The Royal Borough of Kensington and Chelsea

# Statement of Accounts 2017-18

THE ROYAL BOROUGH OF
KENSINGTON
AND CHELSEA

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# NARRATIVE REPORT

## Report by Chris Buss, Executive Director Resources and Assets

### 1) Organisational Overview and External Environment

The events of 14th June 2017 cast a long shadow over the Royal Borough. The Grenfell Tower fire has impacted the residents of the borough in many and diverse ways. The financial impact of the fire is explained in detail within the accounts but the tragedy will have a long term and lasting impact on the way that the Council operates and how it interacts with its residents.

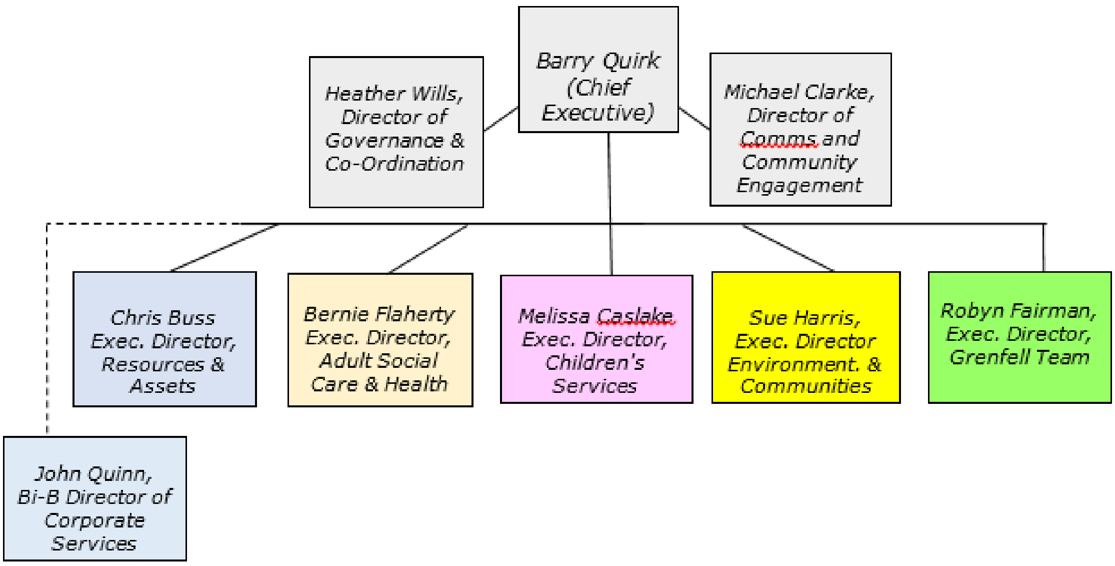
Outside of Grenfell, in common with the rest of local government, the Council has continued to manage its services on a reducing level of central government support which, with the impact of Grenfell, has led to declining levels of reserves.

### 2) Governance

The Council has, post Grenfell, undertaken a review of its governance processes and this was undertaken by the Centre for Public Scrutiny (CPS). This review was published on 7th March 2018 and the Council will be responding to the review shortly. In addition to the appointment of CPS to undertake this work, the Council has a new Councillor Leadership Team and significant changes have been made to the Senior Officer Team. Following Grenfell, the Government has appointed a task force to monitor the Council's response and this work is ongoing. The Annual Governance Statement includes a more detailed analysis of governance issues.

### 3) Operational model

The Council has implemented a revised operational model. This new structure consolidates a number of directorates into five operational areas as shown below.




The above management structure includes the re-establishment of an in house housing management service taken back from the Tenant Management Organisation (TMO) with effect from 1st March 2018 and the establishment of a bespoke short term directorate to co-ordinate the Council's response to Grenfell and manage the housing stock.

Across these five Executive Directorates, the Council employs 1,841 staff (1,716 FTE). A summary of the demographic characteristics are as follows:

(a) 61% are female; 39% are male
(b) 27% are BAME; 48% are non-BAME; 25% preferred not to say
(c) 1% have a disability
(d) 34% are aged under 40; 45% are aged 41-54; 21% are aged 51 and over

Full details are set out in the Council's Equality Report that will soon be published on the Council's website for 2017-18.

The Council operates a number of shared services with Westminster City Council in respect of Adult Social Care, Public Health and Children's Services. Up until the end of March 2018 these services were also provided jointly with Hammersmith and Fulham. Tri-Borough arrangements are still in place for libraries and some finance services, whilst some environmental services including highways are jointly provided with Hammersmith and Fulham.

## 4) Risks and Opportunities

A risk management strategy is in place to identify and evaluate risks. Within the strategy, there are clearly defined steps to support better decision making through the understanding of risk, the potential impact and the actions taken to mitigate the risk. The risk management process was audited in 2016 and satisfied all assurance requirements. Processes are subject to regular review and updating and is scrutinised regularly by the council's Audit and Transparency Committee. All strategic risks across the Council are managed through the Corporate Risk Register and those with key budget and funding implications are set out below:

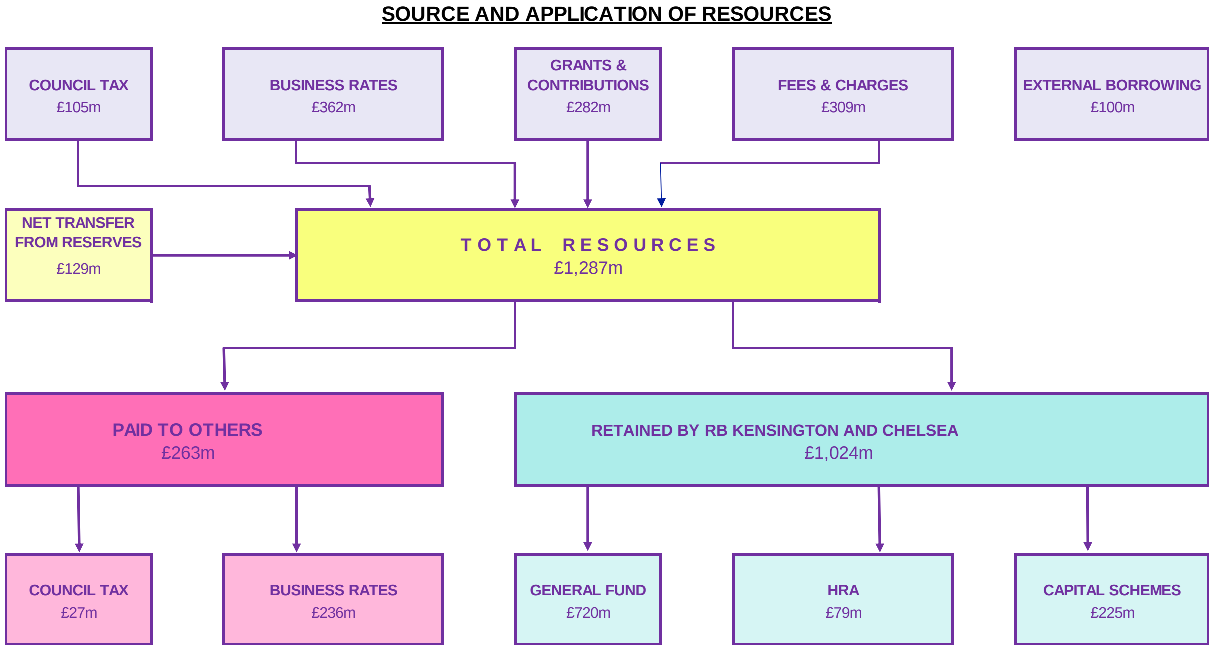
| Risk | Impact | Mitigation |
|---|---|---|
| Failure to effectively address the medium term budget challenge | Reductions in service provision to ensure that the statutory requirement to set a balanced budget. | The Council manages its financial risks through a range of controls including budget preparation, budget setting and a Budget Accountability Framework which updated the roles and responsibilities for managing, monitoring and forecasting income and expenditure against approved budgets.<br><br>Regular in-year monitoring, review of future financial plans and assessment of financial risks and reserves are undertaken to ensure the financial plans are delivered. |
| Local Authority funding reductions for future years | Reduced funding will impact on the Council's ability to run full services and may mean that some services are changed or reduced. | The Council will continue to lobby Government for Fair Funding and will engage with the development of a new Fair Funding formula. Ongoing review of the Medium Term Financial Strategy (MTFS) to identify efficiencies and savings – focussing on the transformation of services, prioritisation of services and outcome focussed.<br><br>Identify new sources of local income to fund service provision. |
| Grenfell – uncertainty exists around the costs of ongoing support for former residents and those affected by the Grenfell Tower fire. These represent a major and persistent risk to the Council's finances. | Ongoing costs will impact on the Council's financial position and with a statutory requirement to set a balanced budget remaining, this will require reduced costs / increased income through alternative sources. | Scrutiny of all costs continue to be in place. Policies are currently being developed to ensure a consistent approach is applied for payments to those affected by Grenfell. |

| Risk | Impact | Mitigation |
|---|---|---|
| External Cost Pressures –Further demand led increases in the cost of children's services, spending pressures generated by the Council's temporary accommodation obligations and a shortage in residential housing supply and other demographic changes | Increase demand for services which will in turn increase the costs to the Council. Ongoing cost increases will need to be accompanied by cost reductions in other areas or increased income to ensure compliance with the statutory requirement to set a balanced budget. | The Council is engaged in long-term planning and transformational programmes to mitigate the action of spending pressures and demographic changes on budgets and services. |
| Costs for the delivery of service reductions –there will be unavoidable costs associated with budget reductions, the move from Tri-Borough to Bi-Borough and the implementation of the new Finance and HR system | Increased one off costs will increase expenditure in the year which will either need to be funded from one off reserve contributions or managed within existing budgets to avoid an in year overspend. | As part of the review of reserves in 2017, the Council established the 'Special Projects' reserve which can be used to fund one off costs. |

| Risk | Impact | Mitigation |
|---|---|---|
| Information Governance and The General Data Protection Regulation (GDPR) bill will come into effect on 25th May 2018. All services impacted will need to ensure than an action plan for compliance is in place. | Fines of up to 4% of annual turnover for serious infringements of compliance. Implications for the way personal information is requested and stored by departments. | A working group has been set up by ICT and will include representatives from all departments as well as from corporate programmes. A data audit is also being carried out as is a review of the process for Privacy Impact Assessments. A data protection officer will be appointed in line with the requirements of the bill.<br><br>The Council has laid the foundations for compliance by ensuring staff GDPR Awareness training is available. Policies have been reviewed, and contracts have been updated to reflect new GDPR requirements. Remediation planning is underway. The establishment of a GDPR group will take this new legislation forward within the organisation. There has been an appointment of a Data Protection Officer (DPO) within Legal Services. A corporate fair processing notice has been published.<br><br>Planning around compliance and working with the DPO are being formulated. |
| Impact of significant external economic factors affecting service delivery. | A change in economic conditions can impact on both the costs and income for the Council. An increase in inflation will increase the cost of services and changing interest rates can have an impact on investment income and borrowing costs. | Services have started to consider the potential that Brexit may have; the extent is yet to be fully known and are linked to the negotiations between the UK Government and the European Union. The following measures are implemented:<br>- Close monitoring of Brexit developments and negotiations;<br>- Liaison with contractors on proposals to address potential impacts as they emerge;<br>- Regular agenda item at contract monitoring meetings;<br>- Review as part of Business Continuity Plans;<br>- Regular review at Management meetings. |

## 5) Strategy and Resource Allocation

The Council has five main sources of income, four of which are used to fund day-to-day revenue expenditure and one is used for the financing of longer term capital investment. The number and value of grants from Government is diminishing and will almost have disappeared by 2020 and therefore there is a greater reliance on local income sources – business rates, council tax and fees and charges being the main three. Some of this income is transferred to other bodies but the balance is used to fund the Council's services and capital expenditure. The inflows and outflows are presented graphically in this diagram:




## 6) General Fund

The General Fund (GF) is the main account from which the majority of the Council's services to its residents and businesses are funded.

## 7) Schools

The expenditure on day-to-day services for the 36 schools maintained by the Royal Borough is monitored separately to the GF. Funding is received from Central Government through a grant and is distributed to schools based on a needs formula.

## 8) 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 was previously delegated to Kensington and Chelsea Tenant Management Organisation (KCTMO). The operating arrangements changed on 1st March 2018 to bring the function in house and the Council now directly manages almost 7,000 dwellings from which it will collect £45m in rent and just over £9m of service charges.

## 9) Pension Fund

The Pension Fund collects contributions from employers and current members and makes pension payments to retired members. The fund manages over £1 billion of investments and as per the last revaluation in 2017 is 100% funded. The positon is expected to have further improved and is estimated to be at 123% as at the 31st March 2018. This puts it in the top decile of local authority pension funds by funding.

## 10) Fire Safety

The safety of residents is an absolute priority and the Council is committed to delivering the highest possible standards that it can in relation to health and safety matters, including fire safety. In Kensington and Chelsea, we have 20 Council housing blocks of 10 storeys or more.

Since the Grenfell fire, the Council has been reviewing its overall approach to fire safety and has begun a £3.6m programme to replace fire entrance doors over the next two years. It has also set aside £1m for the replacement of fire door closers, £1m for works as a result of fire risk assessments (FRA) and £0.8m for fire curtains.

An independent audit of existing FRA is underway and a programme of 700 new independent assessments has commenced. A feasibility study has been commissioned to determine the need for enhanced safety measures, such as sprinklers. Investment of more than £5m has been made available for fire safety works following the Grenfell fire. We are anticipating fire safety regulations arising from the Hackitt Review and these will be considered once the outcomes are known; at this stage a provision of £0.2m has been made.

In relation to non-housing, the Council is committed to ensuring that its corporate buildings are safe for staff, contractors and members of the public. The Council is revising its fire safety management systems, reviewing fire evacuation plans and auditing both passive and active fire safety arrangement across its stock. The Council is currently transferring all FRA and certifications on to a new online system to improve transparency and reporting to staff, management and Members. The Council continues to roll out fire safety awareness training to all staff.

## 11) Financial Performance - Revenue

The budget for 2017/18 was agreed by Full Council in March 2017 and following the Grenfell fire, reapproved in November 2017. The accounts have now closed and the end of year position is showing an underspend of £6.4m. However, there are a number of pressures and one-off expenditure commitments emerging and as a result, £1.8m of unspent service budgets will be carried forward to 2018/19.

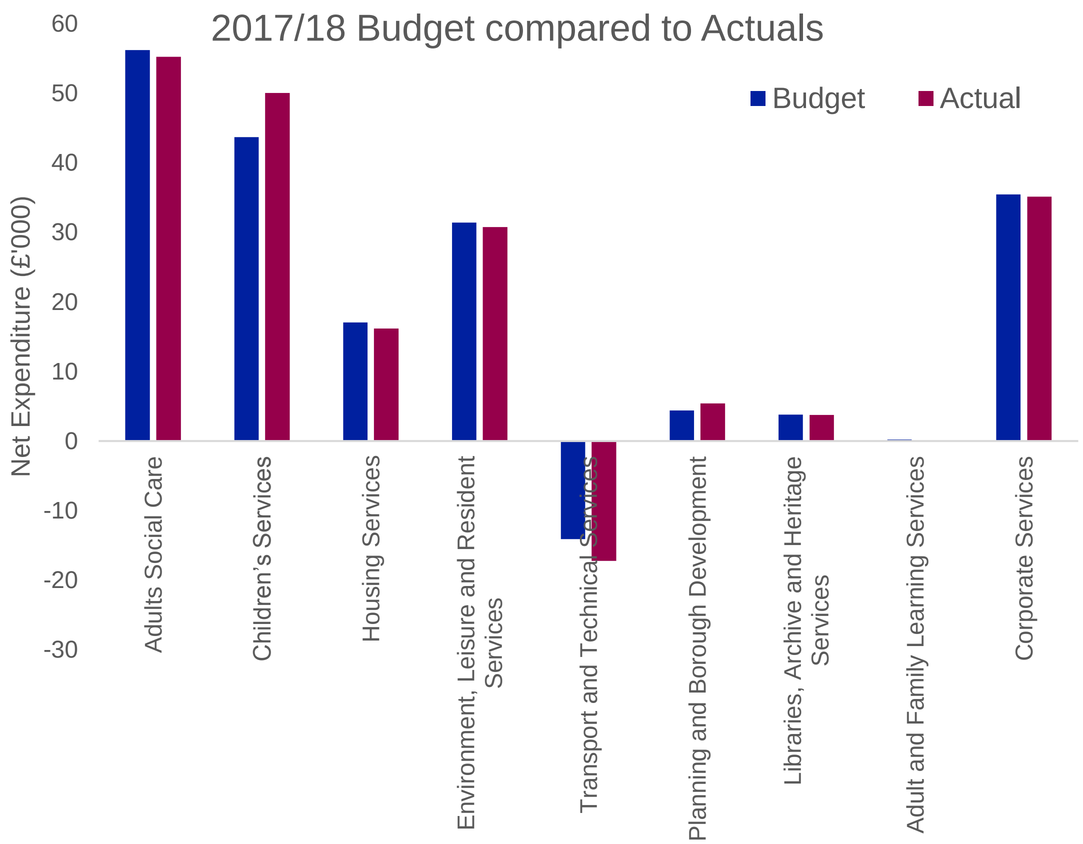
The remaining £4.6m will be transferred to the newly created Budget Stabilisation Reserve, which will be used to support financial planning and the move to self-sufficiency over the next four years.

Following the events last June, the Council undertook a consolidation exercise to streamline the number of balances held in reserves. Existing earmarked balances were consolidated into a fewer number of reserves and two new corporately managed reserves were created – the 'Special Projects' Reserve and the 'Grenfell' Reserve.

The outturn for 2017/18 also includes a working balance confirmed at £10 million – the Council's agreed minimum level.

| 2017/18 Outturn on a Service basis | Net budget | Outturn | Variation from budget | Net contribution to reserves | Net contribution from reserves | Carry forward | Final variation |
|---|---|---|---|---|---|---|---|
| | £'m | £'m | £'m | £'m | £'m | £'m | £'m |
| Adults Social Care | 56.25 | 55.26 | 0.99 | 0.00 | 0.00 | 0.00 | 0.99 |
| Children's | 44.09 | 51.43 | (7.34) | 0.00 | 0.00 | (2.37) | 4.97 |
| Housing | 17.06 | 16.19 | 0.87 | 0.00 | 0.00 | 0.87 | 0.00 |
| Environment, Leisure and Residents | 31.40 | 30.77 | 0.63 | 0.21 | 0.00 | 0.45 | 0.03 |
| Transport and Technical | (14.10) | (17.24) | 3.14 | 1.75 | 0.00 | 0.00 | (1.39) |
| Planning and Borough Development | 4.40 | 5.37 | (0.97) | 0.00 | 0.00 | 0.00 | 0.97 |
| Libraries, Archive and Heritage | 3.82 | 3.74 | 0.08 | 0.00 | 0.00 | 0.08 | 0.00 |
| Adult and Family Learning | 0.19 | 0.08 | 0.11 | 0.00 | 0.00 | 0.11 | 0.00 |
| Corporate | 19.97 | 19.66 | 0.31 | 0.00 | 0.00 | 0.31 | 0.00 |
| Public Health | 0.00 | 1.55 | (1.55) | 0.00 | (1.55) | 0.00 | 0.00 |
| **Total Service Expenditure** | **163.08** | **166.81** | **(3.73)** | **1.96** | **(1.55)** | **(0.55)** | **3.61** |
| Grenfell | 0.00 | 55.79 | (55.79) | 0.00 | (55.79) | 0.00 | 0.00 |
| Contingency | 3.04 | 0.00 | 3.04 | 0.00 | 0.00 | 0.00 | (3.04) |
| Revenue allocation for capital spend | 5.50 | 1.10 | 4.40 | 0.00 | 0.00 | 0.00 | (4.40) |
| Corporate grants | (25.84) | (29.01) | 3.17 | 2.40 | 0.00 | 0.00 | (0.77) |
| **Total Other Expenditure** | **(17.30)** | **27.88** | **(45.18)** | **2.40** | **(55.79)** | **0.00** | **(8.21)** |
| **Grand Total** | **145.78** | **194.69** | **(48.91)** | **4.35** | **(57.34)** | **(0.55)** | **(4.60)** |

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



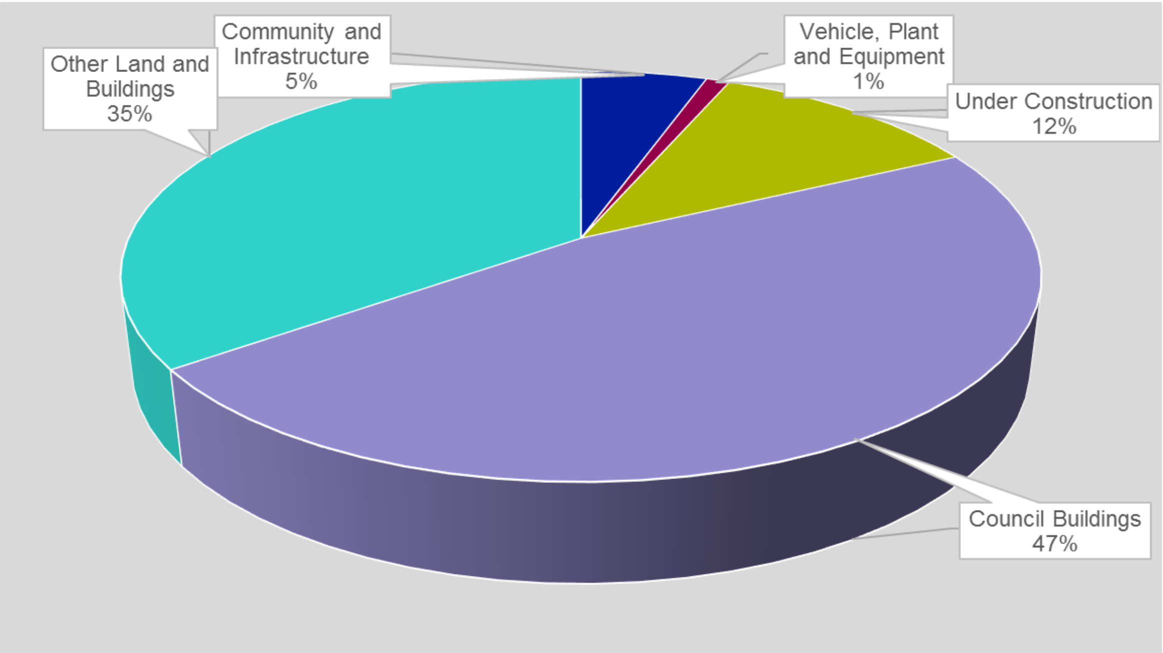

The Royal Borough of Kensington and Chelsea is responsible for managing assets exceeding £2 billion.

The Council:

- Collected business rates from 8,796 properties for 2017/18 and 99.2 per cent of the £331m billed was collected in year. The amount collected was split between the Greater London Authority, the Government and the Council with the Council retaining £69.2m.
- Collected 97 per cent of the council tax due from the borough's 88,700 domestic properties which is the highest collection rate on record.
- Remained one of the top authorities in London when it comes to paying housing and council tax benefits on time.
- Is responsible for managing the £1.1 billion RBKC Pension Fund which provides pensions to 2,986 pensioners and has 3,559 active members.
- Generates £309 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 £6.8 billion of churn annually.

