The Royal Borough of Kensington and Chelsea Statement of Accounts 2016-17

THE ROYAL BOROUGH OF
KENSINGTON
AND CHELSEA

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NARRATIVE REPORT

Report by Chris Buss, Interim Director of Finance (CFO)

Review of Business

Although not occurring in the financial year covered by these accounts, the Grenfell Tower tragedy casts a shadow over them. It is far too early to fully determine the impact of this tragedy on the finances of the Royal Borough. It is clear however that it will impact on future financial affairs as the Royal Borough refocuses itself on serving all elements of its diverse community. As at 30 September RBKC had already committed £80 million on new housing. There will be further reports to the Leadership team soon to meet the Council's commitment to rehouse people within 12 months. Existing spend is £15million on temporary accommodation and other support.

The Council's mission for the Royal Borough:

We want the Royal Borough to be a place where people of all backgrounds wish to live: an attractive, safe and diverse area in which residents, businesses and visitors have the opportunity to thrive; a place that is smart, creative and prosperous, with resilient and public-spirited residents who respect their neighbours and contribute to their local communities.

The Council is therefore committed to:

- delivering good and affordable public services that are well managed and easy to use
- listening to our residents, respecting their diverse backgrounds, needs, ambitions and views, and championing their interests
- protecting the Royal Borough's character, investing in the public buildings and spaces that make Kensington and Chelsea special and seeking opportunities to improve areas where housing (and other amenities) could benefit from regeneration
- securing and maintaining a first-class educational offer, both through the quality of our schools and a significant capital investment programme
- ensuring that redevelopments such as those at Earl's Court and Warwick Road yield lasting and significant benefits for the borough and its current and future residents
- supporting residents to work with one another to improve the quality of life in their local communities
- encouraging the development of a prosperous and growing local economy that offers local people opportunities to work
- reducing the damage the Council's actions can have on the environment, and encouraging others to do likewise
- working with partners in the public and voluntary sectors to address the social issues that all urban areas confront, such as:
  - the poor health, worklessness and low incomes of some residents
  - parents who face a range of problems that affect their ability to keep their children safe from harm and promote their welfare
  - antisocial behaviour, crime and the fear of crime
  - the challenges and opportunities for elderly residents and those who are most vulnerable
  - intense pressures on all elements of the borough's housing and the difficulties that arise from this, such as overcrowding
- taking actions and decisions that are transparent and well explained.

NARRATIVE REPORT

Council's Performance

Kensington and Chelsea has had high satisfaction ratings: in early 2016, 90% of residents said that they were fairly or very satisfied with the area as a place to live; and 85% said that they were fairly or very satisfied with the way the Council ran things.

Here are some of the ways in which the Council achieves these ratings:

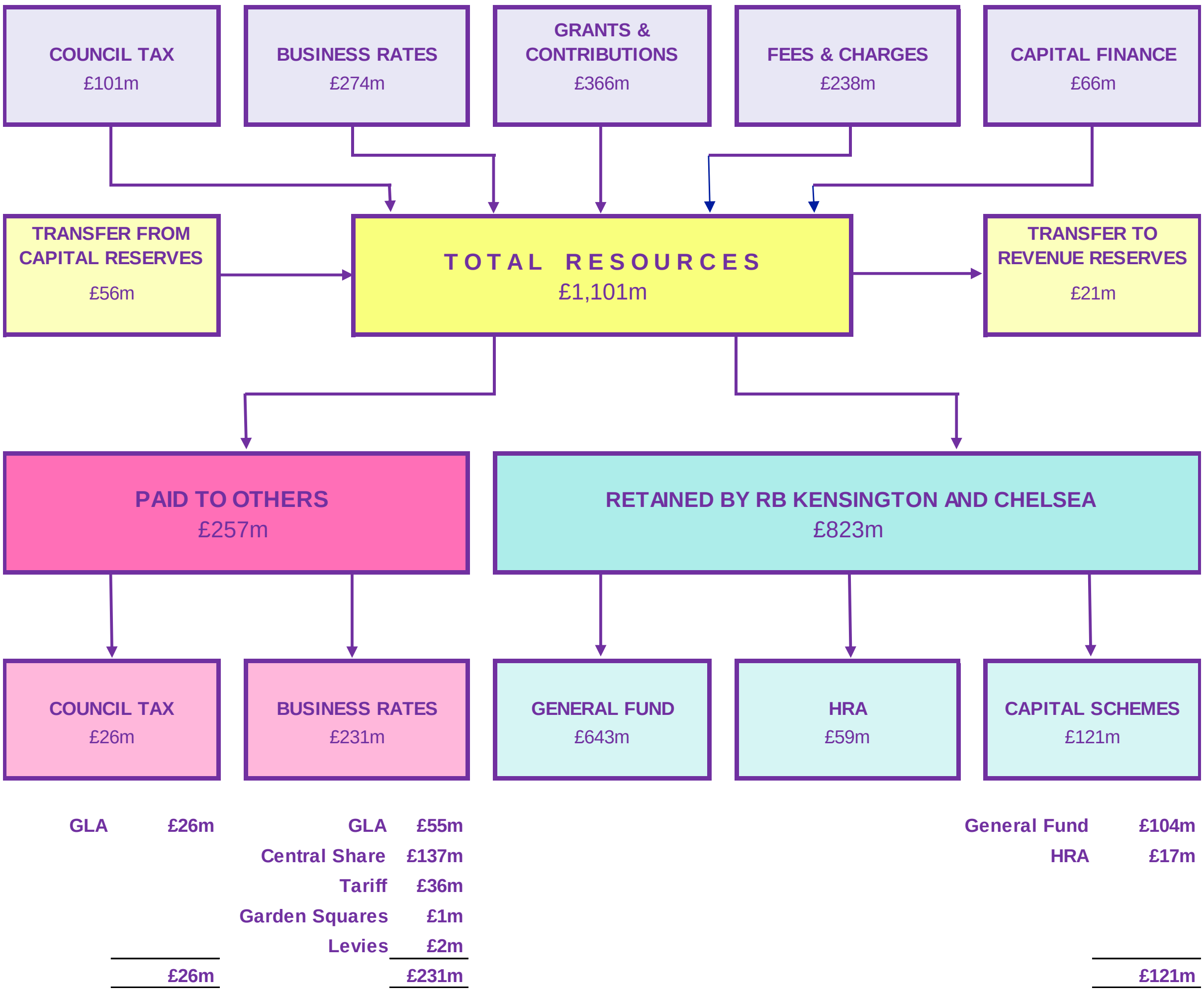
- In March 2016, OFSTED rated children's social services in the borough as Outstanding. It was the most complimentary report issued so far to a local authority under the current model of inspection.
- The Key Stage 2 tables showed that 70 per cent of children in Kensington and Chelsea achieved level 4 and above in reading, writing and mathematics, 4 being the expected level of achievement at age 11. This is the second best performance in the country. Moreover, 12 per cent of pupils reached a higher than expected level in these subjects which was the best performance nationally.
- Pupils at schools in the Royal Borough achieved the best GCSE results in London in 2016-17. Seventy-six per cent of pupils in the borough's secondary schools achieved GCSE grades A* to C in English and Mathematics, the best result in London and fourth best nationally.
- The Council continues to offer support to adults with 'moderate' needs, even though they can manage to do most daily living tasks for themselves. We believe this means that they remain independent at home for longer. The borough is one of very few Councils that address a wider range of needs in this way.
- In March 2017, there were 2,945 residents receiving care in some form, 1,101 were receiving professional mental health support, 750 were getting homecare, 238 were in residential care and 109 were in nursing care.
- Two new Integrated Care Centres (St Charles and Violet Melchett) opened in 2016-17.
- The Council achieves high ratings for its 'street scene' services: 89% of residents rate refuse collection as good, very good or excellent. Street lighting, street cleaning and the repair of roads and pavements score 88%, 88% and 77% respectively.
- Improvements in public transport are vital to the Council's ambitions for improved air quality, for new housing and for a better quality of life for our residents. So in 2016-17 we continued to press our case with the transport authorities for a Crossrail 1 station in North Kensington and a Crossrail 2 station in Chelsea.
- The Royal Borough has 2 cemeteries and 28 parks and open spaces, incorporating 26 playgrounds, 3 outdoor gyms and a wide range of other sports facilities.
- In July, the Royal Borough retained all ten of its prestigious Green Flag Awards from Keep Britain Tidy. Our Green Flag parks include Holland Park, Kensington Memorial Park, Little Wormwood Scrubs and Emslie Horniman's Pleasance.

Development and Performance

The financial standing of the Council is robust, with a strong balance sheet.

The Council generates a large amount of income through fees and charges for the services that it provides. It also collects large amounts of funding, some of which it transfers to other bodies. The balance is used to fund the Council's services and capital expenditure. The inflows and outflows are presented graphically in this diagram:

SOURCE AND APPLICATION OF RESOURCES



General Fund

This is the main account from which the majority of the Council's services to its residents and businesses are funded.

Housing Revenue Account

The Housing Revenue Account (HRA) is a ring-fenced landlord account responsible for the Council's social housing provision. Day-to-day management of the stock is delegated to Kensington and Chelsea Tenant Management Organisation (KCTMO). The Council manages over 6,000 dwellings from which it collects £44m in rent and £10m of service charges.

Pension Fund

The Pension Fund collects contributions from employers and current members and pays pensions to retired members. It manages over £1 billion of investments and is 100% funded per the last revaluation. It is estimated that this will rise to 103% at the next revaluation. This puts it in the top quartile of local authority pension funds by funding.

Outturn Positon 2016-17

The Council underspent in 2016-17 by £10m. This was a marginal increase of £0.6m over the amount forecast during the year. A number of reserves were released at year-end to defray expenditure incurred on purposes for which the reserves were set aside. £0.8m of carry forwards were also approved at year-end. The remaining £9.2m of underspend was transferred to the Capital Expenditure reserve to fund future investment in the Council's assets.

The outturn for 2016-17 includes a working balance confirmed at £10 million – the Council's agreed minimum.

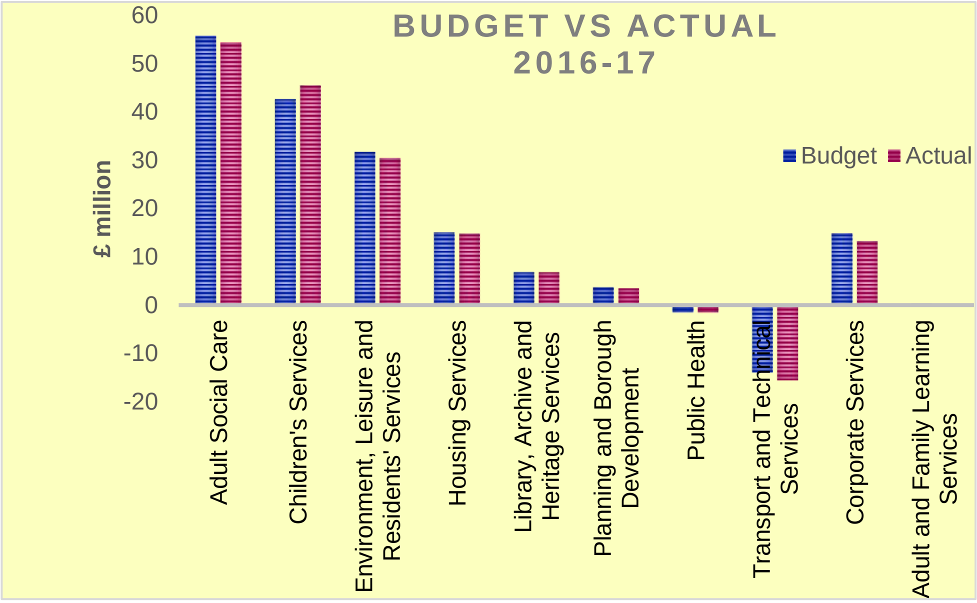
Details of the outturn on a service by service basis are set out in the following table:

Royal Borough of Kensington and Chelsea

2016-17 Outturn Position

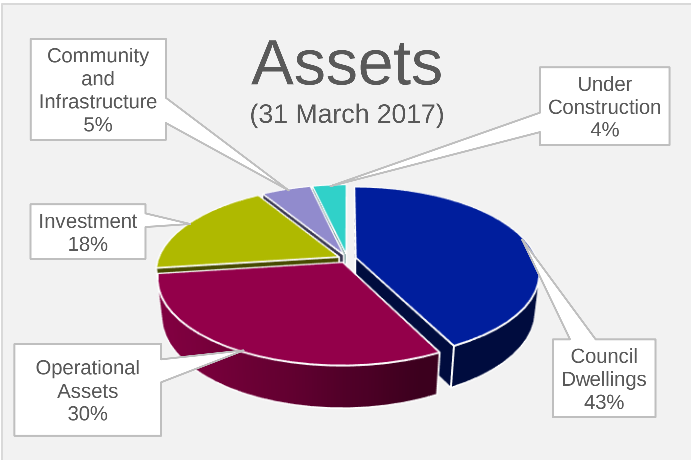
	Budget 2016-17 £'000	Actual 2016-17 £'000	Initial Variance 2016-17 £'000	Initial Variance 2016-17 %	Reserve Transfers 2016-17 £'000	Final Variance 2016-17 %
Service Budgets						
Adult Social Care	55,770	54,389	(1,381)	-2%	0	(1,381)
Children's Services	41,521	45,492	3,971	10%	(1,093)	2,878
Environment, Leisure and Residents' Services	31,634	30,425	(1,209)	-8%	(50)	(1,259)
Housing Services	15,076	14,820	(256)	-2%	0	(256)
Library, Archive and Heritage Services	6,294	6,744	450	7%	(451)	(1)
Planning and Borough Development	3,577	3,451	(126)	-4%	(73)	(199)
Public Health	0	(1,521)	(1,521)	0%	1,522	0
Transport and Technical Services	(14,019)	(15,551)	(1,532)	11%	(80)	(1,612)
Corporate Services	15,251	12,410	(2,841)	-19%	391	(2,450)
Adult and Family Learning Services	121	92	(29)	-24%	0	(29)
Service Total	**155,225**	**150,751**	**(4,474)**	**-3%**	**164**	**(4,310)**
Contingency and Central Budgets	3,776	284	(3,492)	-92%	0	(3,492)
Net Cost of Services	**159,001**	**151,034**	**(7,966)**	**-5%**	**164**	**(7,802)**
Levies	3,368	3,455	87	3%	0	87
Net Interest	(1,944)	(1,810)	134	-7%	0	134
Pension Fund Costs and Adjustments	(3,770)	(4,426)	(656)	17%	0	(656)
Capital Costs and Adjustments	(10,567)	(10,863)	(296)	3%	0	(296)
Transfer to/(from) reserves	10,197	10,666	469	5%	(164)	305
Business Rates Tariff (paid to government)	36,033	36,033	0	0%	0	0
Net Spending	**192,317**	**184,089**	**(8,228)**	**-4%**	**0**	**(8,228)**
Funded by						
Grants (including Revenue Support Grant)	(35,348)	(37,087)	(1,739)	5%	0	(1,739)
National Non-Domestic Rates (retained locally)	(82,200)	(82,200)	0	0%	0	0
Council Tax	(74,769)	(74,769)	(0)	0%	0	(0)
Outturn	**0**	**(9,966)**	**(9,966)**		**0**	**(9,966)**
Transfers to Reserves						
Net Transfer to Budget Carry Forward Reserve	0	768	768			768
Transfer to Capital Expenditure Reserve	0	9,198	9,198			9,198
Balanced Budget	**0**	**0**	**0**		**0**	**0**

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



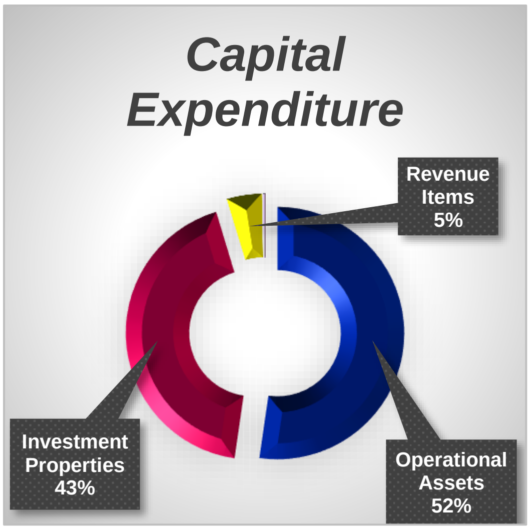
Ambitious for tomorrow – our capital programme

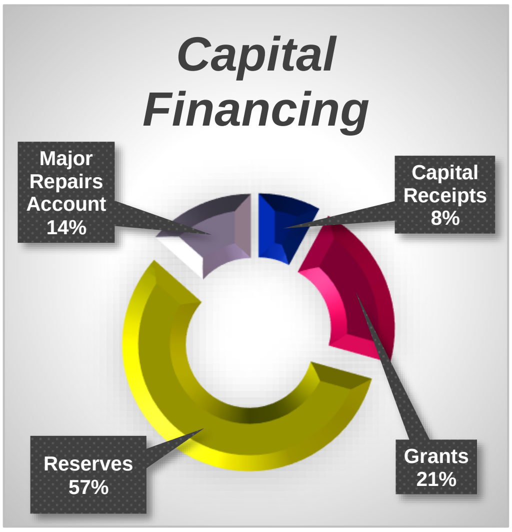
The Council holds a large portfolio of assets to enable it to provide social housing and deliver services to its residents and businesses. The Council's asset holdings at financial year-end are analysed in the following chart:



During 2016-17, the Council moved forward on an ambitious capital programme costing approximately £314 million designed to renew the borough's infrastructure and make a meaningful contribution to relieving the housing crisis.

Highlights include: Redevelopment of Fox, Colville and Barlby Primary Schools, the new Marlborough School and a new special school on the Barlby site plus a new nursey building at St. Anne's and Avondale Park Nursery School.





The housing crisis remains one of the most pressing issues facing London and the Council. During 2016-17, we made further progress on schemes at Barlby/Treverton, Silchester, Pembroke Road, Kensington and Chelsea College and Edenham Way, that if approved, could yield many hundreds of new homes. The Council has also continued to purchase housing units for temporary accommodation.

CAPITAL EXPENDITURE ON ASSETS

TOTAL ASSETS BROUGHT FORWARD AT 1/4/16
£1,672m

+

ENHANCEMENTS	**ACQUISITIONS**	**REVALUATIONS**
£58m	£58m	£8m

-

DISPOSALS	**DEPRECIATION**
-£6m	-£15m

=

TOTAL ASSETS CARRIED FORWARD AT 31/3/17
£1,775m

Investment Property	**Operational Buildings**	**Other Property, Plant and Equipment**	**HRA Dwellings**
£325m	£539m	£155m	£756m

Analysis of Financial and Other KPI

RBKC is responsible for managing cash flows and assets exceeding £3 billion.

The Council:

- collects business rates from 8,851 properties and for 2016-17 99 per cent of the £296m billed was collected in year. 83% of the business rates collected is passed onto central government and the Greater London Assembly, the Council retaining £46m.
- collected 97 per cent of the Council Tax due from the borough's 88,600 domestic properties which is the highest collection rate on record.
- the Council remained the top authority in London when it comes to paying housing and council tax benefits on time.
- is responsible for managing the £1 billion RBKC Pension Fund which provides pensions to 2,873 pensioners and has 3,271 active members.
- holds £1.75 billion of fixed assets including £539 million of operational assets for delivering services and £325 million of investment property. Active management of the asset portfolio is expected to realise £100m of capital receipts in 2017/18 and generates investment income of £12.5m annually.
- generates £482 million of fees and charges towards the cost of service delivery. This helps to keep the council tax down.

Active treasury management of these cash flows involves £5.6 billion of churn annually.

Economic climate

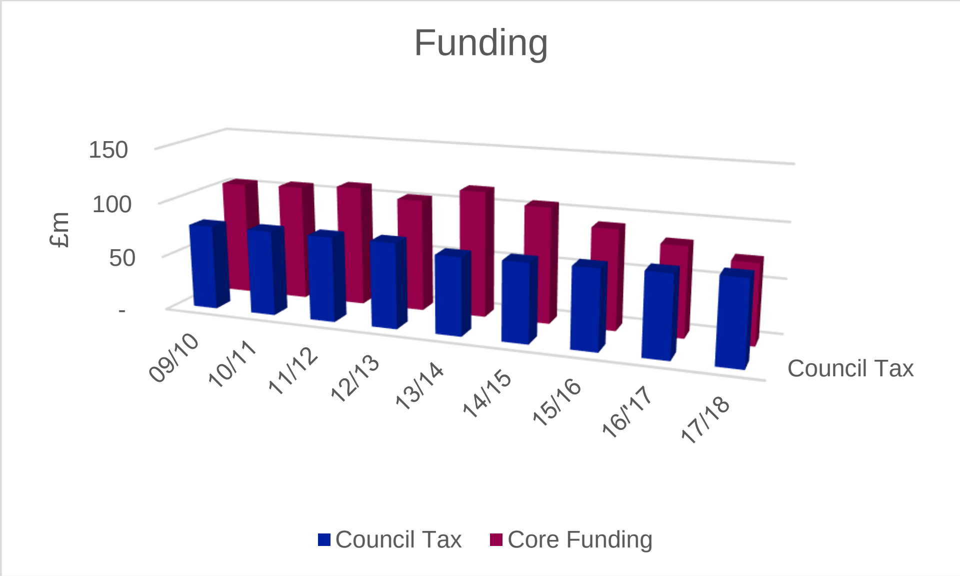
Since 2010 local government has had to bear the brunt of public spending reductions made necessary by the 2008 financial crash and its fallout.

These reductions have meant some difficult decisions for every council. Of the significant savings that have been required of us, only about 5 per cent has come by way of service reductions.

The three key reasons for this are:

- traditional year-on-year savings;
- sharing services with our neighbouring authorities; and,
- dynamic stewardship of our land assets.

Annual savings have been required to address a real terms reduction of about 20 per cent in the Council's budget since 2010-11. The following table shows how the Council Tax has remained fairly static through a period where core funding, particularly government grant support, has declined significantly.



Strategic Approach

To tackle the loss of income caused by austerity measures, the Council has adopted a strategic approach which seeks to maintain frontline service delivery. This has proved quite successful with only small reductions in service provision. Shared services and effective asset management are key aspects of this strategy.

Sharing the management of services with our neighbours, Westminster and Hammersmith & Fulham, has yielded savings of about £13 million up to and including 2016-17.

Far more dynamic stewardship of the Council's property estate has seen income rising to about £12.5 million in 2016-17, up from just £3.8 million in 2010-11.

Whilst the success of this policy is clear; the potential for yielding further relatively painless savings is diminishing. During the closing stages of 2016-17, the Council therefore agreed the first council tax increase for eight years. The 1.9 per cent increase will raise about £1.5 million in 2017-18, money that would otherwise have to be found through cuts in services or increases in charges.

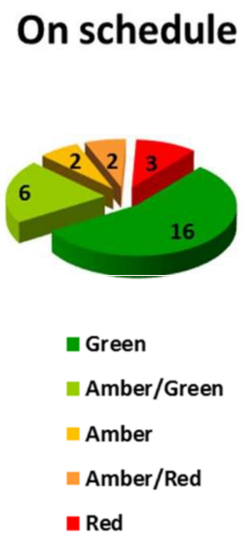
In setting the budget for 2017-18, one of the startling figures that emerged is that our spending has fallen by some £90 million since the onset of austerity.

