the Fund is managed and to set out the factors taken into account in doing so.

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

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

The Committee has delegated the management of the Fund's investments to professional investment managers appointed in accordance with the regulations, and whose activities are specified in detailed investment management agreements and monitored on a quarterly basis. Please see **Note 11.**

(d) Membership

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

The following table summarises the membership numbers of the scheme:

	31 March '14 No	31 March '13 No
Active members	3,097	3,202
Pensioners receiving benefits	2,656	2,515
Deferred Pensioners	4,305	3,966
Total	**10,058**	**9,683**

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

(e) Tri-borough Working

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

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

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

2. Basis of the Preparation of the Financial Statements

The Statement of Accounts summarises the Fund's transactions for 2013-14 and its position at year end as at 31 March 2014. The Statement of Accounts has been prepared in accordance with International Accounting Standard 26 (IAS26): *Accounting and Reporting by Retirement Benefit Plans* and the *Code of Practice on Local Authority Accounting in the United Kingdom* (The Code).

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

The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year, nor do they take into account the actuarial present value of promised retirement benefits. IAS 26 gives administering authorities the option to disclose this information in the Net Asset Statement, in the notes to the accounts or by appending an actuarial report, prepared for this purpose. The Council has opted to disclose this information in an accompanying report to the accounts which is discussed in **Note 19.**

3. Summary of Significant Accounting Policies

Fund Account – Revenue Recognition

(a) Contribution Income

Normal contributions, both from the members and from the employer, are accounted for on an accruals basis.

(b) Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the Fund during the financial year. Individual transfers in and out are accounted for when received or paid, which is normally when the member liability is accepted or discharged. Bulk (group) transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement.

(c) Investment Income

Dividends from quoted securities are accounted for when the security is declared ex-dividend. Interest income is accrued on a daily basis. Investment income is reported gross of withholding taxes which are accrued in line with the associated investment income. Irrecoverable withholding taxes are reported separately as a tax charge. Investment income arising from the underlying investments of the Pooled Investment Vehicles is reinvested within these and reflected in the unit price.

Fund Account – Expense Items

(d) Benefits Payable

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

(e) Taxation

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

(f) Administrative Expenses

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

(g) Investment Management Expenses

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

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

Net Assets Statement

(h) Financial Assets

Financial assets are included in the net assets statement on a fair value basis as at the Balance Sheet Date. Quoted securities and Pooled Investment Vehicles have been valued at the bid price and fixed interest securities are recorded at net market value based on their current yields at the Balance Sheet Date. Quoted securities are valued by Northern Trust, the Fund's custodian.

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

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

(i) Foreign Currency Transactions

Dividends, interest and purchases and sales of investments in foreign currencies have been accounted for at the spot market rates as at the transaction date. Investments held in foreign currencies at the 31 March 2014 are shown at their sterling market value calculated using the prevailing applicable spot exchange rate provided by Northern Trust.

(j) Cash and Cash Equivalents

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

(k) Financial Liabilities

The fund recognises financial liabilities at fair value as at the Balance Sheet Date. A financial liability is recognised in the net assets statement on the date the Fund becomes party to the liability. From this date, any gains or losses arising from changes in the fair value of the liability are recognised by the Fund.

(l) Actuarial present value of promised retirement benefits

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

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

(m) Additional Voluntary Contributions

Members of the Fund may choose to make Additional Voluntary Contributions (AVCs) into a separate scheme run by Prudential Assurance in order to obtain additional pensions benefits. The company is responsible for providing the investors with an annual statement showing their holding and movements in the year. AVCs are not included within the accounts in accordance with the relevant regulations. They are disclosed in **Note 22.**

(n) Recharges from the General Fund

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

4. Critical Judgements in Applying Accounting Practices

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

(a) Pension Fund Liability

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

(b) Unquoted Private Equity Investments

The fair value of private equity investments is unavoidably subjective. The valuations are based on forward-looking estimates and judgements involving many factors. Unquoted private equity assets are valued by the investment managers in accordance with industry standards.