**12) Financial Performance - Capital**

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:



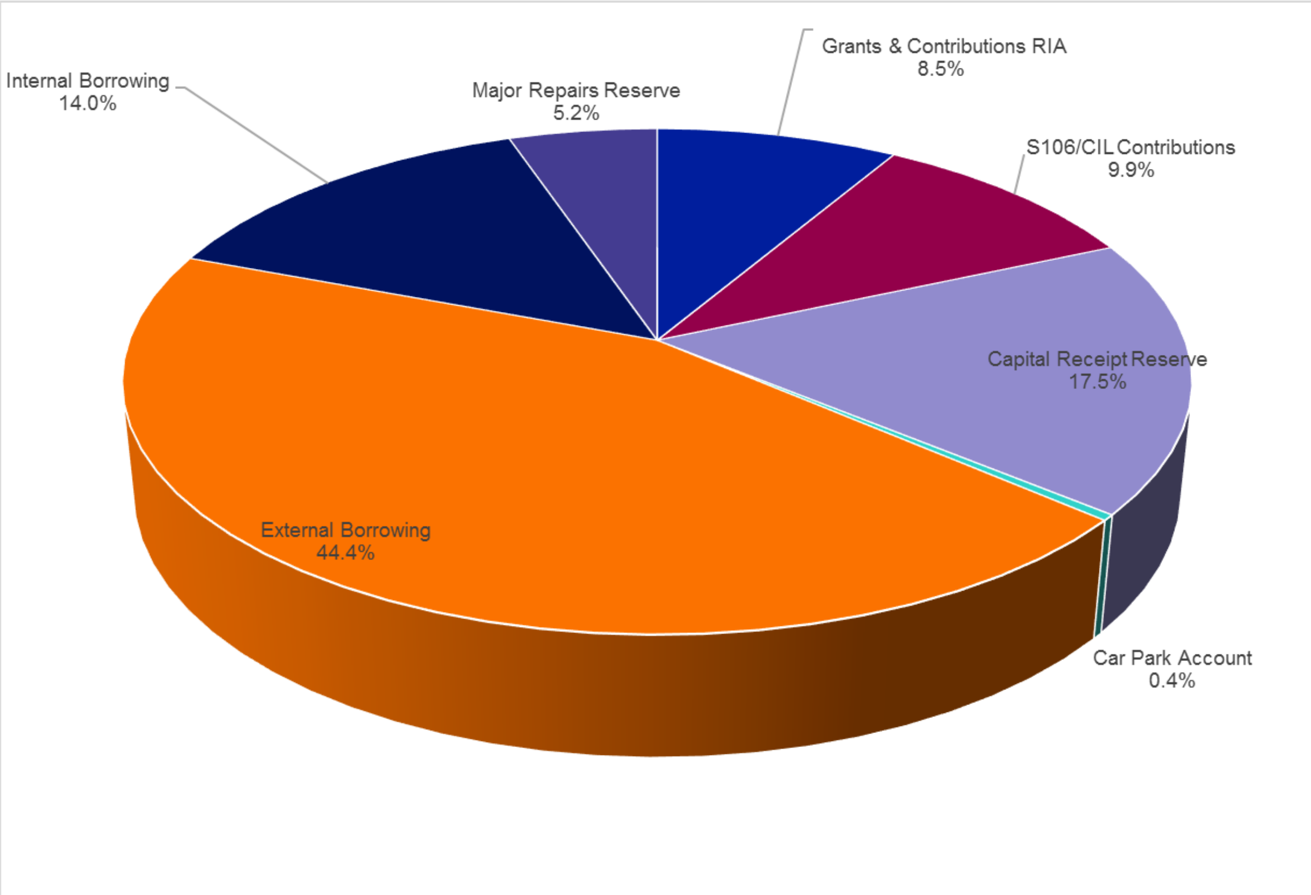

At the start of 2017/18, the Council had an ambitious capital programme for the GF which was designed to renew the borough's infrastructure. However, following the Grenfell fire, the budget was reviewed in October 2017 and some £72.8m of schemes were withdrawn from the programme including all works on estate regeneration. A programme of property acquisition was commenced to provide homes for the survivors of the Grenfell fire. The Council has received a direction from the Secretary of State which permits it to hold up to 250 properties acquired within its GF to avoid the cost of rehousing former Grenfell residents having a negative financial impact on the HRA. Expenditure on these as at 31st March 2018 amounted to £154m.

In addition to Grenfell related expenditure work has continued on a wide range of other projects including the new Marlborough School and a new special school on the Barlby site, as well as a range of highway related improvements, essential repairs to operational assets and acquisition of temporary accommodation. Expenditure on these other areas totals £44m and along with £24m HRA spend, is summarised in the table below:

| Service | 2017/18 Budget £'m | 2017/18 Outturn £'m | Variation £'m |
|---|---|---|---|
| Housing Services | 3.72 | 3.52 | (0.20) |
| Grenfell | 192 | 154.17 | (37.83) |
| Adult Social Care | 1.25 | 0.51 | (0.74) |
| Children's Services | 18.71 | 15.48 | (3.23) |
| Environment, Leisure & Residents' Services | 4.97 | 4.4 | (0.57) |
| Library, Archive and Heritage | 0.33 | 0.19 | (0.14) |
| Transport and Technical Services | 1.85 | 1.01 | (0.84) |
| Corporate Services | 30.1 | 19.18 | (10.92) |
| Housing Revenue Account | 15.51 | 23.97 | 8.46 |
| **Total** | **268.44** | **222.43** | **(46.01)** |

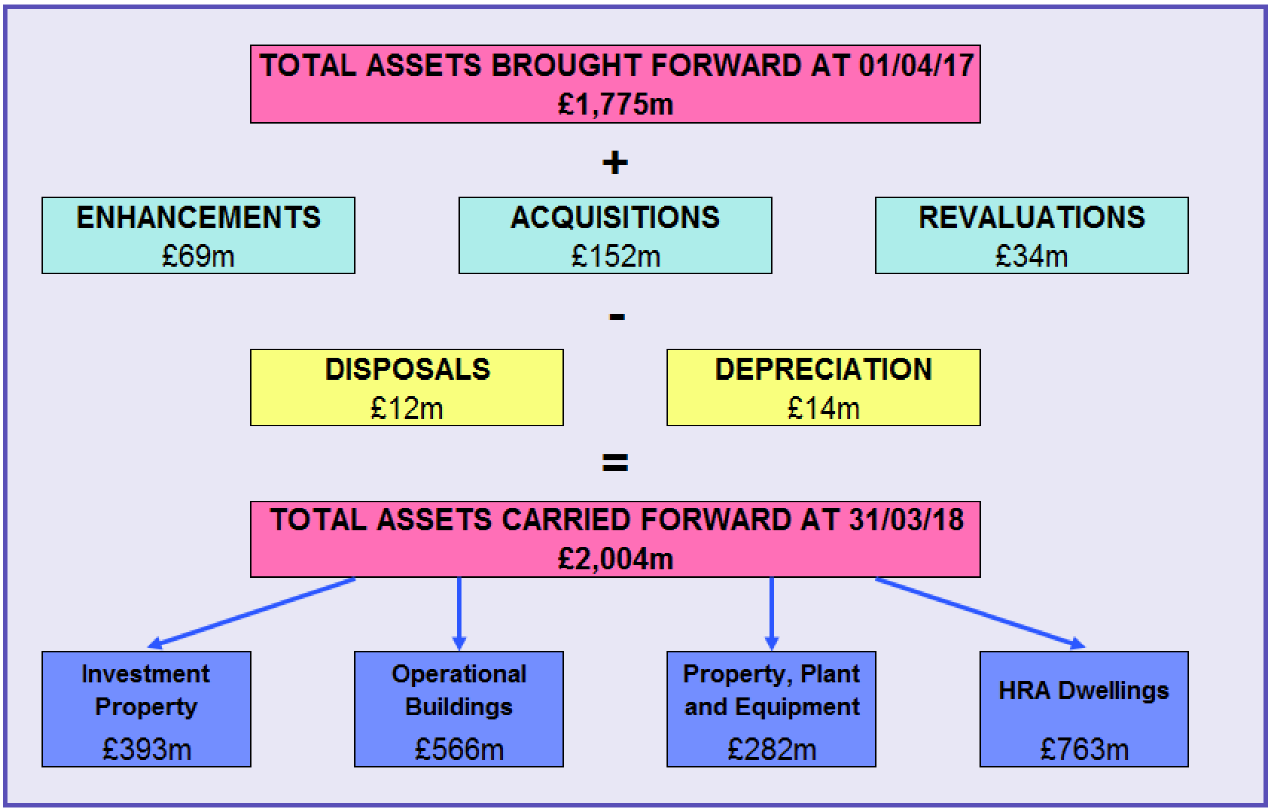
The underspend on Grenfell relates to three specific areas. The first is the expected cost of securing and stabilising the tower. These costs of £11.05m have been charged to the HRA rather than the GF and have been fully funded by government grant. Discussions with leaseholders on compensation for loss of property are ongoing and has resulted in an underspend in the current year estimated at £13m. The remainder of the underspend is due to delay in completion of payments for acquisitions and for remedial work to enable properties to meet tenancy standards. No further acquisitions are planned.

Overall the revised GF Capital programme for the years 2017-20 is £417m, with a further £115m of capital investment on the Council's housing stock in the period 2018-2023.



The need to purchase the properties for Grenfell rehousing has resulted in the Council borrowing £100m from the Public Works Loan Board in 2017/18 and this loan has been fully applied to buying the replacement properties.

An overall summary of the movement in assets between 1st April 2017 and 31st March 2018 is set out below.




## 13) The Council's Performance

The Council has faced a challenging year in 2017/18. The Council has however continued to deliver some high performing services:

<u>Environment and Community Services</u>

- Twice-weekly waste and recycling collections has continued for all households in the borough.
- The borough has six libraries which receive 850,000 visits a year.
- The two leisure centres in the borough have continued to attract in excess of 750,000 visits last year.
- The parking service has been modernised and over 75% of visitor parking transactions now made by pay-by-phone.
- Electric vehicle charging has expanded and 50 points have been fitted to lamp columns with plans to expand this year.
- Volunteering remains strong amongst residents and there has been a 45% increase in people volunteering in the borough's libraries.
- The Kensington and Chelsea registration service continued to grow last year. It's now the third busiest in London, registering over 6,000 births and 1,200 deaths each year. Over 2000 marriages and civil partnerships were conducted in the historic Chelsea Old Town Hall.
- Over 5,500 planning applications were received last year and over 4,200 Local Land Charges requests – with 100% processed in five days.

- The RBKC Commercial Waste Team continues to grow their commercial income and now have approximately 70% of the business share in the borough.
- The Library Time Machine (the archives and local studies blog) reached its millionth view last autumn.

Adult Social Care

- The West London Alliance Dynamic Purchasing System and E-Brokerage system was launched and will result in efficiencies in the procurement of Care Home placements.
- The delivery of the Community Independence Service (CIS) and integrated model was established in year and is providing rehabilitation and re-ablement and supporting hospital discharge.
- Delayed Transfers of Care (DToC) have reduced by 12% compared to 2016/17 despite significant pressures on hospital beds.
- All safeguarding concerns and enquiries (under Section 42 of the Care Act) are responded to within the timescales.

Resources and Assets

- The customer service centre has 117,000 visitors each year. Over 80% are seen within 20 minutes and 95% rate the service as right first time.
- The contact centre receives 472,000 calls each year, of which 75% are answered within 30 seconds and 96% say the contact centre was right first time.

Children’s Social Care and Education

- The Royal Borough is the first and only authority where all schools continue to be rated as good or outstanding by Ofsted.
- Children's services are rated by Ofsted as outstanding, one of only 3 authorities in the country to have achieved this and the Royal Borough has the lowest number of children in care in London.
- Child poverty levels are among the lowest in London.
- 99% of transfers from SEN statements to new Education, Health and Care Plans (EHCP) were completed by the deadline of 31st March 2018, which is above the national average.
- The Royal Borough is the lead and hosts the Centre for Systemic Social Work - an initiative funded by the DfE as part of the Partners in Practice status. This is training a new generation of Social Care Practice Leaders.
- Educational attainment continues to be very good. Key stage 2 results are the second highest in the country for overall attainment. Secondary school results (GCSE performance 2017) are amongst the top in London.

**14) Outlook**

Since 2010 Central Government support to local government has significantly reduced and this is planned to continue to the final year of the four-year settlement to 2019/20. The Government is proposing to consult on a new fair funding formula that will be implemented from 2020 but at this stage there is no indication on how this will directly impact the Council. The current funding regime means that the Council, even after an increase in Council tax of 2% in each year, will be looking for budget savings over the next two years of around £20m.

Following the Grenfell fire, the Council undertook a review to streamline its reserves. This has supported a significant element of the Grenfell expenditure but also resulted in tighter financial control and management of the Council’s reserves. The Council has significantly reduced its level of reserves. The GF usable reserves reduced from £181m to £136m at March 2018. A further £52m is planned for use in 2018/19. Other useable reserves (the capital receipts reserve and capital grants unapplied) have increased for 2017/18 because the Council has temporarily decided to use internal borrowing to reduce revenue costs rather than apply receipts but these are expected to reduce significantly next year.

From April 2018, all London boroughs and the Greater London Authority (GLA) have entered into a one-year arrangement to pool business rate growth across London. There are two underlying principles to the pooling arrangement. No authority can be worse off than it would have been without pooling and all London borough's will receive a share of the benefit. The result is that around £240m of business rates income will be retained in the capital and shared between the 32 boroughs, City of London and the GLA in accordance with an agreed formula. The financial benefit to the Royal Borough is expected to be £1.8m. Although the pool has only been confirmed as a one-year pilot, it is expected to continue until 2020, at which point a revised business rates retention with a new funding formula is expected to be rolled out across the country.

The taking back of the Council's housing stock into direct management means that the Council has more direct control over both day-to-day expenditure but also longer term investment decisions on the Council's estates. In line with Government legislation, there is currently a rent reduction. This is creating pressure at a time when inflation is increasing costs. This policy will be lifted from 2020 and the increase of rent above the rate of inflation is expected to improve the viability of the HRA.

Until the Grenfell public enquiry has been completed and the Police have completed their investigation into possible charges of corporate manslaughter arising from the fire, the Council is unable to quantify what further long term costs in terms of liability, if any, may arise from the fire. No provision has been made in the Council's accounts for any potential costs. The outcome of the Public Inquiry is unlikely to be known in 2018/19.

**15) Financial Statements**

The Statement of Accounts sets out the Council's income and expenditure for the year, and its financial position at 31st March 2018. It comprises core and supplementary statements, together with disclosure notes. This covers the GF, HRA, Pension Fund and all the other accounts for which the Council is responsible.

The format and content of the financial statements are prescribed by the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2017/18, which in turn is underpinned by International Financial Reporting Standards.

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) records all of the Council's income and expenditure for the year. The top part of the table presents an analysis by service area and includes expenditure on both statutory services and discretionary services. The bottom part of the reports deals with corporate accounting transactions and funding. The expenditure 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** is a "snapshot" of the Council's assets, liabilities, cash balances and reserves at the year-end date. It shows the value as at 31st 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 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 activities, new investment and financing activities (such as the repayment of borrowing and long term liabilities). 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 through fees and charges 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** to the Accounts 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.

- The Supplementary Financial Statements are:

    - The Annual Governance Statement – this sets out the governance structures of the Council and its key internal controls.
    - The Housing Revenue Account (HRA) – this account separately identifies the Council's statutory landlord function as a provider of social housing under the Local Government and Housing Act 1989.
    - The Collection Fund – this summarises the collection of council tax and business rates, and the redistribution of some of that money to the GLA and Central Government.
    - The Pension Fund Account – this reports the contributions received, payments to pensioners and the value of net assets invested in the Local Government Pension Scheme on behalf of Council employees.

# NARRATIVE REPORT

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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# INDEPENDENT EXTERNAL AUDITOR'S REPORT

## REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

### Opinion

We have audited the financial statements of Royal Borough of Kensington and Chelsea ('the Authority') for the year ended 31 March 2018 which comprise the Authority Comprehensive Income and Expenditure Statement, the Authority Balance Sheet, the Authority Movement in Reserves Statement, the Authority Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, the Collection Fund, the Fund Account and Net Assets Statement for the Royal Borough of Kensington and Chelsea Pension Fund and the related notes, including the accounting policies in note 1 and the Pension Fund accounting policies in note 3.

In our opinion the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2018 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 Royal Borough of Kensington and Chelsea Pension Fund during the year ended 31 March 2018 and the amount and disposition of the Fund's assets and liabilities as at 31 March 2018 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 2017/18.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Authority in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

### Going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

### Other information published with the financial statements

The Executive Director Resources and Assets is responsible for the other information published with the financial statements, including the Narrative Statement and the Annual Governance Statement. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information. In our opinion the other information published with the financial statements for the financial year is consistent with the financial statements.

### Executive Director Resources and Assets responsibilities

As explained more fully in the statement set out on page 23, the Executive Director Resources and Assets is responsible for: the preparation of the Authority's 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 2017/18; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting on the assumption that the functions of the Authority will continue in operational existence for the foreseeable future.

**Auditor's responsibilities**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities

**REPORT ON OTHER LEGAL AND REGULATORY MATTERS**

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

**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 2018.

**Respective responsibilities in respect of our review of arrangements for securing economy, efficiency and effectiveness in the use of resources**

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.

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. 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.

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether 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 Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether 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 2018.

**Statutory reporting matters**

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

- 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;

- any recommendations have been made under Section 24 of the Local Audit and Accountability Act 2014;
- an application has been made to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- an advisory notice has been issued under Section 29 of the Local Audit and Accountability Act 2014; or
- an application for judicial review has been made under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

## THE PURPOSE OF OUR AUDIT WORK AND TO WHOM WE OWE OUR RESPONSIBILITIES

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.

## 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 ended 31 March 2017 and the year ended 31 March 2018.

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.

In addition, we cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the Authority's Whole of Government Accounts consolidation pack. 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
15 Canada Square
London, E14 5GL

31st July 2018

# 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 (the Chief Financial Officer (CFO)) has the responsibility for administration of those affairs. The Council's CFO is the Executive Director of Resources and Assets;
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets; and
- approve the Statement of Accounts.

**The Chief Financial Officer's Responsibilities**

The CFO is responsible for the preparation of the Council's Statement of Accounts (which includes the financial statements) in accordance with proper practices as set out in the CIPFA Code of Practice on Local Authority Accounting in the UK (the Code).

In preparing this Statement of Accounts, the CFO has:

- selected suitable accounting policies and then applied them consistently;
- made judgments and estimates that were reasonable and prudent;
- complied with the Code;
- kept proper accounting records that were up to date;
- taken reasonable steps for the prevention and detection of fraud and other irregularities;
- assessed the Council's ability to continue as a going concern and, where applicable, disclosed related matters;
- used the going concern basis of accounting on the assumption that the functions of the Council will continue in operational existence for the foreseeable future;
- maintained such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

I certify that the Statement of Accounts for 2017-18 (set out on pages 38 to 122) gives a true and fair view of the financial position of the Council as at 31st March 2018 and its income and expenditure for the year ended 31st March 2018.

Chris Buss
Executive Director Resources and Assets

27th July 2018

Councillor James Husband
Chairman, Audit and Transparency Committee

27th July 2018

# ANNUAL GOVERNANCE STATEMENT

## 1. Introduction and purpose of the Annual Governance Statement

This Annual Governance Statement summarises the 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 Council has approved and adopted a code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE Framework Delivering Good Governance in Local Government. This statement explains how the Council has complied with the code and meets the requirements of Accounts and Audit Regulations 2015, regulation 6(b), which requires all relevant bodies to prepare an annual governance statement.

A governance framework has been in place for the year ended 31st March 2018 and remained in place up to the date of approval of the Statement of Accounts.

## 2. 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, which includes arrangements for the management of risk.

## 3. 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 but not absolute assurance of effectiveness. The system includes processes to identify:

- The risks to the achievement of the Council's aims and objectives;
- The likelihood of the risks crystallising; and
- How to manage the risks appropriately, given the agreed objectives.

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.

Following the Grenfell Tower fire, the Council commissioned an independent review of its governance by the Centre for Public Scrutiny (CPS). This review was published on 7th March 2018 and the Council will be responding to this shortly. The Government has also appointed an Independent Taskforce to support the Council to put in place the capacity, capability, and governance to deliver recovery support. This work is ongoing.

### 4. 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.

### 5. The Council

In 2017/18, the Council comprised fifty Councillors. There were eighteen Wards of which fourteen were three-member Wards and four were two-member Wards. At the start of the year, the composition of the Council was: Conservative 37, Labour 11 and Liberal Democrat 2. All Councillors meet together as the Council. In 2017/18, full Council meetings took place seven times in the year. During 2018/19, there is expected to be eight meetings.

### 6. How the Council operates

The Council is a large organisation and is responsible for providing or commissioning many separate services. In 2017/18 spending on the day to date running of these services was over £642m and the capital programme invested a further £225m to deliver a wide range of projects including the new Marlborough School, a new school on the Barlby site, highway and infrastructure improvements and the programme of property acquisition for the victims of Grenfell.

In November 2017, the Council undertook a detailed review of reserves to both streamline the number of reserves, strengthen the financial control over the use of reserves and to part fund costs arising from the Grenfell Tower fire. Existing earmarked reserves were consolidated into a fewer number of reserves and two new reserves were created – the Special Projects Reserve and the Grenfell Reserve. Use of remaining reserves are managed corporately and are subject to approval by the Leadership Team. Following this review of reserves, the Council commissioned a report by CIPFA to test the adequacy of its reserves and therefore the financial resilience of the organisation. The report found that that the planned level of reserves to be maintained by the Council is adequate.

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 preparing this statement.

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

The Head of Paid Service (Chief Executive) is Barry Quirk and Councillor Elizabeth Campbell is the Council Leader. A change of Chief Executive and Leader took place following the tragic fire at Grenfell Tower in June 2017. Additional changes arising in the Council following the fire include the creation of a new Grenfell Team (directorate) and a senior management restructure which led to the creation of five Executive Director posts, two of which are shared, on a Bi-Borough basis with Westminster City Council.

Any known conclusions and recommendations arising from the CPS report (March 2018) into the review of the Council's governance arrangements will be reflected in the review of annual governance going forward.

The Council's executive key decisions are made by the Leadership Team (previously termed the Cabinet). During 2017/18, one additional Scrutiny Committee - Grenfell Recovery Scrutiny Committee was created.

## 7. Strategic plans and policies

The annual revenue and capital budgets are prepared, consulted upon and notice given in the Forward Plan. The budget is 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.

**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.

**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. It is noted that the scheduled Committee in July 2017 was cancelled following the tragedy at Grenfell, enabling Members and Officers to focus on the Council's response.

**April**

- External Audit Plan (2016/17 accounts)
- IT Report and presentation
- End of Year Anti-Fraud report
- Internal Audit progress update
- Risk Management in Adult Social Care
- Risk Management Activity update
- Managed Service Programme update

**June**

- Annual Governance Statement
- Draft Statement of Accounts 2016/17
- Implications of the 2016 Triennial Valuation of the Pension Fund
- Risk Management activity update
- Internal Audit progress update
- Annual Report on Internal Audit & Internal Control
- Treasury Management activity
- Annual Treasury Report
- Managed Services Programme update
- *NB. This meeting was cancellled although papers had been circulated to Members*

**October**

- Approval of the Final Accounts.
- External Audit report o those charged with governance (ISA 260)
- Internal Audit progress report
- Anti-Fraud progress report
- Treasury Management activity report
- The Audit and Transparency Committee Chairman's annual report

**February**

- External Audit Plan (2017/18) accounts
- Annual report of Grants and Returns
- Treasury Management activity report
- Draft Audit Plan for 2018/19
- Corporate Risk Management report
- Annual Health and Safety report
- Internal Audit update report

**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,
- 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**

Lead 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. Lead Members take key decisions, either individually or collectively as the Leadership Team. The Executive is held to account by six Scrutiny Committees. Each has a specific remit, for example Housing and Property or Children's Services.

Scrutiny Committees can:

- Ask the Leadership Team to think again about a decision, either through pre-decision scrutiny or call-in;
- Summon Lead 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 Leadership Team 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 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. The role of the Scrutiny Sub-Group is:

*"The co-ordination of scrutiny work; preparation of an annual scrutiny programme; annual negotiations with the Executive regarding scrutiny-side resources (financial and staffing) for the year ahead in the light of the plan; the mediation of any boundary disputes between scrutiny committees; and call the Executive to account on the direction of the Council and to take an overarching view on the development of policy."*

**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.

During 2018/19 the Council will respond to the recommendations of the CPS review of governance, including those relating to the effectiveness of Scrutiny.

**Director and Functional Assurance**

Directors have completed statements detailing their confidence in arrangements for managing their recognised core risk areas, which have been subject to independent review. This reflects the Directors' responsibilities for both the management of risk and the effectiveness of controls.