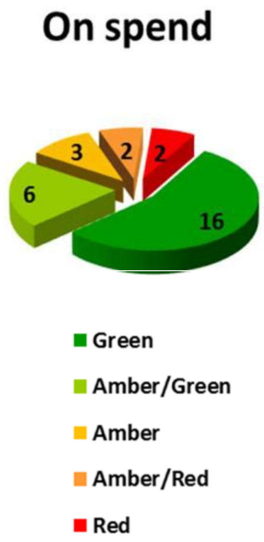
Performance Management

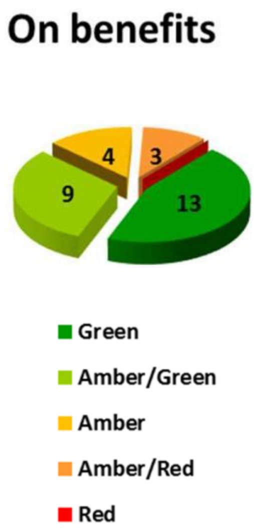
The Council has an agreed list of the its top projects, programmes and initiatives for the 2016-17 financial year, known as "Vital Improvements". Progress is reported to Cabinet twice a year in July and January, and the suite is refreshed annually in March.

The Council uses a five-point traffic light system to indicate progress from successfully delivered to delivery appears unachievable.

In January 2017 the summary results were:







Risks and uncertainties

A risk management strategy is in place to identify and evaluate risks. There are clearly defined steps to support better decision making through the understanding of risks and their likely impact. The risk management process was audited in 2016, satisfied all assurance requirements and is scrutinised regularly by the council's Audit and Transparency Committee.

Below are our top risks derived from the Council's high level risk register:

Risk	Impact	Mitigation
Continued reductions in government funding, which restricts revenue spending.	Impact on the Council's ability to run full services and may mean that some services are changed or reduced.	Collaborative working with partners and subsidiaries.
Safeguarding, protecting young people from harm.	Potential harm to children.	Policies, training and management controls, lessons learnt from reviews and enhanced checks.
Additional demands created by new legislation in particular the Care Act.	Increased demand for adult and children care services.	Further focus on integration with health services, focus on preventative and re-ablement services.
Managed Services Programme.	Financial transactional items, processing and management, accounts receivable and payable. Human Resources transactional items, salaries and pensions.	Programme management, relationship management with the service provider, retention of in-house staff and systems.
Information risks associated with Cyber-crime.	Denial of service.	Continuity planning and deployment of technological controls.
Large scale Transformation Programmes, I.T. server moves to a new service provider.	New service provider is not operational in time or data is not transferred in good order.	Transformation programme.

NARRATIVE REPORT

The Environment

Carbon reduction

The Council has been making good progress at reducing its own carbon footprint.

In 2008 the Council adopted a Climate Change Strategy and set a target to reduce carbon emissions by 40% by 2020, with an interim target of a 20% reduction. By 2015-16, the Council had achieved a 26.7% carbon reduction compared to the baseline year (2007-2008) and achieved £4.7 million financial saving for the Council and its contractors (which is an overachievement of the financial target). We achieved this by improving our own assets and choosing more efficient heating and lighting.

The next milestone will be in 2020, by which time carbon emissions are planned to be down 40% from 2008 levels. The Council will report back on the interim 30% carbon reduction target for 2016-17 in the autumn of 2017 when the final carbon data will be received and analysed.

Air quality and climate change

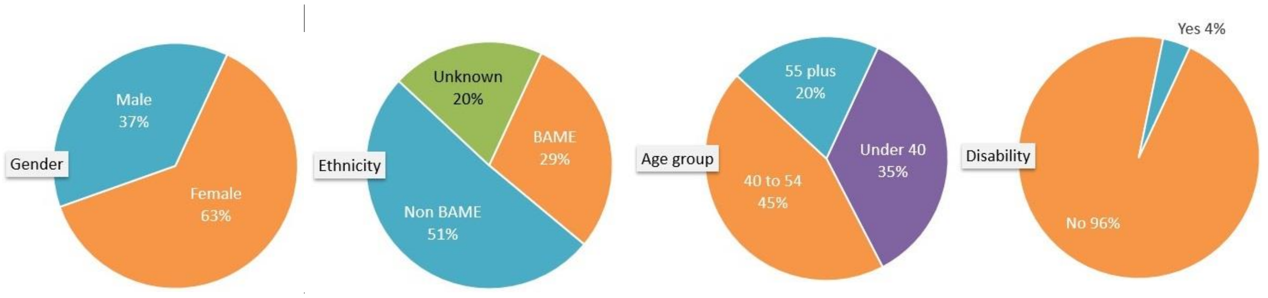
The Council is not, however, solely focused on its own carbon use. The Council has campaigned for better public transport and to encourage cycling. Complementing those efforts, in January 2016, the Council adopted a new five-year (2016-2021) Air Quality and Climate Change Action Plan. The Action Plan can be found on the Council's website. It and the accompanying Cabinet report reveals that air quality in the borough is seriously poor, so poor that two pollutants alone are believed to be a factor in two hundred deaths a year. The Action Plan sets out a range of meaningful measures (more than 80 actions) intended to address both air quality and carbon output.

As well as developing strategy, the Council has been experimenting with smaller scale environmental projects. For example, in 2016 we began installing a green roof at the Muslim Cultural Heritage Centre on Acklam Road which will be used for environmental education sessions. Home energy visits have been delivered in the last two winters to support vulnerable residents living in cold homes.

Operating model – Staff Analysis

At the end of March 2017 the Council employed 2,797 staff in roles that equate to 1,983 full time equivalent posts. 2,512 of these staff were Council employees with the remainder employed on an agency or interim basis. These figures exclude schools based staff.

An analysis of key demographic features of the workforce is provided as follows:



Items of Strategic importance

In March 2017 the Council and Westminster City Council reluctantly served notice on the London Borough of Hammersmith & Fulham of their intention to withdraw from service sharing arrangements in the areas of Adult Social Care, Children's Services and Public Health. The budget for future years will need to address this major organisational change and its financial impact.

FINANCIAL STATEMENTS

The Statement of Accounts sets out details of the Council's income and expenditure for the financial year 2016-17 and its Balance Sheet as at 31 March 2017. This covers the General Fund (GF), HRA, Pension Fund and all the other accounts for which the Council is responsible.

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

- The **Expenditure and Funding Analysis** (EFA) shows how annual expenditure incurred is funded from resources (including government grants, rents, council tax and business rates) by the Council in comparison with those resources consumed or earned in accordance with generally accepted accounting practices. It also shows how this expenditure is allocated for decision making purposes between the Council's services. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement.

- The **Comprehensive Income and Expenditure Statement** (CIES) reports the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation (GF) or rents (HRA). The Council raises taxation (or rents) to cover expenditure in accordance with statutory requirements; this may be different from the accounting cost. The taxation position is shown in both the EFA and the Movement in Reserves Statement.

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

- The **Balance Sheet** shows the value as at 31 March of the assets and liabilities recognised by the Council. The Council's net assets are matched by its reserves. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those reserves that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve that may only be used to fund capital expenditure or repay debt). The second category of reserves is those that the Council is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the MIRS line 'Adjustments between accounting basis and funding basis under regulations'.

- The **Cash Flow Statement** shows the changes in cash and cash equivalents of the Council during the reporting period. The statement shows how the Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Council are funded by way of taxation and grant income or from the recipients of services provided by the Council. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Council's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Council.

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

- The **Supplementary Financial Statements** provide details of the HRA, Collection Fund, 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.

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

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Email: FinalAccounts@rbkc.gov.uk

INDEPENDENT EXTERNAL AUDITOR'S REPORT

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 2017 on pages 32 to 119. 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 2016/17.

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014. 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 Chief Financial Officer (Director of Finance) and auditor

As explained more fully in the Statement of the Chief Financial Officer's Responsibilities, the Chief Financial Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that the financial statements 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 circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Financial Officer, and the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Narrative Statement 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 2017 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 2017 and the amount and disposition of the Fund's assets and liabilities as at 31 March 2017 other than liabilities to pay pensions and other benefits after the end of the scheme year; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

Matters on which we are required to report by exception

The Code of Audit Practice requires us to report to you if:

- the Annual Governance Statement set out on pages 21 to 31 does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' (CIPFA/SOLACE 2016 Edition)
- the information given in the Narrative Statement 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 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of, the audit; or
- any recommendations have been made under Section 24 of the Local Audit and Accountability Act 2014; or
- any other special powers of the auditor have been exercised under the Local Audit and Accountability Act 2014.

We have nothing to report in respect of these matters.

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

Authority's responsibilities

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

Auditor's responsibilities

We are required under Section 20(1) (c) of the Local Audit and Accountability Act 2014 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 Comptroller and Auditor General (C&AG) requires us to report to you our conclusion relating to proper arrangements.

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 review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by C&AG in November 2016, as to whether the Royal Borough of Kensington and Chelsea had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The C&AG determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Royal Borough of Kensington and Chelsea put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

Conclusion

As a consequence of the ongoing external investigations and inspections, we have not yet been able to complete the work that we have determined necessary to form a view on whether, in all significant respects, the Royal Borough of Kensington and Chelsea has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2017.

Certificate

Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to form a view on whether, in all significant respects, the Royal Borough of Kensington and Chelsea has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2017.
In addition, we cannot formally conclude the audit and issue an audit certificate until we have completed our consideration of matters brought to our attention by a local authority elector relating to 2016/17. We are satisfied that this work does not have a material effect on the financial statements.

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

17 October 2017

STATEMENT OF RESPONSIBILITIES

The Council's Responsibilities

The Council is required to:

- make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. The Council's Chief Financial Officer is the 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 Director of Finance's Responsibilities

The 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 CIPFA Code of Practice on Local Authority Accounting (the Code).

In preparing this Statement of Accounts, the Director of Finance has:

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

The Director of Finance has also:

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

I confirm that the Statement of Accounts 2016-17 (set out on pages 32 to 119) gives a true and fair view of the financial position of the Council as at 31 March 2017 and its income and expenditure for the year ended 31 March 2017.

Chris Buss
Interim Director of Finance (CFO)

3 October 2017

Councillor James Husband
Chair of Audit and Transparency Committee

3 October 2017

ANNUAL GOVERNANCE STATEMENT

Introduction and purpose of the Annual Governance Statement

This Annual Governance Statement 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** (available at https://www.rbkc.gov.uk/council-and-democracy/how-council-works/constitution)**.**

The purpose of the statement is to enable the Council to meet its obligations under the *Accounts & Audit Regulations 2015*, which require that the Council prepares such a statement.

A governance framework has been in place for the year ended 31 March 2017 and remained so up to the date of approval of the Statement of Accounts.

Scope of responsibility

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

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

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 through this link: https://www.rbkc.gov.uk/council-and-democracy, on the Council's website**.**

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.

The Council

During the period of the review, the Council comprised 50 Councillors. There were 18 Wards: 14 three-member Wards and four two-member Wards. At the start of the period of the review the composition of the Council was: Conservative 37, Labour 11 and Liberal Democrat 2. All Councillors meet together as the Council and full Council meetings are scheduled to take place generally five times a year.

How the Council operates

The Council is a large organisation with a total turnover of over £500 million. It is responsible for providing or commissioning very many separate services and has an ambitious capital investment programme of almost £400m, which will deliver a wide range of projects including a new primary school and a substantial investment in the purchase of homes for temporary accommodation.

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 for the Council to determine.

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

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

There has been a change to the Council’s governance and leadership structure since the 2016-17 review period. The Head of Paid Service (Chief Executive) is now Barry Quirk and Councillor Elizabeth Campbell is the Council Leader. This is following the tragic fire at Grenfell Tower in June 2017. The conclusions and recommendations arising from the Public Inquiry will be reflected in the review of annual governance going forward.

Strategic plans and policies

The annual revenue and capital budgets are prepared, consulted upon and reflected in the Forward Plan and are considered and approved by full Council in March each year. This sets the level of Council Tax and capital investment for the forthcoming financial year. Budget plans are summarised in a document - **Budget Proposals** - which was published after approval by the full Council in March 2017.

How we ensure our arrangements are working effectively

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

Sources of Assurances

Corporate Governance

- Constitution (incl. statutory officers, scheme of delegation, financial procedure, 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

Management Team

- 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

Services are delivered economically, efficiently & effectively

- 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 provides a summary of information on the areas that the Committee has considered:

April

- Draft Audit Plan for 2016-2017.
- Risk Management in Adult Social Care and Public Health.
- End of Year Anti-Fraud report.
- Risk Management quarterly review.
- Internal Audit quarterly progress review.
- Treasury Management activity report.

June

- Risk Management in Transport and Technical and Environment, Leisure and Residents Services.
- Annual Governance Statement report.
- Internal Audit quarterly progress review.
- Review of the Audit report of Corporate Governance.
- Directors' Assurance Reports Summary.
- The annual report on Internal Audit and Control.
- Treasury Management annual report.
- Managed Services Programme Update report.

September

- The Audit and Transparency Committee Chairman's annual report.
- Approval of the Final Accounts.
- Approval of the External Audit (ISA 260) report on governance.
- Corporate Safety annual report.
- Approval of the Anti-Fraud progress report.
- Internal Audit quarterly progress review.
- Treasury Management activity report.
- Managed Services Programme Lessons Learned.

February

- Annual Audit Letter, progress report.
- Annual report of Grants and Returns.
- Risk Management quarterly review and update to Risk Management Strategy.
- Internal Audit quarterly progress review.
- Draft Audit Plan for 2017-2018.
- Treasury Management activity report.
- Managed Services Programme - update and review.

Audit and Transparency Committee - Seeking assurance

The Audit and Transparency Committee has responsibility for receiving reports that deal with issues key to good governance, as well as areas identified as requiring improvement.

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

- Risk Management in Adult Social Care and Public Health;
- Risk Management in Transport and Technical and Environment, Leisure and Residents Services;
- The Managed Services Programme; and,
- Information Risk Management.

Internal Audit has continued to highlight concerns identified in respect of the implementation of the Managed Services Programme and have provided regular updates on progress being made through the Internal Audit Plan.

Effectiveness review of Scrutiny Committees

Cabinet Members make up the Executive and are responsible for undertaking all the Council’s functions not reserved to full Council or delegated to Committees or officers. Cabinet Members 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 Housing and Property or 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 National Health Service) 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 of the Council. The Chairman of each Scrutiny Committee 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 within their remit. Residents, Councillors and officers participate in this programme of work. 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 for review. These working groups consider evidence and views from a wide range of stakeholders, including professionals, service users and academic experts, as well as studying national best practice and guidance. At the end of the evidence gathering phase, a report is produced with recommendations intended to resolve the issue or improve the way the Council operates.

Partnership Governance

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

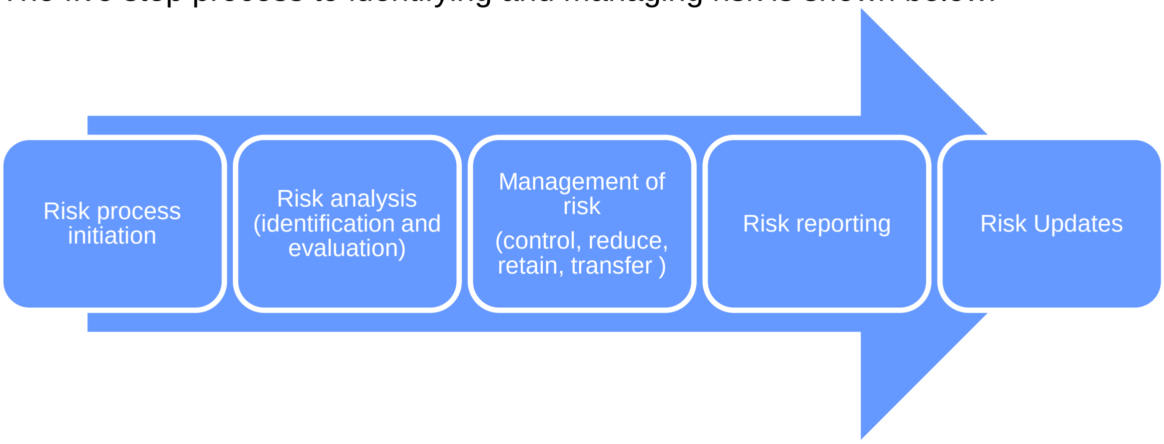
Since each Council retains its own sovereignty, the governance arrangements for the Royal Borough remain the same for all services.

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 reviewed and updated its *Risk Management Strategy*. It was reviewed by the Audit and Transparency Committee and reflects the approach the Council wishes to take to the management of risk.

The *Risk Management Strategy Statement* sets out the intended approach to risk management to be used for shared 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 five step process to identifying and managing risk is shown below:



Risk review process

It is recognised by the Council that risk management is an integral part of good governance. Services are facing substantial challenges that will continue into 2017 resulting in a variety of business models being used across the Council. This would include the impact of 'Brexit', Adult Social Care funding and associated work with the care market across inner London, which is particularly fragile. Issues include demographic changes, increasing complexity and workforce pressures arising from London Living Wage, National Living Wage, housing costs and the retention and quality of staff;

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.

The Council is committed to;

- raising awareness of the benefits of effective risk management;
- adopting and embedding a risk aware culture; and
- establishing and maintaining 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 accord with established best practice.

Managing the risk of fraud

To fulfil the Council's Corporate Strategy, it is recognised that the Council must maximise its financial resources and ensure fraud and misappropriation are reduced to a minimum.

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 on three key themes: acknowledge, prevent and pursue, and it adheres to the *Local Government Fraud Strategy*.

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

- *Members Code of Conduct;*
- *Officers Code of Conduct;*
- *Whistleblowing Policy;*
- *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.

There were no significant cases of fraud or corruption identified during 2016-17.

Anti-Bribery and Corruption

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 receive 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.*

Freedom of Information, including Environmental Information requests

1,172 Freedom of Information requests were logged in the period 1 April 2016 – 31 January 2017.

- 79% (924) requests were completed within the 20 working-day deadline.
- 158 were responded to in full and 19 were refused in full.

In the same period, 14 requests for internal review were received. The original decision was upheld in ten cases. The internal review was refused in two cases on the grounds that the review was requested after the 40-day time limit for requesting a review. In one case the information was released in full after the review. One case from January 2017 remains ongoing.

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

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

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 LLP.

This assurance is further supplemented by the reviews undertaken by external agencies such as OFSTED, the Care Quality Commission and the Office of the Information Commissioner. The Internal Audit 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, by CIPFA. Compliance with these standards is externally assessed on a cyclical basis. During 2016-17 a self-assessment of compliance was undertaken and only minor non-conformities were identified.

The Committee approved the Internal Audit Charter, which sets out the role of internal audit, its responsibilities, and clarifies its independence. Internal audit is required to annually review how it complies with the charter.

One of the key assurance statements the Council receives is the annual report and the opinion of the Head of Internal Audit. The opinion of the Head of Internal Audit in respect of audit work completed in 2016-17 is that the Council's internal control systems in the areas audited were adequate.

External Audit

The Council's external auditor, KPMG LLP, issued an unqualified value for money conclusion for 2015-16 on 30 September 2016. The report concluded that the Council has proper arrangements for securing financial resilience. To arrive at its conclusion, KPMG LLP reviewed financial governance, financial planning and financial control processes, as well as how the Council was prioritising resources and improving efficiency and productivity.

KPMG LLP issued an unqualified opinion on the Council's 2015-16 financial statements on 30 September 2016 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.

KPMG LLP reviewed the 2015-16 Annual Governance Statement and concluded that it complies with Delivering Good Governance in Local Government: A Framework published by CIPFA/SOLACE.

There were no areas for improvement noted.

Conclusion on the review

The Council's formal governance is an important part of its corporate culture and it is keen to modernise and refresh approaches and practices where appropriate. An independent review of governance, facilitated by the Centre for Public Scrutiny, is planned to take place in 2017-18. The arrangements continue to be regarded as fit for purpose in accordance with the governance framework. The areas already addressed and those to be specifically addressed with new actions planned are outlined below. A satisfactory level of assurance has been achieved following the conclusion of the review.

Significant Governance Issues

Matters reported below in the 2015-16 Annual Governance Statement, with the exception of those related to the Managed Services Programme, have been addressed during 2016-17 and are considered resolved.

Contract Management and Procurement

The Adult Social Care Commissioning & Enterprise Team has adopted and are in the process of implementing, the Shared Services Contract Management Framework (CMF). The Framework has been developed for use by the Royal Borough of Kensington and Chelsea, the London Borough of Hammersmith and Fulham and Westminster City Council to help shape the approach to contract management and is designed to support an effective and more consistent approach to managing a diverse range of contracts. It has been developed to help manage risk and exploit the opportunities that arise in all contracts; it draws upon existing good practice and offers a flexible approach to support Contract Managers according to their specific needs.

The Framework sits alongside existing procurement practises and systems including capitalEsourcing, the Council's electronic procurement system, that also acts as the Council's Contracts Register, the upkeep of which is the responsibility of individual service directorates and the Purchase to Pay 'Agresso' system.

Additionally, the team are in the process of implementing the Shared Services Category Management Toolkit. Through Category Management the Council aims to reflect the link between customer requirements and supply market capabilities. This will enable business requirement definition or specification to be developed so that it delivers best value whilst anticipating and planning for changes in technology. The toolkit will enable the Council to reduce risk and consider how it develops the right supply capabilities both for today and tomorrow. Services also want to ensure they have the right skills and experience applied to the right activity within the category management process, ensuring that many supply options are considered rather than just one. Following a common process will help Services build good communications and build trust and co-working across all of the value chain. Application of Category Management methodology will guide procurement professionals, commissioners (and all others involved in the procurement process) through a rigorous process to effectively manage the organisations spend.

While generally satisfied with the effectiveness of corporate governance arrangements and the internal control environment, as part of continuing efforts to improve governance arrangements the following issue has been identified for improvement.

Managed Services Programme

The Council's Strategic Partnership with the London Borough of Hammersmith and Fulham and the City of Westminster procured an externally managed service from BT to deliver transactional finance and human resource processes to all three Councils. As previously reported, the managed service went live later than planned with a partial service solution and a further programme of implementation in April 2015.

Following workshops with all key stakeholders in July 2016 a comprehensive and shared operational recovery plan was agreed. This was intended to ensure that critical activity, which had to be completed before 31 March 2017 (e.g. closure of the Council's accounts), was delivered. Remaining less critical activity is now planned to be delivered by the end of June 2017.

To provide the Council with some assurance over its key financial and human resources systems, a number of internal audits have been undertaken during 2016/17 including:

- Accounts receivable, audit work in progress;
- General ledger, substantial assurance;
- Accounts Payable, satisfactory assurance;
- Treasury Management, substantial assurance;
- VAT, Satisfactory Assurance; and
- Budgetary Control, Satisfactory Assurance.

