

# Statement of Accounts 2020/21



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THE ROYAL BOROUGH OF  
KENSINGTON  
AND CHELSEA

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# Narrative Report

## Introduction

2020/21 has certainly been a year like no other. The unprecedented public health emergency has brought huge challenges to the residents and businesses of Kensington and Chelsea who have been hit hard by the virus and also by the economic effects of the lockdowns. I am proud of the role the Council has played in the fight against the virus, supporting residents and businesses over the last 12 months through providing additional services as well as financial support to those in need. We all hope the ongoing success of the vaccination programme means we are now moving onto recovery from the pandemic, both for the Council and for the Borough itself.

For Kensington and Chelsea, the ongoing impact of the Grenfell tragedy adds another dimension to the experience of the pandemic. The bereaved, survivors and those in the local community are living through two crises in short succession and, for many affected by Grenfell, COVID-19 amplifies and compounds existing challenges. The borough has transitioned from response to recovery and is part way through delivering the five-year Grenfell Recovery Strategy which was agreed back in January 2019. The refreshed Council Plan has confirmed Grenfell Recovery will continue to be the borough's top priority for many years to come. We recognise the Public Inquiry and criminal investigation will be vital, and the Council will continue to support the search for truth, adhering to the commitments set out in the Charter for Bereaved Families.

In March 2020, the Council agreed its 2021/22 budget. The Council took the necessary decision to implement a council tax increase of 2.99% plus a 2% additional precept for social care. Despite this increase, the local element of Council Tax was the 4<sup>th</sup> lowest of the 33 London boroughs (including the City of London).

Prior to the pandemic the Council was already facing significant financial challenges which have been increased still further by the substantial income losses and additional cost pressures that COVID-19 has brought us. Performance against this budget is summarised within this report and spending plans against business as usual core services last year were broadly in line with the original budget set. However, a combination of additional cost pressures and more significantly a big reduction in the Council's income streams led to an overspend on services of £23 million. Thankfully during 2020/21 we have been able to mitigate this through additional grants and use of our contingency budget. However, these grant levels will be significantly reduced in 2021/22 and there is a big risk for the Council that these income streams will take some years to recover their pre-pandemic levels if indeed they do at all.

In December 2020, the Council's Leadership Team approved the COVID-19 Recovery Programme. This will look at how we address the community, environmental, economic and health challenges and I know that this will come up with some good proposals to improve the lives of residents, particularly those who have been most affected by the pandemic. The Council's 2021/22 budget has set aside £8 million specifically to enable us to bring about real recovery in these areas.

Looking forward, the future of local authority funding remains uncertain as new Local Government funding arrangements that were meant to be in place by April 2020 have been delayed and are not now expected until 2023. Early indications are that these changes may well see London boroughs lose out on funding when these changes are finally implemented. If the pandemic does lead to a permanent change in peoples' behaviour and habits this could also vastly reduce many of the Council's income streams, including business rates and income generated through our 56,000 a day visitor population.

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The Council is facing financial pressures across the board including its Housing Revenue Account, Dedicated Schools Grant, and the core General Fund where the Council is currently facing a £28 million budget gap over the next four years. Whilst the Council holds reserve balances, these include a significant allocation ringfenced to support Grenfell recovery, support to deliver transformation to unlock savings, and a prudent proportion for meeting the impact of local unexpected events. We cannot rely on reserves and efforts must be made to meet ongoing budget challenges through a planned approach to expenditure reductions or increasing income generation. Reserves are best used to protect against one-off unforeseen circumstances (as proven by COVID-19) or to enable investment in transformative initiatives that can deliver a return in the long term.

Our initial focus is to consider how we do things and learning the lessons from the pandemic. The Transitions Programme for which I am responsible is a range of cross-cutting activities that will ensure the Council challenges itself to be more ambitious, productive, and innovative whilst maintaining and improving outcomes for our residents, businesses, and staff; looking at our staffing structures and operating models, our contract arrangements, our income collection, the efficiency of our buildings and how we engage with residents through the implementation of our Customer Access Strategy. I am optimistic this programme along with the COVID-19 Recovery Programme will ensure the Council and the Borough itself emerges from this pandemic better and stronger whilst also balancing its books. However, this alone will not solve our budget challenges so we are also reviewing our capital programme, looking at how we can deliver the same or better outcomes for less and will do all of this within the context of our Council Plan – ensuring that our spending plans are aligned with the priorities of our residents.