Directors with functional responsibility for core risk areas were also required to review and report independently on the effectiveness of the core management systems in each service. The statements received in this regard indicated that overall the management systems were viewed as effective.

## 8. Partnership Governance

During 2017/18, the Council shared a number of services with Westminster City Council and the London Borough of Hammersmith and Fulham. Each Council retained 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.

From 1 April 2018, the Council, together with Westminster City Council (WCC) terminated the co-operation agreements in place with the London Borough of Hammersmith and Fulham (LBHF) to share Children's Services, Adult Social Care and Public Health, and entered into shared service arrangements with WCC for similar services. A small number of services continue to be shared with both WCC and LBHF where economies of scale or quality of service indicate this is the best way forward and there is agreement to do so.

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

A Strategic Grenfell Response Board has been established, chaired by the Chief Executive, to oversee the response, on a partnership basis, to the Grenfell Tower fire tragedy. Membership of the Board includes the Clinical Commissioning Group, the local mental health foundation trust (CNWL) and London Resilience.

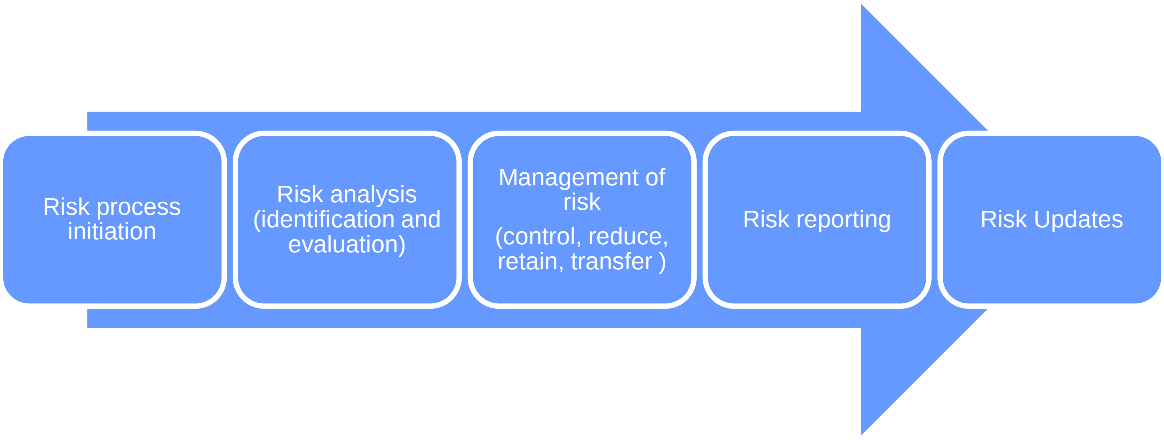
Having completed a rigorous procurement exercise the Council entered into a partnership agreement with Hampshire County Council in December 2017 for the provision of a managed HR, Payroll and Finance service to replace that currently delivered by BT. Preparations are now well advanced with the new systems due to be implemented in Autumn 2018. The Hampshire Partnership is an unincorporated public to public partnership which new partners join through a sovereign deed of accession. All partners are subject to a partnership agreement which sets out governance arrangements and how partners will proportionately share costs, benefits and liabilities of the joint services. All partners, including the Council, are engaged in taking forward the strategic governance and oversight of the partnership through their membership of either the Strategic Direction Board or the Operational Forum. Programme governance arrangements are in place to manage the implementation of the new systems and to exit from the existing BT arrangements.

## 9. 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 will review and update its Risk Management Strategy in full consideration of the Centre for Public Scrutiny report recommendations, the Grenfell Recovery Taskforce and the new ways of working across Councils which saw the forming of Bi-Borough working arrangements with WCC for Children's Services, Adults Social Care and Public Health Services.

The Risk Management Strategy Statement sets out the intended approach to risk management for shared and sovereign services and 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 faced substantial challenges following the Grenfell Tower fire in 2017 resulting in a variety of business models for delivering services being used across the Council, sometimes with mutual assistance from other London Authorities and some commissioned services from the Grenfell Recovery Taskforce.

The remit of the Taskforce included:

Housing: ensuring that Council Housing management and services across the borough are on a sound footing to support the re-housing of survivors; addressing weaknesses in the Tenant Management Organisation;

Community Engagement: ensuring there is effective and timely engagement with the community from the Council about their plans for recovery;

Cross Cutting Support: making sure that the Council has the right arrangements in place to provide intensive cross cutting support to those affected by the fire;

Governance: making sure that governance arrangements across the Council are appropriate to deal with the on-going challenge that recovery will present;

The Site: ensuring that a long-term plan for the site is in place that has been developed with central Government, the Greater London Authority and above all the community.

The Council's Town Clerk and Leader in post at the time of the Grenfell Tower fire and immediate response resigned their positions and a new Leadership Team was established. As an interim measure, the Council appointed the Chief Executive of the London Borough of Lewisham to undertake the functions of the Town Clerk. The Council subsequently approved the permanent appointment of Dr Barry Quirk as the Chief Executive for the Royal Borough of Kensington and Chelsea in September 2017. This role exercises the functions of Town Clerk as provided for in the Council's Constitution and has ensured the effective corporate management of the Council, including working in conjunction with the Grenfell Recovery Taskforce, to make changes to the organisational structure as appropriate.

The first report of the Independent Grenfell Recovery Taskforce and their initial recommendations were made in October 2017. In responding, the Council welcomed the Taskforce report and acknowledged the unprecedented scale of the disaster and the impact this has had on so many victims, survivors and local residents. The Council entirely accepted all their recommendations and positive commentary by the Taskforce made in relation to the Council's new senior leadership. The Council's new Chief Executive has set out a compelling vision for a new organisational culture underpinned by a new senior leadership team.

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

This Annual Governance Statement recognises the review by the CPS and its status as an independent national charity which specialises in governance and public scrutiny. The recommendations from the review are being considered and the Council will respond to the report shortly.

At the end of March 2018, new Bi-Borough Adults and Children's Services formally began. Our ambition for Bi-Borough working with WCC is to provide the best possible services to all our residents, to not only meet people's needs, but help them make the most of their lives. We will work more closely with families and communities, constantly challenge ourselves to improve and innovate, and increase support for our most vulnerable. We will increase integrated working across departments to more effectively tackle complex social issues – improving the lives of all our residents, and especially those who need it most.

The Council received significant publicity following the tragic fire at Grenfell Tower based on its identified level of usable reserves as at March 2017 and this includes not only revenue reserves, but capital receipts and the HRA. The Section 151 Officer therefore asked the Chartered Institute of Public Finance and Accountancy (CIPFA) to independently review the reserves, to give both Elected Members and the public assurance that the reserves as redistributed following the proposals contained in its Medium Term Financial Plan are robust, open and transparent.

Additional national and regional challenges would present themselves in responding to acts of terrorism across London and the heightened level of threats from emerging risks such as Cyber Terrorism, Hacking and Ransomware. Other issues in the year included changes to and increasing complexity of pressures arising from the Managed Services solution which delivers both Human Resources and Finance Transactional services and the retention and quality of staff. The Council has chosen a way forward to reduce that risk and is preparing to move both services to another provider with experience of running services in the public sector. These new arrangements are expected to be in place from Autumn 2018.

The aim of the Council in delivering risk management 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;

- A caring and compassionate approach to its residents;
- 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.

### 10. 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.

### 11. 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. The Members' Code of Conduct requires Members to notify the Monitoring Officer of any gifts or hospitality accepted in excess of £50.

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

### 12. Information Governance and Freedom of Information

Information Governance is the overall process of analysing, evaluating, assessing and mitigating the impact of risks to the Council's information and information systems. Information Governance includes physical, personnel and information security and is an essential enabler towards making the Council work efficiently. Information risks must be managed effectively, collectively and proportionately, to achieve a secure and confident working environment.

The Council is aware that risks can never be eliminated fully and it has in place a strategy that provides a structured, systematic and focused approach to managing risk. However, information risk management is not about being 'risk averse', it is about being 'risk aware'. Some amount of risk taking is inevitable and necessary if the Council is to achieve its objectives. The Council seeks to capitalise on opportunities and to achieve objectives once those decisions are made. By being 'risk aware', the Council is in a better position to avoid threats, take advantage of opportunities and ensure its objectives and goals are realised.

Information risk is managed by assigning roles and responsibilities and co-ordinating the implementation of this policy and all supporting documentation. Together these measures form the Information Governance lifecycle and applies across the Council and in its dealings with all partners and third parties. The Council has continued to maintain its information governance arrangements and capabilities.

Information governance policies and standards are in place, which, if complied with by officers and Members, provide the necessary assurance about the security of the Council's information assets and data handling procedures. The Local Public Services Data Handling Guidelines 2008 and 2012 introduced some specific responsibilities in relation to Information Governance shown below together with their Council roles as follows:

- Accounting Officer. The Council's Executive Director of Resources and Assets who has overall responsibility for ensuring that information risks are assessed and mitigated to an acceptable level.
- Senior Information Risk Owner. The Council's appointed Chief Information Officer fulfils this role who is familiar with and takes ownership of the Council's information governance policy and strategy.
- Information Asset Owners, are Directors involved in running the relevant Directorate. Their role is to understand and address risks to the information assets they 'own' and to provide assurance to the Senior Information Risk Officer on the security and use of those assets.

These specific roles together with the Data Protection Officer and the IT Security Officer will work together with senior management to ensure compliance with best practice with the over-riding objective to keep the Council's information safe. A Caldicott Guardian is responsible for ensuring that health and social care information is managed appropriately, and that our Annual Information Governance Toolkit submission meets the required levels of compliance. The General Data Protection Regulation (GDPR) working groups engage with Caldicott Guardians, Legal, Procurement, Risk Management, Audit and across departments and is implementing the requirements of new GDPR legislation for May 2018.

In addition, the Council has a statutory requirement to respond to all FOI requests within 20 working days. Following the Grenfell Tower fire, the Council has experienced an increased number of requests for information and statistics. This is a risk for the Council in terms of the nature of the enquiries and the capacity to respond to these higher numbers within the statutory timescales.

The Council has continued to maintain its information governance arrangements and capabilities.

**13. 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 Executive Director for Resources and Assets 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. They are 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.

**14. 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, the Office of the Information Commissioner and other Local

Authority inspectorates. The Internal Audit team utilises the services of external providers to undertake specialist reviews such as technical audits of information systems.

**15. 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 2017/18 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 2017/18 is that the Council's internal control systems in the areas audited were adequate. There were no areas where 'no assurance' was given.

**16. External Audit**

KPMG LLP issued an unqualified opinion on the Council's 2016/17 financial statements on 17th October 2017 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.

The Council's external auditor were unable to issue an opinion on the Council's value for money conclusion for 2016/17. In their report to the Audit and Transparency Committee, the external auditor identified areas of further work following the Grenfell Tower fire. A number of investigations and inquiries were underway and much of the information required for the opinion was under investigation as part of the inquiries commissioned by central government and other regulatory bodies.

KPMG LLP reviewed the 2016/17 Annual Governance Statement. As part of the audit, the draft statement was subject to review to include reference to the Grenfell Tower fire and the subsequent controls and arrangements taking place. They concluded that it complies with Delivering Good Governance in Local Government: A Framework published by CIPFA/SOLACE. There were no areas for improvement noted.

The Council's external auditor for 2018/19 is Grant Thornton.

The Council will be introducing a new Finance, Payroll and HR system from Autumn 2018. As part of the implementation, a review of processes and procedures have been undertaken both in terms of the system and wider financial policies to give assurance that the new system is fit for purpose and meets all audit requirements. It is likely that the new system will be an area of focus for External Audit in 2018/19.

**17. Independent review of governance**

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, by the Centre for Public Scrutiny, was completed in 2017/18. The report includes proposals with the aim to ensure that the Council becomes more outward facing in its decision-making. It recommends that the Council adopts twelve principles relating to good governance, makes six recommendations for improvement, and identifies a number of options for the Council to consider. The report can be found here: www.rbkc.gov.uk/council-and-democracy A report comprising the Council's detailed response to the review will be considered by the Council in July 2018.

**Significant Governance Issues**

Matters reported in the 2016/17 Annual Governance Statement, with the exception of those related to the Managed Services Programme and contract management and procurement, have been addressed during 2017/18 and are considered resolved.

**Contract Management and Procurement**

The Bi-Borough Integrated Commissioning Directorate's Adult Social Care Commissioning & Procurement Teams have adopted and implemented the Shared Services Contract Management Framework. Originally just for adult services, this framework now also supports children's services and public health. Whilst this was prepared under Tri-Borough arrangements, the systems remain in place and have been carried over to the new Bi-Borough structure. The framework is aimed at helping to 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 capital Esourcing, 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.

The Executive and Corporate Services Scrutiny Committee set up a Procurement Scrutiny Working Group which undertook a review of procurement arrangements at the Council. Many of the recommendations made by the review have already been implemented and further actions are being considered as part of a review of corporate procurement arrangements which has recently commenced.

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 original Managed Services Programme (MSP) aimed to outsource the delivery of transactional Finance and HR services to a private sector provider with the objective of enabling the pooling of resources across what was then the Tri-Borough and the achievement of significant cost reductions. BT was selected as the provider following a full OJEU procurement process. The programme has not fully delivered its goals and the Tri-Borough experiment has come to an end.

Following a process of intensive commercial negotiation, WCC and RBKC reached a settlement with BT under the terms of which the two councils agreed not to extend their Managed Services contracts with BT and to exit from them as quickly as it was safe to do so.

A rigorous process of developing criteria for a replacement for the BT service, identifying organisations and reviewing them against the criteria led to the identification of the Hampshire Partnership as the preferred option from a field of 12 potential organisations.

The Hampshire Partnership is an unincorporated public to public partnership which new partners join through a sovereign deed of accession. It will enable the council to work with other public sector organisations who share our values and challenges in a cost sharing arrangement in which the focus is on best practice service delivery rather than profitability for the proider. It also offers the advantage of being a tried and tested solution based on a SAP platform, which is a market leading product proven in the local authority environment.

A partnership agreement has been signed with Hampshire and the process of on boarding has begun. The Council aim to have implemented the new managed services solution by Autumn 2018

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 remaining term of the contract, whilst at the same time, progressing with a Bi-Borough re-procurement involving the RBKC and the WCC.

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.

**Other Significant Issues Arising in 2017/18**

Grenfell

Following the Grenfell Tower fire in June 2017, there are a number of significant issues that have arisen and which will continue into 2018/19:

- The Tenant Management Organisation (TMO) was brought back in house on 1st March 2018.

- The Council is a core participant in the Grenfell Public Inquiry and a suspect in the corporate manslaughter investigation being undertaken by the Metropolitan Police Service. The Council is supporting the Public Inquiry through the provisions of documents covering all aspects of the Inquiry's terms of reference. The Council is also under an ongoing duty to retain documentation and electronic records for the police investigation. Management of the Grenfell site continues to be provided through an independent Site Management Group under the London Gold arrangements.

- The Council has been required to retain all data on "litigation hold" until the inquiry/investigation is concluded. This has required significant storage and the suspension of legacy upgrade programmes.

- The Council commissioned an independent review of its governance by the Centre for Public Scrutiny (CPS). This review was published on 7th March 2018 and the Council will be responding to this shortly.

- The Government has also appointed an Independent Taskforce to support the Council to put in place the capacity, capability, and governance to deliver recovery support. This work is ongoing.

- Volume and complexity of FOI and Data Protection Subject Access requests have increased significantly, requiring additional resource and new case management systems, being implemented in summer 2018.

Health and Safety

- Building health and safety compliance was audited as unacceptably low last year across the Tri-Borough estate. A series of control measures have been put in place including 'stepping in' to a number of areas to mitigate risk. Work is ongoing with greater oversight. Performance was reported at the Audit & Transparency Committee. The Council is reviewing the arrangements for property maintenance including the current contract with Amey to ensure that compliance issues are minimised in the future.

### 18. Conclusion of this review

The Council will be responding shortly to the independent review of its governance by the Centre for Public Scrutiny (CPS). This together with the review set out in this statement confirms that the Council is satisfied that arrangements continue to be regarded as fit for purpose in accordance with the governance framework. A satisfactory level of assurance has been achieved following the conclusion of the review. This includes the areas already addressed from the previous year and those to be specifically addressed for 2017/18.

In the context of further reductions in government funding, the Council will continue to prioritise and endeavour to maintain strong governance arrangements, focusing on the purpose of the Council and on outcomes for the community. It will do this by engaging with residents and stakeholders, and through demonstrating the values of good governance through upholding high standards of conduct and behaviour. Further to this, proactive risk management arrangements have been enhanced to support the delivery of the council's key objectives.

Signed:

**Barry Quirk, Chief Executive**
31st May 2018

**Cllr Elizabeth Campbell, Council Leader**
31st May 2018

| EXPENDITURE AND FUNDING ANALYSIS | 2017-18 Net Expenditure / (Income) Chargeable to the GF and HRA Balances | 2017-18 Adjustments between Accounting and Funding Basis | 2017-18 Net Expenditure / (Income) in the CIES | 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 |
|---|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Adult Social Care | 53,236 | 2,028 | 55,264 | 53,676 | 1,133 | 54,809 |
| Children's Services | 44,869 | 6,402 | 51,271 | 52,195 | 4,204 | 56,399 |
| Environment, Leisure and Residents' Services | 28,552 | 2,085 | 30,637 | 27,302 | 6,343 | 33,645 |
| Housing Services | 15,171 | 1,015 | 16,186 | 15,597 | 364 | 15,961 |
| Library, Archive and Heritage Services | 3,364 | 377 | 3,741 | 7,946 | 152 | 8,098 |
| Planning and Borough Development | 4,382 | 846 | 5,228 | 2,980 | 316 | 3,296 |
| Public Health | 1,553 | 0 | 1,553 | (13,029) | 0 | (13,029) |
| Transport and Technical Services | (22,709) | 5,486 | (17,223) | (11,934) | 585 | (11,349) |
| Corporate Services | 29,599 | 25,872 | 55,471 | 65,801 | (38,482) | 27,319 |
| Adult and Family Learning Services | 24 | 56 | 80 | 69 | 22 | 91 |
| Housing Revenue Account | (4,185) | 24,641 | 20,456 | (6,614) | (13,485) | (20,099) |
| **Net Costs of Services** | **153,856** | **68,808** | **222,664** | **193,989** | **(38,848)** | **155,141** |
| Grenfell | 84,082 | 259 | 84,341 | 0 | 0 | 0 |
| Other income and expenditure (GF) | (196,474) | (124,156) | (320,630) | (163,654) | (73,528) | (237,182) |
| Other income and expenditure (HRA) | 5,058 | (4,437) | 621 | 8,915 | 768 | 9,683 |
| LRB (Surplus) / Deficit | (115) | 0 | (115) | (155) | 0 | (155) |
| **(Surplus) / Deficit on Services** | **46,407** | **(59,526)** | **(13,119)** | **39,095** | **(111,608)** | **(72,513)** |

| | 2017-18 GF | 2017-18 HRA | 2017-18 Total | 2016-17 GF | 2016-17 HRA | 2016-17 Total |
|---|---|---|---|---|---|---|
| **Opening Balance:** | **(181,271)** | **(21,322)** | **(202,593)** | **(219,932)** | **(21,756)** | **(241,688)** |
| (Surplus) / Deficit on Balance in Year | 45,534 | 873 | 46,407 | 38,661 | 434 | 39,095 |
| **Closing Balance:** | **(135,737)** | **(20,449)** | **(156,186)** | **(181,271)** | **(21,322)** | **(202,593)** |

# CORE FINANCIAL STATEMENTS

| COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT | 2017-18 Gross Expenditure | 2017-18 Gross Income | 2017-18 Net Expenditure | 2016-17 Gross Expenditure | 2016-17 Gross Income | 2016-17 Net Expenditure |
|---|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Adult Social Care | 83,495 | (28,231) | 55,264 | 80,147 | (25,338) | 54,809 |
| Children's Services | 151,446 | (100,175) | 51,271 | 159,507 | (103,108) | 56,399 |
| Environment, Leisure and Residents' Services | 42,255 | (11,618) | 30,637 | 45,041 | (11,396) | 33,645 |
| Housing Services | 48,965 | (32,779) | 16,186 | 45,457 | (29,496) | 15,961 |
| Library, Archive and Heritage Services | 4,197 | (456) | 3,741 | 8,656 | (558) | 8,098 |
| Planning and Borough Development | 9,286 | (4,058) | 5,228 | 8,442 | (5,146) | 3,296 |
| Public Health | 23,441 | (21,888) | 1,553 | 20,853 | (33,882) | (13,029) |
| Transport and Technical Services | 37,777 | (55,000) | (17,223) | 41,603 | (52,952) | (11,349) |
| Corporate Services | 201,673 | (146,202) | 55,471 | 179,265 | (151,946) | 27,319 |
| Adult and Family Learning Services | 1,336 | (1,256) | 80 | 1,389 | (1,298) | 91 |
| Housing Revenue Account | 72,203 | (51,747) | 20,456 | 35,654 | (55,753) | (20,099) |
| **Cost of Services** | **676,074** | **(453,410)** | **222,664** | **626,014** | **(470,873)** | **155,141** |
| Grenfell | 85,940 | (1,599) | 84,341 | 0 | 0 | 0 |
| Other operating income and expenditure (Note 12) | | | (61,780) | | | (21,197) |
| Financing and investment income and expenditure (Note 13) | | | (28,098) | | | (18,445) |
| Taxation and non-specific grant income and expenditure (Note 14) | | | (230,131) | | | (187,857) |
| LRB (Surplus) / deficit | | | (115) | | | (155) |
| **(Surplus) or Deficit on Provision of Services** | | | **(13,119)** | | | **(72,513)** |
| (Surplus) / deficit on revaluation of non current assets (Note 11) | | | (49,911) | | | (1,173) |
| (Surplus) / deficit on revaluation of available for sale financial assets (Note 11) | | | (1,460) | | | 931 |
| Remeasurement of net defined benefit liability (Note 11) | | | (65,726) | | | 45,347 |
| **Other Comprehensive Income and Expenditure** | | | **(117,097)** | | | **45,105** |
| **Total Comprehensive Income and Expenditure** | | | **(130,216)** | | | **(27,408)** |

| 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 2017** | **(181,271)** | **(21,322)** | **(72,873)** | **(1,285)** | **(6,402)** | **(283,153)** | **(1,253,700)** | **(1,536,853)** |
| **Movement in reserves during 2017-18** | | | | | | | | |
| Total Comprehensive Income and Expenditure | (34,196) | 21,077 | 0 | 0 | 0 | **(13,119)** | (117,097) | **(130,216)** |
| Adjustments between accounting basis and funding basis under regulations (Note 9) | 79,730 | (20,204) | (53,073) | (640) | (5,327) | **486** | (486) | **0** |
| **Net (increase) / decrease in 2017-18** | 45,534 | 873 | (53,073) | (640) | (5,327) | **(12,633)** | **(117,583)** | **(130,216)** |
| **Balance at 31 March 2018 carried forward** | **(135,737)** | **(20,449)** | **(125,946)** | **(1,925)** | **(11,729)** | **(295,786)** | **(1,371,283)** | **(1,667,069)** |
| | | | | | | | | |
| **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)** |

# CORE FINANCIAL STATEMENTS

| BALANCE SHEET | Note | 31 March 2018 | 31 March 2017 |
|---|---|---|---|
| | | £'000 | £'000 |
| Property, Plant and Equipment | 15 | 1,549,816 | 1,403,982 |
| Heritage Assets | 16 | 44,694 | 44,442 |
| Investment Property | 17 | 393,116 | 325,205 |
| Intangible Assets | | 955 | 1,077 |
| Long Term Debtors | 20 | 809 | 125 |
| **Long Term Assets** | | **1,989,390** | **1,774,831** |
| | | | |
| Short Term Investments | 18 | 119,421 | 242,243 |
| Inventories | | 546 | 420 |
| Debtors | 20 | 119,713 | 73,651 |
| Cash and Cash Equivalents | 21 | 103,198 | 8,725 |
| **Current Assets** | | **342,878** | **325,039** |
| | | | |
| Short Term Borrowing | 18 | (9,943) | (9,120) |
| Creditors | 22 | (145,296) | (102,667) |
| Capital Grants Receipts in Advance | 33 | (301) | (226) |
| Provisions | 23 | (12,041) | (10,182) |
| **Current Liabilities** | | (167,581) | (122,195) |
| | | | |
| Provisions | 23 | (1,970) | (1,683) |
| Long Term Borrowing | 18 | (218,853) | (126,354) |
| Other Long Term Liabilities | 18 | (248,461) | (281,324) |
| Capital Grants Receipts in Advance | 33 | (28,334) | (31,461) |
| **Long Term Liabilities** | | **(497,618)** | **(440,822)** |
| | | | |
| **Net Assets** | | **1,667,069** | **1,536,853** |
| | | | |
| Usable Reserves | 9/10 | (295,786) | (283,153) |
| Unusable Reserves | 11 | (1,371,283) | (1,253,700) |
| | | | |
| **Total Reserves** | | **(1,667,069)** | **(1,536,853)** |

| CASH FLOW STATEMENT | Note | 2017-18 | 2016-17 |
|---|---|---|---|
| | | £'000 | £'000 |
| Net Surplus or (Deficit) on Provision of Services - RBKC | | 13,004 | 72,358 |
| Net Surplus or (Deficit) on Provision of Services - LRB | | 115 | 155 |
| **Total Net Surplus or (Deficit) on Provision of Services** | | **13,119** | **72,513** |
| Adjustments to net surplus or deficit on the provision of services for non-cash movements | 24 | 87,521 | 6,200 |
| Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities | 24 | (114,694) | (57,816) |
| **Net cash flows from Operating Activities** | 24 | **(14,054)** | **20,897** |
| Investing Activities | 25 | 8,527 | (40,235) |
| Financing Activities | 26 | 100,000 | (3,947) |
| **Net (increase) or decrease in cash and cash equivalents** | | **94,473** | **(23,285)** |
| Cash and cash equivalents at the beginning of the reporting period | | 8,725 | 32,010 |
| **Cash and cash equivalents at the end of the reporting period** | 21 | **103,198** | **8,725** |

# NOTES TO THE CORE FINANCIAL STATEMENTS

## 1. Accounting policies

### i) General Principles

The Statement of Accounts summarises the Council's financial transactions for the 2017-18 financial year and at 31 March 2018. 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 2017/18* (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

The Council accounts for income and expenditure in the year that the effects of the transactions are experienced, not simply when the cash payments are made or received.