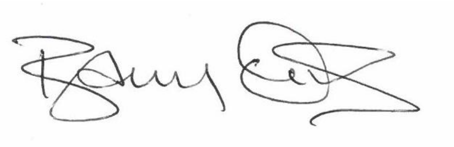
Sample testing has also been undertaken on key areas of Accounts Payable, where a satisfactory assurance audit report was issued, and the Payroll System where limited assurance was attained. Actions required to address the audit findings are being monitored by the Council's Intelligent Client Function and will be followed up as part of the 2017-18 payroll audit

The Council will continue to engage with BT to agree how best to achieve the desired outcomes from the contract and Members will continue to be kept fully briefed of any significant issues that may arise.

We are satisfied that these steps will make possible the effective delivery of the service by BT over the next two years whilst at the same time, progressing a Bi-Borough re-procurement involving the Royal Borough of Kensington and Chelsea and the City of Westminster.

The Council will, over the coming year, take steps to address matters outlined in this Annual Governance Statement to further enhance governance arrangements. We are satisfied that these steps will address the need for improvements that have been identified and we will monitor their implementation and operation as part of the next annual review.

Signed:



Barry Quirk, Chief Executive

Cllr Elizabeth Campbell, Council Leader

EXPENDITURE AND FUNDING ANALYSIS	2016-17 Net Expenditure / (Income) Chargeable to the GF and HRA Balances	2016-17 Adjustments between Accounting and Funding Basis	2016-17 Net Expenditure / (Income) in the CIES	2015-16 Net Expenditure / (Income) Chargeable to the GF and HRA Balances	2015-16 Adjustments between Accounting and Funding Basis	2015-16 Net Expenditure / (Income) in the CIES
	£'000	£'000	£'000	£'000	£'000	£'000
Adult Social Care	54,389	420	54,809	56,166	870	57,036
Children's Services	45,492	10,907	56,399	45,909	(727)	45,182
Environment, Leisure and Residents' Services	30,425	3,220	33,645	36,518	(6,037)	30,481
Housing Services	14,820	1,141	15,961	14,115	659	14,774
Library, Archive and Heritage Services	6,744	1,354	8,098	6,367	(268)	6,099
Planning and Borough Development	3,451	(155)	3,296	3,767	(25)	3,742
Public Health	(1,522)	(11,507)	(13,029)	0	0	0
Transport and Technical Services	(15,551)	4,202	(11,349)	(15,195)	2,558	(12,637)
Corporate Services	12,410	14,909	27,319	16,335	7,946	24,281
Adult and Family Learning Services	92	(1)	91	47	0	47
Housing Revenue Account	(12,686)	(7,413)	(20,099)	(14,177)	(1,554)	(15,731)
Net Costs of Services	**138,064**	**17,077**	**155,141**	**149,852**	**3,422**	**153,274**
Other income and expenditure	(160,716)	(66,783)	(227,499)	(178,572)	(41,953)	(220,525)
(Surplus) / Deficit on Services	**(22,652)**	**(49,706)**	**(72,358)**	**(28,720)**	**(38,531)**	**(67,251)**
Opening Balance on GF / HRA reserves		**(31,411)**			**(31,499)**	
Appropriations to / (from) reserves:						
- Budget Carry Forward Reserve	768			413		
- Property Strategy Reserve	0			500		
- Capital Expenditure Reserve	9,198			13,630		
- Major Repairs Reserve	14,059			15,040		
- Major Work Reserve	(890)			(775)		
Net GF / HRA (Surplus) / Deficit		**483**			**88**	
Closing Balance on GF / HRA reserves		**(30,928)**			**(31,411)**	

CORE FINANCIAL STATEMENTS

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT	2016-17 Gross Expenditure	2016-17 Gross Income	2016-17 Net Expenditure	2015-16 (restated) Gross Expenditure	2015-16 (restated) Gross Income	2015-16 (restated) Net Expenditure
	£'000	£'000	£'000	£'000	£'000	£'000
Adult Social Care	80,147	(25,338)	54,809	79,124	(22,088)	57,036
Children's Services	159,507	(103,108)	56,399	155,379	(110,197)	45,182
Environment, Leisure and Residents' Services	45,041	(11,396)	33,645	40,481	(10,000)	30,481
Housing Services	45,457	(29,496)	15,961	42,799	(28,025)	14,774
Library, Archive and Heritage Services	8,656	(558)	8,098	6,758	(659)	6,099
Planning and Borough Development	8,442	(5,146)	3,296	8,619	(4,877)	3,742
Public Health	20,853	(33,882)	(13,029)	18,407	(18,407)	0
Transport and Technical Services	41,603	(52,952)	(11,349)	39,992	(52,629)	(12,637)
Corporate Services	179,265	(151,946)	27,319	177,769	(153,488)	24,281
Adult and Family Learning Services	1,389	(1,298)	91	1,383	(1,336)	47
Housing Revenue Account	35,654	(55,753)	(20,099)	39,822	(55,553)	(15,731)
Cost of Services	**626,014**	**(470,873)**	**155,141**	**610,533**	**(457,259)**	**153,274**
Other operating expenditure (Note 12)	4,334	(25,531)	(21,197)	9,025	(38,732)	(29,707)
Financing and investment income and expenditure (Note 13)	30,293	(48,738)	(18,445)	35,336	(49,020)	(13,684)
Taxation and non-specific grant income and expenditure (Note 14)	36,033	(223,890)	(187,857)	35,735	(212,869)	(177,134)
(Surplus) or Deficit on Provision of Services	**696,674**	**(769,032)**	**(72,358)**	**690,629**	**(757,880)**	**(67,251)**
(Surplus) / deficit on revaluation of non current assets (Note 11)			(1,173)			(33,571)
(Surplus) / deficit on revaluation of available for sale financial assets (Note 11)			931			(436)
Remeasurement of net defined benefit liability (Note 11)			45,347			(65,536)
LRB (surplus) / deficit			(155)			147
Other Comprehensive Income and Expenditure			**44,950**			**(99,396)**
Total Comprehensive Income and Expenditure			**(27,408)**			**(166,647)**

MOVEMENT IN RESERVES STATEMENT	General Fund	Housing Revenue Account	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves	Total Reserves
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 31 March 2016	**(219,932)**	**(21,756)**	**(52,125)**	**(707)**	**(5,762)**	**(300,282)**	**(1,209,163)**	**(1,509,445)**
Movement in reserves during 2016-17								
Total Comprehensive Income and Expenditure	(60,230)	(12,283)	0	0	0	**(72,513)**	45,105	**(27,408)**
Adjustments between accounting basis and funding basis under regulations (Note 9)	98,891	12,717	(20,748)	(578)	(640)	**89,642**	(89,642)	**0**
Net (increase) / decrease in 2016-17	38,661	434	(20,748)	(578)	(640)	**17,129**	**(44,537)**	**(27,408)**
Balance at 31 March 2017 carried forward	**(181,271)**	**(21,322)**	**(72,873)**	**(1,285)**	**(6,402)**	**(283,153)**	**(1,253,700)**	**(1,536,853)**
Balance at 31 March 2015	**(206,686)**	**(21,810)**	**(27,711)**	**(608)**	**(7,817)**	**(264,632)**	**(1,078,166)**	**(1,342,798)**
Movement in reserves during 2015-16								
Total Comprehensive Income and Expenditure	(47,485)	(19,619)	0	0	0	**(67,104)**	**(99,543)**	**(166,647)**
Adjustments between accounting basis and funding basis under regulations (Note 9)	34,239	19,673	(24,414)	(99)	2,055	**31,454**	**(31,454)**	**0**
Net (increase) / decrease in 2015-16	**(13,246)**	**54**	**(24,414)**	**(99)**	**2,055**	**(35,650)**	**(130,997)**	**(166,647)**
Balance at 31 March 2016 carried forward	**(219,932)**	**(21,756)**	**(52,125)**	**(707)**	**(5,762)**	**(300,282)**	**(1,209,163)**	**(1,509,445)**

CORE FINANCIAL STATEMENTS

BALANCE SHEET	Note	31 March 2017	31 March 2016
		£'000	£'000
Property, Plant and Equipment	15	1,403,982	1,380,721
Heritage Assets	16	44,442	44,416
Investment Property	17	325,205	244,571
Intangible Assets		1,077	1,802
Long Term Debtors	20	125	87
Long Term Assets		**1,774,831**	**1,671,597**
Short Term Investments	18	242,243	269,584
Inventories		420	167
Debtors	20	73,651	73,493
Cash and Cash Equivalents	21	8,725	32,010
Current Assets		**325,039**	**375,254**
Short Term Borrowing	18	(9,120)	(9,395)
Creditors	22	(102,667)	(120,568)
Capital Grants Receipts in Advance	33	(226)	0
Provisions	23	(10,182)	(9,711)
Current Liabilities		**(122,195)**	**(139,674)**
Provisions	23	(1,683)	(2,522)
Long Term Borrowing	18	(126,354)	(133,864)
Other Long Term Liabilities	18	(281,324)	(219,368)
Capital Grants Receipts in Advance	33	(31,461)	(41,978)
Long Term Liabilities		**(440,822)**	**(397,732)**
Net Assets		**1,536,853**	**1,509,445**
Usable Reserves	9/10	(283,153)	(300,282)
Unusable Reserves	11	(1,253,700)	(1,209,163)
Total Reserves		**(1,536,853)**	**(1,509,445)**

CORE FINANCIAL STATEMENTS

CASH FLOW STATEMENT	Note	2016-17	2015-16
		£'000	£'000
Net Surplus or (Deficit) on Provision of Services - RBKC		**72,358**	**67,251**
Net Surplus or (Deficit) on Provision of Services - LRB		**155**	**(147)**
Total Net Surplus or (Deficit) on Provision of Services		**72,513**	**67,104**
Adjustments to net surplus or deficit on the provision of services for non-cash movements	24	6,200	10,519
Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	24	(57,816)	(53,682)
Net cash flows from Operating Activities	24	**20,897**	**23,941**
Investing Activities	25	(40,235)	(19,749)
Financing Activities	26	(3,947)	(7,051)
Net (increase) or decrease in cash and cash equivalents		**(23,285)**	**(2,859)**
Cash and cash equivalents at the beginning of the reporting period		32,010	34,869
Cash and cash equivalents at the end of the reporting period	21	**8,725**	**32,010**

NOTES TO THE CORE FINANCIAL STATEMENTS

1. Accounting policies

i) General Principles

The Statement of Accounts summarises the Council's financial transactions for the 2016-17 financial year and its financial position at 31 March 2017. The Council is required to prepare an annual Statement of Accounts by the *Accounts and Audit Regulations 2015* in accordance with proper accounting practices. Proper practices primarily comprise the Code *of Practice on Local Authority Accounting in the United Kingdom 2016/17* (the Code), supported by International Financial Reporting Standards (IFRS).

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

ii) Accruals of Income and Expenditure

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

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

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

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

- 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) Carbon Reduction Commitment Allowances

The Council participates in the Carbon Reduction Commitment Energy Efficiency Scheme. The scheme is in the third year of its second phase, which ends on 31 March 2019. As carbon dioxide is emitted (i.e. as energy is used), a liability and an expense are recognised. The Council purchases allowances prospectively and surrenders them on the basis of emissions, i.e. carbon dioxide produced as energy is used, to discharge its liability. The liability is measured at the best estimate of the expenditure required to meet the obligation and the cost to the Council is recognised and reported in the costs of the Council's services.

iv) Cash and Cash Equivalents

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

v) Charges to Revenue for Non-Current Assets

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

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

The Council is not required to raise Council Tax to fund capital charges. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement. This contribution is calculated on a prudent basis by the Council in accordance with statutory guidance and is known as the Minimum Revenue Provision (MRP). Capital charges are therefore replaced by the MRP in the GF Balance, by way of an adjusting transaction with the Capital Adjustment Account in the MIRS for the difference between the two.

vi) Collection Fund

Billing authorities act as agents, collecting council tax and non-domestic rates (NDR) on behalf of the major preceptors (including government for NDR) and, as principals, collecting council tax and NDR for themselves. Billing authorities are required by statute to maintain a separate Collection Fund for the collection and distribution of amounts due in respect of council tax and NDR. Under the legislative framework for the Collection Fund, billing authorities, major preceptors and central government share proportionately the risks and rewards that the amount of council tax and NDR collected could be less or more than predicted.

The council tax and NDR income included in the CIES is the Council's share of accrued income for the year. However, regulations determine the amount of council tax and NDR that must be included in the GF. Therefore, the difference between the income included in the CIES and the amount required by regulation to be credited to the GF is taken to the Collection Fund Adjustment Account and included as a reconciling item in the MIRS.

The Balance Sheet includes the Council's share of the end of year balances in respect of council tax and NDR relating to arrears, impairment allowances for doubtful debts, overpayments and prepayments and appeals.

vii) Community Infrastructure Levy (CIL)

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

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

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

The Council has concluded that there is no material benefit in undertaking an annual determination of the accrual and has established a policy to undertake a review of the accrual every three years unless, in the intervening period, there is evidence of a change in circumstances which would materially affect the amount to be disclosed. A review was last carried out in 2015-16.

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 CIES at the point that the Council is demonstrably committed to termination of employment.

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

Post-Employment Benefits

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

- The Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education (DfE); or,
- The Local Government Pension Scheme (LGPS), which for the majority of staff is administered by the Council and for a relatively small number, by the London Pension Fund Authority.

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

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

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

Liabilities are discounted to their value at current prices, using a discount rate determined by the actuary that is based on the indicative rate of return on high quality corporate bonds. The actuary's estimate of the duration of the pension fund liabilities is 20 years, so the discount rate is the annualised yield at the 20-year point on the Merrill Lynch AA-rated corporate bond yield curve. This was 2.8% at 31 March 2017 (3.7% at 31 March 2016).

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

Re-measurements, comprising:

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

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

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

ix) 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.

x) Fair Value Measurement

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

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

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

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

The Council uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

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

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

xi) 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 CIES 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 CIES 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 CIES 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 CIES 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 CIES, regulations allow the impact on the GF 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 CIES to the net charge required against the GF Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the MIRS.

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

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 CIES 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 CIES is the amount receivable for the year in the loan agreement.

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 CIES. 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 de-recognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the CIES.

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 CIES 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 CIES 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; or,
- Equity shares with no quoted market prices: independent appraisal of company valuations.

The inputs to the measurement techniques are categorised in accordance with the fair value hierarchy as described in the above Fair Value Measurement accounting policy.

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 CIES 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 CIES. 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 de-recognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the CIES, 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.

xii) 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 CIES until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that must be met by the recipient as specified or the grant must be repaid.

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

Where capital grants are credited to the CIES, they are reversed out of the GF in the MIRS. Where 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.

xiii) Heritage Assets

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

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

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

The local regalia and the local studies and archive collection are not disclosed on the Balance Sheet because the collections are of low Balance Sheet value due to individual items either: having nil or low market value; being worth less than the Council's de minimis threshold of £10,000; or having no up-to-date valuation that is reliable.

xiv) Intangible Assets

Expenditure on intangible assets is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Council for a period greater than one year.

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

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

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

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

xv) Interests in companies and other entities

The Kensington and Chelsea Tenant Management Organisation Limited (KCTMO) manages the Council's Housing Revenue Account dwelling stock on behalf of the Council. The Council's financial relationship with the TMO does not result in material adjustment between single entity and group accounts. Therefore, the Council does not prepare group accounts.

The Council also has an interest in Kensington and Chelsea Estates Limited (KCEL) which was set up to facilitate investment in existing housing stock and address the shortage of homes in the borough, and in particular to provide a range of different tenures. The company was incorporated in August 2015 and is wholly owned by the Council. As at 31 March 2017 the company had not started trading and so no group accounts are required.

xvi) 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 usually 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.

xvii) Investment Property

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

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

xviii) 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

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 CIES.

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). Capital charges arising from leased assets are substituted in the GF for a revenue contribution, by way of an adjusting transaction with the Capital Adjustment Account via the MIRS for the difference between the two

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

The Council as Lessor

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

Lease rentals receivable are apportioned between:

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

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

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

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

xix) Overheads and Support Services

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

xx) 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.

xxi) Property, Plant and Equipment

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.

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 CIES 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 CIES.

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

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

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, using their 1st of April valuation and in line with government guidance;
- **Other land and buildings**: buildings are depreciated on a straight-line basis over the estimated useful life of the property. Land is not depreciated because it is deemed to have an indefinite life;
- **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% 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.

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 CIES. Increases in the value of an asset are not recognised except where a loss has been posted to the CIES, 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.

Amounts received for an asset 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’).

xxii) Provisions, Contingent Liabilities and Contingent Assets

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

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

Estimated settlements are reviewed at the end of each financial year. The Council does not unwind any discount on provision balances. Where it becomes less than probable that a transfer of economic benefits will be required or a lower settlement than anticipated is made, the provision is reversed and credited back to the relevant service.

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

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

xxiii) Reserves

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the GF in the MIRS. When expenditure to be financed from a reserve is incurred it is charged in the CIES to the appropriate service in that year. The reserve is then appropriated back into the GF in the MIRS so that there is no net charge against council tax for the expenditure.

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

xxiv) Revenue Expenditure Funded from Capital under Statute

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

xxv) Schools

The Code confirms that the balance of control for local authority maintained schools (i.e. those categories of school identified in the Schools Standards and Framework Act 1998, as amended) lies with the Council. The Code also stipulates that those schools' assets, liabilities, reserves and cash flows are recognised in the Council's financial statements (and not consolidated within group accounts). Schools' transactions, cash flows and balances are therefore recognised in the Council's financial statements as if they were those of the Council.

xxvi) Value Added Tax (VAT)

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

2. Accounting standards issued not yet adopted

The Council is required to disclose information setting out the impact of any accounting change required by a new accounting standard that has been issued but not yet adopted by the Code.

The additional disclosures in the 2016-17 financial statements would be in respect of amendments to the reporting of pension fund scheme transaction costs and the reporting of investment concentration. As neither of these items is expected to have a material impact on the Council's financial statements, the change has not been quantified.

3. Critical judgements in applying accounting policies

In applying the accounting policies set out on Note 1, the Council has had to make certain critical judgements about complex transactions or those involving uncertainty about future events. In the accounts these are as follows:

- There is a high degree of uncertainty regarding future levels of funding for local government and the impact of the decision for Britain to leave the European Union remains unclear. The Council, however, takes the view that this uncertainty is not yet sufficient indication that the value of the its assets might need to be impaired due to reduced levels of service provision or the need to close facilities.

- In 2011, the Council entered into a Tri-Borough working arrangement with neighbouring local authorities, Westminster City Council (WCC) and the London Borough of Hammersmith and Fulham (LBHF). On 27 March 2017, RBKC and WCC agreed to serve notice on LBHF of their intention to withdraw from service sharing arrangements in the areas of Adult Social Care, Children's Services and Public Health. This will take effect by 1 April 2018. Other Tri-Borough shared services, including waste and recycling, are not expected to change. The Council does not believe it is necessary to impair any non-current asset in light of Tri-Borough shared working. Property prices in the Royal Borough are such that any asset the Council deems surplus is unlikely to be disposed of for less than its current fair value.

- The Council has significant reserves set aside to meet the costs of its transformation projects and potential redundancies, whether due to Tri-Borough and shared 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 Academies, Voluntary Aided or Free schools as it is of the view that these school assets are - to varying degree - beyond the control of the Council.

4. Assumptions made about the future and 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.

There is a significant risk of material adjustment in the forthcoming financial year in respect of the following items recognised in the Council's Balance Sheet as at 31 March 2017.

<u>Property, Plant and Equipment</u>

Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. Although the Council has a capital programme that is well managed, proactively monitored and reported to management, the current economic climate makes it uncertain that the Council will be able to sustain its current spending on repairs and maintenance over the medium term, thus bringing into doubt the useful lives assigned to assets.

If the useful life of assets is reduced, depreciation increases and the carrying amount of the asset falls. It is estimated that, if the useful lives of all property assets were reduced by 10%, the annual depreciation charge would increase by £0.670 million. Since this charge is reversed out through the MIRS, however, there would be no impact on the GF balance.

In order to meet the objective of IFRS 13 (Fair Value Measurement) the valuers have worked on the basis that all reasonably available information has been taken into account. Investment property, surplus assets and assets held for sale were valued at fair value. The objective of this measurement approach is to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under the current market conditions.

The ultimate aim to arrive at the notional 'Highest and Best use value' for the asset either as a stand-alone asset or in combination with other assets within the principal market whilst ensuring that any alternative use is physically, legally and financially possible. This has been achieved, for these purposes, by comparing the 'current use' of the asset to the notional 'alternative use' based on potential redevelopment on a land value basis for the site.

In respect of operational, non-specialised properties the current value for the assets has been interpreted as the amount that would be paid for the asset in its existing use. The valuers have met this requirement by providing a valuation on the basis of existing use value. In respect of specialised properties, the valuers have adopted the depreciated replacement cost method of valuation in order to assess current value in existing use.

All valuations have been prepared in accordance with the Royal Institution of Chartered Surveyors (RICS) Valuation – Professional Standards (January 2014) published on the basis of the IFRS 13 definition of Fair Value and as defined in accordance with the Code and the UK Guidance Note 2 ("GN 2") – Depreciated Replacement Cost Method of Valuation for Financial Reporting.

Broadly it has been assumed for each valuation, that there are no encumbrances to title, buildings are in a 'fair' condition, building services are in working order, there are no planning or statutory constraints, there is no contamination or hazardous substances, and there are no environmental or sustainability factors that may affect the property's value

Pension Fund Liability

During 2016-17, the Council's actuaries advised that the net pension liability had increased by £61.866 million as a result of estimates being revised and the updating of the assumptions. These estimates are complex and are subject to a number of interdependencies. The liability held on the Balance Sheet is subject to actuarial estimation; some of the detail behind the estimates used by the actuary is shown in note 37.

5. Material items of income and expense

Investment properties were revalued as at 31 March 2017 and resulted in a £26.387 million increase in revaluation. This is detailed in note 17 of the accounts.

6. Events after the Balance Sheet date

Between the Balance Sheet date and the date of these accounts being approved, the Council completed the sale of Thamesbrook House, the former nursing and residential home for elderly people located at 2 Dovehouse Street in Chelsea. This was originally due to be completed in 2016-17 but ownership of the asset did not transfer until late April 2017, when the remaining balance (including interest charges) of £60 million was received. In accordance with requirements of the Code, the asset has not been reclassified from operational to 'held for sale' or revalued on any other basis since the sale was dependent on planning permission being obtained in 2017-18 and completed prior to these accounts being signed-off.

On 14 June 2017 a fire started in one of the Council's tower blocks, Grenfell Tower in North Kensington. Tragically, the fire is presumed by police to have claimed at least 80 lives. The fire has destroyed 151 homes in the tower and also affected other properties in the surrounding area. A public inquiry has been set up to look into, amongst other matters relating to the fire, the causes of the fire and the reasons why it spread. The government has since also announced an independent review of building regulations and fire safety. The Met Police is investigating the Council and KCTMO for corporate manslaughter. At this stage it is not possible to quantify the financial impact on the Council of this tragic event before the inquiry and investigation are concluded.