5. Events after the Balance Sheet Date

As at end July 2014 the Fund's investments have changed in value to £711 million compared to the value placed on the net assets statement as at the reporting date of 31 March 2014. This mainly reflects a combination of general equity and fixed-income market movements and the actual inflow of funds, including a partial settlement of £1.35 million received from the liquidators of the Specialist Schools and Academies Trust.

A further significant event took place at the end of August 2014 when the fund manager at the Barings Dynamic Asset Allocation Fund announced his resignation. Following the advice of the Fund's advisers, this holding was sold.

6. Contributions Receivable

By authority	2013-14 £'000 Employees Normal	2013-14 £'000 Employers Normal	2012-13 £'000 Employees Normal	2012-13 £'000 Employers Normal
Administering Body				
Kensington and Chelsea	**5,070**	**22,672**	**5,043**	**25,507**
Scheduled Bodies				
ARK Brunel Academy	6	15	-	-
Chelsea Academy	75	176	64	148
Holland Park Academy	44	99	-	-
Kensington and Chelsea College	100	244	141	338
St Charles Sixth Form College	40	131	41	132
Subtotal of Scheduled bodies	**265**	**665**	**246**	**618**
Admitted Bodies				
Amey	31	80	-	-
EPICS	11	25	-	-
Medequip	1	4	1	4
Hestia	15	34	5	11
Specialist Schools and Academies Trust	-	-	21	44
Tenant Management Organisation	275	888	358	955
Westway Development Trust	14	41	21	60
Subtotal of Admitted bodies	**347**	**1,072**	**406**	**1,074**
Total *	**5,682**	**24,409**	**5,695**	**27,199**

* The total employer contributions for 2013-14 includes the £6 million special contribution shown separately in the Pension Fund Accounts. A similar contribution of £9 million was made in 2012-13.

7. Benefits Payable

By category:	2013-14 £'000	2012-13 £'000
Pensions	20,209	19,118
Commutation and lump sum retirement benefits	4,710	4,841
Lump sum death benefits	1,151	837
Total	**26,069**	**24,796**

By authority:

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

	2013-14 £'000	2012-13 £'000
Royal Borough of Kensington and Chelsea	18,612	17,334
Scheduled Bodies		
Chelsea Academy	-	261
Kensington and Chelsea College	128	117
St Charles Sixth Form College	32	21
Subtotal of Scheduled bodies	**160**	**399**
Admitted Bodies		
Medequip	-	-
Specialist schools and academy trusts	383	395
Tenant Management Organisation	912	861
Westway Development Trust	105	92
Other admitted bodies	37	37
Subtotal of Admitted Bodies	**1,437**	**1,385**
Total	**20,209**	**19,118**

8. Administrative Expenses

	2013-14 £'000	2012-13 £'000
Provision of pension administration	289	356
Support services including IT	76	107
External audit fees (KPMG)	21	21
External audit fees (Audit Commission)	-	(2)
Professional fees	48	49
Total	**434**	**530**

9. Investment Income

	2013-14 £'000	2012-13 £'000
Equity dividends	6,781	4,031
Income from pooled property investments	739	938
Income from private equity	607	485
Interest on cash deposits	40	46
Total	**8,167**	**5,499**

10. Investment Expenses

	2013-14 £'000	2012-13 £'000
Investment management fees	3,197	2,838
Custody and performance fees	41	49
Investment consultancy fees	54	36
Other Investment management fees	25	-
Total	**3,317**	**2,923**

11. Investment Strategy

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

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

	31 March 2014		31 March 2013	
Fund Manager	**Market Value £'000**	**%**	**Market Value £'000**	**%**
Baillie Gifford	145,279	21.2	128,840	20.5
Longview	166,624	24.3	142,176	22.6
Legal & General	139,979	20.5	133,115	21.1
Barings	89,656	13.1	88,153	14.0
Pyrford	86,607	12.7	86,514	13.7
CBRE	22,781	3.3	21,070	3.3
Adams Street	33,500	4.9	30,269	4.8
Total Fund Managers	**684,426**	**100.0**	**630,137**	**100.0%**
Investment income due	103		264	
Total Investments	**684,529**		**630,401**	