### iii) Carbon Reduction Commitment Allowances

The Council participates in the Carbon Reduction Commitment Energy Efficiency Scheme. The scheme is in the fourth 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

The Council acts as agent in relation to the Collection Fund (Billing Authority), collecting council tax and non-domestic rates (NDR) on behalf of the major preceptors (including central government for NDR) and, as principal, collecting council tax and NDR for themselves. The Council is 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, the Council, 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 amounts of Council Tax and NDR that must be included in the GF in year. Therefore, the difference between the accrued 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 1st 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 has changed from the "spot rate" approach (which was 2.8% in 2016-17) adopted at the previous accounting date to reflect national auditor preferences.

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 Measurements

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 the financial instrument. Financial liabilities are initially measured at fair value and are carried at their amortised cost.

Interest is charged to the Financing and Investment Income and Expenditure line in the CIES, based on the carrying amount of the liabilities, multiplied by the effective rate of interest for the instruments. This means that:

- The amount included 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.
-

Financial liabilities are de-recognised when the obligation is discharged, cancelled or expires.

Financial Assets

Financial assets are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of the financial instrument. They are classified into two types; loans and receivables and available-for-sale assets.

Loans and receivables are initially measured at fair value, and subsequently at their amortised cost. Interest receivable is credited to the Financing and Investment Income and Expenditure line in the CIES, based on the carrying amount of the assets, multiplied by the effective rate of interest for the instruments.

This means that:

- The amount included 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 according to the loan agreement.

Any gains and losses that arise on the de-recognition of an asset are credited/debited to the Financing and Investment Income and Expenditure line in the CIES.

Available for sale assets are carried at fair value. Changes in fair value are balanced by an entry in the Available for Sale Financial Instruments Reserve, and the gain/loss is recognised in Other Comprehensive Income and Expenditure as the Surplus or Deficit on Revaluation of available-for-sale financial assets.

Income (e.g. dividends) received is credited to the CIES when it becomes receivable by the Council.

### 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 the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied Reserve. Where it is applied, it is posted 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 Council undertakes an annual assessment of joint arrangements and interests in other companies. It has deemed group accounts to not be required as the consolidated position would not be materially different to the single entity accounts.

### xvi) Investment Properties

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.

### xvii) 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.

### xviii) 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.

### xix) 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.

### xx) 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 1st 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 1st April 2010, subject to a de minimis threshold of £1m 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 £0.5m 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’).

### xxi) 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.

### xxii) Provision for Redemption of Debt

Under statute, the Council is not required to raise Council Tax to cover the cost of depreciation and amortisation on assets. However, the Council is required to make a prudent annual contribution (MRP) from revenue towards the overall council borrowing requirement. Capital Charges are replaced by MRP in the GF balance by way of an appropriation to the Capital Adjustment Account in the MIRS for the difference in the two charges.

Regulations have replaced the detailed formula for calculating MRP with a requirement to be prudent. The MRP policy for non-HRA assets is as follows: -

- For capital expenditure prior to 1st April 2008, it is proposed that the Council adopts ' the regulatory method' (Option 1). Option 1 leads to a lower level of MRP than Option 2, and avoids the Council having to make complex calculations for all its assets which it would have to do if Options 3 or 4 were adopted for supported borrowing.
- For subsequent prudential borrowing incurred post 1st April 2008, it is proposed that the Council adopts Option 3, ‘the asset life method’, and that an ‘annuity’ approach is used for calculating repayments. This ensures payments are spread equally over the life of the asset, which matches more closely the value the council gets from the asset, than loading payments in the early years of the asset life as would happen under the equal instalment method. It is also considered that this option is more cost effective as provision is not required until the year following actual capital expenditure.
- For assets acquired to rehouse families affected by the Grenfell Tower fire, for which a direction has been given by the Secretary of State to hold these properties within the GF, rather than the HRA, a prudent assessment of a nil MRP will be made as long as these properties are held for this purpose. This assessment is consistent with the treatment of comparable HRA assets. In the event that any such property is no longer held for that purpose then option 3 will apply unless the property is disposed of with the receipts being applied for debt redemption.

Each year, the MRP provided for assets owned via a finance lease will be equal to the amount that is provided to write down the liability. This is transparent and will eliminate the risk of the Council "double counting" the cost of the lease in its accounts.

### 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 (REFCUS)

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

In line with accounting standards and the Code on group accounts and consolidation, all maintained schools are considered to be entities controlled by the council. Rather than produce group accounts; the income, expenditure, assets, liabilities, reserves and cashflows of each school are recognised in the Council's single entry accounts. The Council has the following types of maintained schools under its control:

- Community
- Voluntary Aided
- Voluntary Controlled
- Foundation Trust
- Foundation

Schools' non-current assets (school buildings and playing fields) are recognised on the Council's Balance Sheet where the Council directly owns the assets, where the Council holds the balance of control of the assets or where the school or the school governing body owns the assets or have had rights to use the assets transferred to them through licence arrangement.

When a maintained school converts to an Academy, the schools' non-current assets held on the Council's balance sheet are treated as a disposal. The carrying value of the asset is written off to 'Financing and Investment income' in the CIES. Any revaluation gains are accumulated for the asset in the revaluation reserve are transferred to the Capital Adjustment Account.

The written off asset value is not charged against the GF, as the cost of non-current asset disposal resulting from schools transferring to an Academy is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the GF balance in the MIRS.

### 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

As at the balance sheet date the following new accounting standards and amendments had not yet been adopted by the Code of Practice on Local Authority Accounting in the United Kingdom. None of the below standards are expected to have any significant impact for the Council.

- *IFRS 9 - Financial Instruments* - introduces extensive changes to the classification and measurement of financial assets. A new "expected credit loss" model for impairing financial assets has been introduced. The impact will be to reclassify assets currently classified as loans & receivables, and available for sale to amortised cost and fair value through other comprehensive income respectively. The reclassification will be based on the contractual cashflows and business model for holding the assets.

- *IFRS 15 - Revenue from Contracts with Customers* - presents new requirements for the recognition of revenue, based on a control-based revenue recognition model. The Council does not have any material revenue streams within the scope of the new standard.

- *IAS 7 - Statement of Cash Flows (Disclosure Initiative)* - will potentially require some additional analysis of Cash Flows from Financing Activities in future years. If the standard had applied in 2017/18 there would be no additional disclosure because the Council does not have activities which would require additional disclosure.

- *IAS 12 Income Taxes (Recognition of Deferred Tax Assets for Unrealised Losses)* - applies to deferred tax assets related to debt instruments measured at fair value.

- *IFRS 16 - Leases* - will require local authorities that are lessees to recognise most leases on their balance sheets as right-of-use assets with corresponding lease liabilities (there is recognition for low-value and short-term leases).

## 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 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

Business Rates

Since the introduction of the Business Rates Retention Scheme in 2013-14, Local Authorities are liable for successful appeals against business rates charged to businesses in 2017-18 and earlier financial years in their proportionate share. Therefore, a provision has been recognised for the best estimate of the amount that the Council will need to repay to businesses up to 31st March 2018. The estimate has been calculated using the latest Valuation Office (VAO) ratings list of appeals and the analysis of successful appeals to date when providing the estimate of total provision up to and including 31st March 2018.

Pensions

During 2017-18, the Council's actuaries advised that the net pension liability had decreased by £32.863m 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.

Property, Plant and Equipment

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. The current economic climate makes it uncertain that the Council will be able to sustain its current spending on repairs and maintenance 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 assets falls. It is estimated that the annual depreciation charge for buildings would increase in these circumstances.

BREXIT

The Council has determined that the level of uncertainty over BREXIT is not sufficient to indicate any course of action e.g. closure of facilities due to reduced funding streams.

## 5. Material items of income and expense

On 14 June 2017 a fire tragically engulfed the Grenfell Tower resulting in 72 deaths. The Royal Borough worked with the London Gold command, other local authorities and central government departments, particularly what is now the Ministry of Housing, Communities and Local Government, to provide immediate relief and on-going support to those affected by these events. Support has been provided in various forms ranging from emergency, temporary and permanent housing for those rendered homeless to social care and mental health support for those traumatised by the fire.

In accounting terms, the Royal Borough views the expenditure incurred directly and indirectly in alleviating the effects of the fire as material expenditure which merits separate disclosure, since it is expenditure over and above what the authority would normally incur in delivering its day-to-day services. This note provides an analysis of this net expenditure showing the types of service provided and any contribution received to defray the Council's costs. The note also shows the Council's capital expenditure relating to the Grenfell fire.

The Council has recorded its expenditure in both the GF and HRA in accordance with the statutory accounting requirements. However, in order to avoid an adverse impact on the Council's tenants and leaseholders, the Council has obtained an Item 9 Credit Direction from the Secretary of State which permits it to transfer £6.4m from the GF to the HRA. The Council has also received a direction from the Secretary of State which permits it to hold up to 250 properties acquired for social housing purposes within its GF to avoid the cost of rehousing former Grenfell residents having a negative financial impact on the HRA.

| MATERIAL ITEM - GRENFELL FIRE | | | |
|---|---|---|---|
| **Revenue Expenditure** | **HRA** | **GF** | **Total** |
| **Expenditure** | £000s | £000s | £000s |
| Emergency Accommodation | 0 | 25,600 | 25,600 |
| Temporary and Permanent Accommodation | 5,100 | 8,374 | 13,474 |
| Social Care and Wellbeing | 0 | 23,666 | 23,666 |
| Site and Premises Management | 0 | 6,379 | 6,379 |
| Support Services | 1,300 | 11,935 | 13,235 |
| Corporate Services | 0 | 3,988 | 3,988 |
| **Gross Expenditure** | **6,400** | **79,942** | **86,342** |
| **Gross Income** | | | |
| Government Grant - Section 31 | | | (30,554) |
| **Net Expenditure** | | | **55,788** |

| **Capital Expenditure** | £000s |
|---|---|
| Acquisiton and Renovation of Property for social housing | 142,532 |
| Site Costs (incl. £11.046m paid for by grant from MHCLG) | 12,579 |
| Leaseholder Compensation Packages | 10,108 |
| **TOTAL** | **165,219** |

## 6. Events after the Balance Sheet date

There were no significant events affecting the 2017/18 accounts that occurred between 1st April and 23rd July 2018.

## 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.

| | **2017-18** | **2016-17** |
|---|---|---|
| | £'000 | £'000 |
| Expenditure | | |
| Employee benefits expenses | 186,813 | 168,916 |
| Other service expenses | 527,978 | 445,785 |
| Depreciation, amortisation and impairment | 66,712 | 34,568 |
| Interest Payments | 10,343 | 8,976 |
| Net interest on the net defined benefit liability | 7,695 | 7,878 |
| Payments to the Government Housing Capital Receipts Pool | 1,349 | 879 |
| Precepts and Levies | 5,643 | 3,455 |
| **Total expenditure** | **806,533** | **670,457** |
| Income | | |
| Fees, charges and other service income | (239,573) | (246,987) |
| Gains on disposal of non-current assets | (66,574) | (25,531) |
| Government grants & contributions | (351,538) | (318,908) |
| Interest Income | (1,769) | (979) |
| Net income from Council Tax and Business Rates | (123,457) | (124,178) |
| Change in Fair Value of Investment Properties | (36,741) | (26,387) |
| **Total income** | **(819,652)** | **(742,970)** |
| **(Surplus) or Deficit on Provision of Services** | **(13,119)** | **(72,513)** |

## 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.

| 2017-18 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 | 299 | 1,729 | 0 | **2,028** |
| Children's Services | 1,305 | 5,097 | 0 | **6,402** |
| Environment, Leisure and Residents | 1,252 | 833 | 0 | **2,085** |
| Housing Services | 39 | 976 | 0 | **1,015** |
| Library, Archive and Heritage Services | 6 | 371 | 0 | **377** |
| Planning and Borough Development | 38 | 808 | 0 | **846** |
| Transport and Technical Services | 3,959 | 1,527 | 0 | **5,486** |
| Corporate Services | 12,589 | 12,709 | 574 | **25,872** |
| Adult and Family Learning Services | 0 | 56 | 0 | **56** |
| Housing Revenue Account | 24,528 | 113 | 0 | **24,641** |
| **Net Cost of Services** | **44,015** | **24,219** | **574** | **68,808** |
| Grenfell | 0 | 259 | 0 | **259** |
| Other income and expenditure (GF) | (131,839) | 8,385 | (702) | **(124,156)** |
| Other income and expenditure (HRA) | (4,437) | 0 | 0 | **(4,437)** |
| **Difference between EFA (Surplus) or Deficit and CIES (Surplus) or Deficit on Provision of Services** | **(92,261)** | **32,863** | **(128)** | **(59,526)** |

| 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 | 453 | 680 | 0 | **1,133** |
| Children's Services | 1,654 | 2,550 | 0 | **4,204** |
| Environment, Leisure and Residents | 6,036 | 307 | 0 | **6,343** |
| Housing Services | 1 | 363 | 0 | **364** |
| Library, Archive and Heritage Services | 0 | 152 | 0 | **152** |
| Planning and Borough Development | 0 | 316 | 0 | **316** |
| Transport and Technical Services | 0 | 585 | 0 | **585** |
| Corporate Services | (41,954) | 3,557 | (85) | **(38,482)** |
| Adult and Family Learning Services | 0 | 22 | 0 | **22** |
| Housing Revenue Account | (13,485) | 0 | 0 | **(13,485)** |
| **Net Cost of Services** | **(47,295)** | **8,532** | **(85)** | **(38,848)** |
| Other income and expenditure (GF) | (78,399) | 8,114 | 0 | **(70,285)** |
| Other income and expenditure (HRA) | 768 | 0 | (3,243) | **(2,475)** |
| **Difference between EFA (Surplus) or Deficit and CIES (Surplus) or Deficit on Provision of Services** | **(124,926)** | **16,646** | **(3,328)** | **(111,608)** |

## 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 2017-18 | GF | HRA | CRR | MRR | CGUR |
|---|---|---|---|---|---|
| | £'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) | (32,750) | (113) | 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) | 646 | 0 | 0 | 0 | 0 |
| - Holiday pay (transferred to the Accumulated Absence Reserve) | (574) | 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) | 26,904 | (37,031) | 0 | 0 | (35,791) |
| **Total Adjustments to Revenue Resources** | (5,718) | (37,144) | 0 | 0 | (35,791) |
| **Adjustments between Revenue and Capital Resources** | | | | | |
| - Transfer of non-current asset sale proceeds from revenue to the CRR | 72,830 | 5,940 | (78,770) | 0 | 0 |
| - Administrative costs of non-current asset disposals (funded by contribution from the CRR) | (132) | (110) | 242 | 0 | 0 |
| - Payments to the government housing receipts pool (funded by a transfer from the CRR) | 0 | (1,349) | 1,349 | 0 | 0 |
| - Posting of HRA resources from revenue to the MRR | 0 | 12,459 | 0 | (12,459) | 0 |
| - Statutory provision for the repayment of debt (transfer from the CAA) | 0 | 0 | 0 | 0 | 0 |
| - Voluntary additional provision for the repayment of debt | 869 | 0 | 0 | 0 | 0 |
| - Capital expenditure financed from revenue balances (transfer to the CAA) | 11,881 | 0 | 0 | 0 | 0 |
| **Total Adjustments between Revenue and Capital Resources** | 85,448 | 16,940 | (77,179) | (12,459) | 0 |
| **Adjustments to Capital Resources** | | | | | |
| - Use of the CRR to finance capital expenditure | 0 | 0 | 24,109 | 0 | 0 |
| - Use of the MRR to finance capital expenditure | 0 | 0 | 0 | 11,819 | 0 |
| - Application of capital grants to finance capital expenditure | 0 | 0 | 0 | 0 | 30,464 |
| - Cash payments in relation to deferred capital receipts | 0 | 0 | (3) | 0 | 0 |
| **Total Adjustments between Revenue and Capital Resources** | 0 | 0 | 24,106 | 11,819 | 30,464 |
| **Total Adjustments during 2017-18** | **79,730** | **(20,204)** | **(53,073)** | **(640)** | **(5,327)** |

| Movement on Usable Reserves during 2016-17 | GF | HRA | CRR | MRR | CGUR |
|---|---|---|---|---|---|
| | £'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) | (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)** |

## 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. During 2017-18, the Council created the Grenfell and Special Projects reserves from existing earmarked reserves.

| | Note | Balance at 1 April 2016 | Transfer Out 2016-17 | Transfer In 2016-17 | Balance at 31 March 2017 | Transfer Out 2017-18 | Transfer In 2017-18 | Balance at 31 March 2018 |
|---|---|---|---|---|---|---|---|---|
| **General Fund:** | | £'000 | £'000 | £'000 | **£'000** | £'000 | £'000 | **£'000** |
| Special Projects | i | 0 | 0 | 0 | **0** | 245 | (33,849) | **(33,604)** |
| Car Parking | ii | (22,845) | 34,537 | (32,912) | **(21,220)** | 1,114 | (1,521) | **(21,627)** |
| Public Health | iii | 0 | 0 | (13,029) | **(13,029)** | 1,553 | 0 | **(11,476)** |
| Insurance | iv | (5,565) | 250 | (751) | **(6,066)** | 557 | 0 | **(5,509)** |
| Grenfell | v | 0 | 0 | 0 | **0** | 50,225 | (89,885) | **(39,660)** |
| Schools Reserves | vi | (6,824) | 1,941 | (292) | **(5,175)** | 691 | (925) | **(5,409)** |
| London Residuary Body | vii | (3,797) | 0 | (155) | **(3,952)** | 0 | (115) | **(4,067)** |
| Budget Stabilisation | viii | 0 | 0 | 0 | **0** | 0 | (4,788) | **(4,788)** |
| Budget Carry Forward | ix | (3,861) | 223 | (768) | **(4,406)** | 4,406 | (1,143) | **(1,143)** |
| Notting Hill Carnival | x | 0 | 0 | 0 | **0** | 0 | (375) | **(375)** |
| Dedicated Schools Grant | xi | 0 | 0 | 0 | **0** | 2,368 | 0 | **2,368** |
| Better City Life | | (3,330) | 0 | (300) | **(3,630)** | 3,630 | 0 | **0** |
| Capital Expenditure | | (81,472) | 66,884 | (14,879) | **(29,467)** | 30,161 | (694) | **0** |
| Central London Connexions | | 0 | 0 | 0 | **0** | 0 | 0 | **0** |
| Community Safety | | (802) | 0 | 0 | **(802)** | 802 | 0 | **0** |
| Corporate Information Systems | | (677) | 0 | (126) | **(803)** | 803 | 0 | **0** |
| Cost Reduction Transformation Fund | | (13,089) | 1,083 | (3,684) | **(15,690)** | 15,690 | 0 | **0** |
| Demand Growth | | (5,297) | 0 | 0 | **(5,297)** | 5,297 | 0 | **0** |
| Economic Development | | (740) | 0 | (74) | **(814)** | 814 | 0 | **0** |
| Excellence All Round | | (2,770) | 0 | 0 | **(2,770)** | 2,770 | 0 | **0** |
| General Services Building Maintenance | | (1,341) | 0 | (246) | **(1,587)** | 1,587 | 0 | **0** |
| Property Strategy | | (3,276) | 53 | (41) | **(3,264)** | 3,264 | 0 | **0** |
| Repairs and Renewals | | (4,257) | 627 | (405) | **(4,035)** | 4,035 | 0 | **0** |
| Local Initiatives (Transformation Fund) | | (4,771) | 0 | 0 | **(4,771)** | 4,771 | 0 | **0** |
| **Sub-total carried forward** | | **(164,714)** | **105,598** | **(67,662)** | **(126,778)** | **134,783** | **(133,295)** | **(125,290)** |

| | Note | Balance at 1 April 2016 | Transfer Out 2016-17 | Transfer In 2016-17 | Balance at 31 March 2017 | Transfer Out 2017-18 | Transfer In 2017-18 | Balance at 31 March 2018 |
|---|---|---|---|---|---|---|---|---|
| | | £'000 | £'000 | £'000 | **£'000** | £'000 | £'000 | **£'000** |
| **Sub-total brought forward** | | **(164,714)** | **105,598** | **(67,662)** | **(126,778)** | **134,783** | **(133,295)** | **(125,290)** |
| Service Risks | | (7,546) | 0 | 0 | **(7,546)** | 7,546 | 0 | **0** |
| Severance (Transformation Fund) | | (8,754) | 1,110 | (325) | **(7,969)** | 7,969 | 0 | **0** |
| Specific Grant Loss | | (4,172) | 0 | 0 | **(4,172)** | 4,172 | 0 | **(0)** |
| Strategic Regeneration | | (14,116) | 33 | 0 | **(14,083)** | 14,083 | 0 | **0** |
| Supporting People | | (4,706) | 0 | 0 | **(4,706)** | 4,706 | 0 | **(0)** |
| Other Earmarked Reserves | xii | (5,924) | 43 | (136) | **(6,017)** | 5,776 | (206) | **(447)** |
| **Total GF Earmarked Reserves** | | **(209,932)** | **106,784** | **(68,123)** | **(171,271)** | **179,034** | **(133,501)** | **(125,737)** |
| GF Working Balance | | (10,000) | | | (10,000) | | | (10,000) |
| **Total GF Reserves per MIRS** | | **(219,932)** | | | **(181,271)** | | | **(135,737)** |
| **HRA:** | | | | | | | | |
| HRA Controlled Repairs | xiii | (345) | 0 | (50) | **(395)** | 0 | (181) | **(576)** |
| HRA Working Balance | | (21,411) | 484 | 0 | **(20,927)** | 1,054 | 0 | **(19,873)** |
| **Total HRA Reserves per MIRS** | | **(21,756)** | **484** | **(50)** | **(21,322)** | **1,054** | **(181)** | **(20,449)** |

i. The funds in the Special Projects Reserve are primarily available for one off costs associated with service and re-design and supporting the move to self-sufficiency.
ii. 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.
iii. This reserve contains grant funding ring-fenced for specific purposes in accordance with statutory provisions.
iv. The Insurance fund is held to cover future insurance liabilities.
v. This reserve was established to support the Grenfell budget over the next two years and one off expenditure that has not been anticipated.
vi. Schools balances are held on behalf of maintained schools across the Borough.
vii. The LRB reserve contains the balance of funding transferred to the Borough to fund residual liabilities relating to the former LRB. This reserve holds a fixed annual contribution that provides for variable annual maintenance costs.
viii. The Budget Stabilisation Reserve was established to provide a buffer with which to deal with the uncertainties in the forward financial planning process arising from changes in the funding for Local Authorities.
ix. This reserve contains earmarked funds for budgets carried forward from revenue underspends in prior years to meet the cost of specific projects.
x. This reserve holds funding that will be used to support the annual Notting Hill Carnival.
xi. This reserve is ring-fenced for the Dedicated Schools Grant which supports provision for the Council's maintained schools.
xii. These funds all relate to a number of small reserves earmarked for various service delivery purposes.
xiii. This reserve provides resources for housing repair projects.