7. Expenditure and income analysed by nature

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

	2016-17	2015-16
	£'000	£'000
Expenditure		
Employee benefits expenses	145,056	146,152
Other service expenses	453,450	461,018
Depreciation, amortisation and impairment	21,890	22,076
Other expenditure below Net Cost of Services	61,819	60,123
Total expenditure	**682,215**	**689,369**
Income		
Fees, charges and other service income	(482,331)	(479,394)
Other income below Net Cost of Services	(222,536)	(238,695)
Total income	**(704,867)**	**(718,089)**
(Surplus) or Deficit on Provision of Services	**(22,652)**	**(28,720)**

8. Adjustments between accounting basis and funding basis - EFA

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

Adjustments for capital purposes

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

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

Net change for pension adjustments

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

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

Other differences

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

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

2016-17 adjustments to arrive at the CIES amounts	**Adjustments for capital purposes**	**Net change for pension adjustments**	**Other differences**	**Total adjustments**
	£'000	£'000	£'000	**£'000**
Adult Social Care	441	0	(21)	**420**
Children's Services	9,321	0	1,586	**10,907**
Environment, Leisure and Residents' Services	3,169	0	51	**3,220**
Housing Services	1,138	0	3	**1,141**
Library, Archive and Heritage Services	1,355	0	(1)	**1,354**
Planning and Borough Development	0	0	(155)	**(155)**
Public Health	0	0	(11,507)	**(11,507)**
Transport and Technical Services	4,231	0	(29)	**4,202**
Corporate Services	10,538	4,342	29	**14,909**
Adult and Family Learning Services	0	0	(1)	**(1)**
Housing Revenue Account	2,819	0	(10,232)	**(7,413)**
Net Cost of Services	**33,012**	**4,342**	**(20,277)**	**17,077**
Other income and expenditure from the EFA	(74,919)	12,304	(4,168)	**(66,783)**
Difference between EFA (Surplus) or Deficit and CIES (Surplus) or Deficit on Provision of Services	**(41,907)**	**16,646**	**(24,445)**	**(49,706)**

2015-16 adjustments to arrive at the CIES amounts	Adjustments for capital purposes	Net change for pension adjustments	Other differences	Total adjustments
	£'000	£'000	£'000	**£'000**
Adult Social Care	842	0	28	**870**
Children's Services	176	0	(903)	**(727)**
Environment, Leisure and Residents' Services	(4,515)	0	(1,522)	**(6,037)**
Housing Services	641	0	18	**659**
Library, Archive and Heritage Services	(280)	0	12	**(268)**
Planning and Borough Development	0	0	(25)	**(25)**
Public Health	0	0	0	**0**
Transport and Technical Services	2,548	0	10	**2,558**
Corporate Services	4,553	3,498	(105)	**7,946**
Adult and Family Learning Services	0	0	0	**0**
Housing Revenue Account	2,629	0	(4,183)	**(1,554)**
Net Cost of Services	**6,594**	**3,498**	**(6,670)**	**3,422**
Other income and expenditure from the EFA	(64,710)	15,700	7,057	**(41,953)**
Difference between EFA (Surplus) or Deficit and CIES (Surplus) or Deficit on Provision of Services	**(58,116)**	**19,198**	**387**	**(38,531)**

9. Adjustments between accounting basis and funding basis – usable reserves

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

GF Balance

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

HRA Balance

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

Capital Receipts Reserve (CRR)

The CRR holds the proceeds from the disposal of land or other assets, which are restricted by statute from being used other than to fund new capital expenditure or to be set aside to finance historical capital expenditure. The balance on the reserve shows the resources that have yet to be applied for these purposes at the year-end.

Major Repairs Reserve (MRR)

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

Capital Grants Unapplied Reserve (CGUR)

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

Movement on Usable Reserves during 2016-17	GF	HRA	CRR	MRR	CGU
	£'000	£'000	£'000	£'000	£'000
Adjustments to Revenue Resources					
Amounts by which income and expenditure included in the CIES are different from revenue for the year calculated in accordance with statutory requirements					
- Pensions costs (transferred to / from the Pensions Reserve)	(16,646)	0	0	0	0
- Financial instruments (transferred to the Financial Instruments Adjustments Account)	56	0	0	0	0
- Council Tax and NDR (transfers to or from the Collection Fund)	3,243	0	0	0	0
- Holiday pay (transferred to the Accumulated Absence Reserve)	29	0	0	0	0
- Reversal of entries included in the (Surplus) or Deficit on Provision of Services in relation to capital expenditure (charged to the Capital Adjustment Account)	19,201	(11,738)	0	0	(26,592)
Total Adjustments to Revenue Resources	5,883	(11,738)	0	0	(26,592)
Adjustments between Revenue and Capital Resources					
- Transfer of non-current asset sale proceeds from revenue to the CRR	23,072	8,521	(31,593)	0	0
- Administrative costs of non-current asset disposals (funded by contribution from the CRR)	(279)	(91)	370	0	0
- Payments to the government housing receipts pool (funded by a transfer from the CRR)	0	(879)	879	0	0
- Posting of HRA resources from revenue to the MRR	0	16,904	0	(16,904)	0
- Statutory provision for the repayment of debt (transfer from the CAA)	906	0	0	0	0
- Voluntary additional provision for the repayment of debt	0	0	0	0	0
- Capital expenditure financed from revenue balances (transfer to the CAA)	69,309	0	0	0	0
Total Adjustments between Revenue and Capital Resources	93,008	24,455	(30,344)	(16,904)	0
Adjustments to Capital Resources					
- Use of the CRR to finance capital expenditure	0	0	9,600	0	0
- Use of the MRR to finance capital expenditure	0	0	0	16,326	0
- Application of capital grants to finance capital expenditure	0	0	0	0	25,952
- Cash payments in relation to deferred capital receipts	0	0	(4)	0	0
Total Adjustments between Revenue and Capital Resources	0	0	9,596	16,326	25,952
Total Adjustments during 2016-17	**98,891**	**12,717**	**(20,748)**	**(578)**	**(640)**

Movement on Usable Reserves during 2015-16	GF	HRA	CRR	MRR	CGU
	£'000	£'000	£'000	£'000	£'000
Adjustments to the Revenue Resources					
Amounts by which income and expenditure included in the CIES are different from revenue for the year calculated in accordance with statutory requirements					
- Pensions costs (transferred to / from the Pensions Reserve)	(19,198)	0	0	0	0
- Financial instruments (transferred to the Financial Instruments Adjustments Account)	56	0	0	0	0
- Council Tax and NDR (transfers to or from the Collection Fund)	42	0	0	0	0
- Holiday pay (transferred to the Accumulated Absence Reserve)	49	0	0	0	0
- Reversal of entries included in the (Surplus) or Deficit on Provision of Services in relation to capital expenditure (charged to the Capital Adjustment Account)	13,993	(5,940)	0	0	(1,666)
Total Adjustments to Revenue Resources	**(5,058)**	**(5,940)**	**0**	**0**	**(1,666)**
Adjustments between Revenue and Capital Resources					
- Transfer of non-current asset sale proceeds from revenue to the CRR	32,839	13,659	(46,498)	0	0
- Administrative costs of non-current asset disposals (funded by contribution from the CRR)	(1,756)	(108)	1,864	0	0
- Payments to the government housing receipts pool (funded by a transfer from the CRR)	0	(5,625)	5,625	0	0
- Posting of HRA resources from revenue to the MRR	0	17,687	0	(17,687)	0
- Statutory provision for the repayment of debt (transfer from the CAA)	1,019	0	0	0	0
- Voluntary additional provision for the repayment of debt	316	0	0	0	0
- Capital expenditure financed from revenue balances (transfer to the CAA)	6,879	0	0	0	0
Total Adjustments between Revenue and Capital Resources	**39,297**	**25,613**	**(39,009)**	**(17,687)**	**0**
Adjustments to Capital Resources					
- Use of the CRR to finance capital expenditure	0	0	14,602	0	0
- Use of the MRR to finance capital expenditure	0	0	0	17,588	0
- Application of capital grants to finance capital expenditure	0	0	0		3,721
- Cash payments in relation to deferred capital receipts	0	0	(7)	0	0
Total Adjustments between Revenue and Capital Resources	**0**	**0**	**14,595**	**17,588**	**3,721**
Total Adjustments during 2015-16	**34,239**	**19,673**	**(24,414)**	**(99)**	**2,055**

10. Movements in earmarked reserves

This note shows the amounts set aside from the GF and HRA balances in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet GF and HRA expenditure. In light of the Grenfell tragedy, the Council will be critically reviewing all earmarked reserve balances during 2017-18.

	Note	Balance at 1 April 2015	Transfer Out 2015-16	Transfer In 2015-16	Balance at 31 March 2016	Transfer Out 2016-17	Transfer In 2016-17	Balance at 31 March 2017
		£'000	£'000	£'000	**£'000**	£'000	£'000	**£'000**
General Fund:								
Better City Life	i	(3,071)	41	(300)	**(3,330)**	0	(300)	**(3,630)**
Budget Carry Forward	ii	(3,544)	1,870	(2,187)	**(3,861)**	223	(768)	**(4,406)**
Capital Expenditure	iii	(68,224)	6,335	(19,583)	**(81,472)**	66,884	(14,879)	**(29,467)**
Car Parking	iv	(22,676)	33,641	(33,810)	**(22,845)**	34,537	(32,912)	**(21,220)**
Community Safety	v	(832)	30	0	**(802)**	0	0	**(802)**
Corporate Information Systems	vi	(551)	0	(126)	**(677)**	0	(126)	**(803)**
Cost Reduction - Transformation Fund	vii	(15,817)	5,728	(3,000)	**(13,089)**	1,083	(3,684)	**(15,690)**
Demand Growth	viii	(5,297)	0	0	**(5,297)**	0	0	**(5,297)**
Economic Development	ix	(633)	0	(107)	**(740)**	0	(74)	**(814)**
Excellence All Round	x	(2,770)	0	0	**(2,770)**	0	0	**(2,770)**
General Services Building Maintenance	xi	(730)	0	(611)	**(1,341)**	0	(246)	**(1,587)**
Insurance	xii	(5,364)	432	(633)	**(5,565)**	250	(751)	**(6,066)**
Lead Flood Authority	xiii	(262)	0	0	**(262)**	43	0	**(219)**
Licensing and Planning Costs	xiv	(250)	0	0	**(250)**	0	0	**(250)**
Local Elections	xv	(373)	0	(75)	**(448)**	0	(75)	**(523)**
Local Initiatives (Transformation Fund)	xvi	(4,771)	0	0	**(4,771)**	0	0	**(4,771)**
Planning and Borough Development Resources	xvii	(573)	0	0	**(573)**	0	0	**(573)**
Property Strategy	xviii	(2,868)	92	(500)	**(3,276)**	53	(41)	**(3,264)**
Public Health	xix	0	0	0	**0**	0	(13,029)	**(13,029)**
Repairs and Renewals	xx	(3,922)	56	(391)	**(4,257)**	627	(405)	**(4,035)**
Service Risks	xxi	(4,003)	0	0	**(4,003)**	0	0	**(4,003)**
Service Risks - Housing	xxii	(3,543)	0	0	**(3,543)**	0	0	**(3,543)**
Severance (Transformation Fund)	xxiii	(9,099)	670	(325)	**(8,754)**	1,110	(325)	**(7,969)**
Sub-total carried forward		**(159,173)**	**48,895**	**(61,648)**	**(171,926)**	**104,810**	**(67,615)**	**(134,731)**

	Note	Balance at 1 April 2015	Transfer Out 2015-16	Transfer In 2015-16	Balance at 31 March 2016	Transfer Out 2016-17	Transfer In 2016-17	Balance at 31 March 2017
		£'000	£'000	£'000	**£'000**	£'000	£'000	**£'000**
Sub-total brought forward		**(159,173)**	**48,895**	**(61,648)**	**(171,926)**	**104,810**	**(67,615)**	**(134,731)**
Specific Grant Loss	xxiv	**(4,172)**	0	0	**(4,172)**	0	0	**(4,172)**
Strategic Regeneration	xxv	**(14,116)**	0	0	**(14,116)**	33	0	**(14,083)**
Supporting People	xxvi	**(4,706)**	0	0	**(4,706)**	0	0	**(4,706)**
Value Added Tax (VAT) Liability	xxvii	**(3,111)**	62	0	**(3,049)**	0	0	**(3,049)**
Schools Reserves	xxviii	**(6,125)**	0	(699)	**(6,824)**	1,941	(292)	**(5,175)**
London Residuary Body	xxix	**(3,944)**	147	0	**(3,797)**	0	(155)	**(3,952)**
Other Earmarked Reserves (<£250k balance)	xxx	**(1,339)**	74	(77)	**(1,342)**	0	(61)	**(1,403)**
Total GF Earmarked Reserves		**(196,686)**	**49,178**	**(62,424)**	**(209,932)**	**106,784**	**(68,123)**	**(171,271)**
GF Working Balance		(10,000)			(10,000)			(10,000)
Total GF Reserves per MIRS		**(206,686)**			**(219,932)**			**(181,271)**
HRA:								
HRA Controlled Repairs	xxxi	(311)	0	(34)	**(345)**	0	(50)	**(395)**
HRA Working Balance		(21,499)	88	0	**(21,411)**	484	0	**(20,927)**
Total HRA Reserves per MIRS		**(21,810)**	**88**	**(34)**	**(21,756)**	**484**	**(50)**	**(21,322)**

i. The Better City Life reserve provides resources for new policy priorities.
ii. This reserve contains earmarked funds for budgets carried forward from revenue underspends in prior years to meet the cost of specific projects.
iii. The Capital Expenditure reserve provides a source of funding for capital investment and revenue costs in support of capital investment.
iv. This reserve holds the surpluses from on-street parking places and contraventions and is controlled by the provisions of Section 55 of the Road Traffic Regulation Act 1984 (as amended) including the application of any surplus income held in such an account.
v. The Community Safety reserve is earmarked for community safety initiatives within the Council.
vi. This reserve funds the financing of corporate information systems.
vii. These are resources for ‘invest to save’ opportunities identified as part of the business and financial planning process.
viii. Resources have been earmarked to meet the effects of volatile demand on budgets (to improve budget resilience).
ix. This reserve is to finance investment in economic development and regeneration initiatives.
x. Funds are earmarked to support improvement in services as part of the ‘Excellence All Round’ initiative.
xi. This reserve holds a fixed annual contribution that provides for variable annual maintenance costs.
xii. The Insurance fund is held to cover future insurance liabilities.

xiii. This reserve holds unspent government allocated funding for the discharge of the relevant Lead Flood Authority duties and responsibilities or related activities.

xiv. The Licensing and Planning Costs reserve provides funds to meet costs from unexpected planning and licensing legal cases.

xv. This reserve holds funds set aside to cushion the financial impact of local elections.

xvi. The Local Initiative (Transformation Fund) provides resources to support the introduction of transformative projects.

xvii. This reserve was created specifically to hold part of the 2014-15 service underspend to strengthen the service's resources over future years and to align resources more accurately to workload.

xviii. The Property Strategy reserve meets the cost of feasibility studies and condition surveys to assist in asset management and capital budget planning.

xix. The Public Health reserve contains grant funding ring-fenced for specific purposes in accordance with statutory provisions.

xx. The Repairs and Renewals reserve provides for the replacement of vehicles and plant, office machinery and special items and is funded from annual revenue contributions.

xxi. This reserve is to meet any unexpected service requirements and funds the cost of reducing risks.

xxii. This reserve is held as a cushion against adverse changes in specific grant regimes where there are unavoidable financial commitments and is specifically held for General Fund Housing.

xxiii. The Severance (Transformation Fund) reserve is held to finance the costs of potential job losses.

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

xxv. These funds are held to support regeneration activities funded from the Local Authority Business Growth Incentive Scheme (LABGI), a grant funding scheme which has now ended.

xxvi. The Supporting People reserve provides resources to cushion the impact of reduced grant allocation for this service.

xxvii. This reserve 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 5% of its VAT bill and although the Council is currently below this limit, it may in the future exceed it.

xxviii. Schools balances are held on behalf of maintained schools across the Borough.

xxix. The LRB reserve contains the balance of funding transferred to the Borough to fund residual liabilities relating to the former LRB.

xxx. These funds all relate to a number of small reserves earmarked for various service delivery purposes.

xxxi. This reserve provides resources for KCTMO repair projects.

11. Movements in unusable reserves

	31 March 2017	31 March 2016
	£'000	£'000
Revaluation Reserve	(692,207)	(709,146)
Pensions Reserve	281,211	219,218
Capital Adjustment Account	(842,747)	(721,672)
Deferred Capital Receipts	(11)	(14)
Financial Instruments Adjustment Account	631	687
Available-for-Sale Financial Instruments Reserve	1,460	529
Collection Fund Adjustment Account	(3,825)	(582)
Short-term Accumulted Absences Account	1,788	1,817
Total unusable reserves	**(1,253,700)**	**(1,209,163)**

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.

	2016-17		2015-16	
	£'000	£'000	£'000	£'000
Balance at 1 April		(709,146)		(677,685)
Upward revaluations of assets	(30,507)		(89,831)	
Downward revaluation of assets	29,334		56,260	
Revaluation of non-current assets not posted to the (Surplus) or Deficit on Provision of Services		**(1,173)**		**(33,571)**
Difference between current and historic cost depreciation		4,349		2,108
Accumulated depreciation on assets sold or scrapped		13,763		2
Balance at 31 March		**(692,207)**		**(709,146)**

Capital Adjustment Account

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

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

	2016-17	2015-16
	£'000	£'000
Balance at 1 April	**(721,672)**	**(669,049)**
Reversal of items debited or credited to the CIES:		
Impairment / Revaluation charged to the CIES	19,948	1,264
Charges for depreciation	10,844	10,124
Reversal of depreciation charged in respect of dwellings	2,851	2,638
Amortisation of intangible assets	925	764
Revenue expenditure funded from capital under statute	5,290	5,536
Amounts of non current assets written off on disposal or sale as part of the gain / loss on disposal to the CIES	5,692	5,903
Adjusting amounts written out of the Revaluation Reserve:		
Accumulated revaluation gains on assets sold or scrapped	(13,763)	(2)
Difference between fair value depreciation and historic cost depreciation	(4,349)	(2,108)
Capital financing applied in the year:		
Use of the Capital Receipts Reserve to finance new capital expenditure	(9,600)	(14,602)
Use of the MRR to finance new capital expenditure	(16,326)	(17,588)
Capital grants and contributions credited to the CIES that have been applied to capital financing	(21,653)	(7,380)
Application of grants to capital financing from the Capital Grants Unapplied Account	(4,299)	(3,721)
Statutory provision for the repayment of debt - MRP	(906)	(1,254)
Capital expenditure charged against the General Fund and HRA balances	(69,309)	(6,879)
Other Movements:		
Finance cost adjustments (Leases & PFI)	(33)	(81)
Movements in the market value of investment properties	(26,387)	(25,237)
Movement in year	**(121,075)**	**(52,623)**
Closing balance at 31 March	**(842,747)**	**(721,672)**

Collection Fund Adjustment Account

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

	2016-17	2015-16
	£'000	£'000
Balance at start of the year	(582)	(540)
Amount by which council tax and non domestic rates income credited to the CIES is different from council tax and non domestic rates income calculated for the year in accordance with statutory requirements	(3,243)	(42)
Balance at end of the year	**(3,825)**	**(582)**

Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post-employment benefits and for funding benefits in accordance with statutory provisions. The Council accounts for post-employment benefits in the CIES as: the benefits are earned by employees; the liabilities are updated to recognise inflation; 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.

	2016-17	2015-16
	£'000	£'000
Balance at start of the year	219,218	265,556
Remeasurements recognised in Other Comprehensive Income and Expenditure	45,347	(65,536)
Reversal of items relating to retirement benefits debited or credited to (Surplus) or Deficit on the Provision of Services	29,805	32,511
Employers contributions payable to scheme	(13,159)	(13,313)
Balance at end of the year	**281,211**	**219,218**

12. Other operating expenditure

	2016-17	2015-16
	£'000	£'000
Levies	3,455	3,400
Payments to the government Housing Capital Receipts Pool	879	5,625
(Gains) / losses on the disposal of non-current assets	(25,531)	(38,732)
Total other operating expenditure	**(21,197)**	**(29,707)**

13. Financing and investment income and expenditure

	2016-17	2015-16
	£'000	£'000
Interest payable and similar charges	8,976	9,649
Net interest on the net defined benefit liability	7,878	8,540
Interest receivable and similar income	(970)	(1,402)
Income and expenditure in relation to investment properties	(8,095)	(6,888)
Changes in the fair values of investment properties	(26,387)	(25,237)
Deficit on trading operations not allocated to services	153	1,654
Total financing and investment income and expenditure	**(18,445)**	**(13,684)**

14. Taxation and non-specific grant income and expenditure

	2016-17	2015-16
	£'000	£'000
Council tax income	(76,151)	(75,364)
Non domestic rates	(84,060)	(80,411)
Business rates tariff	36,033	35,735
Non-ringfenced government grants	(37,087)	(48,047)
Capital grants and contributions	(26,592)	(9,047)
Total taxation and non-specific grants	**(187,857)**	**(177,134)**

15. Property, plant and equipment

2016-17	Council Dwellings	Other Land and Buildings	Vehicles, Plant, Furniture and Equipment	Infrastructure Assets	Community Assets	Assets Under Construction	Total
	£'000	£'000	£'000	£'000	£'000	£'000	**£'000**
Cost or Valuation at 1 April 2016	**734,826**	**565,762**	**13,868**	**71,175**	**9,982**	**24,619**	**1,420,232**
Additions and enhancement	15,264	21,246	2,124	293	900	23,527	**63,354**
Revaluation increases / (decreases) recognised in Revaluation Reserve	6,883	(10,244)	0	0	0	0	**(3,361)**
Revaluation increases / (decreases) recognised in (Surplus) or Deficit on Provision of Services	(535)	(22,893)	0	0	0	0	**(23,428)**
Derecognition - disposals	(481)	(5,271)	0	0	0	0	**(5,752)**
Other Reclassifications and transfers	0	(17,105)	0	0	0	14,950	**(2,155)**
At 31 March 2017	**755,957**	**531,495**	**15,992**	**71,468**	**10,882**	**63,096**	**1,448,890**
Accumulated Depreciation and Impairment at 1 April 2016	**0**	**0**	**(7,723)**	**(31,787)**	**0**	**0**	**(39,510)**
Depreciation charge	(2,778)	(5,586)	(1,080)	(3,960)	0	0	**(13,404)**
Depreciation on assets reclassified as investment properties	0	(125)	0	0	0	0	**(125)**
Depreciation / Impairment written out to the Revaluation Reserve	2,180	2,275	0	0	0	0	**4,455**
Depreciation / Impairment written out to (Surplus) or Deficit on Provision of Services	356	3,265	0	0	0	0	**3,621**
Derecognition - disposals	4	51	0	0	0	0	**55**
At 31 March 2017	**(238)**	**(120)**	**(8,803)**	**(35,747)**	**0**	**0**	**(44,908)**
Net Book Value (NBV):							
- At 31 March 2017	755,719	531,375	7,189	35,721	10,882	63,096	**1,403,982**
- At 31 March 2016	734,825	565,762	6,145	39,388	9,982	24,619	**1,380,721**

2015-16	Council Dwellings	Other Land and Buildings	Vehicles, Plant, Furniture and Equipment	Infrastructure Assets	Community Assets	Assets Under Construction	Total
	£'000	£'000	£'000	£'000	£'000	£'000	**£'000**
Cost or Valuation at 1 April 2015	**700,562**	**575,804**	**13,538**	**71,175**	**9,372**	**2,572**	**1,373,023**
Additions and enhancement	18,652	12,972	330	0	610	5,265	**37,829**
Revaluation increases recognised in Revaluation Reserve	28,862	(54)	0	0	0	0	**28,808**
Revaluation decreases recognised in (Surplus) or Deficit on Provision of Services	(6,440)	2,074	0	0	0	0	**(4,366)**
Derecognition - disposals	(963)	0	0	0	0	(414)	**(1,377)**
Reclassifications within PPE	(5,848)	5,848	0	0	0	0	**0**
Other reclassifications and transfers	0	(30,882)	0	0	0	17,196	**(13,686)**
At 31 March 2016	**734,825**	**565,762**	**13,868**	**71,175**	**9,982**	**24,619**	**1,420,231**
Accumulated Depreciation and Impairment at 1 April 2015	**0**	**0**	**(6,867)**	**(27,827)**	**0**	**0**	**(34,694)**
Depreciation charge	(2,638)	(5,149)	(856)	(3,960)	0	0	**(12,603)**
Depreciation / Impairment written out to the Revaluation Reserve	2,252	2,428	0	0	0	0	**4,680**
Depreciation / Impairment written out to (Surplus) or Deficit on Provision of Services	373	2,721	0	0	0	0	**3,094**
Derecognition - disposals	13	0	0	0	0	0	**13**
At 31 March 2016	**0**	**0**	**(7,723)**	**(31,787)**	**0**	**0**	**(39,510)**
Net Book Value (NBV):							
- At 31 March 2016	734,825	565,762	6,145	39,388	9,982	24,619	**1,380,721**
- At 31 March 2015	700,562	575,804	6,671	43,348	9,372	2,572	**1,338,329**

Depreciation

The following useful lives and depreciation rates have been used in the calculation of depreciation.