12. Reconciliation in Movements in Investments

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

Market Value 2013-14	1 April 2013 £'000	Purchases during the year and derivative payments £'000	Sales during the year and derivative receipts £'000	Net assets / liabilities movement £'000	Changes in market value during the year £'000	31 March 2014 £'000
Index-linked Gilt pooled fund (Legal & General)	4,745	-	(4,647)	-	(98)	-
Pooled active global equities (Baillie Gifford)	128,840	-	-	-	16,439	145,279
Active global equities (Longview)	142,176	47,003	(43,817)	-	21,262	166,624
Pooled passive global equities (Legal and General)	128,371	-	-	-	11,609	139,979
Pooled active global absolute return fund (Barings)	88,153	64	-	-	1,440	89,656
Pooled active global absolute return fund (Pyrford)	86,514	2,606	-	-	(2,513)	86,607
Pooled UK property fund (CBRE)	21,070	-	(236)	-	1,947	22,781
Global private equity fund (Adams Street)	30,269	5,690	(4,799)	-	2,340	33,500
Fixed-term cash deposits	-	-	-	-	-	-
Investment income due	264	-	-	(161)	-	103
Sub-Total	**630,401**	**55,363**	**(53,499)**	**(161)**	**52,426**	**684,529**
Current assets	762	-	-	778	-	1,540
Current liabilities	(403)	-	-	(48)	-	(451)
Cash deposits	2,729	-	-	7,302	13	10,044
Net Investment Assets	**633,489**	**55,363**	**(53,499)**	**7,871**	**52,439**	**695,662**

Market Value 2012-13	1 April 2012 £'000	Purchases during the year and derivative payments £'000	Sales during the year and derivative receipts £'000	Net assets / liabilities movement £'000	Changes in market value during the year £'000	Market values 31 March 2013 £'000
Index-linked Gilt pooled fund (Legal & General)	4,250	-	-	-	494	4,745
Pooled active global equities (Baillie Gifford)	105,739	2,008	-	-	21,093	128,840
Active global equities (Longview)	112,720	22,371	(17,834)	-	24,919	142,176
Pooled passive global equities (Legal and General)	106,367	2,000	-	-	20,004	128,371
Pooled active global absolute return fund (Barings)	80,213	1,541	-	-	6,399	88,153
Pooled active global absolute return fund (Pyrford)	79,522	1,891	-	-	5,101	86,514
Pooled UK property fund (CBRE)	21,678	236	-	-	(843)	21,070
Global private equity fund (Adams Street)	24,386	6,007	(3,548)	-	3,424	30,269
Fixed-term cash deposits	-	-	-	-	-	-
Investment income due	269	-	-	(5)	-	264
Sub-Total	**535,144**	**36,054**	**(21,382)**	**(5)**	**80,591**	**630,401**
Current assets	896	-	-	(134)	-	762
Current liabilities	(594)	-	-	191	-	(403)
Cash deposits	5,347	-	-	(2,618)	-	2,729
Net Investment Assets	**540,793**	**36,054**	**(21,382)**	**(2,566)**	**80,591**	**633,489**

13. Classification of Financial Instruments

	31 March '14 £'000			31 March '13 £'000		
	Designated as fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost	Designated as fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost
Financial Assets						
Equities						
United Kingdom	28,732			15,696		
Overseas	134,235			124,532		
Pooled funds - investment vehicles						
UK pooled index-linked Gilts	-			4,745		
Pooled global equities	285,258			257,211		
Pooled global absolute return funds	176,264			174,667		
Pooled property investments	22,781			20,834		
Pooled private equity funds (unquoted)	33,500			30,237		
Investment income due	103			264		
Cash		13,700			4,944	
Debtors		1,540			762	
Creditors			(451)			(403)
Subtotal	**680,873**	**15,240**	**(451)**	**628,186**	**5,706**	**(403)**
Total		**695,662**			**633,489**	