## 11. Movements in unusable reserves

| | 31 March 2018 | 31 March 2017 |
|---|---|---|
| | £'000 | £'000 |
| Revaluation Reserve | (736,172) | (692,207) |
| Pensions Reserve | 248,348 | 281,211 |
| Capital Adjustment Account | (881,917) | (842,747) |
| Deferred Capital Receipts | (8) | (11) |
| Financial Instruments Adjustment Account | 575 | 631 |
| Available-for-Sale Financial Instruments Reserve | 0 | 1,460 |
| Collection Fund Adjustment Account | (4,471) | (3,825) |
| Short-term Accumulted Absences Account | 2,362 | 1,788 |
| **Total unusable reserves** | **(1,371,283)** | **(1,253,700)** |

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.

| | 2017-18 | | 2016-17 | |
|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 |
| **Balance at 1 April** | | (692,207) | | (709,146) |
| Upward revaluations of assets | (80,452) | | (30,507) | |
| Downward revaluation of assets | 30,541 | | 29,334 | |
| **Revaluation of non-current assets not posted to the (Surplus) or Deficit on Provision of Services** | | **(49,911)** | | **(1,173)** |
| Difference between current and historic cost depreciation | | (6,025) | | 4,349 |
| Accumulated depreciation on assets sold or scrapped | | 11,971 | | 13,763 |
| **Balance at 31 March** | | **(736,172)** | | **(692,207)** |

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 1st April 2007, the date that the Revaluation Reserve was created to hold such gains.

| | 2017-18 | 2016-17 |
|---|---|---|
| | £'000 | £'000 |
| **Balance at 1 April** | **(842,747)** | **(721,672)** |
| *Reversal of items debited or credited to the CIES:* | | |
| Impairment / Revaluation charged to the CIES | 52,684 | 19,948 |
| Charges for depreciation | 10,681 | 10,844 |
| Reversal of depreciation charged in respect of dwellings | 2,818 | 2,851 |
| Amortisation of intangible assets | 528 | 925 |
| Revenue expenditure funded from capital under statute | 3,911 | 5,290 |
| Amounts of non current assets written off on disposal or sale as part of the gain / loss on disposal to the CIES | 11,952 | 5,692 |
| *Adjusting amounts written out of the Revaluation Reserve:* | | |
| Accumulated revaluation gains on assets sold or scrapped | (11,971) | (13,763) |
| Difference between fair value depreciation and historic cost depreciation | 6,025 | (4,349) |
| *Capital financing applied in the year:* | | |
| Use of the Capital Receipts Reserve to finance new capital expenditure | (24,109) | (9,600) |
| Use of the MRR to finance new capital expenditure | (11,734) | (16,326) |
| Capital grants and contributions credited to the CIES that have been applied to capital financing | (23,591) | (21,653) |
| Application of grants to capital financing from the Capital Grants Unapplied Account | (6,873) | (4,299) |
| Statutory provision for the repayment of debt - MRP | (869) | (906) |
| Capital expenditure charged against the General Fund and HRA balances | (11,881) | (69,309) |
| *Other Movements:* | | |
| Finance cost adjustments (Leases & PFI) | 0 | (33) |
| Movements in the market value of investment properties | (36,741) | (26,387) |
| **Movement in year** | **(39,170)** | **(121,075)** |
| **Closing balance at 31 March** | **(881,917)** | **(842,747)** |

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.

| | 2017-18 | 2016-17 |
|---|---|---|
| | £'000 | £'000 |
| **Balance at start of the year** | (3,825) | (582) |
| 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 | (646) | (3,243) |
| **Balance at end of the year** | **(4,471)** | **(3,825)** |

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.

| | 2017-18 | 2016-17 |
|---|---|---|
| | £'000 | £'000 |
| **Balance at start of the year** | 281,211 | 219,218 |
| Remeasurements recognised in Other Comprehensive Income and Expenditure | (65,726) | 45,347 |
| Reversal of items relating to retirement benefits debited or credited to (Surplus) or Deficit on the Provision of Services | 45,282 | 29,805 |
| Employers contributions payable to scheme | (12,419) | (13,159) |
| **Balance at end of the year** | **248,348** | **281,211** |

## 12. Other operating income and expenditure

| | 2017-18 | 2016-17 |
|---|---|---|
| | £'000 | £'000 |
| Levies | 3,445 | 3,455 |
| Payments to the government Housing Capital Receipts Pool | 1,349 | 879 |
| (Gains) / losses on the disposal of non-current assets | (66,574) | (25,531) |
| **Total other operating expenditure** | **(61,780)** | **(21,197)** |

## 13. Financing and investment income and expenditure

| | 2017-18 | 2016-17 |
|---|---|---|
| | £'000 | £'000 |
| Interest payable and similar charges | 10,342 | 8,976 |
| Net interest on the net defined benefit liability | 7,695 | 7,878 |
| Interest receivable and similar income | (1,760) | (970) |
| Income and expenditure in relation to investment properties | (8,384) | (8,095) |
| Changes in the fair values of investment properties | (36,741) | (26,387) |
| Deficit on trading operations not allocated to services | 750 | 153 |
| **Total financing and investment income and expenditure** | **(28,098)** | **(18,445)** |

## 14. Taxation and non-specific grant income and expenditure

| | 2017-18 | 2016-17 |
|---|---|---|
| | £'000 | £'000 |
| Council tax income | (77,463) | (76,151) |
| Non domestic rates | (96,033) | (84,060) |
| Business rates tariff | 50,039 | 36,033 |
| Non-ringfenced government grants | (70,750) | (37,087) |
| Capital grants and contributions | (35,924) | (26,592) |
| **Total taxation and non-specific grants** | **(230,131)** | **(187,857)** |

## 15. Property, plant and equipment

| 2017-18 | 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 2017** | **755,957** | **531,495** | **15,992** | **71,468** | **10,882** | **63,096** | **1,448,890** |
| Additions and enhancement | 32,102 | 20,103 | 1,788 | 776 | 2,265 | 129,850 | **186,884** |
| Revaluation increases / (decreases) recognised in Revaluation Reserve | 9,293 | 35,417 | 0 | 0 | 0 | 0 | **44,710** |
| Revaluation increases / (decreases) recognised in (Surplus) or Deficit on Provision of Services | (34,047) | (21,407) | 0 | 0 | 0 | 0 | **(55,454)** |
| Derecognition - disposals | (263) | (10,284) | (1,825) | 0 | 0 | 0 | **(12,372)** |
| Other Reclassifications and transfers | 0 | 10,919 | 0 | 0 | 0 | (24,151) | **(13,232)** |
| **At 31 March 2018** | **763,042** | **566,243** | **15,955** | **72,244** | **13,147** | **168,795** | **1,599,426** |
| **Accumulated Depreciation and Impairment at 1 April 2017** | **(238)** | **(120)** | **(8,803)** | **(35,747)** | **0** | **0** | **(44,908)** |
| Depreciation charge | (2,818) | (5,406) | (1,126) | (3,980) | 0 | 0 | **(13,330)** |
| Depreciation on assets reclassified as investment properties | 0 | 0 | 0 | 0 | 0 | 0 | **0** |
| Depreciation / Impairment written out to the Revaluation Reserve | 2,473 | 2,389 | 0 | 0 | 0 | 0 | **4,862** |
| Depreciation / Impairment written out to (Surplus) or Deficit on Provision of Services | 340 | 3,005 | 0 | 0 | 0 | 0 | **3,345** |
| Derecognition - disposals | 2 | 31 | 388 | 0 | 0 | 0 | **421** |
| **At 31 March 2018** | **(241)** | **(101)** | **(9,541)** | **(39,727)** | **0** | **0** | **(49,610)** |
| **Net Book Value (NBV):** | | | | | | | |
| - At 31 March 2018 | 762,801 | 566,142 | 6,414 | 32,517 | 13,147 | 168,795 | **1,549,816** |
| - At 31 March 2017 | 755,719 | 531,375 | 7,189 | 35,721 | 10,882 | 63,096 | **1,403,982** |

* The significant increase is due to properties acquired for Grenfell survivors which are not yet ready for occupation.

| 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 recognised in Revaluation Reserve | 6,883 | (10,244) | 0 | 0 | 0 | 0 | **(3,361)** |
| Revaluation 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** |

## 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 31st March 2018 the Council has outstanding capital commitments of £10 million GF (£26 million at 31st March 2017) and £6 million HRA (£11 million at 31st March 2017) in respect of contracted schemes.

The major commitments as at 31st March 2018 were:

- Colville Primary School Expansion - £1.8 million (£3.4m at 31st March 2017)
- Chelsea Old Town Hall Refurbishment - £4.2 million (no commitment at 31st March 2017)
- Wornington Green KALC site - £4.3 million (no commitment at 31st March 2017)
- HRA Trellick Tower - £4.7 million (no commitment at 31st March 2017)
- HRA External Works to Housing Blocks - £1.3 million (£9.8 million commitment at 31st March 2017).

## 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 2017-18. 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.

In line with the Code of Practice, and the Council’s accounting policies, assets are assessed at each year-end as to whether there has been impairment. As part of the 2018 Valuation process 134 rented dwellings in Grenfell Tower and Grenfell Walk, and 7 non-dwelling assets (offices, community uses and aerial sites) were assessed by the external surveyors and revalued at nil in the Council's accounts.

| | Council Dwellings | Other Land and Buildings | Vehicles, Plant, Furniture, Equipment | Total |
|---|---|---|---|---|
| | £'000 | £'000 | £'000 | **£'000** |
| Carried at historical cost | 0 | 0 | 6,414 | 6,414 |
| Valued at current value as at: | | | | |
| - 31 March 2018 | 762,799 | 566,142 | 0 | **1,328,941** |
| - 31 March 2017 | 0 | 0 | 0 | **0** |
| - 31 March 2016 | 0 | 0 | 0 | **0** |
| - 31 March 2015 | 0 | 0 | 0 | **0** |
| - 31 March 2014 | 0 | 0 | 0 | **0** |
| **Total cost or valuation** | **762,799** | **566,142** | **6,414** | **1,335,355** |

## 16. Heritage assets

### Museums (heritage properties)

The Council operates two museums; Leighton House Museum and 18 Stafford Terrace (also known as Linley Sambourne 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 2017** | **19,726** | **22,753** | **1,963** | **44,442** |
| Additions | 598 | 0 | 0 | **598** |
| Revaluations | (176) | 0 | 0 | **(176)** |
| Depreciation | (170) | 0 | 0 | **(170)** |
| **Cost or Valuation at 31 March 2018** | **19,978** | **22,753** | **1,963** | **44,694** |
| **Cost or Valuation at 1 April 2016** | **19,700** | **22,753** | **1,963** | **44,416** |
| Additions | 129 | 0 | 0 | **129** |
| Impairment losses / reversals recognised in the CIES | (89) | 0 | 0 | **(89)** |
| Depreciation | (14) | 0 | 0 | **(14)** |
| **Cost or Valuation at 31 March 2017** | **19,726** | **22,753** | **1,963** | **44,442** |

## 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.

| | 2017-18 | 2016-17 |
|---|---|---|
| | £'000 | £'000 |
| Office units | 12,427 | 10,334 |
| Commercial units | 356,613 | 284,296 |
| Land | 22,962 | 28,093 |
| Other investment property | 1,114 | 2,482 |
| **Total fair value** | **393,116** | **325,205** |

There were no transfers between any of the three levels of the fair value hierarchy during 2017-18 or the preceding year. During 2017-18, one property transferred from operational buildings to investment properties.

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:

| | 2017-18 | 2016-17 |
|---|---|---|
| | £'000 | £'000 |
| Rental income from investment property | (15,427) | (14,615) |
| Direct operating expenses arising from investment property | 7,042 | 6,520 |
| **Net (gain) / loss** | **(8,385)** | **(8,095)** |

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:

| | 2017-18 | 2016-17 |
|---|---|---|
| | £'000 | £'000 |
| **Balance at start of the year** | **325,205** | **244,571** |
| Additions | | |
| - Purchases | 3,326 | 48,610 |
| - Subsequent expenditure | 14,674 | 3,607 |
| Net gains / (losses) from fair value adjustments | 36,679 | 26,387 |
| Transfers (to) / from Property, Plant and Equipment | 13,232 | 2,030 |
| **Balance at end of the year** | **393,116** | **325,205** |

## 18. Financial Instruments

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

| | 31 March 2018 | | 31 March 2017 | |
|---|---|---|---|---|
| **Financial Assets** | **Long-term** | **Current** | **Long-term** | **Current** |
| | £'000 | £'000 | £'000 | £'000 |
| **Investments** | | | | |
| At amortised cost - principal amount | 0 | 119,308 | 0 | 130,166 |
| At amortised cost - accrued interest | 0 | 113 | 0 | 51 |
| **Sub-total** | **0** | **119,421** | **0** | **130,217** |
| Available-for-sale financial instruments | 0 | 0 | 0 | 111,921 |
| Accrued interest | 0 | 0 | 0 | 105 |
| **Total investments** | **0** | **119,421** | **0** | **242,243** |
| **Debtors** | | | | |
| Loan and receivables | 788 | 0 | 100 | 0 |
| Financial assets carried at contract amounts | 21 | 49,959 | 25 | 48,171 |
| **Total included in debtors** | **809** | **49,959** | **125** | **48,171** |

The short term debtors line in the Balance Sheet includes £57.746m (£25.480m in 2016-17) of items that do not meet the definition of a financial asset and are therefore not included in the above table.

| | 31 March 2018 | | 31 March 2017 | |
|---|---|---|---|---|
| **Financial Liabilities** | **Long-term** | **Current** | **Long-term** | **Current** |
| | £'000 | £'000 | £'000 | £'000 |
| **Borrowings** | | | | |
| At amortised cost - principal amount | (218,853) | (7,502) | (126,354) | (7,510) |
| At amortised cost - accrued interest | 0 | (2,441) | 0 | (1,610) |
| **Total borrowings** | **(218,853)** | **(9,943)** | **(126,354)** | **(9,120)** |
| **Other long-term liabilities** | | | | |
| Finance lease obligations | 0 | | 37 | |
| **Total other long-term liabilities** | **0** | | **37** | |
| **Creditors** | | | | |
| Financial liabilities carried at contract amounts | 0 | (101,644) | 0 | (44,620) |
| **Total included in creditors** | **0** | **(101,644)** | **0** | **(44,620)** |

The short term creditors line in the Balance Sheet includes £23.281m (£58.047m in 2016-17) of items that do not meet the definition of a financial liability and are therefore not included in the above table.

The Other Long Term Liabilities shown in the Balance Sheet relates to the Council's obligation in respect of its defined benefit plans, which do not meet the definition of a financial liability.

No Financial Instruments have been reclassified in 2017-18.

## Income, Expenses, Gains and Losses

The income, expenditure, gains and losses recognised in the CIES in relation to financial instruments comprises:

| 2017-18 | Liabilities measured at amortised cost | Loans and receivables | Assets Available for sale | At fair value through CIES | Total |
|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | **£'000** |
| Interest expense | 9,396 | 0 | 0 | 0 | **9,396** |
| **Total expense in CIES** | **9,396** | **0** | **0** | **0** | **9,396** |
| Interest and investment income | 0 | (630) | 246 | 0 | **(384)** |
| **Total income in CIES** | **0** | **(630)** | **246** | **0** | **(384)** |
| (Gains) on revaluation | 0 | 0 | 0 | 0 | **0** |
| Losses on revaluation | 0 | 0 | 0 | 0 | **0** |
| **(Surplus) / Deficit arising on revaluation** | **0** | **0** | **0** | **0** | **0** |
| **Net (gain) / loss for the year** | **9,396** | **(630)** | **246** | **0** | **9,012** |

| 2016-17 | Liabilities measured at amortised cost | Loans and receivables | Assets Available for sale | At fair value through CIES | Total |
|---|---|---|---|---|---|
| | £'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** |

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 31st March 2018
- 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 31st March 2018, 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 at the appropriate AA-rated corporate bond yield
- No early repayment or impairment is recognised for any financial instrument
- 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 are calculated as follows:

| | | 31 March 2018 | 31 March 2017 | 31 March 2018 | 31 March 2017 |
|---|---|---|---|---|---|
| | Level | Fair Value | | Carrying Amount | |
| | | £'000 | £'000 | £'000 | £'000 |
| PWLB loans | 2 | (265,421) | (175,459) | (228,797) | (135,474) |
| Lease payables | | | | | |
| **Sub-total** | | **(265,421)** | **(175,459)** | **(228,797)** | **(135,474)** |
| Liabilities for which fair value is not disclosed | | | | (438,414) | (384,773) |
| **Total Financial Liabilities** | | **(265,421)** | **(175,459)** | **(667,211)** | **(520,247)** |

At 31st March 2018, all money market loans and receivables are repayable within one year. Therefore, the carrying amount is assumed to approximate fair value; the figures for both years include accrued interest. The prevailing comparator market rates have been taken from indicative investment rates at the Balance Sheet date. In practice, rates will be determined by the size of the transaction and the counterparty, but it is impractical to use these figures and the difference is not likely to be material.

## 19. Nature and extent of risks arising from financial instruments

The Council's treasury management activities expose it to a number of risks. The key risks are:

- Credit risk – the possibility that other parties might fail to pay amounts due to the Council
- Liquidity risk – the possibility that the Council might not have funds available to meet its commitments to make payments

- Re- financing risk – the possibility that the Council might be required to renew a financial instrument on maturity at disadvantageous interest rates or terms
- Market risk – the possibility that financial loss might arise for the Council as a result of changes in such measures as interest rates or stock market movements

The Council's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise the potentially adverse effects on the resources available to fund services.

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

These are required to be reported and approved when or before the Council's budget setting meeting for the forthcoming year. These items are reported with the Annual Treasury Management Strategy, which outlines the detailed approach to managing risk in relation to the council's financial instrument exposure. Actual Treasury Management performance is also reported after each year end; as is mid-year performance report.

These policies are implemented by the treasury management team, in line with the policies and principles to manage overall risk. Treasury management policies and procedures are reviewed annually.

The Council's Treasury Management Policy can be found on the Council's website:
https://www.rbkc.gov.uk/committees/

Credit Risk

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.

Credit 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, in order to spread risk. Additional selection criteria are also applied following the application of the initial credit criteria.

The table below summaries the credit rating of the Council's investments as at the 31st March:

| Financial Instrument | Fitch Rating | 2017-18 | 2016-17 |
|---|---|---|---|
| | | £'000 | £'000 |
| UK Government (T-bills) | AA+ | 0 | 17,185 |
| DMO | AA+ | 32,852 | 60,102 |
| Network Rail | AA+ | 0 | 10,058 |
| TfL | AA+ | 0 | 39,934 |
| EIB | AAA | 0 | 44,849 |
| OLA | NR | 86,569 | 70,114 |
| MMF | AAA | 100,036 | 0 |
| Banks | A | 0 | 1,298 |
| Banks | BBB+ | 3,632 | 2,763 |
| **Total** | | **223,089** | **246,303** |

Approximately 82% of all investments as at 31st March 2018 are with UK domiciliary institutions.

The council's maximum exposure to credit risk in relation to its investments in banks cannot be assessed generally as the risk of an institution failing will be specific to each. Recent experience has shown that it is rare for such entities not to be able to meet their commitments. There is no evidence that any of the institutions the Council has invested in will not be able to repay the Council's deposit.

No credit limits were exceeded during the reporting period.

The Council does not generally allow extended credit for its customers, but some of the current balance is past due payment; the past due but not impaired amount can be analysed as follows:

Liquidity Risk

Liquidity risk is the possibility that the Council might not have sufficient funds available to meet its contractual commitments. The council manages its liquidity position through the risk management procedures detailed above and through cash flow management procedures, which ensures that cash is available when required.

The Council has ready access to borrowings for the money market to cover any day to day cash flow needs, while the Public Works Loans Board (PWLB) provides access to long term funding. The PWLB also works as lender of last resort for Council's. In addition, the Council is also required to set an annual balanced budget in setting its Council Tax requirements for the forthcoming year (Local Government Act 1992). Thus there is minimum risk of the Council being unable to raise finance to meet its financial commitments.

All sums invested (£223.089m) are due to be paid back to the Council in less than a year.

Refinancing Risk

Refinancing risk is the possibility that the Council might be requiring to renew a financial liability which has matured at a disadvantageous levels of interest rate. The Council maintains a significant debt and investment portfolio. While the cash flow procedures detailed above are considered against the refinancing risk procedures, long term risk to the Council relates to managing the exposure to replace financial instruments maturing; both loans and investments.

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, which include:

- Monitoring the maturity profile of financial liabilities; the profile being changed through new borrowing or the restructure of the council's debt; and

- Monitoring the maturity profile of investments to ensure that there is sufficient liquidity for the council's day to day cash flow requirements; both in the long and short term.

The Council's financial assets all have a maturity profile of less than one year. The maturity analysis of the council's financial liabilities is detailed below:

| Maturity Period | 2017-18 £'000 | 2016-17 £'000 |
|---|---|---|
| Maturing in under one year | 7,502 | 7,511 |
| Maturing between one and two years | 5,000 | 7,509 |
| Maturing between two and five years | 34,581 | 34,608 |
| Maturing between five and ten years | 25,739 | 27,746 |
| Maturing after ten years | 153,535 | 56,491 |
| **Total** | **226,357** | **133,865** |

All trade and other payables are due to be paid in less than one year.

Market Risk

Market risk is the possibility that financial loss might arise for the council as a result of change in such measures as interest, price and foreign exchange rates.

*Interest Rate Risk*

The Council is exposed to interest rate risk on both its borrowings and investments. Movement in interest rates have a complex impact on the Council, depending on how variable or fixed the interest rates are over the Council's financial assets and liabilities. For example, a rise in interest rates would have the following effect for the Council:

- Borrowing at variable rates of interest – the interest cost charged to the CIES will increase;
- Borrowing at fixed rates of interest – the fair value of the liability will fall and there will be no impact on the CIES;
- Investments at variable rates – interest income credited to the CIES will rise;
- Investments at fixed rates of interest – the fair value of the Investment will rise, with no impact on the CIES.

Borrowings are not carried at fair value in the Council's balance sheet, so nominal gains and losses on fixed rate borrowings do not impact on the surplus or deficit on the CIES. 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 Council forecasts its expected interest rate movements within the Treasury Management Strategy. The Prudential indicators include a maximum and minimum indicator for fixed and variable interest rate exposure and monitors the actual levels periodically.

The Council did not enter into any variable rate borrowing or fixed rate investments in 2017-18.

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 | (3,250) |
| Impact on CIES | (3,250) |
| Share of overall impaact debited to the HRA | 469 |
| Decrease in fair value of fixed rate borrowing liabilities (nil impact on CIES/MIRS) | 13,991 |

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 Instrument disclosure note.