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

Capital Commitments

As at 31 March 2017 the Council has outstanding capital commitments of £26 million GF (£48 million at 31 March 2016) and £11 million HRA (£3 million at 31 March 2016) in respect of contracted schemes.

The major commitments as at 31 March 2017 were:

- Colville Primary School Expansion - £3.4 million (no commitment at 31 March 2016)
- Marlborough Primary School and Denyer Street - £9 million (£29 million at 31 March 2016)
- Kensington Leisure Centre - £1.4 million (£1.6 million at 31 March 2016)
- Kensington and Chelsea College Site Acquisition - £11 million (no commitment at 31 March 2016)
- HRA Silchester Garages - £1 million (£1 million at 31 March 2016)
- HRA External Works to Housing Blocks - £9.8 million (no commitment at 31 March 2016).

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. The latest valuation was during 2016-17. All valuations of dwellings and other land and buildings have been undertaken by external surveyors (Jones, Laing, LaSalle IP) who are fully qualified with the Royal Institute of Chartered Surveyors (RICS) and agreed by the Council's Property Services department.

Valuations of land, buildings and associated plant are carried out in accordance with the methodologies and bases for estimation set out by RICS, except for Council Dwellings, which are valued in accordance with Government Guidance *Stock Valuation for Resource Accounting: Guidance for Valuers - 2016*. Associated plant is held under the current cost model as a component of its parent building and therefore has no associated historic cost.

The significant assumptions applied in estimating the fair values are:

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

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

	Council Dwellings	Other Land and Buildings	Vehicles, Plant, Furniture, Equipment	Surplus Assets	Total
	£'000	£'000	£'000	£'000	**£'000**
Carried at historical cost	0	0	7,189	0	7,189
Valued at current value as at:					
- 31 March 2017	755,721	531,375	0	0	**1,287,096**
- 31 March 2016	0	0	0	0	**0**
- 1 April 2014	0	0	0	0	**0**
- 1 April 2013	0	0	0	0	**0**
- 1 April 2012	0	0	0	0	**0**
Total cost or valuation	**755,721**	**531,375**	**7,189**	**0**	**1,294,285**

16. Heritage assets

Museums (heritage properties)

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.

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

Museum Collections and Art in Parks

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

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

	Heritage Properties	Museum Collections	Art in Parks	Total
	£'000	£'000	£'000	**£'000**
Cost or Valuation at 1 April 2016	**19,700**	**22,753**	**1,963**	**44,416**
Additions	129	0	0	**129**
Revaluations	(89)	0	0	**(89)**
Depreciation	(14)	0	0	**(14)**
Cost or Valuation at 31 March 2017	**19,726**	**22,753**	**1,963**	**44,442**
Cost or Valuation at 1 April 2015	**19,700**	**22,753**	**1,963**	**44,416**
Additions	68	0	0	**68**
Impairment losses / reversals recognised in the CIES	91	0	0	**91**
Depreciation	(159)	0	0	**(159)**
Cost or Valuation at 31 March 2016	**19,700**	**22,753**	**1,963**	**44,416**

17. Investment properties

The fair value of investment properties has been based on the market approach using current market conditions and recent sales prices and other relevant information for similar assets in the local authority area. Market conditions for these asset types are such that the levels of observable inputs are significant leading to the properties being categorised at Level 2 in the fair value hierarchy. The values at 31 March are analysed as follows.

	2016-17	2015-16
	£'000	£'000
Office units	10,334	0
Commercial units	284,296	215,649
Land	28,093	28,667
Other investment property	2,482	255
Total fair value	**325,205**	**244,571**

There were no transfers between any of the three levels during 2016-17 or the preceding year. During 2016-17, two properties transferred from operational buildings to the office unit category.

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

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

	2016-17	2015-16
	£'000	£'000
Rental income from investment property	(14,615)	(14,017)
Direct operating expenses arising from investment property	6,520	7,129
Net (gain) / loss	**(8,095)**	**(6,888)**

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:

	2016-17	2015-16
	£'000	£'000
Balance at start of the year	**244,571**	**201,621**
Additions		
- Purchases	48,610	0
- Subsequent expenditure	3,607	4,027
Net gains / (losses) from fair value adjustments	26,387	25,237
Transfers (to) / from Property, Plant and Equipment	2,030	13,686
Balance at end of the year	**325,205**	**244,571**

18. Financial Instruments

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

	31 March 2017		31 March 2016	
Financial Assets	**Long-term**	**Current**	**Long-term**	**Current**
	£'000	£'000	£'000	£'000
Investments				
At amortised cost - principal amount	0	130,166	0	109,673
At amortised cost - accrued interest	0	51	0	37
Sub-total	**0**	**130,217**	**0**	**109,710**
Available-for-sale financial instruments	0	111,921	0	159,646
Accrued interest	0	105	0	228
Total investments	**0**	**242,243**	**0**	**269,584**
Debtors				
Loan and receivables	100	0	0	0
Financial assets carried at contract amounts	25	48,171	87	46,129
Total included in debtors	**125**	**48,171**	**87**	**46,129**

The short term debtors line in the Balance Sheet includes £25.480 million (£27.364 million in 2015-16) of items that do not meet the definition of a financial asset and are therefore not included in the above table. See note 20 for further information.

	31 March 2017		31 March 2016	
Financial Liabilities	**Long-term**	**Current**	**Long-term**	**Current**
	£'000	£'000	£'000	£'000
Borrowings				
At amortised cost - principal amount	(126,354)	(7,510)	(133,864)	(7,511)
At amortised cost - accrued interest	0	(1,610)	0	(1,884)
Total borrowings	**(126,354)**	**(9,120)**	**(133,864)**	**(9,395)**
Other long-term liabilities				
Finance lease obligations	37		72	
Total other long-term liabilities	**37**		**72**	
Creditors				
Financial liabilities at amortised cost	0	0	0	0
Financial liabilities carried at contract amounts	0	(44,620)	0	(50,532)
Total included in creditors	**0**	**(44,620)**	**0**	**(50,532)**

The short term creditors line in the Balance Sheet includes £58.047 million (£70.036 million in 2015-16) of items that do not meet the definition of a financial liability and are therefore not included in the above table. See note 22 for further information.

Of the £281.324 million Other Long Term Liabilities shown in the Balance Sheet, £281.211 million (£219.218 million of total £219.368 million in 2015-16) relates to the Council's obligation in respect of its defined benefit plans, which do not meet the definition of a financial liability. The remaining balance relates to various historical deferred liabilities.

Income, expense, gain and losses in relation to financial instruments are made up as follows.

	Liabilities measured at amortised cost	Loans and receivables	Assets Available for sale	At fair value through CIES	Total
2016-17	£'000	£'000	£'000	£'000	**£'000**
Interest expense	8,976	0	0	0	**8,976**
Total expense in CIES	**8,976**	**0**	**0**	**0**	**8,976**
Interest and investment income	0	(431)	(539)	0	**(970)**
Total income in CIES	**0**	**(431)**	**(539)**	**0**	**(970)**
(Gains) on revaluation	0	0	(39)	0	**(39)**
Losses on revaluation	0	0	1,170	0	**1,170**
(Surplus) / Deficit arising on revaluation	**0**	**0**	**1,131**	**0**	**1,131**
Net (gain) / loss for the year	**8,976**	**(431)**	**592**	**0**	**9,137**

	Liabilities measured at amortised cost	Loans and receivables	Assets Available for sale	At fair value through CIES	Total
2015-16	£'000	£'000	£'000	£'000	**£'000**
Interest expense	9,649	0	0	0	**9,649**
Total expense in CIES	**9,649**	**0**	**0**	**0**	**9,649**
Interest and investment income	0	(218)	(1,184)	0	**(1,402)**
Total income in CIES	**0**	**(218)**	**(1,184)**	**0**	**(1,402)**
(Gains) on revaluation	0	0	(155)	0	**(155)**
Losses on revaluation	0	0	436	0	**436**
(Surplus) / Deficit arising on revaluation	**0**	**0**	**281**	**0**	**281**
Net (gain) / loss for the year	**9,649**	**(218)**	**(903)**	**0**	**8,528**

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 Debt Management Office (DMO) on 31 March 2017
- 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.

Financial instruments – fair values

Financial assets classified as available for sale and all derivative assets and liabilities are carried in the Balance Sheet at fair value. For most assets, including bonds and treasury bills, the fair value is taken from the market price.

Financial assets classified as loans and receivables and all non-derivative financial liabilities are carried in the Balance Sheet at amortised cost. Their fair values have been estimated by calculating the net present value of the remaining contractual cash flows as at 31 March 2017, using the following methods and assumptions:

- Loans borrowed by the Council have been valued by discounting the contractual cash flows over the whole life of the instrument at the appropriate market rate for local authority loans;
- The fair values of finance lease assets and liabilities have been calculated by discounting the contractual cash flows (excluding service charge elements) at the appropriate AA-rated corporate bond yield;
- No early repayment or impairment is recognised for any financial instrument; and,
- The fair value of short-term instruments, including trade payables and receivables, is assumed to approximate to the carrying amount.

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

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

The fair values 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.

		31 March 2017	31 March 2016	31 March 2017	31 March 2016
	Level	Fair Value		Carrying Amount	
		£'000	£'000	£'000	£'000
PWLB loans	2	(175,459)	(180,406)	(135,474)	(133,864)

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 £192.356 million (£197.062 million as at 31 March 2016).

		31 March 2017	31 March 2016	31 March 2017	31 March 2016
	Level	Fair Value		Carrying Amount	
		£'000	£'000	£'000	£'000
Money market loans and receivables	2	60,102	32,902	60,102	32,902
Loans to local authorities	2	70,114	76,809	70,114	76,809
Available for sale	1	112,027	159,873	112,027	159,873
Total		**242,243**	**269,584**	**242,243**	**269,584**

At 31 March 2017, 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 unlikely to be material.

19. Nature and extent of risks arising from financial instruments

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 – TMP) covering specific areas such as interest rate risk, credit risk and the investment of surplus cash. These TMP are a requirement of the Code of Practice and are reviewed periodically.

<u>Credit Risk</u>

Credit risk is the possibility that other parties might fail to pay amounts due to the Council. It 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 that sums will be irrecoverable applies to all of the Council's deposits, but there was no evidence at 31 March 2017 that this was likely to crystallise.

During the reporting period a European Investment Bank (EIB) bond was purchased which resulted in the limit with this counterparty being breached by £2.79 million. This position was maintained for a period of six weeks pending a maturity. In accordance with the Council's Treasury Management Practices this was reported to the Section 151 Officer when it occurred. The Council does not expect any losses from non-performance by any counterparty in relation to outstanding deposits or financial instruments that are unrelated to investment activity.

Liquidity Risk

Liquidity risk is the possibility that the Council might not have funds available to meet its commitments to make payments. 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 Risk

Refinancing risk is the possibility that the Council might be requiring to renew a financial instrument on maturity at disadvantageous interest rates or terms. 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 operational risks are addressed 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 assets and liabilities is as follows.

	31 March 2017	31 March 2016	31 March 2017	31 March 2016
	Financial Assets		**Financial Liabilities**	
	£'000	£'000	£'000	£'000
Less than one year	242,243	269,584	(9,120)	(9,395)
Between one and two years	0	0	(7,509)	(7,509)
Between two and five years	0	0	(34,608)	(24,108)
Between five and ten years	0	0	(27,746)	(45,746)
Between ten and fifteen years	0	0	(25,527)	(20,532)
More than fifteen years	0	0	(30,964)	(35,969)
Total measured at fair value	**242,243**	**269,584**	**(135,474)**	**(143,259)**

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

Market Risk

Mark risk is the possibility that financial loss might arise for the Council as a result of changes in such measures as interest, price and foreign exchange rate movements.

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 CIES 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 CIES will rise; and,
- *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 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 Provision of Services and affect the GF 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 CIES.

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

	£'000
Increase in interest receivable on variable rate investments - impact on CIES	(3,037)
Decrease in fair value of fixed rate liabilities (borrowings) - no impact on CIES	14,863

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

The Council makes investments in marketable instruments (Gilts, Treasury Bills, Corporate Bonds, Commercial Paper and Supranational Bonds) which are subject to market variations in price. These investments are bought to hold to maturity thus market fluctuations do not impact on the capital value invested. Excluding the Pension Fund, the Council does not invest in equities.

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.

20. Debtors

	31 March 2017		31 March 2016	
	Current	Long Term	Current	Long Term
	£'000	£'000	£'000	£'000
Central government bodies	8,811	0	13,669	0
Other local authorities	21,392	0	26,593	0
NHS bodies	16,480	0	3,572	0
Other entities and individuals	26,968	125	29,659	87
Total debtors	**73,651**	**125**	**73,493**	**87**

21. Cash and cash equivalents

	31 March 2017	31 March 2016
	£'000	£'000
Cash held by the Council	557	5,634
Bank current accounts	4,107	12,640
Short-term deposits	4,061	13,736
Total cash and cash equivalents	**8,725**	**32,010**

Schools 2015-16 cash balances have been reanalysed between cash in hand and cash at bank.

22. Creditors

	31 March 2017		31 March 2016	
	Current	Long Term	Current	Long Term
	£'000	£'000	£'000	£'000
Central government bodies	(17,646)	0	(29,736)	0
Other local authorities	(16,560)	0	(19,694)	0
NHS bodies	(1,322)	0	(5,512)	0
Other entities and individuals	(67,139)	0	(65,626)	0
Total creditors	**(102,667)**	**0**	**(120,568)**	**0**

Included in the 2015-16 amount owed to Government bodies is £11.508 million relating to Public Health grant income. As there are no unmet conditions attached to these monies, this sum has been transferred from creditors during 2016-17 and recognised as income in the CIES before being appropriated to a Public Health unspent grant reserve.

23. Provisions

	Insurance	NDR Appeals	Business Rates - KTH	Other Provisions	Total
	£'000	£'000	£'000	£'000	**£'000**
Balance at 1 April 2016	(2,740)	(6,752)	(1,296)	(1,445)	**(12,233)**
Additional provisions made	(998)	(2,957)	0	(990)	**(4,945)**
Amounts used	1,090	2,475	0	311	**3,876**
Unused amounts reversed	752	0	0	685	**1,437**
Balance at 31 March 2017	**(1,896)**	**(7,234)**	**(1,296)**	**(1,439)**	**(11,865)**
Of which:					
Long Term	**(1,333)**	**0**	**0**	**(350)**	**(1,683)**

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 and the additional levy in relation to the settlement of Municipal Mutual Insurance (MMI).

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

The Council has reviewed the Valuation Office Agency appeals data and, as a result of the increased numbers of appeals yet to be settled compared to last year, it has increased the provision for Non Domestic Rates appeals.

Kensington Town Hall (KTH) Business Rates is a provision based on an estimated higher valuation of the Council's offices following the completion of a major refurbishment programme.

Other provisions include the LRB's public liability insurance claims, invoice disputes under the Managed Services Programme (MSP), termination benefits and banked leave.

24. Cash Flow Statement - Operating Activities

	2016-17	2015-16
	£'000	£'000
Net Surplus / (Deficit) on the Provision of Services - RBKC	72,358	67,251
Net Surplus / (Deficit) on the Provision of Services - LRB	155	(147)
Total Net Surplus / (Deficit) on the Provision of Services	**72,513**	**67,104**
Remove non-cash movements from (Surplus) or Deficit on Provision of Services		
Depreciation, amortisation, impairment and downward valuations	34,566	14,791
Increase / (decrease) in creditors	(23,617)	17,240
(Increase) / decrease in debtors	1,683	(23,737)
Increase / (decrease) in impairment for bad debts	(1,733)	1,574
(Increase) / decrease in inventories	(253)	39
Movement in pension liability	16,646	19,198
Carrying amount of non-current assets and assets held for sale, sold or derecognised	5,692	5,903
Other non-cash items charged to the net (Surplus) or Deficit on Provision of Services		
- Increase / (decrease) in provisions	(368)	797
- (Increase) / decrease in value of investment properties	(26,387)	(25,237)
- Increase / (decrease) in accumulated absences	(29)	(49)
Sub-total	**6,200**	**10,519**
Adjust (Surplus) or Deficit on Provision of Services for items that are investing and financing activities		
Proceeds from the sale of non-current assets	(31,224)	(44,635)
Grants for the financing of capital expenditure	(26,592)	(9,047)
Sub-total	**(57,816)**	**(53,682)**
Net cash flows from revenue activities	**20,897**	**23,941**

25. Cash Flow Statement - Investing Activities

	2016-17	2015-16
	£'000	£'000
Purchase of non-current assets	(113,812)	(39,258)
(Purchase) / disposal of short-term and long-term investments	26,302	(52,355)
Other (payments) / receipts for investing activities	(38)	8
Proceeds from the sale of non-current assets	31,224	44,635
Capital grants and contributions received	16,089	27,221
Net cash flows from investing activities	**(40,235)**	**(19,749)**

26. Cash Flow Statement - Financing Activities

	2016-17	2015-16
	£'000	£'000
Cash receipts / (repayments) of borrowing	(7,509)	(8,569)
Cash paid for the reduction of outstanding finance lease liabilities	(33)	(81)
Cash receipts / (repayments) of other liabilities	(2)	28
Collection Fund adjustments	3,597	1,571
Net cash flows from financing activities	**(3,947)**	**(7,051)**

27. Trading operations

The services shown below operate as Trading Accounts. 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 as (surplus) / deficit on Financing and Investment Income in the CIES.

	2016-17			2015-16		
	Income	Exp	Net	Income	Exp	Net
	£'000	£'000	£'000	£'000	£'000	£'000
Pupil Support Services	(191)	229	38	(190)	252	62
Street Trading	(891)	847	(44)	(833)	828	(5)
Holland Park Opera	0	0	0	(2,139)	3,674	1,535
Parking Cash Collection	(500)	459	(41)	(493)	522	29
Legal Services	(4,633)	4,679	46	(4,170)	4,170	0
Building Control	(547)	701	154	(541)	574	33
	(6,762)	**6,915**	**153**	**(8,366)**	**10,020**	**1,654**

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

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

Holland Park Opera
The 2015 season covered staffing and other costs of operating Opera Holland Park, which runs from June to August each year. The income is mainly from ticket sales and sponsorship. For the 2016 season onwards, Opera Holland Park operated as an arm's length, independent charitable body.

Parking 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.

28. Pooled budgets

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

The aim is to meet the needs of people living in RBKC. Expenditure funded from this budget includes the provision of care in residential settings, community services enabling people to remain in their own homes and a community independence service which supports the enablement of residents.

This arrangement is made in accordance with Section 75 of the National Health Service Act 2006 and is funded primarily by the Better Care Fund. Any surplus or deficit generated will be the responsibility of the respective partner to whom it is attributed.

The pooled budget includes all income and expenditure relating to the Better Care Fund, whether funded by the Council or the health service. It is hosted by RBKC although some activities are not pooled and therefore not all transactions pass through the Royal Borough's accounting system.

The following table summarises the position for 2016-17.

	31 March 2017	31 March 2016
	£'000	£'000
Contributions to the Pooled Budget		
- Royal Borough of Kensington and Chelsea (RBKC)	(26,141)	(25,131)
- West London Clinical Commissioning Group (WLCCG)	**(31,981)**	(30,976)
Total contributions	**(58,122)**	**(56,107)**
Expenditure Met by the Pooled Budget		
- Costs relating to the reablement of residents	5,688	6,099
- Costs relating to care provided in residential settings or in community settings	48,710	45,997
- Costs relating to supporting residents to remain in their own homes	81	0
- Support Services and programme management relating to the BCF	1,266	992
Total expenditure	**55,745**	**53,088**
Net in-year (surplus) / deficit on the pooled budget	**(2,377)**	**(3,019)**
Comprising;		
Share of the net (surplus) / deficit due to RBKC	(774)	(350)
Share of the net (surplus) / deficit due to the WLCCG	(1,603)	(2,875)
Net in-year (surplus) / deficit on the pooled budget	**(2,377)**	**(3,225)**

29. Officer remuneration

The number of employees in each salary band is set out below. Calculations are based on all sums paid to or receivable by an employee and sums due by way of taxable expenses, allowances and the monetary value of any other benefits received other than in cash, excluding employer pension contributions. The 2015-16 comparators have been amended to include Voluntary Aided schools.

	2016-17 No. of employees	2015-16 (amended) No. of employees	2015-16 (audited) No. of employees
£50,000 - £54,999	117	138	113
£55,000 - £59,999	102	92	74
£60,000 - £64,999	57	45	31
£65,000 - £69,999	41	32	27
£70,000 - £74,999	41	32	28
£75,000 - £79,999	19	22	19
£80,000 - £84,999	18	9	5
£85,000 - £89,999	8	10	8
£90,000 - £94,999	5	7	6
£95,000 - £99,999	4	9	8
£100,000 - £104,999	7	4	4
£105,000 - £109,999	7	1	1
£110,000 - £114,999	2	1	1
£115,000 - £119,999	0	2	2
£120,000 - £124,999	1	2	1
£125,000 - £129,999	1	0	0
£130,000 - £134,999	1	0	0
£145,000 - £149,999	1	0	0
£150,000 - £154,999	2	0	0
£165,000 - £169,999	1		
£175,000 - £179,999	0	1	1
£180,000 - £184,999	0	1	1
£190,000 - £194,999	1	0	0
£195,000 - £199,999	0	1	1
Total	**436**	**409**	**331**

Included in the below total cost of exit packages is a provision of £0.186 million (£0.599 million in 2015-16) in respect of approved redundancies yet to be finalised.