14. Fair Value of Financial Instruments and Liabilities

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

	31 March '14 £'000		31 March '13 £'000	
	Market Value	Book Costs	Market Value	Book Costs
Financial Assets				
Investment assets	680,770	531,240	630,702	517,477
Cash deposits	13,700	13,698	2,729	2,998
Income due	103	103	264	264
Current assets	1,540	1,540	197	197
Financial liabilities	-	-	-	-
Investment liabilities				
Current liabilities	(451)	(451)	(403)	(403)
Total Value of Investments	**695,662**	**546,130**	**633,489**	**520,533**

15. Contingent Liabilities and Contractual Commitments

As at 31 March, the Fund had a commitment to invest a further £25.1 million into the Adams Street private equity funds of funds. It is anticipated that these commitments will be spread over the next 10 years and will be largely offset by cash distributions from the investments made since 2007.

16. Stock Lending

The Fund does not participate in stock lending.

17. Nature of Risk Arising from Financial Instruments

Risk and Risk Management

(a) Market Risk

The Fund's primary long-term risk is that the Fund's assets will fall short of its liabilities. The Fund's liabilities are sensitive to inflation via pension and pay increases, to interest rates and to mortality rates. The assets that would most closely match the liabilities are a basket 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.

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.

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.

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.

(b) Credit Risk

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

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

(c) Liquidity Risk

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

18. Funding Arrangements

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

The most recent full triennial valuation of the Fund was carried out by Barnett Waddingham, the Fund's actuary, as at 31 March 2013, in accordance with the *Funding Strategy Statement* of the Fund and Regulation 36 of *the Local Government Pension Scheme (Administration) Regulations 2008*. The results were published in the triennial valuation report dated 31 March 2014.

The 2013 valuation certified a common contribution rate of 17.8 per cent of pensionable pay to be paid by each employing body participating in the Fund, based on a funding level of 95 per cent. In addition, each employing body has to pay an individual adjustment to reflect its own particular circumstances and funding position within the Fund. Details of each employer's contribution rate are contained in the *Statement to the Rates and Adjustment Certificate* in the triennial valuation report. It should, however, be noted that the employers' contributions for the period to 31 March were based on the results of the 2010 valuation.

The actuary's smoothed market value of the scheme's assets at 31 March 2013 was £630 million and the actuary assessed the present value of the funded obligation at £663 million indicating a net liability of £33 million.

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

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

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

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

iv. Progression of pensionable pay due to promotion.

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

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

19. Actuarial Present Value of Promised Retirement Benefits

The table below shows the total net liability of the Fund as at 31 March 2014. The figures have been prepared by the Fund's actuary, only for the purposes of providing the information required by IAS26. In particular, they are not relevant for calculations undertaken for funding purposes or for other statutory purposes under UK pensions legislation.

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

	31 March '14 £'000	31 March '13 £'000
Present value of promised retirement benefits*	887,960	897,050
Fair value of scheme assets (bid value)	(695,662)	(633,489)
Net Liability	**192,298**	**263,561**

*Present value of promised retirement benefits comprises £799,286,000 in respect of vested obligation and £88,674,000 in respect of non-vested obligations.