*Price Risk*
The Council, excluding the Pension Fund does not generally invest in equity shares or marketable bonds

Foreign Exchange Risk
The Council has no investments or liabilities denominated in foreign currencies, thus has no exposure as a result of movements in exchange rates

## 20. Debtors

| | 31 March 2018 | | 31 March 2017 | |
|---|---|---|---|---|
| | **Current** | **Long Term** | **Current** | **Long Term** |
| | £'000 | £'000 | £'000 | £'000 |
| Central government bodies | 55,606 | 688 | 8,811 | 0 |
| Other local authorities | 11,653 | 0 | 21,392 | 0 |
| NHS bodies | 5,132 | 0 | 16,480 | 0 |
| Other entities and individuals | 47,323 | 121 | 26,968 | 125 |
| **Total debtors** | **119,713** | **809** | **73,651** | **125** |

## 21. Cash and cash equivalents

| | 31 March 2018 | 31 March 2017 |
|---|---|---|
| | £'000 | £'000 |
| Cash held by the Council | 102 | 557 |
| Bank current accounts | (572) | 4,107 |
| Short-term deposits | 103,668 | 4,061 |
| **Total cash and cash equivalents** | **103,198** | **8,725** |

## 22. Creditors

| | 31 March 2018 | | 31 March 2017 | |
|---|---|---|---|---|
| | **Current** | **Long Term** | **Current** | **Long Term** |
| | £'000 | £'000 | £'000 | £'000 |
| Central government bodies | (26,286) | 0 | (17,646) | 0 |
| Other local authorities | (35,408) | 0 | (16,560) | 0 |
| NHS bodies | (7,889) | 0 | (1,322) | 0 |
| Other entities and individuals | (75,712) | 0 | (67,139) | 0 |
| **Total creditors** | **(145,296)** | **0** | **(102,667)** | **0** |

## 23. Provisions

| | Insurance | NDR Appeals | Business Rates - KTH | Other Provisions | Total |
|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | **£'000** |
| **Balance at 1 April 2017** | (1,897) | (7,234) | (1,296) | (1,439) | **(11,866)** |
| Additional provisions made | (1,555) | (11,897) | 0 | 151 | **(13,301)** |
| Amounts used | 761 | 8,144 | 1,296 | 956 | **11,156** |
| Unused amounts reversed | 0 | 0 | 0 | 0 | **0** |
| **Balance at 31 March 2018** | **(2,691)** | **(10,987)** | **0** | **(333)** | **(14,011)** |
| Of which: | | | | | |
| **Long Term** | **(1,893)** | **0** | **0** | **(77)** | **(1,970)** |

Insurance

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.

Business Rates

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.

Although the number of appeals outstanding against the 2010 rating list has reduced, the Council has had to increase the provision for the 2017 list because the rates payable increased from £296m to £343m.

Other Provisions

Other provisions include the London Residuary Body's (LRB) public liability insurance claims, termination benefits and banked leave.

## 24. Cash Flow Statement - Operating Activities

| | 2017-18 | 2016-17 |
|---|---|---|
| | £'000 | £'000 |
| Net Surplus / (Deficit) on the Provision of Services - RBKC | 13,004 | 72,358 |
| Net Surplus / (Deficit) on the Provision of Services - LRB | 115 | 155 |
| **Total Net Surplus / (Deficit) on the Provision of Services** | **13,119** | **72,513** |
| **Remove non-cash movements from (Surplus) / Deficit on Provision of Services** | | |
| Depreciation, amortisation, impairment and downward valuations | 67,296 | 34,566 |
| Increase / (decrease) in creditors | 54,183 | (23,617) |
| (Increase) / decrease in debtors | (45,748) | (50) |
| (Increase) / decrease in inventories | (127) | (253) |
| Movement in pension liability | 33,100 | 16,646 |
| Carrying amount of non-current assets and assets held for sale, sold or derecognised | 11,952 | 5,692 |
| Other non-cash items charged to the net (Surplus) / Deficit on Provision of Services | (33,135) | (26,784) |
| **Sub-total** | **87,521** | **6,200** |
| **Adjust (Surplus) / Deficit on Provision of Services for items that are investing and financing activities** | | |
| Proceeds from the sale of non-current assets | (78,770) | (31,224) |
| Grants for the financing of capital expenditure | (35,924) | (26,592) |
| **Sub-total** | **(114,694)** | **(57,816)** |
| **Net cash flows from revenue activities** | **(14,054)** | **20,897** |

## 25. Cash Flow Statement - Investing Activities

| | 2017-18 | 2016-17 |
|---|---|---|
| | £'000 | £'000 |
| Purchase of non-current assets | (210,442) | (113,812) |
| (Purchase) / disposal of short-term and long-term investments | 123,909 | 26,302 |
| Other (payments) / receipts for investing activities | (2,990) | (38) |
| Proceeds from the sale of non-current assets | 78,658 | 31,224 |
| Capital grants and contributions received | 19,392 | 16,089 |
| **Net cash flows from investing activities** | **8,527** | **(40,235)** |

## 26. Cash Flow Statement - Financing Activities

| | 2017-18 | 2016-17 |
|---|---|---|
| | £'000 | £'000 |
| Cash receipts / (repayments) of borrowing | 100,000 | (7,509) |
| Cash paid for the reduction of outstanding finance lease liabilities | 0 | (33) |
| Cash receipts / (repayments) of other liabilities | 0 | (2) |
| Collection Fund adjustments | 0 | 3,597 |
| **Net cash flows from financing activities** | **100,000** | **(3,947)** |

## 27. Trading operations

The services shown below operate as Trading Accounts. There are five 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.

| | 2017-18 | | | 2016-17 | | |
|---|---|---|---|---|---|---|
| | Income | Exp | Net | Income | Exp | Net |
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Pupil Support Services | (600) | 521 | (79) | (191) | 229 | 38 |
| Street Trading | (815) | 953 | 138 | (891) | 847 | (44) |
| Parking Cash Collection | (204) | 476 | 272 | (500) | 459 | (41) |
| Legal Services | (5,227) | 5,503 | 276 | (4,633) | 4,679 | 46 |
| Building Control | (483) | 626 | 143 | (547) | 701 | 154 |
| **Total** | **(7,329)** | **8,079** | **750** | **(6,762)** | **6,915** | **153** |

**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.

**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 1st 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.

| | 31 March 2018 | 31 March 2017 |
|---|---|---|
| | £'000 | £'000 |
| Contributions to the Pooled Budget | | |
| - Royal Borough of Kensington and Chelsea (RBKC) | (31,217) | (26,141) |
| - West London Clinical Commissioning Group (WLCCG) | (31,515) | (31,981) |
| **Total contributions** | **(62,732)** | **(58,122)** |
| Expenditure Met by the Pooled Budget | | |
| - Costs relating to the reablement of residents | 5,447 | 5,688 |
| - Costs relating to care provided in residential settings or in community settings | 49,524 | 48,710 |
| - Costs relating to supporting residents to remain in their own homes | 0 | 81 |
| - Support Services and programme management relating to the BCF | 1,332 | 1,266 |
| - iBCF Programme | 3,948 | 0 |
| **Total expenditure** | **60,251** | **55,745** |
| **Net in-year (surplus) / deficit on the pooled budget** | **(2,481)** | **(2,377)** |
| **Comprising;** | | |
| Share of the net (surplus) / deficit due to RBKC | (1,054) | (774) |
| Share of the net (surplus) / deficit due to the WLCCG | (1,427) | (1,603) |
| **Net in-year (surplus) / deficit on the pooled budget** | **(2,481)** | **(2,377)** |

## 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.

| | 2017-18 No. of employees | 2016-17 No. of employees |
|---|---|---|
| £50,000 - £54,999 | 151 | 117 |
| £55,000 - £59,999 | 90 | 102 |
| £60,000 - £64,999 | 63 | 57 |
| £65,000 - £69,999 | 38 | 41 |
| £70,000 - £74,999 | 30 | 41 |
| £75,000 - £79,999 | 27 | 19 |
| £80,000 - £84,999 | 16 | 18 |
| £85,000 - £89,999 | 14 | 8 |
| £90,000 - £94,999 | 9 | 5 |
| £95,000 - £99,999 | 5 | 4 |
| £100,000 - £104,999 | 3 | 7 |
| £105,000 - £109,999 | 4 | 7 |
| £110,000 - £114,999 | 4 | 2 |
| £115,000 - £119,999 | 2 | 0 |
| £120,000 - £124,999 | 2 | 1 |
| £125,000 - £129,999 | 0 | 1 |
| £130,000 - £134,999 | 1 | 1 |
| £135,000 - £139,999 | 1 | 0 |
| £140,000 - £144,999 | 1 | 0 |
| £145,000 - £149,999 | 0 | 1 |
| £150,000 - £154,999 | 0 | 2 |
| £165,000 - £169,999 | 0 | 1 |
| £190,000 - £194,999 | 0 | 1 |
| £195,000 - £199,999 | 1 | 0 |
| **Total** | **462** | **436** |

Included in the below total cost of exit packages is a provision of £0.255m (£0.186m in 2016-17) 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.

| | **2017-18** | **2016-17** | **2017-18** | **2016-17** | **2017-18** | **2016-17** | **2017-18** | **2016-17** |
|---|---|---|---|---|---|---|---|---|
| **Exit Package Cost Band** | **Compulsory redundancies** | | **Other departures agreed** | | **Departures by cost band** | | **Total cost of exit packages in each band** | |
| £'000 | Number | | Number | | **Total Number** | | **£** | **£** |
| 0 - 20 | 41 | 11 | 31 | 15 | **72** | **26** | 628,589 | 261,755 |
| 20 - 40 | 10 | 3 | 6 | 4 | **16** | **7** | 438,272 | 173,549 |
| 40 - 60 | 4 | 0 | 4 | 3 | **8** | **3** | 400,693 | 148,597 |
| 60 - 80 | 3 | 1 | 3 | 1 | **6** | **2** | 435,602 | 146,366 |
| 80 - 100 | 1 | 0 | 1 | 0 | **2** | **0** | 166,730 | 0 |
| 100 - 150 | 2 | 0 | 0 | 2 | **2** | **2** | 246,360 | 226,635 |
| **Total** | **61** | **15** | **45** | **25** | **106** | **40** | **2,316,246** | **956,902** |

The following table sets out the remuneration for senior / statutory officers as well as any other officer whose salary is more than £150,000.

| Job Title | Annualised Salary | Note | Salary, Fees and Allowances | Bonuses | Expenses Allowances | Compensation for Loss of Office | Total remuneration excluding pension contributions | Employer Pension Contribution | Total Remuneration |
|---|---|---|---|---|---|---|---|---|---|
| **2017-18** | £ | | £ | £ | £ | £ | **£** | £ | **£** |
| Chief Executive (Barry Quirk) | 196,300 | 1 | 157,007 | 0 | 0 | 0 | **157,007** | 0 | **157,007** |
| Director of Finance/Executive Director Resources and Assets (Chris Buss) | 182,500 | | 114,104 | 0 | 0 | 0 | **114,104** | 0 | **114,104** |
| Tri-Borough Executive Director of Children's Services | 143,000 | 2 | 48,839 | 0 | 0 | 0 | **48,839** | 9,981 | **58,820** |
| Tri-Borough Director of Audit, Risk, Fraud and Insurance | 86,320 | 3 | 67,573 | 4,250 | 0 | 0 | **71,823** | 11,319 | **83,142** |
| Director for HR and OD | 116,150 | 4 | 87,113 | 11,615 | 0 | 0 | **98,728** | 14,809 | **113,537** |
| Executive Director for Grenfell | 145,000 | 5 | 68,068 | 0 | 0 | 0 | **68,068** | 10,427 | **78,495** |
| Executive Director of Planning and Borough Development | 103,584 | | 102,450 | 5,045 | 300 | 0 | **107,795** | 18,484 | **126,279** |
| Director of Finance | 115,120 | | 49,091 | 0 | 0 | 0 | **49,091** | 0 | **49,091** |
| Bi-Borough Director of Transport, Highways, Parks and Leisure | 121,765 | 6 | 105,537 | 5,343 | 0 | 0 | **110,880** | 18,669 | **129,549** |
| Interim Tri-Borough Director of Audit, Risk, Fraud and Insurance | 70,320 | | 15,582 | 0 | 0 | 0 | **15,582** | 2,600 | **18,182** |
| Town Clerk (Nicholas Holgate) | 175,950 | | 102,638 | 0 | 0 | 85,000 | **187,638** | 19,036 | **206,674** |
| Director of Customer Access | 100,020 | | 100,008 | 4,560 | 0 | 0 | **104,568** | 18,284 | **122,852** |
| Director for Corporate Property | 115,220 | | 115,218 | 28,475 | 512 | 0 | **144,205** | 23,819 | **168,024** |
| Director of Strategy and Local Services | 110,296 | | 55,148 | 0 | 0 | 68,013 | **123,161** | 84,948 | **208,109** |
| Chief Solicitor | 90,100 | | 89,328 | 4,505 | 0 | 0 | **93,833** | 15,662 | **109,495** |
| Director of Communications and Community | 136,125 | 7 | 79,406 | 0 | 0 | 0 | **79,406** | 0 | **79,406** |
| **2016-17** | £ | | £ | £ | £ | £ | **£** | £ | **£** |
| Town Clerk | 186,810 | | 186,810 | 9,341 | 1,072 | 0 | **197,223** | 0 | **197,223** |
| Bi-Borough Director of Transport and Highways | 96,500 | | 96,500 | 4,825 | 1,498 | 0 | **102,823** | 15,669 | **118,492** |
| Tri-Borough Executive Director of Children's Services | 113,600 | | 139,918 | 11,048 | 80 | 0 | **151,046** | 22,333 | **173,379** |
| Executive Director of Planning and Borough Development | 97,900 | | 97,900 | 7,832 | 1,262 | 0 | **106,994** | 15,192 | **122,186** |
| Director of Strategy and Local Services | 108,000 | | 108,000 | 10,800 | 1,287 | 0 | **120,087** | 16,768 | **136,855** |
| Director of Corporate Property | 117,700 | | 330 | 0 | (210) | 0 | **120** | 0 | **120** |
| Director of Corporate Property | 110,000 | | 107,128 | 26,210 | 1,188 | 0 | **134,526** | 22,679 | **157,205** |
| Director of Finance | 114,000 | | 107,550 | 0 | 0 | 0 | **107,550** | 0 | **107,550** |
| Tri-Borough Director of Audit, Risk and Insurance | 83,900 | | 51,681 | 0 | 1,106 | 0 | **52,787** | 7,841 | **60,628** |
| Interim Tri-Borough Director of Audit, Risk and Insurance | 65,000 | | 27,083 | 0 | 536 | 0 | **27,619** | 10,212 | **37,831** |
| Tri-Borough Executive Director of Children's Services | 163,400 | | 27,500 | 0 | 0 | 0 | **27,500** | 6,488 | **33,988** |
| Chief Solicitor | 82,400 | | 82,400 | 4,120 | 1,188 | 0 | **87,708** | 13,201 | **100,909** |

**Notes**

1. The disclosure for Barry Quirk includes £76,753 paid to the London Borough of Lewisham as reimbursement for his secondment to cover a key management personnel role on a part-time basis.
2. Claire Chamberlain was acting Tri-Borough Executive Director of Children's Services – Chief Education Officer until 8th August 2017.
3. Moira Mackie began acting into this role from 1st November 2016 until 19th June 2017. David Hughes started employment on the 20th June 2017.
4. Debbie Morris, originally Bi-Borough Director of Human Resources (costs shared equally with LBHF), moved solely to RBKC as part of the decision by LBHF to exit the Bi-Borough arrangement for Human Resources.
5. The disclosure for Robyn Fairman includes £6,734 paid to the London Borough of Lewisham as reimbursement for her secondment, before being permanently appointed to the post.
6. Mahmood Siddiqi, the Bi-Borough Director of Transport and Highways is shared equally with LBHF.
7. The services of the Director of Communications and Community were secured on an interim basis in September 2017 with Westco. The amount disclosed is the cost incurred by the Council and not the individual's remuneration.

**Senior Officer shared posts employed by other local authorities**

The following senior officers are employed by WCC and shared:

- The Executive Director of Children's Services is shared with RBKC (previously a Tri-Borough service shared equally at 33.3% between RBKC, LBHF and WCC).
- The Director of Public Health is shared equally with RBKC and LBHF. The share was 30.9% RBKC, 29.1% LBHF, 40% WCC in 2016/17.
- The Executive Director of Corporate Services is shared 60% WCC, 40% RBKC.
- The Executive Director of Adult Social Care and Health costs are shared with RBKC's share equal to 47% (previously a Tri-Borough service with RBKC's share being 21.2%).

The following senior officers are employed by LBHF and shared:

- The Bi-Borough Director of Environmental Health – gross cost to RBKC was £71,789.
- The Bi-Borough Executive Director Environment, Leisure and Residents' Service – gross cost to RBKC was £133,964.
- The Bi-Borough Director of Safer Neighbourhoods – gross cost to RBKC was £15,937.

## 30. Member allowances

The total of Members' Allowances paid in 2017-18 was £1.111 million (£1.126 million in 2016-17).

## 31. External audit costs

| | 2017-18 | 2016-17 |
|---|---|---|
| | £'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 | 37 | 31 |
| Fees payable in respect of other services provided during the year | 0 | 7 |
| **Total audit costs** | **158** | **159** |

*The Council received a rebate of £18,040 as a result of the redistribution of Public Sector Audit Appointment (PSAA) surplus.

## 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 2017-18 are below.

| **2017-18** | **Central Expenditure** | **ISB** | **Total** |
|---|---|---|---|
| | £'000 | £'000 | **£'000** |
| Final DSG for 2017-18 | | | **94,315** |
| Less academy figure recouped for 2017-18 | | | **(26,176)** |
| Total DSG after academy recoupment for 2017-18 | | | **68,139** |
| Plus brought forward from 2016-17 | | | **4** |
| Less carry forward to 2018-19 agreed in advance | | | **(4)** |
| Agreed initial budget distribution in 2017-18 | 8,094 | 60,045 | **68,139** |
| In year adjustments | 0 | 125 | **125** |
| Final budgeted distribution for 2017-18 | **8,094** | **60,170** | **68,264** |
| Less actual central expenditure | (9,617) | | **(9,617)** |
| Less actual ISB deployed to schools | | (61,014) | **(61,014)** |
| **Net 2017-18 appropriation / (drawdown)** | **(1,523)** | **(844)** | **(2,367)** |

| **2016-17** | **Central Expenditure** | **ISB** | **Total** |
|---|---|---|---|
| | £'000 | £'000 | **£'000** |
| Final DSG for 2016-17 | | | **88,702** |
| Less 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)** |

Since the introduction of the Children and Families Act in 2014, additional financial pressures have resulted in the provision of support for children with Special Educational Needs and Disabilities (SEND). This has increased spend within the High Needs Block of DSG.

## 33. Grant income

The following revenue grants, contributions and donations were credited to the CIES in 2017-18.

| Credited to Taxation and Non-Specific Grant Income | 2017-18 | 2016-17 |
|---|---|---|
| | £'000 | £'000 |
| Council Tax | (77,463) | (76,151) |
| Non-Domestic Rates | (96,033) | (84,060) |
| MHCLG - Section 31 Grant | (41,600) | 0 |
| Revenue Support Grant | (22,311) | (31,548) |
| New Homes Bonus Scheme | (2,896) | (3,520) |
| Improved Better Care Fund | (2,397) | 0 |
| Non Domestic Rates Section 31 Grant | (1,176) | (962) |
| Education Services Grant | (227) | (829) |
| Other Grants (under £500k) | (142) | (228) |
| **Total non specific grant income** | **(244,245)** | **(197,298)** |

| Credited to Services | 2017-18 | 2016-17 |
|---|---|---|
| | £'000 | £'000 |
| Housing Benefit Subsidy | (126,890) | (140,439) |
| Dedicated Schools Grant | (68,376) | (65,426) |
| Public Health Grant | (21,451) | (33,501) |
| Flexible Homelessness Support Grant | (4,695) | 0 |
| Pupil Premium Grant | (3,786) | (3,862) |
| Improved Better Care Fund | (1,551) | 0 |
| Skills Funding Agency | (1,251) | (1,284) |
| Transport for London Revenue Grant | (1,167) | (1,027) |
| Housing Benefit Administration Subsidy | (956) | (1,096) |
| Discretionary Housing Payments | (895) | (1,341) |
| Universal Infant Free School Meals | (875) | (862) |
| Partners in Practice | (655) | (540) |
| Arts Council Music Grant | (525) | (535) |
| Troubled Families Grant | (520) | (836) |
| Unaccompanied Asylum Seeking Children and Leaving Care Fund | (516) | (917) |
| Other Grants (under £500k) | (4,355) | (3,151) |
| **Total grant income credited to services** | **(238,464)** | **(254,817)** |

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 beneficiary. The balances at year end are as follows:

| Capital Grants Receipts in Advance | 2017-18 | 2016-17 |
|---|---|---|
| | £'000 | £'000 |
| Section 106 and private contributions | (23,670) | (26,692) |
| Community Capacity Grant | (3,640) | (3,285) |
| Section 278 contributions | (221) | (645) |
| Transport for London Local Implementation Plan Grant | (637) | 0 |
| Other Grants (under £500k) | (467) | (1,065) |
| **Balance carried at end of year** | **(28,635)** | **(31,687)** |

## 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. At the time of publication 19 Councillors had not returned their declaration; 13 of these are no longer serving Members.

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.

Up until March 2018 the Council could nominate up to four persons to the fifteen-strong Board of Directors of KCTMO. Councillor Condon-Simmonds and Councillor Judith Blakeman were Council nominees to the Board. From March 1 2018 the Tenant Management Organisation was brought back in-house and the Board of Directors disbanded.

During 2017-18 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 was co-chairman (appointed by London Councils) of Urban Design London during the financial period.

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

**Officers**

The following officers are Directors for Repairs Direct Ltd:

- Sue Harris, Executive Director of Environment, Leisure and Resident Services
- Taryn Eves, Group Finance Manager Financial Planning, and
- Debbie Morris, Bi Borough Director for Human Resources and Organisational Development

The Director of Finance / Executive Director Resources and Assets is the Treasurer for the Western Riverside Waste Authority which is the statutory waste disposal authority handling all of the Council's waste.

At the time of publication 10 officers had not returned their declaration, 5 of whom have left service.

**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 1st 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.

**Entities Controlled or Significantly Influenced**
Repairs Direct Ltd **-** Company reference 08375353. Incorporated 25th January 2013.

For the period 1st April 2017 to 1st March 2018, Repairs Direct Ltd was a subsidiary of KCTMO. On the transfer of the housing management services previously carried out by KCTMO on 7th February 2018, Repairs Direct Ltd was purchased by the Council for a nominal sum on 1st March 2018.

As detailed above three council officers are Directors of the Company. The company's assets and liabilities are not material to require the preparation of Group Accounts, within the Council's financial statements.

Kensington and Chelsea Estates Ltd - Company ref 05740666. Incorporated 19th August 2015.
A Council owned company to facilitate investment in existing housing stock. As at 31st March 2018, the Company had not started trading.

## 35. Capital expenditure and financing

| | 2017-18 | 2016-17 |
|---|---|---|
| | £'000 | £'000 |
| **Opening Capital Financing Requirement** | **240,181** | **241,087** |
| Capital investment | | |
| Property, Plant and Equipment | 202,382 | 63,356 |
| Heritage Assets | 598 | 129 |
| Investment Properties | 18,000 | 52,217 |
| Intangible Assets | 406 | 200 |
| Revenue Expenditure Funded from Capital Under Statute | 3,911 | 5,290 |
| Sources of finance | | |
| Capital receipts | (39,524) | (9,600) |
| Government grants and other contributions | (30,464) | (25,952) |
| Sums set aside from revenue: | | |
| - Direct revenue contributions | (11,881) | (69,313) |
| - Direct Revenue Funding (Major Repairs Reserve) | (11,819) | (16,327) |
| - MRP / loans fund principal | (869) | (906) |
| **Closing Capital Financing Requirement** | **370,921** | **240,181** |
| Provision to reduce the underlying need to borrow (MRP) | (869) | (906) |
| Increase in underlying need to borrow (supported by capital receipts) | 131,609 | 0 |
| **Increase / (decrease) in Capital Financing Requirement** | **130,740** | **(906)** |

## 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 2018 | 31 March 2017 |
|---|---|---|
| | £'000 | £'000 |
| Other Land and Buildings | 1,821 | 945 |
| Vehicles, Plant, Furniture and Equipment | 0 | 99 |
| **Balance carried at end of year** | **1,821** | **1,044** |

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

| | 31 March 2018 | 31 March 2017 |
|---|---|---|
| | £'000 | £'000 |
| Not later than one year | 160 | 177 |
| Later than one year and not later than five years | 301 | 388 |
| Later than five years | 92 | 165 |
| **Total minimum lease payments** | **553** | **730** |

During 2017-18, minimum lease payments of £0.177m (£0.177m in 2016-17) 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 2018 | 31 March 2017 |
|---|---|---|
| | £'000 | £'000 |
| Not later than one year | 13,501 | 9,602 |
| Later than one year and not later than five years | 39,335 | 30,966 |
| Later than five years | 130,462 | 91,073 |
| **Total future minimum lease payments** | **183,298** | **131,641** |

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

The Council participates in three pension schemes:

- The Local Government Pension Scheme, a fully funded defined benefits scheme, the governance of the scheme is the responsibility of the Council.
- The Local Pensions Partnership, a fully funded defined benefits scheme for a small number of the council's staff.
- The Teachers' Pension Scheme, a defined benefit scheme, administered by the Department for Education.