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

Exit Package Cost Band	Compulsory redundancies 2016-17	Compulsory redundancies 2015-16	Other departures agreed 2016-17	Other departures agreed 2015-16	Departures by cost band 2016-17	Departures by cost band 2015-16	Total cost of exit packages in each band 2016-17	Total cost of exit packages in each band 2015-16
£'000	Number		Number		**Total Number**		**£**	**£**
£0 - £20	11	40	15	15	**26**	**55**	261,755	606,923
£20 - £40	3	10	4	3	**7**	**13**	173,549	349,983
£40 - £60	0	1	3	3	**3**	**4**	148,597	197,237
£60 - £80	1	1	1	0	**2**	**1**	146,366	65,710
£80 - £100	0	1	0	4	**0**	**5**	0	443,163
£100 - £150	0	3	2	2	**2**	**5**	226,635	610,717
Total	**15**	**56**	**25**	**27**	**40**	**83**	**956,902**	**2,273,733**

The following table sets out the remuneration disclosures for senior officers whose salary is more than £50,000.

Job Title	Name	Note	Salary, Fees and Allowances	Bonuses	Expenses Allowances	Total remuneration excluding pension contributions	Employer Pension Contribution	Total Remuneration
2016-17			£	£	£	**£**	£	**£**
Town Clerk	Nicholas Holgate		186,810	5,580	1,072	**193,462**	0	**193,462**
Bi-Borough Director of Transport and Highways	Mahmood Siddiqi	1	96,500	9,370	1,498	**107,368**	15,669	**123,037**
Tri-Borough Executive Director of Children's Services	Claire Chamberlain	2	139,918	10,980	80	**150,978**	22,333	**173,311**
Executive Director of Planning and Borough Development	Graham Stallwood		97,900	4,750	1,262	**103,912**	15,192	**119,104**
Director of Strategy and Local Services	Tony Redpath		108,000	5,295	1,287	**114,582**	16,768	**131,350**
Director of Corporate Property	Michael Clark	3	330	29,425	(210)	**29,545**	0	**29,545**
Director of Corporate Property	Richard Egan	3	107,128	46,110	1,188	**154,426**	22,679	**177,105**
Director of Finance	Kevin Bartle	4	107,550	0	0	**107,550**	0	**107,550**
Tri-Borough Director of Audit, Risk and Insurance	Moyra McGarvey	5	51,681	4,105	1,106	**56,892**	7,841	**64,733**
Interim Tri-Borough Director of Audit, Risk and Insurance	Moira Mackie	5	27,083	1,667	536	**29,286**	10,212	**39,498**
Tri-Borough Executive Director of Children's Services	Andrew Christie	2	27,500	16,340	0	**43,840**	6,488	**50,328**
2015-16			£	£	£	**£**	£	**£**
Town Clerk	Nicholas Holgate	1	186,000	9,075	1,265	**196,340**	17,401	**213,741**
Bi-borough Director of Transport and Highways	Mahmood Siddiqi	2	88,700	6,805	1,482	**96,987**	14,011	**110,998**
Tri-borough Executive Director of Children's Services	Andrew Christie	3	163,400	16,180	0	**179,580**	26,578	**206,158**
Executive Director of Planning and Borough Development	Jonathan Bore	4	24,480	10,978	0	**35,458**	5,248	**40,706**
Executive Director of Planning and Borough Development	Graham Stallwood	4	90,075	7,310	1,556	**98,941**	14,413	**113,354**
Director of Strategy and Local Services	Tony Redpath		105,900	5,170	1,263	**112,333**	16,438	**128,771**
Director of Corporate Property	Michael Clark		154,593	29,125	1,175	**184,893**	0	**184,893**
Tri-Borough Director of Audit, Risk and Insurance	Moyra McGarvey	5	82,100	3,985	1,285	**87,370**	12,741	**100,111**

Notes

1. Mahmood Siddiqi, the Bi-Borough Director of Transport and Highways is shared equally with LBHF.
2. The Tri-Borough Executive Director of Children's Services is shared equally with LBHF and WCC. Andrew Christie (annualised salary £163,400) left and Claire Chamberlain (annualised salary £113,600) was appointed in May 2016.
3. Michael Clark (annualised salary £117,700) left in April 2016 and Richard Egan (annualised salary £110,000) was Interim Director of Corporate Property until his permanent appointment in November 2016.
4. Kevin Bartle (annualised salary £114,000) was Interim Director of Finance until his permanent appointment in October 2016. Between April and October 2016 the Council paid £41,873 to Penna for providing this key management role on an interim basis.
5. Moyra McGarvey left on 21 December 2016 after a period of reduced hours. Annualised salary was £83,900. Moira Mackie began acting into this role from 1 November 2016 on annualised salary of £65,000.

Senior Officer shared posts employed by other local authorities

The following senior officers are employed by LBHF and shared:

- Elizabeth Bruce, the Tri-Borough Executive Director of Adult Social Care, is shared with LBHF and WCC. The share is 21.2% (RBKC): 46.3% (LBHF): 32.5% (WCC).
- Nick Austin, the Bi-Borough Director of Environmental Health, is shared equally with LBHF.
- Sue Harris, the Bi-Borough Executive Director Environment, Leisure and Residents' Services, also has a role as Director of Cleaner, Greener and Cultural Services, which is shared 65% (RBKC): 35% (LBHF). The total uplift for Executive Directorship is paid for by RBKC. RBKC gross cost was £106,861.
- Dave Page, the Bi-Borough Director of Safer Neighbourhoods, is shared 20% (RBKC): 80% (LBHF). RBKC gross cost was £26,926.
- Tasnim Shawkat, the Tri-Borough Director of Law, was employed by LBHF until 31 July 2016 and shared equally with LBHF and WCC. From 1 August she was employed by WCC but continues to be monitoring officer for LBHF.
- Deborah Morris, the Bi-Borough Director of Human Resources, is shared equally with LBHF.

The following senior officers are employed by WCC and shared:

- Mike Robinson, the Tri-Borough Director of Public Health, is shared with LBHF and WCC. The share is 30.9% (RBKC): 29.1% (LBHF): 40.0% (WCC).
- John Quinn, Bi-Borough Executive Director of Corporate Services, is shared 60% (WCC): 40% (RBKC).
- Tasnim Shawkat, the Tri-Borough Director of Law, was employed by WCC from 1 August 2016 and is shared equally across the three boroughs.

Salaries of all staff employed directly by the Royal Borough of Kensington and Chelsea and paid over £50,000 are also disclosed at:
http://www.rbkc.gov.uk/councilanddemocracy/transparencyinthecouncil/seniorstaffinformation.aspx

30. Member allowances

The total of Members' Allowances paid in 2016-17 was £1.126 million (£1.129 million in 2015-16).

31. External audit costs

	2016-17	2015-16
	£'000	£'000
Fees payable with regard to external audit services carried out by the appointed auditor for the year	121	121
Fees payable for the certification of grant claims and returns for the year	31	33
Additional audit fees payable with regard to an objection with the 2014-15 accounts	0	15
Fees payable in respect of other services provided during the year	7	4
Total audit costs	**159**	**173**

32. Dedicated Schools Grant

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

Details of the deployment of DSG receivable for 2016-17 are below.

2016-17	**Central Expenditure**	**ISB**	**Total**
	£'000	£'000	**£'000**
Final DSG for 2016-17			**88,702**
Academy figure recouped for 2016-17			**(23,234)**
Total DSG after academy recoupment for 2016-17			**65,468**
Plus brought forward from 2015-16			**304**
Less carry forward to 2017-18 agreed in advance			**(304)**
Agreed initial budget distribution in 2016-17	7,696	57,773	**65,468**
In year adjustments	0	0	**0**
Final budgeted distribution for 2016-17	**7,696**	**57,773**	**65,468**
Less actual central expenditure	(10,247)		**(10,247)**
Less actual ISB deployed to schools		(55,522)	**(55,522)**
Net 2016-17 appropriation / (drawdown)	**(2,551)**	**2,251**	**(300)**

2015-16	**Central Expenditure**	**ISB**	**Total**
	£'000	£'000	**£'000**
Final DSG for 2015-16			**89,007**
Less academy figure recouped for 2015-16			**(21,713)**
Total DSG after academy recoupment for 2015-16			**67,294**
Plus brought forward from 2014-15			**3,604**
Less carry forward to 2016-17 agreed in advance			**(3,604)**
Agreed initial budget distribution in 2015-16	8,794	58,500	**67,294**
In year adjustments	(139)	0	**(139)**
Final budgeted distribution for 2015-16	**8,655**	**58,500**	**67,155**
Less actual central expenditure	(11,557)		**(11,557)**
Less actual ISB deployed to schools		(58,898)	**(58,898)**
Net 2015-16 appropriation / (drawdown)	**(2,902)**	**(398)**	**(3,300)**

The total DSG carried forward at 31 March 2017 is £0.004 million (£0.304 million at 31 March 2016).

33. Grant income

The following revenue grants, contributions and donations were credited to the CIES in 2016-17.

Credited to Taxation and Non-Specific Grant Income	2016-17	2015-16
	£'000	£'000
Council Tax	(76,151)	(75,364)
Non-Domestic Rates	(84,060)	(80,411)
Revenue Support Grant	(31,548)	(41,263)
New Homes Bonus Scheme	(3,520)	(2,689)
Non Domestic Rates Section 31 Grant	(962)	(1,605)
Education Services Grant	(829)	(927)
Other Grants (under £500k)	(228)	(1,563)
Total non specific grant income	**(197,298)**	**(203,822)**

Credited to Services	2016-17	2015-16
	£'000	£'000
Housing Benefit Subsidy	(140,439)	(142,586)
Dedicated Schools Grant	(65,426)	(70,454)
Public Health Grant	(33,501)	(18,271)
Pupil Premium Grant	(3,862)	(4,029)
Discretionary Housing Payments	(1,341)	(1,137)
Skills Funding Agency Grants	(1,284)	(1,331)
Housing Benefit Administration Subsidy	(1,096)	(1,185)
Transport for London Revenue Grant	(1,027)	(1,414)
Unaccompanied Asylum Seeking Children and Leaving Care	(917)	(884)
Universal Infant Free School Meals	(862)	(897)
Troubled Families Grant	(836)	(445)
Arts Council Music Grant	(535)	(628)
Partners in Practice	(540)	0
Other Grants from DCLG	(504)	0
Other Grants (under £500k)	(2,647)	(6,240)
Total grant income credited to services	**(254,817)**	**(249,501)**

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

Capital Grants Receipts in Advance	2016-17	2015-16
	£'000	£'000
Section 106 and private contributions	(26,692)	(37,845)
Community Capacity Grant	(3,285)	(3,308)
Section 278 contributions	(645)	(595)
Other Grants (under £500k)	(1,065)	(230)
Balance carried at end of year	**(31,687)**	**(41,978)**

34. Related parties

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

The Government has effective control of all local authorities. It is responsible for the statutory framework in which the Council operates, provides the majority of the Council's funding and limits the ability of the Council to determine the level of its Council Tax. Grants received from the 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 2016-17 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 declared a relationship or position held with a company that has a material commercial relationship with the Council.

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

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

The Council can nominate up to four persons to the fifteen-strong Board of Directors of Kensington and Chelsea Tenant Management Organisation. Councillor Condon-Simmonds and Councillor Judith Blakeman are Council nominees to the Board.

During 2016-17 Councillor Spalding, Councillor Anne Cyron and Councillor Monica Press were Board Trustees of Westway Trust (registered charity 1123127 – details of which can be found on the Charity Commission website).

Councillor Moylan is a board 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.

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

Officers

No officer of the Council declared a relationship or position held with a company or public sector body that has a material 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.

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

35. Capital expenditure and financing

	2016-17	2015-16
	£'000	£'000
Opening Capital Financing Requirement	**241,087**	**244,718**
Capital investment		
Property, Plant and Equipment	63,356	37,830
Heritage Assets	129	68
Investment Properties	52,217	4,027
Intangible Assets	200	413
Revenue Expenditure Funded from Capital Under Statute	5,290	5,536
Sources of finance		
Capital receipts	(9,600)	(14,602)
Government grants and other contributions	(25,952)	(11,101)
Sums set aside from revenue:		
- Direct revenue contributions	(69,313)	(6,879)
- Direct Revenue Funding (Major Repairs Reserve)	(16,327)	(17,588)
- MRP / loans fund principal	(906)	(1,335)
Closing Capital Financing Requirement	**240,181**	**241,087**
Provision to reduce the underlying need to borrow (MRP)	(906)	(1,335)
Decrease in underlying need to borrow (supported by capital receipts)	0	(2,296)
Increase / (decrease) in Capital Financing Requirement	**(906)**	**(3,631)**

36. Leases

Council as Lessee

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

	31 March 2017	31 March 2016
	£'000	£'000
Other Land and Buildings	945	2,180
Vehicles, Plant, Furniture and Equipment	99	167
Balance carried at end of year	**1,044**	**2,347**

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.

	31 March 2017	31 March 2016
	£'000	£'000
Present value of minimum lease payments:		
- Current	35	34
- Non-current	37	72
Future interest costs	5	18
Total minimum lease payments	**77**	**124**

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

	31 March 2017	31 March 2016
	£'000	£'000
Not later than one year	177	177
Later than one year and not later than five years	388	472
Later than five years	165	241
Total minimum lease payments	**730**	**890**

During 2016-17, minimum lease payments of £0.177 million (£0.178 million in 2015-16) were charged to the CIES.

Council as Lessor

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

Properties let by the Council include: five storage units leased to private individuals and companies; the land occupied by the Muslim Cultural Heritage Centre; the 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

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

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

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

	31 March 2017	31 March 2016
	£'000	£'000
Not later than one year	9,602	10,982
Later than one year and not later than five years	30,966	36,186
Later than five years	91,073	90,261
Total future minimum lease payments	**131,641**	**137,429**

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. 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 need 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 RBKC 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 benefits is reversed out of the GF via the MIRS. The following transactions have been made in the CIES and the GF Balance via the MIRS during the year.

	31 March 2017	31 March 2016	31 March 2017	31 March 2016
Transactions made in the CIES	**RBKC Pension Scheme**		**LPFA Pension Scheme**	
	£'000	£'000	£'000	£'000
Service cost comprising:				
- Current service cost	19,886	22,724	78	128
- Past service costs	1,426	878	97	0
- (Gain) / loss on settlements	0	(319)	0	0
Financing and Investment Income and Expenditure:				
- Net interest expense	7,679	8,330	199	210
- Administration expenses	406	519	34	41
Total charged to Cost of Services	**29,397**	**32,132**	**408**	**379**
Remeasurement of the net defined benefit liability / asset				
- Return on plan assets	(140,979)	6,706	(4,336)	1,012
- Actuarial gains and losses arising on changes in demographic assumptions	11,337	0	(690)	0
- Actuarial gains and losses arising on change in financial assumptions	227,567	(70,769)	5,148	(2,182)
- Other changes	(50,504)	(307)	(2,196)	4
Total in Other Comprehensive I&E	**47,421**	**(64,370)**	**(2,074)**	**(1,166)**
Total charged to the CIES	**76,818**	**(32,238)**	**(1,666)**	**(787)**

Transactions made in the MIRS	31 March 2017 RBKC Pension Scheme	31 March 2016 RBKC Pension Scheme	31 March 2017 LPFA Pension Scheme	31 March 2016 LPFA Pension Scheme
	£'000	£'000	£'000	£'000
Reversal of net IAS 19 charges	(29,397)	(32,132)	(408)	(379)
Actual amount charged to GF	13,120	13,076	39	237

Pension assets and liabilities recognised in the Balance Sheet	31 March 2017 RBKC Pension Scheme	31 March 2016 RBKC Pension Scheme	31 March 2017 LPFA Pension Scheme	31 March 2016 LPFA Pension Scheme
	£'000	£'000	£'000	£'000
Present value of the defined benefit obligation	(1,195,626)	(924,623)	(32,195)	(30,238)
Fair value of plan assets	918,778	711,473	29,644	25,855
Sub-total	**(276,848)**	**(213,150)**	**(2,551)**	**(4,383)**
Present value of unfunded obligation	0	0	(1,812)	(1,685)
Net liability arising from defined benefit obligation	**(276,848)**	**(213,150)**	**(4,363)**	**(6,068)**

Reconciliation of the movements in the fair value of scheme assets	31 March 2017 RBKC Pension Scheme	31 March 2016 RBKC Pension Scheme	31 March 2017 LPFA Pension Scheme	31 March 2016 LPFA Pension Scheme
	£'000	£'000	£'000	£'000
Opening balance at 1 April	**711,473**	**703,259**	**25,855**	**27,483**
Interest on assets	26,191	23,082	828	804
Return on assets less interest	140,979	(6,706)	4,336	(1,012)
Other actuarial gains / (losses)	47,832	0	189	0
Administration expenses	(406)	(519)	(34)	(41)
Contributions - employer	13,434	13,383	254	220
Contributions - scheme participants	5,511	5,498	15	22
Estimated benefits paid plus unfunded net of transfers in	(26,236)	(26,051)	(1,799)	(1,621)
Settlement prices received / (paid)	0	(473)	0	0
Closing balance at 31 March	**918,778**	**711,473**	**29,644**	**25,855**

Reconciliation of present value of scheme liabilities	31 March 2017 RBKC Pension Scheme	31 March 2016 RBKC Pension Scheme	31 March 2017 LPFA Pension Scheme	31 March 2016 LPFA Pension Scheme
	£'000	£'000	£'000	£'000
Opening balance at 1 April	**(924,623)**	**(961,723)**	**(31,923)**	**(34,575)**
Current service cost	(19,886)	(22,724)	(78)	(128)
Interest cost	(33,870)	(31,412)	(1,027)	(1,014)
Change in financial assumptions	(227,567)	70,769	(5,148)	2,182
Change in demographic assumptions	(11,337)	0	690	0
Experience loss / (gain)	2,358	0	1,792	13
Liabilities assumed / (extinguished) on settlements	0	792	0	0
Estimated benefits paid net of transfers in	26,236	26,051	1,667	1,489
Past service costs and curtailments	(1,426)	(878)	(97)	0
Contributions - scheme participants	(5,511)	(5,498)	(15)	(22)
Unfunded pension payments	0	0	132	132
Closing balance at 31 March	**(1,195,626)**	**(924,623)**	**(34,007)**	**(31,923)**

Fair value of Local Government Pension Scheme assets

RBKC Pension Fund	31 March 2017 Quoted	Unquoted	Total	31 March 2016 Quoted	Unquoted	Total
	£'000	£'000	**£'000**	£'000	£'000	**£'000**
UK equities	32,510	0	32,510	19,671	0	19,671
Overseas equities	184,674	0	184,674	154,410	0	154,410
Global equities	441,013	0	441,013	337,505	0	337,505
Private equity	0	52,370	52,370	0	40,419	40,419
Property	0	37,617	37,617	0	36,956	36,956
Absolute return portfolio	92,521	0	92,521	79,987	0	79,987
Cash	66,338	0	66,338	0	42,525	42,525
Gilts	11,735	0	11,735	0	0	0
Total	**828,791**	**89,987**	**918,778**	**591,573**	**119,900**	**711,473**

LPFA Pension Fund	31 March 2017 Quoted	Unquoted	Total	31 March 2016 Quoted	Unquoted	Total
	£'000	£'000	**£'000**	£'000	£'000	**£'000**
Equities - segregated	10,303	0	10,303	4,690	0	4,690
Equities - investment fund	4,180	0	4,180	5,343	0	5,343
Equities - private equity	0	3,083	3,083	0	2,261	2,261
Liability driven investments	0	0	0	0	2,449	2,449
Target return	3,862	2,401	6,263	1,177	0	1,177
Investment funds and unit trusts	0	0	0	1,876	2,491	4,367
Infrastructure	148	1,413	1,561	88	1,739	1,827
Property	0	1,511	1,511	0	908	908
Commodity	0	0	0	57	84	141
Cash	2,743	0	2,743	2,773	0	2,773
Derivatives	0	0	0	0	(81)	(81)
Total	**21,236**	**8,408**	**29,644**	**16,004**	**9,851**	**25,855**

Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels and etc.

Both the Local Government Pension Scheme and discretionary benefits liabilities have been assessed by Barnett Waddingham LLP, an independent firm of actuaries. Estimates for the Pension Fund are based on the latest full valuation of the scheme as at 31 March 2016.

The principal assumptions used by the actuary are as follows.

	31 March 2017	31 March 2016	31 March 2017	31 March 2016
	RBKC Pension Scheme		LPFA Pension Scheme	
Mortality assumptions:				
Longevity at 65 for current pensioners (in years):				
- Men	24.4	22.5	20.8	21.5
- Women	26.0	25.8	23.7	24.3
Longevity at 65 for future pensioners (in years):				
- Men retiring in 20 years	26.6	24.8	23.1	23.9
- Women retiring in 20 years	28.3	28.1	25.9	26.7
Other assumptions				
Rate of RPI inflation	3.60%	3.30%	3.30%	2.90%
Rate of CPI Inflation	2.70%	2.40%	2.40%	2.00%
Rate of increase in salaries	4.20%	4.20%	3.90%	3.80%
Rate of increase in pensions	2.70%	2.40%	2.40%	2.00%
Rate for discounting scheme liabilities	2.80%	3.70%	2.30%	3.30%

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.

Projected service cost: sensitivity analysis	**Increase in assumption**	**Decrease in assumption**
	£'000	£'000
Longevity (increase or decrease in 1 year)	30,898	29,017
Rate of inflation (increase or decrease in 0.1%)	29,233	30,671
Rate of increase in salaries (increase or decrease in 0.1%)	29,943	29,943
Rate of increase in pensions (increase or decrease in 0.1%)	30,671	29,232
Rate of discounting scheme liabilities (increase or decrease in 0.1%)	29,233	30,671

Impact on the Council's cash flows

The last triennial actuarial valuation, as at 31 March 2016, indicated that the RBKC Pension Fund was 103% funded. One of the objectives of the scheme is to keep employers' contributions at a reasonably constant rate and the improvement in funding means that contributions have remained stable as there is no longer a deficit to fund. The Council will agree a strategy with the scheme's actuary to achieve a funding level of 100% over the coming years. Funding levels are monitored on an annual basis and the next triennial valuation is due on 31 March 2019.

The scheme will need to take account of the national changes to the 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, including those in the Local Government Pension Scheme.

The Council anticipates paying contributions of £12.9 million to the scheme in 2017-18.

The weighted average distribution of the defined benefit obligation for members of the Council's Pension Fund was 45 years at the end of 2016-17 and the preceding year.

The weighted average distribution of the defined benefit obligation for the members of the London Pension Fund Authority was 59 years at the end of 2016-17 (58 years at the end of 2015-16).

38. Pension schemes accounted for as defined contribution schemes

In 2016-17, the Council paid £3.562 million to Teachers' Pensions in respect of teachers' retirement benefits, representing 16.5% of pensionable pay. The figures for 2015-16 were £3.398 million and 15.7%. 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.