20. Current Assets

Debtors	31 March '14 £'000	31 March '13 £'000
Contributions due - employers	208	146
Contributions due - employee	80	51
Sundry debtors	1,252	565
Total	**1,540**	**762**

Analysis of debtors	31 March '14 £'000	31 March '13 £'000
Local authorities	1,252	565
Other entities and individuals	288	197
Total	**1,540**	**762**

21. Current Liabilities

Creditors	31 March '14 £'000	31 March '13 £'000
Sundry creditors	451	403
Benefits payable	-	-
	451	**403**

Analysis of creditors	31 March '14 £'000	31 March '13 £'000
Government bodies	-	-
Other entities and individuals	451	403
Total	**451**	**403**

22. Additional Voluntary Contributions

The *Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998* do not permit Additional Voluntary Contributions (AVCs) to be paid into the 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 £478,000 was invested by members of this fund in this way during 2013-14. The AVCs invested in 2012-13 was £584,000.

	Market Value 31 March'14 £'000	Market Value 31 March'13 £'000
Prudential	2,431	2,339
Total	**2,431**	**2,339**

23. Related Party Transactions

The Fund is administered by the Royal Borough of Kensington and Chelsea. The Council incurred costs of £0.4 million in the financial year 2013-14 (2012-13 £0.5 million) in relation to the administration of the Fund and was reimbursed by the Fund for the expenses. The Fund uses the same payroll and banking providers as the Council and no additional charges are made in respect of this.

In year, and in total, the Council contributed £22 million to the Fund compared to £27 million in 2012-13.

The Council has a significant relationship with one admitted body, the Kensington and Chelsea Tenant Management Organisation (TMO). The Fund received £0.9 million in employer contributions, deficit and early retirement costs from the TMO.

The London Residuary Body Transferred Functions Income and Expenditure Statement

	2013-14 Gross Expenditure £'000	2013-14 Gross Income £'000	2013-14 Net Expenditure £'000	2012-13 Net Expenditure £'000	Notes
Income and expenditure on services					
General costs	69	-	**69**	30	**1**
Adjustment to provisions	58	-	**58**	(130)	**2**
Adjustment to assets and liabilities	-	-	**-**	-	
Interest	-	15	**(15)**	(18)	**4**
Total expenditure on services	**127**	**15**	**112**	(118)	
Surplus / (deficit) for the year			**(112)**	118	

Statement of Movement on the London Residuary Body Balance

	2013-14 £'000	2012-13 £'000
Balance brought forward at 1 April	**4,289**	**4,171**
Surplus / (deficit) for the year on Income and Expenditure Account	(112)	118
Total assets	**4,177**	**4,289**

London Residuary Body Transferred Functions Balance Sheet

	2013-14 £'000	2012-13 £'000	Notes
Current assets			
Current debtors	**-**	**-**	
Temporary investment with the Council	4,341	4,395	
Total assets	**4,341**	**4,395**	
Current liabilities			
Creditors	**-**	**-**	
Total assets less current liabilities	**4,341**	**4,395**	
Long term liabilities			
Provisions	(164)	(106)	**2**
Net Assets	**4,177**	**4,289**	
Represented by			
London Residuary Body balance	4,177	4,289	
Total net worth	**4,177**	**4,289**	

Introduction

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

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

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

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

Notes

1. There has been another reduction in the claims payments, with payments totalling £8,107 for 2013- 2014 and a payment of £54,981 levy against the previous year's provision of £55,000 following the triggering of the Municipal Mutual Insurance (MMI) scheme of arrangement.

2. **Provisions**
   There have been two new **public liability claims** during 2013-14 and the amounts set aside for these are included in the table below.

	2013-14	**2012-13**
Balance at 31 March	**£'000**	**£'000**
Public liability claims	164	50
MMI legacy Scheme levy	-	56
Total Provision	**164**	**106**

3. **Contingent Liabilities**
   During 1992-93, the London Residuary Body's insurers, MMI ceased accepting new business. The LRB is a member, through the Council, of a scheme of arrangement that has been put in place to try and ensure an orderly settlement of the run-off of MMI. Following the triggering of the (MMI) scheme of arrangement, LRB will be required to fund 15 percent of all future MMI payments and it is assumed that this exposure will be covered by the cash the Council holds on behalf of the LRB transferred functions.

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

Other Useful Information

Website address www.rbkc.gov.uk

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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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