### Participation in Pension Schemes

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 Local Pensions Partnership (previously London Pensions Fund Authority).

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.

| Transactions made in the CIES | 2017-18 RBKC Pension Scheme | 2016-17 RBKC Pension Scheme | 2017-18 LPFA Pension Scheme | 2016-17 LPFA Pension Scheme |
|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 |
| Service cost comprising: | | | | |
| - Current service cost | 29,010 | 19,886 | 130 | 78 |
| - Past service costs | 1,670 | 1,426 | 0 | 97 |
| - (Gain) / loss on settlements | 6,628 | 0 | 0 | 0 |
| Financing and Investment Income and Expenditure: | | | | |
| - Net interest expense | 7,597 | 7,679 | 98 | 199 |
| - Administration expenses | 347 | 406 | 39 | 34 |
| **Post Employment Benefits charged to the (Surplus)/Deficit on Services in the CI&E Statement** | **45,252** | **29,397** | **267** | **408** |
| **Other Post Employment Benefits charged to 'Other income and Expenditure' in the CI&E** | | | | |
| Remeasurement of the net defined benefit liability / asset comprising: | | | | |
| - Return on plan assets | (25,489) | (140,979) | (948) | (4,336) |
| - Actuarial gains and losses arising on changes in demographic assumptions | 0 | 11,337 | 0 | (690) |
| - Actuarial gains and losses arising on change in financial assumptions | (37,628) | 227,567 | (986) | 5,148 |
| - Other changes | 0 | (50,504) | 0 | (2,196) |
| **Total Post Employment Benefits charged to 'Other Income and Expenditure ' in the CIES** | **(63,117)** | **47,421** | **(1,934)** | **(2,074)** |

| Transactions made in the MIRS | 31 March 2018 RBKC Pension Scheme | 31 March 2017 RBKC Pension Scheme | 31 March 2018 LPFA Pension Scheme | 31 March 2017 LPFA Pension Scheme |
|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 |
| Reversal of net IAS 19 charges | 17,865 | (76,818) | 1,667 | 1,666 |
| Actual amount charged to GF/HRA: | | | | |
| - Employers contributions Payable | 13,163 | 13,120 | 168 | 39 |
| MIRS movement | **31,028** | **(63,698)** | **1,835** | **1,705** |

The amounts included in the Balance Sheet arising from the council's obligations in respect of its defined benefit schemes is as follows:

| Pension Assets and Liabilities recognised in the Balance Sheet | 31 March 2018 RBKC Pension Scheme | 31 March 2017 RBKC Pension Scheme | 31 March 2018 LPFA Pension Scheme | 31 March 2017 LPFA Pension Scheme |
|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 |
| Present value of the defined benefit obligation | (1,271,986) | (1,195,626) | (32,347) | (32,195) |
| Fair value of plan assets | 1,026,166 | 918,778 | 29,819 | 29,644 |
| **Sub-total** | **(245,820)** | **(276,848)** | **(2,528)** | **(2,551)** |
| Present value of unfunded obligation | 0 | 0 | 0 | (1,812) |
| **Net liability arising from defined benefit obligation** | **(245,820)** | **(276,848)** | **(2,528)** | **(4,363)** |

| Reconciliation of Movement in the Fair Value of Scheme Assets | 31 March 2018 RBKC Pension Scheme | 31 March 2017 RBKC Pension Scheme | 31 March 2018 LPFA Pension Scheme | 31 March 2017 LPFA Pension Scheme |
|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 |
| **Opening balance at 1 April** | **918,778** | **711,473** | **29,644** | **25,855** |
| Interest on assets | 25,566 | 26,191 | 666 | 828 |
| Return on assets less interest | 25,489 | 140,979 | 948 | 4,336 |
| Other actuarial gains / (losses) | 0 | 47,832 | 0 | 189 |
| Administration expenses | (347) | (406) | (39) | (34) |
| Contributions - employer | 13,163 | 13,434 | 168 | 254 |
| Contributions - scheme participants | 5,464 | 5,511 | 20 | 15 |
| Estimated benefits paid plus unfunded net of transfers in | (30,101) | (26,236) | (1,588) | (1,799) |
| Settlement prices received / (paid) | 68,154 | 0 | 0 | 0 |
| **Closing balance at 31 March** | **1,026,166** | **918,778** | **29,819** | **29,644** |

| Reconciliation of Present Value of Scheme Liabilities | 31 March 2018 RBKC Pension Scheme | 31 March 2017 RBKC Pension Scheme | 31 March 2018 LPFA Pension Scheme | 31 March 2017 LPFA Pension Scheme |
|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 |
| **Opening balance at 1 April** | **(1,195,626)** | **(924,623)** | **(34,007)** | **(31,923)** |
| Current service cost | (29,010) | (19,886) | (130) | (78) |
| Interest cost | (33,163) | (33,870) | (764) | (1,027) |
| Change in financial assumptions | 37,628 | (227,567) | | (5,148) |
| Change in demographic assumptions | 0 | (11,337) | 986 | 690 |
| Experience loss / (gain) | 0 | 2,358 | 0 | 1,792 |
| Liabilities assumed / (extinguished) on settlements | (74,782) | 0 | 0 | 0 |
| Estimated benefits paid net of transfers in | 30,101 | 26,236 | 1,456 | 1,667 |
| Past service costs and curtailments | (1,670) | (1,426) | 0 | (97) |
| Contributions - scheme participants | (5,464) | (5,511) | (20) | (15) |
| Unfunded pension payments | 0 | 0 | 132 | 132 |
| **Closing balance at 31 March** | **(1,271,986)** | **(1,195,626)** | **(32,347)** | **(34,007)** |

Fair value of RBKC's Local Government Pension Scheme assets comprised:

| | 31 March 2018 | | | 31 March 2017 | | |
|---|---|---|---|---|---|---|
| | **Quoted** | **Unquoted** | **Total** | **Quoted** | **Unquoted** | **Total** |
| | £'000 | £'000 | **£'000** | £'000 | £'000 | **£'000** |
| UK equities | 34,890 | 0 | 34,890 | 32,510 | 0 | 32,510 |
| Overseas equities | 211,390 | 0 | 211,390 | 184,674 | 0 | 184,674 |
| Global equities | 517,188 | 0 | 517,188 | 441,013 | 0 | 441,013 |
| Private equity | 0 | 50,282 | 50,282 | 0 | 52,370 | 52,370 |
| Property | 0 | 42,073 | 42,073 | 0 | 37,617 | 37,617 |
| Absolute return portfolio | 95,433 | 0 | 95,433 | 92,521 | 0 | 92,521 |
| Cash | 6,157 | 0 | 6,157 | 66,338 | 0 | 66,338 |
| Gilts | 68,753 | 0 | 68,753 | 11,735 | 0 | 11,735 |
| **Total** | **933,811** | **92,355** | **1,026,166** | **828,791** | **89,987** | **918,778** |

Fair value of Local Pensions Partnership assets comprised:

| | 31 March 2018 | | | 31 March 2017 | | |
|---|---|---|---|---|---|---|
| | Quoted | Unquoted | Total | Quoted | Unquoted | Total |
| | £'000 | £'000 | **£'000** | £'000 | £'000 | **£'000** |
| Equities - segregated | 13,240 | 0 | 13,240 | 10,303 | 0 | 10,303 |
| Equities - investment fund | 0 | 0 | 0 | 4,180 | 0 | 4,180 |
| Equities - private equity | 0 | 3,161 | 3,161 | 0 | 3,083 | 3,083 |
| Liability driven investments | 0 | 1,461 | 1,461 | 0 | 0 | 0 |
| Target return | 3,310 | 1,312 | 4,622 | 3,862 | 2,401 | 6,263 |
| Investment funds and unit trusts | 0 | 1,312 | 1,312 | 0 | 0 | 0 |
| Infrastructure | 0 | 0 | 0 | 148 | 1,413 | 1,561 |
| Property | 0 | 2,147 | 2,147 | 0 | 1,511 | 1,511 |
| Commodity | 0 | 0 | 0 | 0 | 0 | 0 |
| Cash | 2,624 | 656 | 3,280 | 2,743 | 0 | 2,743 |
| Derivatives | 596 | 0 | 596 | 0 | 0 | 0 |
| **Total** | **19,770** | **10,049** | **29,819** | **21,236** | **8,408** | **29,644** |

**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 31st March 2016.

The principal assumptions used by the actuary are as follows.

| | 31 March 2018 | 31 March 2017 | 31 March 2018 | 31 March 2017 |
|---|---|---|---|---|
| | RBKC Pension Scheme | | LPFA Pension Scheme | |
| **Mortality assumptions:** | | | | |
| Longevity at 65 for current pensioners (in years): | | | | |
| - Men | 24.5 | 24.4 | 20.9 | 20.8 |
| - Women | 26.1 | 26.0 | 23.8 | 23.7 |
| Longevity at 65 for future pensioners (in years): | | | | |
| - Men retiring in 20 years | 26.8 | 26.6 | 23.2 | 23.1 |
| - Women retiring in 20 years | 28.4 | 28.3 | 26.1 | 25.9 |
| **Other assumptions** | | | | |
| Rate of RPI inflation | 3.30% | 3.60% | 3.35% | 3.30% |
| Rate of CPI Inflation | 2.30% | 2.70% | 2.35% | 2.40% |
| Rate of increase in salaries | 3.80% | 4.20% | 3.90% | 3.90% |
| Rate of increase in pensions | 2.30% | 2.70% | 2.40% | 2.40% |
| Rate for discounting scheme liabilities | 2.55% | 2.80% | 2.30% | 2.30% |

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) | 28,767 | 27,016 |
| Rate of inflation (increase or decrease in 0.1%) | 27,216 | 28,556 |
| Rate of increase in salaries (increase or decrease in 0.1%) | 27,878 | 27,878 |
| Rate of increase in pensions (increase or decrease in 0.1%) | 28,557 | 27,214 |
| Rate of discounting scheme liabilities (increase or decrease in 0.1%) | 27,216 | 28,556 |

### Impact on the Council's cash flows

The last triennial actuarial valuation, as at 31st 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 31st 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 £12.58m to the scheme in 2018-19 (£12.9m estimated for 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 2017-18 (45 years at the end of 2016-17).

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 2017-18 (59 years at the end of 2016-17).

## 38. Pension schemes accounted for as defined contribution schemes

Although the Teachers, Pension Scheme is unfunded, the Department for Education (DfE) uses a notional fund as the basis for calculating the employer's contributions rate paid by the education authorities. It is not possible for the council to identify a share of the underlying liabilities in the scheme attributable to its own employees. The scheme is accounted for on the same basis as a defined contributions scheme. The council is responsible for the costs of any additional benefits awarded upon retirement outside of the terms of the teachers' scheme.

In 2017-18, the Council paid £3.514m to Teachers' Pensions in respect of teachers' retirement benefits, representing 16.5% of pensionable pay. The figures for 2016-17 were £3.562m and 16.5%. 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 31st March 2018, the Council had the following contingent liabilities:

- 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 £3.1m, 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 2019.

- Following the tragic fire at Grenfell Tower on 14th June 2017 the Met Police is investigating the Council and KCTMO for corporate manslaughter and a public inquiry is underway 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 has no contingent assets as at 31st March 2018.

# 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 2018 | 31 March 2017 |
|---|---|---|---|
| | | £'000 | £'000 |
| **Expenditure** | | | |
| Repairs and maintenance | | 16,490 | 12,170 |
| Supervision and management | | 18,203 | 14,527 |
| Special | | 5,079 | 4,894 |
| Rents, rates, taxes and other charges | | 371 | 222 |
| Depreciation and impairment of non-current assets | | | |
| - Dwellings | | 2,818 | 2,778 |
| - Other non current assets | | 346 | 73 |
| - (Gains) / Losses as a result of revaluation or impairment | | 33,738 | 568 |
| Debt Management Costs | | 90 | 89 |
| Revenue Expenditure Funded from Capital Under Statute | | 1,000 | 0 |
| Movement in the allowance for bad debts | | 498 | 440 |
| **Total Expenditure** | | **78,633** | **35,761** |
| **Income** | | | |
| Dwelling rents | | (40,459) | (43,598) |
| Non-dwelling rents | | (4,872) | (4,100) |
| Charges for services and facilities | | (9,348) | (10,762) |
| Contributions towards expenditure | | (217) | (232) |
| **Total Income** | | **(54,896)** | **(58,692)** |
| **Net Cost of HRA Services as included in the CIES** | | **23,737** | **(22,931)** |
| Special dispensation from MHCLG | | (6,400) | 0 |
| HRA service share of Corporate and Democratic Core | | 11 | 12 |
| **Net (Income) / Cost for HRA Services** | | **17,348** | **(22,919)** |
| **HRA share of operating income and expenditure included in the CIES** | | | |
| (Gain) or loss on sale of HRA non-current assets | | (5,570) | (2,837) |
| Interest payable and similar charges | | 10,566 | 10,800 |
| Interest and net investment income | | (52) | (54) |
| Changes to fair value of investment properties | | (1,217) | 2,817 |
| Capital grants and contributions receivable | | 0 | (90) |
| **HRA share of operating income and expenditure** | | **3,727** | **10,636** |
| **(Surplus) or deficit for the year on HRA services** | | **21,075** | **(12,283)** |

# HOUSING REVENUE ACCOUNT AND NOTES

| Movement on the HRA Statement | Notes | 31 March 2018 | 31 March 2017 |
|---|---|---|---|
| | | £'000 | £'000 |
| **HRA balance at the end of the previous year** | | **(20,927)** | **(21,411)** |
| (Surplus) or deficit for the year on the HRA Income and Expenditure Statement | | 21,075 | (12,283) |
| **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 | | (1,547) | 90 |
| - Reversal of gain or (loss) on sale of HRA non-current assets | | 5,570 | 7,552 |
| - Transfer to / (from) Major Repairs Reserve | | 12,459 | 16,904 |
| - Transfer to / (from) Capital Adjustment Account | | (36,684) | (11,829) |
| **Net (increase) or decrease before transfers to or from reserves** | | **873** | **434** |
| **Transfers to / (from) reserves** | | | |
| - HRA Controlled Repairs Reserve | | 181 | 50 |
| **(Increase) or decrease in year on the HRA** | | **1,054** | **484** |
| **HRA balance at the end of the year** | | **(19,873)** | **(20,927)** |
| HRA general balance | | (19,873) | (20,927) |
| HRA earmarked reserves | | (576) | (395) |
| **Total HRA reserves at the end of the year** | | **(20,449)** | **(21,322)** |

## 1. Value of assets held on the Balance Sheet

| | 31 March 2018 | 31 March 2017 |
|---|---|---|
| | £'000 | £'000 |
| Council dwellings | 762,801 | 755,721 |
| Other land and buildings | 11,002 | 13,529 |
| Assets under construction | 4,377 | 3,399 |
| Investment properties | 62,015 | 58,743 |
| **Total** | **840,195** | **831,392** |

## 2. Number and types of dwelling

| Archetype description | 1 April 2018 | 1 April 2017 | Movement |
|---|---|---|---|
| Houses Semi Detached <1945 | 1 | 1 | 0 |
| Houses Other <1945 | 54 | 54 | 0 |
| Houses SD/Large Terraced 1945-1964 | 7 | 7 | 0 |
| Houses 1965-1974 | 10 | 10 | 0 |
| Houses 1974+ | 67 | 67 | 0 |
| Bungalows | 11 | 11 | 0 |
| Low-Rise Flats <1945 | 210 | 210 | 0 |
| Low-Rise Flats >1945 | 188 | 188 | 0 |
| Medium | 3608 | 3,608 | 0 |
| High Rise | 2513 | 2,629 | -116 |
| Multi-Occupancy | 44 | 44 | 0 |
| **Total** | **6,713** | **6,829** | **-116** |

## 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 31st March 2018 the vacant possession value of dwellings within the HRA was £3,052.020 million (£3,023.356 million as at 31st March 2017). The difference of £2,289.015 million between vacant possession value and the Balance Sheet value of dwellings within the HRA shows the economic cost to Government of providing Council housing at less than open market rents, net of the impairment to the value of the Housing Stock.

## 5. Impairment charges and revaluation losses

The Council has incurred a material impairment in respect of the Grenfell Tower due to a tragic fire in June 2017. Further information on impairments / revaluation losses can be found in Note 15 to the main accounts.

## 6. Capital Expenditure

| | 2017-18 | 2016-17 |
|---|---|---|
| | £'000 | £'000 |
| **Capital expenditure** | | |
| - dwellings | 22,834 | 15,264 |
| - assets under construction | 135 | 1,682 |
| - Revenue Expenditure Funded from Capital Under Statute | 1,000 | 0 |
| | **23,969** | **16,946** |
| ***Funded by:*** | | |
| Usable capital receipts | (1,104) | (530) |
| Capital grants and contributions | (11,046) | (90) |
| Major Repairs Reserve | (11,819) | (16,326) |
| | **(23,969)** | **(16,946)** |

## 7. Capital Receipts in Year

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

| | 2017-18 | 2016-17 |
|---|---|---|
| | £'000 | £'000 |
| Dwellings (net of sale expenses) | (2,334) | (2,361) |
| Other property | (3,606) | (6,069) |
| **Total** | **(5,940)** | **(8,430)** |

## 8. Cost of Borrowing

The HRA paid interest on borrowing of £9.217m during 2017-18 (£9.921m in 2016-17).

## 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** | 2017-18 | 2016-17 |
|---|---|---|
| | £'000 | £'000 |
| **Gross arrears** | **3,826** | **2,883** |
| **Net arrears (including credit balances)** | | |
| - Former tenants | 1,116 | 947 |
| - Current tenants | 695 | 41 |
| **Net arrears at 31 March** | **1,811** | **988** |

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 | 2017-18 | 2016-17 |
|---|---|---|
| | £'000 | £'000 |
| **Gross arrears** | **3,383** | **3,074** |
| | | |
| **Net arrears (including credit balances)** | | |
| - Leaseholder charges | 1,980 | 1,992 |
| - Commercial properties | 843 | 354 |
| **Net arrears at 31 March** | **2,823** | **2,346** |

The total provision included in the Balance Sheet in respect of all HRA uncollectable debts is £3.201m (£2.714m at 31st March 2017).

# 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.

| | 2017-18 | | | | 2016-17 |
|---|---|---|---|---|---|
| | **BRS** | **NNDR** | **Council Tax** | **Total** | **Total** |
| | £'000 | £'000 | £'000 | £'000 | £'000 |
| **Income** | | | | | |
| Council Tax Receivable | 0 | 0 | (105,099) | (105,099) | (102,657) |
| Business Rates Receivable | 0 | (343,460) | 0 | (343,460) | (293,187) |
| Business Rates Supplement | (11,556) | 0 | 0 | (11,556) | (9,362) |
| Transactional Protection Payments | 0 | (18,230) | 0 | (18,230) | (123) |
| | **(11,556)** | **(361,690)** | **(105,099)** | **(478,345)** | **(405,329)** |
| **Expenditure** | | | | | |
| **Precepts, Demands and Shares** | | | | | 136,999 |
| Central Government | 0 | 106,045 | 0 | 106,045 | 80,992 |
| Greater London Authority | 0 | 118,899 | 26,805 | 145,704 | 156,468 |
| Billing Authority | 0 | 96,405 | 76,381 | 172,786 | |
| | **0** | **321,349** | **103,186** | **424,535** | **374,459** |
| **Apportionment of PY Surplus / (Deficit)** | | | | | |
| Central Government | 0 | (2,359) | 0 | (2,359) | 0 |
| Greater London Authority | 0 | (943) | 521 | (422) | 188 |
| Billing Authority | 0 | (1,415) | 1,479 | 64 | 500 |
| | **0** | **(4,717)** | **2,000** | **(2,717)** | **688** |
| **Business Rates Supplement** | | | | | |
| Payment to Levying authorities | **11,460** | **0** | **0** | **11,460** | **9,264** |
| **Charges to Collection Fund** | | | | | |
| Write Offs of uncollectable amounts | 0 | 77 | 28 | 105 | 249 |
| Inc / (Dec) in Impairment | 0 | 1,272 | 428 | 1,700 | 2,125 |
| Inc / (Dec) in Provision for Appeals | 0 | 39,657 | 0 | 39,657 | 9,855 |
| Cost of Collection | 20 | 650 | 0 | 670 | 629 |
| | **20** | **41,656** | **456** | **42,132** | **12,858** |
| **(Surplus) / Deficit arising during the year** | **(76)** | **(3,402)** | **543** | **(2,935)** | **(8,060)** |
| **(Surplus) / Deficit at 1 April 2017** | **0** | **1,173** | **(5,650)** | **(4,477)** | **3,583** |
| **(Surplus) / Deficit at 31 March 2018** | **(76)** | **(2,229)** | **(5,107)** | **(7,412)** | **(4,477)** |
| **(Surplus) / Deficit Balance Attributable to:** | | | | | |
| Royal Borough of Kensington & Chelsea | 0 | (691) | (3,779) | (4,470) | (3,824) |
| Greater London Authority | (76) | (777) | (1,328) | (2,181) | (1,239) |
| Central Government | 0 | (761) | 0 | (761) | 586 |
| | **(76)** | **(2,229)** | **(5,107)** | **(7,412)** | **(4,477)** |

## 1. 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%).

Following the 2017 Revaluation, the National Non Domestic Rateable Value at 31st March 2018 was £811m (£645m at 31st March 2017). The standard NNDR multiplier for 2017-18 was 47.9 pence (49.7 pence in 2016-17). The Small Business Rate Relief multiplier for 2017-18 was 46.6 pence (48.4 pence for 2016-17).

## 2. 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 £70,000 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 31st March 2018 was £665m (£529m at 31st March 2017). The standard BRS multiplier for 2017-18 was 2 pence, unchanged from previous years.

## 3. Council Tax

In 2017-18 the tax base for Kensington and Chelsea was 95,725 properties (94,903 in 2016-17) which was used to calculate the Band D Council Tax of £1,062.02 (£1,042.80 in 2016-17), excluding Garden Squares. This includes the GLA Band D precept of £280.02 (£276.00 in 2016-17).