39. Contingent liabilities

At 31 March 2017, the Council had the following contingent liabilities:

- As part of the Business Rates Retention Scheme, introduced on 1 April 2013, an estimate of losses on the 2017 rating list needs to be made. Following 2017 revaluation work, it is not yet known how the nationalisation of appeals will work in terms of the timing of deductions by DCLG (to pay for the appeals) or whether the risk of the actual loss on appeals nationally is being met by DCLG or by local authorities (i.e. if the actual rate is different to the assumed 4.7%). An assumption has therefore been made that a 4.7% deduction will be needed, equating to a possible increase in provision of £17.362 million, of which the local share for RBKC would be approximately £5.302 million. The final loss could be either more or less than this. The Business Rates Retention Scheme, however, includes a safety net and the Council's maximum funding loss if the financial impact of settled appeals is higher than provided for is £1.528 million.

- The Council entered into a contract in 2002, whereby it collected water charges from its tenants on behalf of Thames Water and was paid a commission. The High Court has found that a similar contract between LB Southwark and Thames Water is a contract for resale of water under which the recovery of commission is limited by law. The key issue in the case was whether LB Southwark was acting as an 'agent' for Thames Water or a 'customer' in which case it was reselling water services and should have passed savings onto tenants. A number of local housing authorities are considering collectively appealing this decision. The estimated potential liability if the appeal is lost is around £1.5 million, funded from the HRA.

- 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. It is unlikely that a decision will be made before Spring 2017.

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

40. Contingent assets

The Council is currently negotiating a settlement figure with BT as part of the agreement to terminate the Managed Services Programme contract in 2019. It is not possible to disclose the amount expected to be received due to the commercially sensitive nature of the matter. The negotiations were ongoing at the time of production of these accounts and no final settlement figure has been agreed.

HOUSING REVENUE ACCOUNT AND NOTES

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

HRA Income & Expenditure Statement	Notes	31 March 2017	31 March 2016
		£'000	£'000
Expenditure			
Repairs and maintenance		12,170	10,799
Supervision and management		14,527	14,649
Special		4,894	4,164
Rents, rates, taxes and other charges		222	184
Depreciation and impairment of non-current assets			
- Dwellings		2,778	2,638
- Other non current assets		73	10
- (Gains) / Losses as a result of revaluation or impairment		568	6,040
Debt Management Costs		89	89
Revenue Expenditure Funded from Capital Under Statute		0	1,054
Movement in the allowance for bad debts		440	183
Total Expenditure		**35,761**	**39,810**
Income			
Dwelling rents		(43,598)	(44,129)
Non-dwelling rents		(4,100)	(3,968)
Charges for services and facilities		(10,762)	(9,862)
Contributions towards expenditure		(232)	(223)
Total Income		**(58,692)**	**(58,182)**
Net Cost of HRA Services as included in the CIES		**(22,931)**	**(18,372)**
HRA service share of Corporate and Democratic Core		12	12
Net (Income) / Cost for HRA Services		**(22,919)**	**(18,360)**
HRA share of operating income and expenditure included in the CIES			
(Gain) or loss on sale of HRA non-current assets		(2,837)	(12,218)
Interest payable and similar charges		10,800	16,194
Interest and net investment income		(54)	(100)
Changes to fair value of investment properties		2,817	(4,707)
Capital grants and contributions receivable		(90)	(428)
HRA share of operating income and expenditure		**10,636**	**(1,259)**
(Surplus) or deficit for the year on HRA services		**(12,283)**	**(19,619)**

Movement on the HRA Statement	Notes	31 March 2017	31 March 2016
		£'000	£'000
HRA balance at the end of the previous year		**(21,411)**	**(21,499)**
(Surplus) or deficit for the year on the HRA Income and Expenditure Statement		(12,283)	(19,619)
Adjustments between accounting basis and funding basis under statute			
- Difference between any other item of income and expenditure determined in accordance with the Code and determined in accordance with statutory HRA requirements		90	428
- Reversal of gain or (loss) on sale of HRA non-current assets		7,552	7,926
- Transfer to / (from) Major Repairs Reserve		16,904	17,687
- Transfer to / (from) Capital Adjustment Account		(11,829)	(6,368)
Net (increase) or decrease before transfers to or from reserves		**434**	**54**
Transfers to / (from) reserves			
- HRA Controlled Repairs Reserve		50	34
(Increase) or decrease in year on the HRA		**484**	**88**
HRA balance at the end of the year		**(20,927)**	**(21,411)**
HRA general balance		(20,927)	(21,411)
HRA earmarked reserves		(395)	(345)
Total HRA reserves at the end of the year		**(21,322)**	**(21,756)**

1. Value of assets held on the Balance Sheet

	31 March 2017	31 March 2016
	£'000	£'000
Council dwellings	755,721	734,826
Other land and buildings	13,529	22,442
Assets under construction	3,399	1,990
Investment properties	58,743	60,797
Total	**831,392**	**820,055**

2. Number and types of dwelling

Archetype description	1 April 2017	1 April 2016	Movement
Houses Small Terraced <1945	0	0	0
Houses Semi Detached <1945	1	1	0
Houses Other <1945	54	54	0
Houses Small Terraced 1945-1964	0	0	0
Houses SD/Large Terraced 1945-1964	7	7	0
Houses 1965-1974	10	10	0
Houses 1974+	67	67	0
Houses (Non Traditional)	0	0	0
Bungalows	11	11	0
Low-Rise Flats <1945	210	210	0
Low-Rise Flats >1945	188	188	0
Medium	3,608	3,612	-4
High Rise	2,629	2,633	-4
Multi-Occupancy	44	44	0
Total	**6,829**	**6,837**	**-8**

3. Depreciation

Council Dwellings
Dwellings are depreciated on a straight line basis over their estimated useful lives. The most recent valuation of the housing stock, in 2016-17, 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.

4. Vacant Possession Value and Valuation Basis

Council dwellings are valued in accordance with Government guidance *Stock Valuation for Resource Accounting: Guidance for Valuers - 2016* using the “beacon principle” to reach a valuation known as the “Existing Use Value-Social Housing” (EUV-SH).

As at 31 March 2017 the vacant possession value of dwellings within the HRA was £3,023.356 million (£2,938.629 million as at 31 March 2016). The difference of £2,267.635 million between vacant possession value and the Balance Sheet value of dwellings within the HRA shows the economic cost of providing Council housing at less than open market rents, net of any impairment to the value of the Housing Stock.

5. Impairment charges and revaluation losses

There were no material impairments or downwards revaluations of the Council's housing stock during 2016-17 or the preceding year.

6. Capital Expenditure

	2016-17	2015-16
	£'000	£'000
Capital expenditure		
- dwellings	15,264	18,653
- assets under construction	1,682	1,438
- Revenue Expenditure Funded from Capital Under Statute	0	1,054
	16,946	**21,145**
Funded by:		
Usable capital receipts	(530)	(3,128)
Revenue contributions	0	0
Capital grants and contributions	(90)	(428)
Major Repairs Reserve	(16,326)	(17,589)
	(16,946)	**(21,145)**

7. Capital Receipts in Year

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

	2016-17	2015-16
	£'000	£'000
Dwellings (net of sale expenses)	(2,361)	(3,771)
Other property	(6,069)	(4,155)
Total	**(8,430)**	**(7,926)**

8. Cost of Borrowing

The HRA paid interest on borrowing of £9.921 million during 2016-17 (£10.569 million in 2015-16).

9. Rent Arrears and Provision for Bad or Doubtful Debts

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

Tenant Arrears	2016-17	2015-16
	£'000	£'000
Gross arrears	**2,883**	**2,720**
Net arrears (including credit balances)		
- Former tenants	947	811
- Current tenants	41	(1,775)
Net arrears at 31 March	**988**	**(964)**

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	**2016-17**	**2015-16**
	£'000	£'000
Gross arrears	**3,074**	**3,731**
Net arrears (including credit balances)		
- Leaseholder charges	1,992	2,380
- Commercial properties	354	637
Net arrears at 31 March	**2,346**	**3,017**

The total provision included in the Balance Sheet in respect of all HRA uncollectable debts is £2.714 million (£2.523 million at 31 March 2016).

COLLECTION FUND AND NOTES

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

	Notes	2016-17	2015-16
		£000	£000
Amounts required by statute to be credited to the Collection Fund			
Council Tax (net of benefits, discounts and transitional relief)		(102,657)	(103,567)
Non-domestic rates (NDR) (net of discretionary and mandatory reliefs)		(293,187)	(290,757)
Income collectable in respect of Business Rate Supplements		(9,362)	(9,338)
Amounts required by statute to be debited to the Collection Fund			
Precepts and demands from major preceptors and the Council - council tax			
- Royal Borough of Kensington and Chelsea		74,269	72,606
- Greater London Authority		26,193	27,370
Shares of non-domestic rating income to major preceptors and the Council - NDR			
- Royal Borough of Kensington and Chelsea		82,199	82,624
- Greater London Authority		54,799	55,083
- Central Government		136,999	137,707
Business Rates Supplement - Payment to levying authorities revenue account		9,264	9,249
Business Rates Supplement - Administration costs		22	28
Impairment of debts and appeals - council tax			
- Write-offs of uncollectable amounts		22	26
- Decrease in allowance for impairment		(372)	(177)
Impairment of debts and appeals - NDR			
- Write-offs of uncollectable amounts		227	166
- Increase in allowance for impairment		2,497	1,813
- Increase in provision for appeals		9,855	17,552
Costs of Collection - NDR		607	609
Transitional protection payments - NDR			
- Interest		(135)	2,487
- Deferrals		12	153
Contribution towards previous year's estimated surplus - Council Tax		688	695
Movement on fund balance		**(8,060)**	**4,329**
Accumulated balance brought forward at 1 April		3,583	(746)
Accumulated balance at 31 March	1	**(4,477)**	**3,583**

COLLECTION FUND AND NOTES

1. Fund Balance

The balances on the Collection Fund at the start and the end of the year are comprised as follows.

	Council Tax	Non-domestic Rates	Business Rates Supplement	Total
	£'000	£'000	£'000	£'000
As at 1 April 2016	(3,793)	7,376	0	3,583
(Surplus) / Deficit for the year	(1,857)	(6,203)	0	(8,060)
As at 31 March 2017	**(5,650)**	**1,173**	**0**	**(4,477)**

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.

	2016-17			2015-16		
	Business Rates	Council Tax	Total	Business Rates	Council Tax	Total
	£000	£000	**£000**	£000	£000	**£000**
Royal Borough of Kensington and Chelsea	352	(4,177)	**(3,825)**	2,213	(2,795)	**(582)**
Greater London Authority	235	(1,473)	**(1,238)**	1,475	(998)	**477**
Central Government (CLG)	586	0	**586**	3,688	0	**3,688**
(Surplus) / Deficit Carried Forward	**1,173**	**(5,650)**	**(4,477)**	**7,376**	**(3,793)**	**3,583**

2. National Non-Domestic Rates (NNDR)

The Council collects National Non-Domestic rates for the local authority area that are based on commercial property rateable values set by the Valuation Office Agency multiplied by rate poundage set nationally by government. The total amount collected, less reliefs and deductions, is divided between the Council (30%), the Greater London Authority (20%) and the government (50%).

The National Non Domestic Rateable Value at 31 March 2016 was £645 million. The standard NNDR multiplier for 2016-17 was 49.7pence (49.3 pence in 2015-16). The Small Business Rate Relief multiplier for 2016-17 was 48.4 pence (48.0 pence for 2015-16).

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 reliefs and deductions, is paid to the Greater London Authority on whose behalf it is collected.

The Business Rate Supplement Rateable Value at 31 March 2017 was £529 million (£528 million at 31 March 2016). The standard BRS multiplier for 2016-17 was 2 pence, unchanged from previous years.

4. Council Tax

In 2016-17 the tax base for Kensington and Chelsea was 94,903 properties (92,778 in 2015-16) which was used to calculate the Band D Council Tax of £1,042.80 (£1,062.33 in 2015-16), excluding Garden Squares. This includes the GLA Band D precept of £276.00 (£295.00 in 2015-16).

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

Band	Ranges from/to		No. Of Chargeable Dwellings		Band Ratio	Band D Equivalent No.	
	£	£	2016-17	2015-16		2016-17	2015-16
A	up to	40,000	801	819	0.67	534	546
B	40,001	52,000	1,621	1,527	0.78	1,261	1,188
C	52,001	68,000	5,123	4,899	0.89	4,554	4,355
D	68,001	88,000	8,515	8,206	1.00	8,515	8,206
E	88,001	120,000	9,638	9,421	1.22	11,780	11,515
F	120,001	160,000	9,532	9,357	1.44	13,769	13,516
G	160,001	320,000	17,063	16,884	1.67	28,439	28,139
H	320,001	and above	13,969	13,822	2.00	27,937	27,643
O				-	-	51	50
			66,262	**64,935**		**96,840**	**95,157**
Collection rate after allowance for non-collection						98.0%	97.5%
Council Tax base used to calculate Band D						**94,903**	**92,778**

5. Council Tax Precept Adjustments

In January 2016 as part of 2016-17 budget setting, the surplus was estimated for 31 March 2017 at £688,479 of which £188,479 was paid to the precepting body during the financial year (£694,605 and £191,989 respectively for 2015-16). The actual surplus on the Collection Fund in respect of Council Tax was £5.650 million (£3.793 million at 31 March 2016) of which £1.473 million (£0.998 million in 2015-16) is due to the precepting body. The difference is adjusted for in the Collection Fund.

PENSION FUND ACCOUNTS AND NOTES

Fund Account	Note	2016-17	2015-16
		£000	£000
Dealings with members, employers and others directly involved in the fund			
Contributions	7	(23,752)	(23,685)
Individual transfers in from other pension funds		(1,232)	(2,741)
Other income		0	(2)
		(24,984)	(26,428)
Benefits	8	28,036	26,861
Payments to and on account of leavers			
- Refunds to members leaving scheme or fund		52	26
- Individual transfers out to other pension funds		2,110	1,689
		30,198	28,576
Net additions / (withdrawals) from dealings with members		**5,214**	**2,148**
Management expenses	9	3,404	4,692
Net additions / (withdrawals) including fund management expenses		**8,618**	**6,840**
Returns on Investments:			
Investment Income	10	(6,960)	(7,785)
Profit and losses on disposal of investments and changes in market value of investments	11	(212,617)	(14,245)
Taxes on income		109	71
Net return on investments		**(219,468)**	**(21,959)**
Net (increase) / decrease in the net assets available for benefits during the year		**(210,850)**	**(15,119)**
Opening net assets of the scheme		(841,015)	(825,896)
Closing net assets of the scheme		**(1,051,865)**	**(841,015)**

Net Assets Statement	Notes	31 March 2017	31 March 2016
		£000	£000
Investment assets	13	1,044,559	832,868
Investment liabilities		0	0
Total net investments		**1,044,559**	**832,868**
Borrowings			0
Current assets	13/19	7,817	10,417
Current liabilities	13/20	(511)	(2,270)
Net assets of the fund available to fund benefits at the reporting period end		**1,051,865**	**841,015**

1. Description of the Fund

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

(a) General

The Fund is governed by the Public Service Pensions Act 2013. The fund is administered in accordance with the following secondary legislation:

- The Local Government Pension Scheme Regulations 2013 (as amended);
- The Local Government Pension Scheme (Transitional Provision, Savings and Amendment) Regulations 2014 (as amended); and
- The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (as amended).

It is a contributory defined benefits scheme established in accordance with statute, which provides pensions and other benefits to employees and former employees of the Council and the admitted and scheduled bodies to the Fund.

(b) 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**, these are statutorily defined bodies listed within the LGPS Regulations, which are local authorities and similar bodies whose staff are automatically entitled to be members of the fund.

- **Admitted bodies**, these are other organisations that participate in the Fund under an admission agreement between the Fund and the relevant organisation. Admitted bodies include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following outsourcing to the private sector.

The following table summarises the membership numbers of the scheme:

	2016-17	2015-16
Active members	3,271	3,255
Pensioners receiving benefits	2,873	2,798
Deferred pensioners*	4,364	4,990
Total	**10,508**	**11,043**

*in 2016-17 there were an additional 800 leavers who had not yet decided whether to defer their pension or to obtain a refund.

(c) Funding

The Fund is financed by contributions and from interest and dividends on the Fund's investments. Contributions are made by active members of the Fund in accordance with the Local Government Pension Scheme Regulations 2013 and range from 5.5% to 12.5% of pensionable pay. Employer contributions are set based on the triennial actuarial funding valuation and the current contribution rates range from 12% to 20.5% of pensionable pay.

(d) Benefits

These benefits include retirement pensions, early payment of benefits on medical grounds and payment of death benefits where death occurs either in service or in retirement. The benefits payable in respect of service from 1 April 2014 are based on career average revalued earnings and the number of years of eligible service. The benefits payable in respect of service prior to 1 April 2014 are based on an employee's final pensionable pay and the number of years of eligible service. Pensions are increased each year in line with the Consumer Price Index.

(e) Governance

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

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

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

Pension Board
In line with the provisions of the Public Service Pensions Act 2013, the Council has set up a Pension Board to oversee the governance arrangements of the Pension Fund. The Board meets twice a year and has its own Terms of Reference. Board members are independent of the Investment Committee.

(f) Investment Policy

The *Local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 2009 as amended* require administering authorities to prepare and review from time to time a written Statement of Investment Principles. This statement provides details of the Fund's investment policies including the types of investment to be held, Risk measurement and management and compliance with the Myner's principles of investment management.

The latest Statement of Investment Principles (SIP) was approved in February 2015 by the Investment Committee and is available on Council's website at:
https://www.rbkc.gov.uk/council/how-council-manages-money/council-spending-and-finances/pension-fund-2014-15

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 eight professional investment managers (see Note 12) appointed in accordance with the regulations, and whose activities are specified in detailed investment management agreements and monitored on a quarterly basis.

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

2. Basis of preparation

The Statement of Accounts summarises the Fund's transactions for 2016-17 and its position at the year-end as at 31 March 2017. The Statement of Accounts has been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2016-17 issued by the Chartered Institute of Public Finance and Accountancy ("CIPFA") which is based on International Financial Reporting Standards (IFRS) as amended for the UK public sector.

The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year, nor do they take into account the actuarial present value of promised retirement benefits. The Code gives administering authorities the option to disclose this information in the Net Assets Statement, in the notes to the accounts or by appending an actuarial report prepared for this purpose. The Council has opted to disclose this information in a note to the accounts (Note 18).

3. Summary of significant accounting policies

<u>Fund Account – revenue recognition</u>

(a) Contribution Income

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

Employer deficit funding contributions are accounted for on the due dates on which they are due under the schedule of contributions set by the actuary or on receipt if earlier than the due date.

Employer's augmentation and pension strain contributions are accounted for in the period in which the liability arises. Any amount due in year but unpaid is classed as a current financial asset.

(b) Transfers to and from other schemes

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

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

(c) Investment Income

Dividends from quoted securities are accounted for when the security is declared ex-dividend.

Investment income is reported gross of withholding taxes which are accrued in line with the associated investment income. Investment income arising from the underlying investments of the Pooled Investment Vehicles is reinvested within the Pooled Investment Vehicles and reflected in the unit price.

Interest income is recognised in the fund account as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination.

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

Fund Account – expense items

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

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

(f) Management Expenses
All expenses are accounted for on an accruals basis to ensure costs for the full accounting period are accounted for in the Fund account. Staff costs associated with the running of the Fund (including administration and oversight and governance) are charged to the Fund along with an element of management, accommodation and overhead charges.

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.

Net Assets statement

(g) Financial Assets
Financial assets are included in the net assets statement on a fair value basis as at the reporting date. Quoted securities and Pooled Investment Vehicles have been valued at the bid price ruling on the final day of the accounting period. 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.

(h) Foreign Currency Transactions
Where appropriate, market values, cash deposits and purchases and sales outstanding listed in overseas currencies are converted into sterling at the rates of exchange ruling at the reporting date.

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

(j) Financial Liabilities

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

(k) Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits is assessed by the scheme actuary in accordance with the requirements of IAS19 and relevant actuarial standards. As permitted under the Code, the fund has opted to disclose the actuarial present value of promised retirement benefits in Note 18.

(l) Additional Voluntary Contributions

Members of the Fund may choose to make Additional Voluntary Contributions (AVCs) into a separate scheme run by Prudential Assurance in order to obtain additional pensions benefits. The company is responsible for providing the investors with an annual statement showing their holding and movements in the year. AVCs are not included within the accounts in accordance with Regulation 4 (2)(b) of the LGPS (Management and Investment of Funds) Regulations 2009. They are disclosed in Note 21**.**

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

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities at the year-end and the amounts reported for income and expenditure during the year. Estimates and assumptions are made taking into account historical experience, current trends and other relevant factors. However, the nature of estimation means that the actual results could differ from the assumptions and estimates.

The items in the Net Asset Statement at 31 March 2017 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
Actuarial present value of promised retirement benefits	Estimation of the net liability to pay pensions depends on a number of complex judgments relating to the discount rates used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the fund with expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in assumptions can be measured. For instance, • a 0.5% increase in the discount rate assumption would result in a decrease in the pension liability of £121.5 million. • a 0.2% increase in assumed earnings would increase the value of liabilities by approximately £6.1 million. • a one-year increase in assumed life expectancy would increase the liability by approximately £49.5 million.
Private Equity Investments	The fair value of private equity investments is unavoidably subjective. The valuations are based on forward-looking estimates and judgments involving many factors. Unquoted private equity assets are valued by the investment managers in accordance with industry standards.	There is a risk that these investments, totalling £56.334 million, may be under or overstated in the accounts. If these assets are under or over valued by 1%, this would affect the overall value of the fund by £0.563 million.

5. Critical judgements in applying accounting practices

In applying the accounting policies set out in Note 3 above, the Council has had to make certain critical judgements about complex transactions or those involving uncertainty about future events.

Pension Fund Liability
The Pension Fund liability is calculated triennially by the appointed actuary with annual updates in the intervening years. The methodology used the intervening years follows generally agreed guidelines and is in accordance with IAS19. These assumptions are summarised in Note 17. The estimates are sensitive to changes in the underlying assumptions underpinning the valuations.

Unquoted Private Equity Investments
The fair value of private equity investments is unavoidably subjective. The valuations are based on forward-looking estimates and judgements involving many factors. Unquoted private equity assets are valued by the investment managers in accordance with industry standards. The value of private equity investments at the balance sheet date was £56.334 million (£48.798 million on 31 March 2016).

6. Events after the Balance Sheet date

There were no events to report which took place between the Balance Sheet date and the date these accounts were signed off.

7. Contributions receivable

By category	2016-17	2015-16
	£000	£000
Employee contributions	**(6,540)**	**(6,523)**
Employer contributions		
- Normal contributions	(14,058)	(13,211)
- Deficity recovery contributions	(2,543)	(2,888)
- Augmentation contributions	(611)	(1,063)
Total employers' contributions	**(17,212)**	**(17,162)**
Total	**(23,752)**	**(23,685)**

By authority	2016-17	2015-16
	£000	£000
Administering authority	(19,004)	(19,453)
Scheduled bodies	(2,151)	(1,866)
Admitted bodies	(2,597)	(2,366)
Total	**(23,752)**	**(23,685)**

8. Benefits payable

By category	2016-17	2015-16
	£000	£000
Pensions	23,027	22,150
Commutation and lump sum retirement benefits	4,457	3,797
Lump sum death benefits	552	914
Total	**28,036**	**26,861**

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

By authority	2016-17	2015-16
	£000	£000
Administering authority	25,464	24,844
Scheduled bodies	358	341
Admitted bodies	2,214	1,676
Total	**28,036**	**26,861**

9. Management expenses

	2016-17	2015-16
	£000	£000
Administrative costs	606	598
Investment management expenses		
- management fees	2,457	3,786
- transaction costs	71	60
- custody fees	38	39
Oversight and governance costs	232	209
Total	**3,404**	**4,692**

10. Investment income

	2016-17	2015-16
	£000	£000
Equity dividends	(4,626)	(5,538)
Pooled property investments	(2,287)	(2,210)
Private equity income	(3)	0
Interest on cash deposits	(44)	(37)
Total	**(6,960)**	**(7,785)**

11. Movements in investments

Market value 2016-17	**1 April 2016**	**Purchases**	**Sales**	**Changes in market value**	**31 March 2017**
	£'000	£'000	£'000	£'000	**£'000**
Sterling liquid pooled fund (Legal & General)	30,286	42,000	0	221	**72,507**
Pooled active global equities (Baillie Gifford)	174,080	0	(14,000)	60,708	**220,788**
Active global equities (Longview)	223,011	46,929	(73,425)	61,352	**257,867**
Pooled passive global equities (Legal & General)	219,041	0	0	71,641	**290,682**
Pooled active global absolute absolute return (Pyrford)	94,316	521	0	7,992	**102,829**
Pooled UK property fund (CBRE)	27,217	0	0	(643)	**26,574**
Pooled UK property fund (Kames)	15,788	0	0	1,040	**16,828**
Global private equity fund (Adams Street)	48,798	5,178	(9,193)	11,551	**56,334**
London Collective Investment Vehicle (CIV)	150	0	0	0	**150**
Sub-total	**832,687**	**94,628**	**(96,618)**	**213,862**	**1,044,559**
Investment income due	181	0	0	0	**708**
Current assets	2,941				**2,050**
Current liabilities	(1,770)				**(511)**
Cash deposits	7,476			(1,245)	**5,059**
Cash overdraft	(500)				**0**
Net investment assets	**841,015**	**94,628**	**(96,618)**	**212,617**	**1,051,865**

Market Value 2015-16	1 April 2015	Purchases	Sales	Changes in market value	31 March 2016
	£'000	£'000	£'000	£'000	**£'000**
Sterling liquid pooled fund (Legal & General)	30,118	0	0	168	**30,286**
Pooled active global equities (Baillie Gifford)	176,326	0	(55)	(2,191)	**174,080**
Active global equities (Longview)	213,867	48,602	(44,555)	5,097	**223,011**
Pooled passive global equities (Legal & General)	218,302	0	0	739	**219,041**
Pooled active global absolute absolute return (Pyrford)	92,702	868	0	746	**94,316**
Pooled UK property fund (CBRE)	25,660	3	0	1,554	**27,217**
Pooled UK property fund (Kames)	14,616	439	0	733	**15,788**
Global private equity fund (Adams Street)	45,901	3,981	(8,267)	7,183	**48,798**
London Collective Investment Vehicle (CIV)	0	150	0	0	**150**
Sub-total	**817,492**	**54,043**	**(52,877)**	**14,029**	**832,687**
Investment income due	88	0	0	0	**181**
Current assets	142	0	0	0	**2,941**
Current liabilities	(1,214)	0	0	0	**(1,770)**
Cash deposits	9,388	0	0	216	**7,476**
Cash overdraft	0	0	0	0	**(500)**
Net investment assets	**825,896**	**54,043**	**(52,877)**	**14,245**	**841,015**

12. Investments by Fund Manager

Fund Manager (market value)	31 March 2017		31 March 2016	
	£'000	%	£'000	%
L and G Liquidity	72,507	6.9	30,286	3.6
Baillie Gifford	220,788	21.1	174,080	20.9
Longview	257,867	24.7	223,011	26.8
L and G Equities	290,682	27.8	219,041	26.3
Pyrford	102,829	9.8	94,316	11.3
CBRE	26,574	2.5	27,217	3.3
KAMES	16,828	1.6	15,788	1.9
Adams Street	56,334	5.4	48,798	5.9
London CIV	150	-	150	-
Total Fund Managers	**1,044,559**	**100.0**	**832,687**	**100.0**
Investment income due	708		181	
Total Investments	**1,045,267**		**832,868**	

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

13. Classification of Financial Instruments

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

At 31 March 2017	Designated as fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost	Total
	£'000	£'000	£'000	**£'000**
Financial assets				
- UK quoted	29,743	0	0	**29,743**
- UK unquoted	150	0	0	**150**
- Overseas	216,730	0	0	**216,730**
Sub-total	**246,623**	**0**	**0**	**246,623**
Pooled funds - investment vehicles				
- UK pooled liquidity fund	72,507	0	0	**72,507**
- Pooled global equities	511,470	0	0	**511,470**
- Pooled global absolute return fund	102,829	0	0	**102,829**
- Pooled property investments	43,402	0	0	**43,402**
- Pooled private equity funds (unquoted)	56,334	0	0	**56,334**
;- Investment income due	0	708	0	**708**
- Cash with investment managers	0	10,686	0	**10,686**
- Cash with administering authority	0	5,059		**5,059**
- Debtors	0	2,758	0	**2,758**
Sub-total	**786,542**	**19,211**	**0**	**805,753**
Financial liabilities				
- Creditors	0	0	(511)	**(511)**
Sub-total	**0**	**0**	**(511)**	**(511)**
Total	**1,033,165**	**19,211**	**(511)**	**1,051,865**

At 31 March 2016	Designated as fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost	Total
	£'000	£'000	£'000	**£'000**
Financial assets				
- UK quoted	23,658	0	0	**23,658**
- UK unquoted	150	0	0	**150**
- Overseas	189,677	0	0	**189,677**
Sub-total	**213,485**	**0**	**0**	**213,485**
Pooled funds - investment vehicles				
- UK pooled liquidity fund	30,286	0	0	**30,286**
- Pooled global equities	393,121	0	0	**393,121**
- Pooled global absolute return fund	94,316	0	0	**94,316**
- Pooled property investments	42,138	0	0	**42,138**
- Pooled private equity funds (unquoted)	48,798	0	0	**48,798**
- Investment income due	0	181	0	**181**
- Cash	0	18,019	0	**18,019**
- Debtors	0	2,941	0	**2,941**
Sub-total	**608,659**	**21,141**	**0**	**629,800**
Financial liabilities				
- Creditors	0	0	(1,770)	**(1,770)**
- Cash overdraft	0	0	(500)	**(500)**
Sub-total	**0**	**0**	**(2,270)**	**(2,270)**
Total	**822,144**	**21,141**	**(2,270)**	**841,015**

14. Valuation of Financial Instruments carried at fair value

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

Level 1 – Quoted market price
Fair values are derived from unadjusted quoted prices in active markets for identical assets and liabilities. Examples are quoted equities, quoted index linked securities and unit trusts. All level 1 investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

Level 2 – Using observable inputs
Quoted prices are not available for financial instruments at this level. The valuation techniques used to determine fair value use inputs that are based significantly on observable market data.

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

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

	31 March 2017				31 March 2016			
	Level 1	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
	£'000	£'000	£'000	**£'000**	£'000	£'000	£'000	**£'000**
Financial assets								
- at fair value through profit and loss	570,090	406,591	56,484	**1,033,165**	731,057	42,139	48,948	**822,144**
- loans and receivables	19,211	0	0	**19,211**	21,141	0	0	**21,141**
Total financial assets	**589,301**	**406,591**	**56,484**	**1,052,376**	**752,198**	**42,139**	**48,948**	**843,285**
Financial liabilities								
- At amortised cost	(511)	0	0	**(511)**	(2,270)	0	0	**(2,270)**
Total financial liabilities	**(511)**	**0**	**0**	**(511)**	**(2,270)**	**0**	**0**	**(2,270)**
Net financial assets	**588,790**	**406,591**	**56,484**	**1,051,865**	**749,928**	**42,139**	**48,948**	**841,015**

15. Nature of Risk Arising from Financial Instruments

Risk and Risk Management

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

The aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gains across the whole Fund portfolio. The Fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cash flows.

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

In order to meet the Fund's objective of being fully funded within 7 years of the 2013 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% on a rolling three-year basis. The Fund had achieved fully funded status by the 2016 valuation.

(a) Market Risk

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

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

Price Risk

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

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

All assets with the exception of cash, unquoted equities, debtors and creditors are exposed to price risk. The value of the assets exposed to price movements along with what the value would have been if prices had been 10% higher or 10% lower is shown below.

Assets exposed to price risk	**Value**	**Value on 10% increase**	**Value on 10% decrease**
	£'000	£'000	£'000
At 31 March 2017	981,472	1,079,619	883,325
At 31 March 2016	821,994	904,193	739,795

Interest Rate Risk

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

The Investment Committee recognises that interest rates can vary and can affect both income to the Fund and the value of the net assets available to pay benefits.

Elements of the pooled investment vehicles (e.g. fixed interest securities and cash) are exposed to interest rate risk. The value of the assets exposed to interest rate movements along with sensitivity analysis is shown overleaf.

Assets exposed to interest rate risk	**Value**	**Value on 1% increase**	**Value on 1% decrease**
	£'000	£'000	£'000
At 31 March 2017	142,342	143,765	140,919
At 31 March 2016	107,507	108,582	106,432

Currency Risk

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

Overseas equities, overseas index linked securities, cash in foreign currencies, and some elements of the pooled investment vehicles are exposed to currency risk. The table below shows the value of these assets at the balance sheet date and what the value would have been if currencies had been 10% higher or 10% lower.

Assets exposed to currency risk	Value	Value on 10% increase	Value on 10% decrease
	£'000	£'000	£'000
At 31 March 2017	886,376	975,014	797,738
At 31 March 2016	642,709	706,980	578,438

(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.

(c) Liquidity Risk

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The Fund therefore takes steps to ensure that the Fund has adequate cash resources to meet its commitments.

The Fund has immediate access to its cash holdings and majority of its assets are liquid assets. The only assets in the Fund which cannot be liquidated within a month are the private equity assets.

16. Contractual Commitments

As at 31 March 2017, the Fund had a commitment to invest a further £28.0 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.

17. Funding Arrangements

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

The last such valuation for the Fund was carried out by Barnett Waddingham, as at 31 March 2016 in accordance with the Funding Strategy Statement of the Fund and Regulation 62 of the Local Government Pension Scheme Regulations 2013. The results were published in the triennial valuation report which is available on the Council's website at the link below. The next valuation will take place as at 31 March 2019.

https://www.rbkc.gov.uk/council/how-council-manages-money/council-spending-and-finances/pension-fund-2014-15

The funding policy is set out in the Funding Strategy Statement. The key elements of the funding policy are to:

- Set levels of employer contribution that will build up a Fund of assets that will be sufficient to meet all future benefit payments from the Fund, and
- Build up the required assets in such a way that employer contribution rates are kept as low and stable as possible.

During 2016-17, the common contribution rate is 17.8% of pensionable pay to be paid by each employing body participating in the Fund. In addition, each employing body has to pay an individual adjustment to reflect its own particular circumstances and funding position within the Fund. Details of each employer's contribution rate are contained in the Statement to the Rates and Adjustment Certificate in the triennial valuation report.

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

Financial assumptions	**March 2016**
	%
Retail Price Index (RPI) increases	3.5
Consumer Price Index (CPI) increases	2.7
Salary increases	4.5
Pension increases	2.7
Discount rate	5.9

Other assumptions:

- Commutation – An allowance is included for future retirements to elect to take 50% of the maximum additional tax-free cash up to HMRC limits.
- 50/50 Scheme Allowance – It is assumed that 5% of active members will opt to pay 50% of contributions for 50% of benefits under the new scheme.
- Mortality Projection – Long term rate of improvement of 1.5% per annum.

The actuary's smoothed market value of the scheme's assets at 31 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, resulting in a funding level of 95%. This was the basis for the contribution rates during 2016-17.

As at 31 March 2016, the actuary's smoothed market value of the scheme's assets had risen to £834 million and the actuary assessed the present value of the funded obligation at £808 million indicating a net surplus of £26 million, resulting in a funding level of 103%. This will be the basis for the contribution rates for three years from April 2017.

The next actuarial valuation of the Fund will be as at 31 March 2019 and will be published in 2020.

18. Actuarial Present Value of Promised Retirement Benefits

The table below shows the total net liability of the Fund as at 31 March 2017. The figures have been prepared by the Fund's actuary, only for the purposes of providing the information required by IAS 26 (Accounting and Reporting by Retirement Benefit Plans). In particular, they are not relevant for calculations undertaken for funding purposes or for other statutory purposes under UK pensions legislation.

In calculating the below net liability, the actuary adopted methods and assumptions that are consistent with IAS 19. In conducting the 2019 actuarial valuation referred to in Note 17, the Actuary will take into account the investment policy when determining the assumptions to be used.

	31 March 2017	31 March 2016
	£'000	£'000
Present value of promised retirement benefits		
- Vested obligation	(1,289,791)	(991,170)
- Non vested obligation	(43,177)	(36,112)
Fair value of scheme assets (bid value)	1,033,307	841,015
Net liability	**(299,661)**	**(186,267)**

Financial assumptions

The financial assumptions applied by the actuary are set out below:

Financial assumptions	**31 March 2017**	**31 March 2016**
	%	%
Retail Price Index (RPI) increases	3.6	3.3
Consumer Price Index (CPI) increases	2.7	2.4
Salary increases	4.2	4.2
Pension increases	2.7	2.4
Discount rate	2.8	3.7

Demographic Assumptions

The post mortality tables adopted are the S1PA tables with a multiplier of 105% for males and 95% for females. These base tables are then projected using the CMI 2012 Model allowing for a long term rate of improvement of 1.5% per annum.

Life expectancy from age 65 years	**31 March 2017**	**31 March 2016**
	Years	Years
Retiring today		
- Males	24.4	22.5
- Females	26.0	25.8
Retiring in 20 years		
- Males	26.6	24.8
- Females	28.3	28.1

Other Assumptions

- Members will exchange half of their commutable pension for cash at retirement;
- Members will retire at one retirement age for all tranches of benefit, which will be the pension weighted average tranche retirement age; and
- 5% of active members will take up the option under the new LGPS to pay 50% of contributions for 50% of benefits.

19. Current Assets

	31 March 2017	31 March 2016
	£'000	£'000
Debtors		
- Contributions due - employers	332	346
- Contributions due - employees	190	130
- Sundry debtors	2,236	2,465
Sub-total	**2,758**	**2,941**
Cash balances	5,059	7,476
Total	**7,817**	**10,417**

Analysis of debtors	31 March 2017	31 March 2016
	£000	£000
Central government bodies	187	131
Other local authorities	0	26
Royal Borough of Kensington and Chelsea	609	2,506
Other entities and individuals	1,962	278
Total	**2,758**	**2,941**

20. Current Liabilities

	31 March 2017	31 March 2016
	£'000	£'000
Creditors		
- Sundry creditors	(511)	(1,700)
- Benefits payable	0	(70)
Sub-total	**(511)**	**(1,770)**
Cash overdrawn	0	(500)
Total	**(511)**	**(2,270)**

Analysis of creditors	31 March 2017	31 March 2016
	£'000	£'000
Central government bodies	0	(313)
Other local authorities	0	(129)
Royal Borough of Kensington and Chelsea	0	(403)
Other entities and individuals	(511)	(925)
Total	**(511)**	**(1,770)**

21. Additional Voluntary Contributions (AVC)

The Council has made arrangements for current members to make additional payments through its payroll into a variety of funds operated by Prudential Assurance according to individuals' preferences. These funds are invested in equities, bonds, property and cash. The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009, as amended, do not permit AVC to be paid into the Fund, so they are not included in these accounts.

During 2016-17, AVC contributions of £0.471 million (£0.481 million in 2015-16) were paid to the provider, Prudential. The market value of these funds at 31 March 2017 is £3.333 million (£2.919 million at 31 March 2016).

22. Related Party Transactions

The Fund is administered by the Royal Borough of Kensington and Chelsea. The Council incurred, and was reimbursed for, costs of £0.238 million in the financial year 2016-17 (£0.242 million in 2015-16) in relation to administration costs.

In year, and in total, the Council contributed £13.654 million to the Fund compared to £14.043 million in 2015-16. At 31 March 2017 the Council owed the Pension Fund a net amount of £0.609 million (£2.103 million at 31 March 2016).

The Council has a significant relationship with one admitted body, the Kensington and Chelsea Tenant Management Organisation (KCTMO). The Fund received £1.175 million in employer contributions, deficit and early retirement costs from the KCTMO (£1.187 million in 2015-16).

23. Agency Services

The Fund pays discretionary awards to the former employees of the Royal Borough of Kensington and Chelsea. The amounts are not included within the Fund Account but are provided as a service and fully reclaimed from the council. During 2016-17 the Fund paid the gross sum of £0.233 million (£0.264 million in 2015-16) on behalf of Royal Borough of Kensington and Chelsea.

LONDON RESIDUARY BODY

Income and Expenditure Statement

	2016-17 Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000	2015-16 Net Expenditure £'000	Notes
Income and expenditure on services					
General costs	41	0	**41**	38	**1**
Adjustment to provisions	0	(187)	**(187)**	125	**2**
Adjustment to assets and liabilities	0	0	**0**	0	
Interest	0	(9)	**(9)**	(16)	**3**
Total expenditure on services	**41**	**(196)**	**(155)**	147	
(Surplus) / deficit for the year			**(155)**	147	

Statement of Movement on the LRB Balance

	2016-17 £'000	2015-16 £'000
Balance brought forward at 1 April	**(3,796)**	**(3,943)**
(Surplus) / deficit for the year on Income and Expenditure Account	(155)	147
Total assets	**(3,951)**	**(3,796)**

LRB Transferred Functions Balance Sheet

	2016-17 £'000	2015-16 £'000	Notes
Current assets			
Current debtors	0	0	
Temporary investment with the Council	4,292	4,324	
Total assets	**4,292**	**4,324**	
Current liabilities			
Creditors	0	0	
Total assets less current liabilities	**4,292**	**4,324**	
Long term liabilities			
Provisions	(341)	(528)	**2**
Net Assets	**3,951**	**3,796**	
Represented by:			
LRB balance	(3,951)	(3,796)	
Total net worth	**(3,951)**	**(3,796)**	

LONDON RESIDUARY BODY

Introduction

The Council inherited inner-London functions from the LRB 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 transferred 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.

During 1992-93, the LRB'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% 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.

Notes

1. There has been a slight increase in claims payments during 2016-17.

2. The provision held relates entirely to public liability claims.

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

GLOSSARY OF TERMS

ACCOUNTING POLICIES are the specific principles, rules and procedures implemented by the Council to prepare its financial statements.

ACCRUALS are amounts included in the accounts for income or expenditure in relation to the financial year but not received or paid at year end.

ACTUARIAL GAINS AND LOSSES arise where actual events do not coincide with the actuarial assumptions made for the latest valuations (known as experience gains and losses) or where the actuarial assumptions have been changed.

AMORTISATION is the practice of reducing the value of certain types of assets to reflect their reduced worth over time.

CAPITAL ADJUSTMENT ACCOUNT is an account recording financing transactions relating to capital expenditure. This account is not available for general use to fund capital expenditure.

CAPITAL EXPENDITURE is spending on the acquisition or enhancement of non-current assets or advances and loans to other individuals or organisations.

CAPITAL RECEIPTS represent income received from the sale of fixed assets or the repayment of capital advances, subject to the Council's de minimis of £10,000.

CIPFA (CHARTERED INSTITUTE OF PUBLIC FINANCE AND ACCOUNTING) is the professional institute for accountants working in the public sector.

COMMUNITY ASSETS are a class of fixed assets that are expected to be held by the Council in perpetuity to deliver services (e.g. parks).

CONTINGENT ASSETS arise where an event has taken place that gives rise to a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly in the Council's control.

CONTINGENT LIABILITIES arise where an event has taken place that gives the Council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the Council's control. They may also arise in circumstance where a provision would otherwise be made, but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

CORPORATE AND DEMOCRATIC CORE comprises all activities which the Council engages in specifically because it is an elected, multi-purpose body. The cost of these activities are thus over and above those which would be incurred by a series of independent, single purpose organisations managing the same services. It includes the costs of the corporate management and democratic representation.

COUNCIL TAX is the local property tax on domestic dwellings within the borough.

COUNCIL TAX BASE converts the domestic properties in the Council's area by Council Tax band into an equivalent number of band D dwellings for the purpose of setting the Council Tax.

CREDITORS are owed money by the Council for goods and services it has received but not yet paid for at the end of the financial year.

DEBTORS owe money to the Council for goods and services they have received but not yet paid the Council for at the end of the financial year.

DEPRECIATION is a measure of the consumption of a fixed asset over its useful economic life, sometimes referred to as 'wear and tear'.

HERITAGE ASSETS have historical, artistic, scientific, technological, geophysical or environmental qualities and are held and maintained principally for their contribution to knowledge and culture.

IMPAIRMENT represents a reduction in the value of a fixed asset due to obsolescence, damage or an adverse change in the statutory environment.

INFRASTRUCTURE ASSETS are fundamental facilities and technical structures, such as highways and footpaths.

INTANGIBLE ASSETS are a class of non-financial fixed assets that do not have physical substance, but are identifiable and are controlled by the Council as a result of past events (e.g. software licences).

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) are a set of accounting standards developed by an independent, not-for-profit organisation called the International Accounting Standards Board (IASB). Those specifically for use in the public sector are termed **INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS (IPSAS).**

INVESTMENT PROPERTIES are properties that are used solely to earn rental income and/or for capital appreciation. This definition does not apply if the property is used for the delivery of services or the production of goods. Under IFS, an investment property that is likely to be sold is not classified as an Asset Held for Sale.

NET BOOK VALUE is the amount at which fixed assets are included in the Balance Sheet. This is either their historical cost or current value less the cumulative amount provided for their depreciation.

NON-CURRENT ASSETS are assets that provide benefit to the Council and its services for a period in excess of one year.

OPERATING LEASE is a lease whose term is shorter than the useful life of the asset or piece of equipment being leased. It is commonly used to acquire equipment for use on a relatively short-term basis.

RELATED PARTIES are those bodies or individuals that have, through transacting with, performing services for or in any other way, the potential to control or influence the Council or be controlled or influenced by the Council.

REVENUE EXPENDITURE represents the Council's Day-to-day spending on the provision of services including salaries, goods and services.

REVENUE SUPPORT GRANT is a generally usable grant from central government which can be used for any purpose from central government. It is allocated as part of the local authority grant distribution system alongside a share of Business Rates.

REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE (REFCUS) is a type of expenditure which statutory law requires to be classified as capital for funding purposes, when it does not result in the expenditure being carried on the Balance Sheet as a fixed asset. Examples include works on property owned by other parties, renovation grants and capital grants to other organisations.

UK GAAP ACCOUNTING STANDARDS is the Generally Accepted Accounting Practice in the UK (UK GAAP). This is the body of accounting standards and other guidance published by the UK's Financial Reporting Council (FRC).