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. | |
|---|---|---|---|---|---|---|---|
| | £ | £ | 2017-18 | 2016-17 | | 2017-18 | 2016-17 |
| A | up to | 40,000 | 756 | 801 | 0.67 | 520 | 534 |
| B | 40,001 | 52,000 | 1,615 | 1,621 | 0.78 | 1,291 | 1,261 |
| C | 52,001 | 68,000 | 5,298 | 5,123 | 0.89 | 4,651 | 4,554 |
| D | 68,001 | 88,000 | 8,670 | 8,515 | 1.00 | 8,609 | 8,515 |
| E | 88,001 | 120,000 | 9,591 | 9,638 | 1.22 | 11,872 | 11,780 |
| F | 120,001 | 160,000 | 9,404 | 9,532 | 1.44 | 13,809 | 13,769 |
| G | 160,001 | 320,000 | 16,525 | 17,063 | 1.67 | 28,611 | 28,439 |
| H | 320,001 | and above | 13,551 | 13,969 | 2.00 | 28,268 | 27,937 |
| O | | | | | - | 48 | 51 |
| | | | **65,410** | **66,262** | | **97,679** | **96,840** |
| Collection rate after allowance for non-collection | | | | | | 98.0% | 98.0% |
| **Council Tax base used to calculate Band D** | | | | | | **95,725** | **94,903** |

| Fund Account | Note | 2017-18 | 2016-17 |
|---|---|---|---|
| | | £000 | £000 |
| **Dealings with members, employers and others directly involved in the fund** | | | |
| Contributions | 8 | (23,020) | (23,752) |
| Individual transfers in from other pension funds | | (1,682) | (1,232) |
| Other income | | 278 | 0 |
| | | (24,424) | (24,984) |
| Benefits | 9 | 29,026 | 28,036 |
| Payments to and on account of leavers | | | |
| - Refunds to members leaving scheme or fund | | 20 | 52 |
| - Individual transfers out to other pension funds | | 5,085 | 2,110 |
| - Bulk transfers | | 340 | 0 |
| | | 34,471 | 30,198 |
| **Net (additions) / withdrawals from dealings with members** | | **10,047** | **5,214** |
| Management expenses | 10 | 3,497 | 3,404 |
| **Net (additions) / withdrawals including fund management expenses** | | **13,544** | **8,618** |
| **Returns on Investments:** | | | |
| Investment Income | 11 | (6,828) | (6,960) |
| Profit and losses on disposal of investments and changes in market value of investments | 12 | (36,897) | (212,617) |
| Taxes on income | | 272 | 109 |
| **Net return on investments** | | **(43,453)** | **(219,468)** |
| **Net (increase) / decrease in the net assets available for benefits during the year** | | **(29,909)** | **(210,850)** |
| Opening net assets of the scheme | | (1,051,865) | (841,015) |
| **Closing net assets of the scheme** | | **(1,081,774)** | **(1,051,865)** |

| Net Assets Statement | Notes | 31 March 2018 | 31 March 2017 |
|---|---|---|---|
| | | £000 | £000 |
| Investment assets | 12 | 1,079,557 | 1,044,559 |
| Investment liabilities | | (391) | 0 |
| **Total net investments** | | **1,079,166** | **1,044,559** |
| Borrowings | | | |
| Current assets | 15/21 | 4,156 | 7,817 |
| Current liabilities | 15/22 | (1,548) | (511) |
| **Net assets of the fund available to fund benefits at the reporting period end** | | **1,081,774** | **1,051,865** |

## 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 Pension Fund (the Fund) is part of the Local Government Pension Scheme (LGPS) and is administered by The Royal Borough of Kensington and Chelsea. It is a contributory defined benefits scheme established in accordance with statute, which provides for the payment of benefits to employees and former employees of The Royal Borough of Kensington and Chelsea and the admitted and scheduled bodies in the Fund. These benefits include retirement pensions and 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 1st 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 1st April 2014 are based on an employee's final salary and the number of years eligible service. Pensions are increased each year in line with the Consumer Price Index.

The Fund is governed by the Public Service Pensions Act 2013 and the following secondary legislation:

- The LGPS Regulations 2013 (as amended)
- The LGPS (transitional Provisions, Savings and Amendment) Regulations 2014 (as amended) and
- The LGPS (Management and Investment of Funds) Regulations 2016.

The Fund is financed by contributions from employees, the Council, the admitted and scheduled bodies and from returns on the Fund's investments. Contributions from employees are made in accordance with the Local Government Pension Scheme Regulations 2016 and range from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2018. Employer contributions are set based on the triennial actuarial funding valuation, as detailed in Note 19.

### (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:

| | 2017-18 | 2016-17 |
|---|---|---|
| Active members | 3,559 | 3,271 |
| Pensioners receiving benefits | 2,986 | 2,873 |
| Deferred pensioners* | 4,333 | 4,364 |
| **Total** | **10,878** | **10,508** |

* in 2017-18 there were an additional 855 leavers (800 in 2016-17) 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 16.2% to 23.4% 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 1st 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 Tri-Borough Director of Treasury and Pensions, 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

In accordance with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 the Committee approved an Investment Strategy on 27 June 2017 (available on the Council's website). The Statement shows the Authority's compliance with the Myner's principles of investment management.

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 2017-18 and its position at the year-end as at 31 March 2018. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2017-18 (the Code) issued by the Chartered Institute of Public Finance and Accountancy ("CIPFA") which is based upon International Financial Reporting Standards (IFRS) as amended for the UK public sector.

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

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 20). The Pension Fund Accounts have been prepared on a going concern basis.

## 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.

Changes in the net market value of investments are recognised as income and comprise all realised and unrealised profits and losses during the year.

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**
Pension fund management expenses are accounted for in accordance with the CIPFA guidance “Accounting for Local Government Pension Scheme Management Costs 2016”.

All administrative expenses are accounted for on an accruals basis. All staff costs of the pension administration team are charged direct to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund.

Oversight and governance expenses are accounted for on an accruals basis. All staff costs associated with governance and oversight are charged to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund.

The cost of obtaining investment advice from the external advisor is included in oversight and governance costs.

All investment management expenses are accounted for on an accruals basis. The Sub-Committee has appointed external investment managers to manage the investments of the Fund. Managers are paid a fee on the market value of the investments they manage and/or a fee based on performance.

Where an investment manager’s fee note has not been received by the Balance Sheet date, an estimate based upon the market value of the mandate as at the end of the year is used for inclusion in the fund account.

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. A financial asset is recognised in the net asset statement on the date the Fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes in the value of the asset are recognised in the Fund account.

The values of investments as shown in the net asset statement have been determined at fair value in accordance with the requirements of the Code and IFRS 13 (see Note 16).

**(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 20.

**(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 2016. They are disclosed in Note 23**.**

**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 31st March 2018 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 | The effects on the net pension liability of changes in assumptions can be measured. For instance,<br>• a 0.5% increase in the discount rate assumption would result in a decrease in the pension liability of £67.1 million.<br>• a 0.2% increase in assumed earnings would increase the value of liabilities by approximately £2.1 million. |

| | | |
|---|---|---|
| | fund with expert advice about the assumptions to be applied. | • a one-year increase in assumed life expectancy would increase the liability by approximately £32.4 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 £52.942 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 £0.592 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 19. 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 £52.942 million (£56.334 million on 31 March 2017).

## 6. Events after the Balance Sheet date

There have been no material events after the balance sheet date.

## 7. Accounting Standards issued but no yet adopted

At the balance sheet date, the following new standards and amendments to existing standards had been published but not yet adopted by the Code of Practice on Local Authority Accounting in the United Kingdom:

- IFRS 9 Financial Instruments, which introduces extensive changes to the classification and measurement of financial assets, and a new “expected credit loss” model for impairing financial assets. The impact will be to reclassify assets currently classified as loans and receivables to amortised cost. There are not expected to be any changes in the measurement of financial assets and the Fund does not at this stage anticipate any adjustments for impairments.

- IFRS 15 Revenue from Contracts with Customers, presents new requirements for the recognition of revenue, based on a control-based revenue recognition model. The Fund does not have any revenue streams within the scope of the new standard.

- IAS 7 Statement of Cash Flows (Disclosure Initiative), will potentially require some additional analysis of Cash Flows from Financing Activities, however since the Fund is not currently required to prepare a Cash Flow Statement it does not anticipate any additional disclosure.

- IAS 12 Income Taxes (Recognition of Deferred Tax Assets for Unrealised Losses), applies to deferred tax assets related to debt instruments measured at fair value. Currently the Fund does not hold such financial instruments.

## 8. Contributions receivable

| By category | 2017-18 | 2016-17 |
|---|---|---|
| | £000 | £000 |
| **Employee contributions** | **(6,636)** | **(6,540)** |
| Employer contributions | | |
| - Normal contributions | (15,611) | (14,058) |
| - Deficity recovery contributions | (9) | (2,543) |
| - Augmentation contributions | (764) | (611) |
| **Total employers' contributions** | **(16,384)** | **(17,212)** |
| **Total** | **(23,020)** | **(23,752)** |

| By authority | 2017-18 | 2016-17 |
|---|---|---|
| | £000 | £000 |
| Administering authority | (18,691) | (19,004) |
| Scheduled bodies | (2,013) | (2,151) |
| Admitted bodies | (2,316) | (2,597) |
| **Total** | **(23,020)** | **(23,752)** |

## 9. Benefits payable

| By category | 2017-18 | 2016-17 |
|---|---|---|
| | £000 | £000 |
| Pensions | 24,332 | 23,027 |
| Commutation and lump sum retirement benefits | 4,232 | 4,457 |
| Lump sum death benefits | 462 | 552 |
| **Total** | **29,026** | **28,036** |

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

| By authority | 2017-18 | 2016-17 |
|---|---|---|
| | £000 | £000 |
| Administering authority | 26,229 | 25,464 |
| Scheduled bodies | 282 | 358 |
| Admitted bodies | 2,515 | 2,214 |
| **Total** | **29,026** | **28,036** |

## 10. Management expenses

| | 2017-18 | 2016-17 |
|---|---|---|
| | £000 | £000 |
| Administrative costs | 559 | 606 |
| Investment management expenses | | |
| - management fees | 2,691 | 2,457 |
| - transaction costs | 0 | 71 |
| - custody fees | 66 | 38 |
| Oversight and governance costs | 181 | 232 |
| **Total** | **3,497** | **3,404** |

### 11. Investment income

| | £000 | £000 |
|---|---|---|
| Equity dividends | (4,983) | (4,626) |
| Pooled property investments | (1,626) | (2,287) |
| Other investment income | (170) | 0 |
| Private equity income | 0 | (3) |
| Interest on cash deposits | (49) | (44) |
| **Total** | **(6,828)** | **(6,960)** |
| Taxes on income | 272 | 109 |
| **Total** | **(6,556)** | **(6,851)** |

### 12. Movements in investments

| **Market value 2017-18** | **1 April 2017** | **Purchases** | **Sales** | **Changes in market value** | **31 March 2018** |
|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | **£'000** |
| Equities | 245,229 | 81,146 | (68,314) | 540 | **258,601** |
| Pooled investments | 686,805 | 254,383 | (253,664) | 30,902 | **718,426** |
| Pooled property investments | 41,607 | 0 | 0 | 2,905 | **44,512** |
| Private equity/infrastructure | 56,076 | 4,464 | (10,442) | 2,844 | **52,942** |
| **Sub-total** | **1,029,717** | **339,993** | **(332,420)** | **37,191** | **1,074,481** |
| Investment income due | 708 | | | 0 | **464** |
| Amount receivable for sales of investments | 544 | | | 1 | **0** |
| Spot FX contracts | 3 | | | (65) | **0** |
| Cash deposits | 13,587 | | | (230) | **4,612** |
| Amounts payable for purchases of investments | 0 | | | 0 | **(391)** |
| **Net investment assets** | **1,044,559** | **339,993** | **(332,420)** | **36,897** | **1,079,166** |

The table below has been restated to show the investments by asset type as per the Code of Practice. Current assets and liabilities not investment related have been stripped out.

| **Market Value 2016-17** | **1 April 2016** | **Purchases** | **Sales** | **Changes in market value** | **31 March 2017** |
|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | **£'000** |
| Equities | 213,635 | 46,929 | (73,427) | 58,092 | **245,229** |
| Pooled investments | 517,573 | 291,158 | (262,638) | 140,712 | **686,805** |
| Pooled property investments | 42,138 | 0 | 0 | (531) | **41,607** |
| Private equity/infrastructure | 48,798 | 5,178 | (9,193) | 11,293 | **56,076** |
| Forward currency contracts | 0 | 216 | 0 | (216) | **0** |
| **Sub-total** | **822,144** | **343,481** | **(345,258)** | **209,350** | **1,029,717** |
| Investment income due | 181 | | | 0 | **708** |
| Amount receivable for sales of investments | 0 | | | (1) | **544** |
| Spot FX contracts | 0 | | | (157) | **3** |
| Cash deposits | 18,018 | | | 437 | **13,587** |
| **Net investment assets** | **840,343** | **343,481** | **(345,258)** | **209,629** | **1,044,559** |

### 13. Investments by Fund Manager

| Fund Manager (market value) | 31 March 2018 | | 31 March 2017 | |
|---|---|---|---|---|
| | £'000 | % | £'000 | % |
| L and G Liquidity | 72,786 | 6.7 | 72,507 | 6.9 |
| Baillie Gifford | 249,532 | 23.1 | 220,788 | 21.1 |
| Longview | 263,092 | 24.4 | 257,867 | 24.7 |
| L and G Equities | 295,729 | 27.4 | 290,682 | 27.8 |
| Pyrford | 100,379 | 9.3 | 102,829 | 9.8 |
| CBRE | 28,382 | 2.6 | 26,574 | 2.5 |
| KAMES | 16,139 | 1.5 | 16,828 | 1.6 |
| Adams Street | 52,942 | 4.9 | 56,334 | 5.4 |
| London CIV | 150 | - | 150 | - |
| **Total Fund Managers** | **1,079,131** | **100.0** | **1,044,559** | **100.0** |
| Cash held at custody | 35 | | 5,414 | |
| **Total Investments** | **1,079,166** | | **1,049,973** | |

### 14. Investments exceeding 5% of Net Assets

| Fund Manager (market value) | 31 March 2018 | | 31 March 2017 | |
|---|---|---|---|---|
| | £'000 | % | £'000 | % |
| L and G Liquidity | 72,786 | 6.7 | 72,507 | 6.9 |
| Baillie Gifford | 249,532 | 23.1 | 220,788 | 21.1 |
| Longview | 263,092 | 24.4 | 257,867 | 24.7 |
| L and G Equities | 295,729 | 27.4 | 290,682 | 27.8 |
| Pyrford | 100,379 | 9.3 | 102,829 | 9.8 |
| **Total Fund Managers** | **981,518** | **90.9** | **944,673** | **90.3** |
| | | | | |
| **Total Investments** | **1,079,166** | | **1,049,973** | |

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%.

### 15. 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 2018 | 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 | 36,322 | 0 | 0 | **36,322** |
| - UK unquoted | 150 | 0 | 0 | **150** |
| - Overseas | 222,129 | 0 | 0 | **222,129** |
| **Sub-total** | **258,601** | **0** | **0** | **258,601** |
| **Pooled funds - investment vehicles** | | | | |
| - UK pooled liquidity fund | 72,786 | 0 | 0 | **72,786** |
| - Pooled global equities | 545,261 | 0 | 0 | **545,261** |
| - Pooled global absolute return fund | 100,379 | 0 | 0 | **100,379** |
| - Pooled property investments | 44,512 | 0 | 0 | **44,512** |
| - Pooled private equity funds (unquoted) | 52,942 | 0 | 0 | **52,942** |
| ;- Investment income due | 0 | 464 | 0 | **464** |
| - Cash with investment managers | 0 | 4,612 | 0 | **4,612** |
| - Cash with administering authority | 0 | 2,096 | 0 | **2,096** |
| - Debtors | 0 | 2,060 | 0 | **2,060** |
| **Sub-total** | **815,880** | **9,232** | **0** | **825,112** |
| **Financial liabilities** | | | | |
| - Creditors | (391) | 0 | (1,548) | **(1,939)** |
| **Sub-total** | **(391)** | **0** | **(1,548)** | **(1,939)** |
| **Total** | **1,074,090** | **9,232** | **(1,548)** | **1,081,774** |

| 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 | 0 | 5,059 | 0 | **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** |

## 16. 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 2018 | | | | 31 March 2017 * | | | |
|---|---|---|---|---|---|---|---|---|
| | **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 | 258,451 | 762,938 | 53,092 | **1,074,481** | 245,079 | 728,416 | 56,226 | **1,029,721** |
| **Total financial assets** | **258,451** | **762,938** | **53,092** | **1,074,481** | **245,079** | **728,416** | **56,226** | **1,029,721** |
| **Financial liabilities** | | | | | | | | |
| - at fair value through profit and loss | 0 | (391) | 0 | **(391)** | 0 | 0 | 0 | **0** |
| **Total financial liabilities** | **0** | **(391)** | **0** | **(391)** | **0** | **0** | **0** | **0** |
| **Net financial assets** | **258,451** | **762,547** | **53,092** | **1,074,090** | **245,079** | **728,416** | **56,226** | **1,029,721** |

*** Amounts for 2017 have been restated to reflect classification of the Legal & General Portfolios as Level 2 investments as they derive their values from underlying investments. Loans and Receivables have been removed from the table as they are not held at fair value.**

## 17. 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 2018 | 1,002,545 | 1,102,800 | 902,291 |
| At 31 March 2017 | 981,472 | 1,079,619 | 883,325 |

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 below.

| Assets exposed to interest rate risk | Value | Value on 1% increase | Value on 1% decrease |
|---|---|---|---|
| | £'000 | £'000 | £'000 |
| At 31 March 2018 | 77,005 | 77,775 | 76,235 |
| At 31 March 2017 | 142,342 | 143,765 | 140,919 |

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 2018 | 908,993 | 999,892 | 818,094 |
| At 31 March 2017 | 886,376 | 975,014 | 797,738 |

### (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.

## 18. Contractual Commitments

As at 31st March 2018, the Fund had a commitment to invest a further £29.5m 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.

## 19. 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 31st 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 31st March 2019.

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 2017-18, the common contribution rate is 17.5% 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** | **March 2013** |
|---|---|---|
| | % | % |
| Consumer Price Index (CPI) increases | 2.4 | 2.7 |
| Salary increases | 3.9 | 4.5 |
| Pension increases | 2.4 | 2.7 |
| Discount rate | 4.9 | 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 31st March 2013 was £630m and the actuary assessed the present value of the funded obligation at £663m on indicating a net liability of £33m, resulting in a funding level of 95%. This was the basis for the contribution rates during 2016-17.

As at 31st March 2016, the actuary's smoothed market value of the scheme's assets had risen to £841m and the actuary assessed the present value of the funded obligation at £815m indicating a net surplus of £26m, resulting in a funding level of 103%.

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

**20. Actuarial Present Value of Promised Retirement Benefits**

The table below shows the total net liability of the Fund as at 31st March 2018. 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 2018 | 31 March 2017 |
|---|---|---|
| | £'000 | £'000 |
| Present value of promised retirement benefits | | |
| - Vested obligation | (1,302,103) | (1,289,791) |
| - Non vested obligation | (39,199) | (43,177) |
| Fair value of scheme assets (bid value) | 1,080,781 | 1,033,307 |
| **Net liability** | **(260,521)** | **(299,661)** |

Financial assumptions

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

| **Financial assumptions** | **31 March 2018** | **31 March 2017** |
|---|---|---|
| | % | % |
| Retail Price Index (RPI) increases | 3.3 | 3.6 |
| Consumer Price Index (CPI) increases | 2.3 | 2.7 |
| Salary increases | 3.8 | 4.2 |
| Pension increases | 2.3 | 2.7 |
| Discount rate | 2.6 | 2.8 |

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 2018** | **31 March 2017** |
|---|---|---|
| | Years | Years |
| Retiring today | | |
| - Males | 24.5 | 24.4 |
| - Females | 26.1 | 26.0 |
| Retiring in 20 years | | |
| - Males | 26.8 | 26.6 |
| - Females | 28.4 | 28.3 |

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.

## 21. Current Assets

| | 31 March 2018 | 31 March 2017 |
|---|---|---|
| | £'000 | £'000 |
| Debtors | | |
| - Contributions due - employers | 321 | 332 |
| - Contributions due - employees | 105 | 190 |
| - Sundry debtors | 1,634 | 2,236 |
| **Sub-total** | **2,060** | **2,758** |
| Cash balances | 2,096 | 5,059 |
| **Total** | **4,156** | **7,817** |

| Analysis of debtors | 31 March 2018 | 31 March 2017 |
|---|---|---|
| | £000 | £000 |
| Central government bodies | 448 | 187 |
| Other local authorities | 0 | 0 |
| Royal Borough of Kensington and Chelsea | 61 | 609 |
| Other entities and individuals | 1,551 | 1,962 |
| **Total** | **2,060** | **2,758** |

### 22. Current Liabilities

| | 31 March 2018 | 31 March 2017 |
|---|---|---|
| | £'000 | £'000 |
| Creditors | | |
| - Sundry creditors | (1,548) | (511) |
| - Benefits payable | 0 | 0 |
| **Sub-total** | **(1,548)** | **(511)** |
| Cash overdrawn | 0 | 0 |
| **Total** | **(1,548)** | **(511)** |

| Analysis of creditors | 31 March 2018 | 31 March 2017 |
|---|---|---|
| | £'000 | £'000 |
| Central government bodies | (1,028) | 0 |
| Other local authorities | 0 | 0 |
| Royal Borough of Kensington and Chelsea | (278) | 0 |
| Other entities and individuals | (242) | (511) |
| **Total** | **(1,548)** | **(511)** |

### 23. 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 2017-18, AVC contributions of £0.546 million (£0.471 million in 2016-17) were paid to the provider, Prudential. The market value of these funds at 31st March 2018 is £3.783m (£3.333m 31st March 2017).

### 24. Related Party Transactions

The Fund is administered by the Royal Borough of Kensington and Chelsea. The Council incurred, and was reimbursed for, costs of £0.323m in the financial year 2017-18 (£0.238m in 2016-17) in relation to administration costs.

In year, and in total, the Council contributed £13.209 million to the Fund compared to £13.654m in 2016-17. At 31st March 2018 the Council owed the Pension Fund a net amount of £0.061m (£0.609m at 31st March 2017).

They key management personnel of the Fund are the Members of the Investment Committee, the Executive Director of Resources and Assets and the Tri-Borough Director of Pensions and Treasury. No remuneration was payable to key management personnel by the Pension Fund during the year.

## 25. 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 2017-18 the Fund paid the gross sum of £0.248m (£0.233m in 2016-17) on behalf of Royal Borough of Kensington and Chelsea.

## 26. External Audit Costs

The external audit fee payable to Fund's external auditors, KPMG LLP, was £21,000 (£21,000 in 2016-17).

## The London Residuary Board Transferred Functions Income and Expenditure Statement

| | 2017-18 Gross Expenditure £'000 | 2017-18 Gross Income £'000 | 2017-18 Net Expenditure £'000 | 2016-17 Net Expenditure £'000 | Notes |
|---|---|---|---|---|---|
| **Income and expenditure on services** | | | | | |
| General costs | 167 | 0 | **167** | 41 | **1** |
| Adjustment to provisions | 0 | 273 | **(273)** | (187) | **2** |
| Adjustment to assets and liabilities | 0 | 0 | **0** | 0 | |
| Interest | 0 | 9 | **(9)** | (9) | **3** |
| **(Surplus) / deficit for the year** | **167** | **282** | **(115)** | (155) | |

## Statement of Movement on the LRB Balance

| | 2017-18 £'000 | 2016-17 £'000 |
|---|---|---|
| **Balance brought forward at 1 April** | **(3,952)** | **(3,797)** |
| (Surplus) / deficit for the year on Income and Expenditure Account | (115) | (155) |
| **Total assets** | **(4,067)** | **(3,952)** |

## LRB Transferred Functions Balance Sheet

| | 2017-18 £'000 | 2016-17 £'000 | Notes |
|---|---|---|---|
| **Current assets** | | | |
| Current debtors | 0 | 0 | |
| Temporary investment with the Council | 4,135 | 4,292 | |
| **Total assets** | **4,135** | **4,292** | |
| **Current liabilities** | | | |
| Creditors | 0 | 0 | |
| **Total assets less current liabilities** | **4135** | **4,292** | |
| **Long term liabilities** | | | |
| Provisions | (68) | (340) | **2** |
| **Net Assets** | **4,067** | **3,952** | |
| Represented by: | | | |
| LRB balance | (4,067) | (3,952) | |
| **Total net worth** | **(4,067)** | **(3,952)** | |

# LONDON RESIDUARY BODY

## Introduction

The Council inherited Inner-London functions from the LRB as follows:

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

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

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

During 1992-93, the LRB's insurers, MMI ceased accepting new business. The LRB is a member though 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 an increase in claims payments during 2017-18 as a result of closure of outstanding claims.

2. The provision held relates entirely to public liability claims and has reduced significantly due to closure of 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.

**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).

# GLOSSARY OF TERMS

**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).