Mike Curtis  
Executive Director of Resources

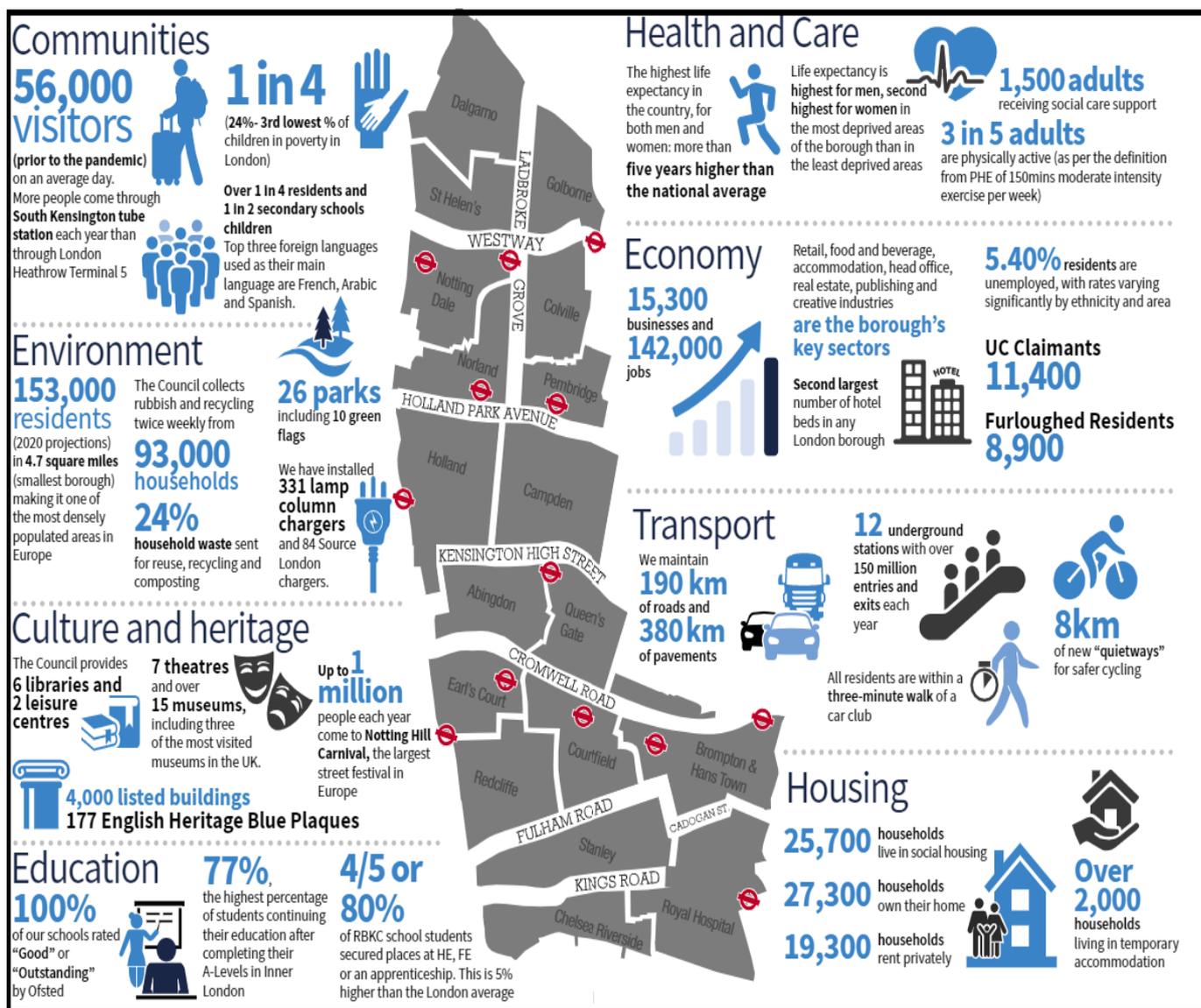


# Narrative Report

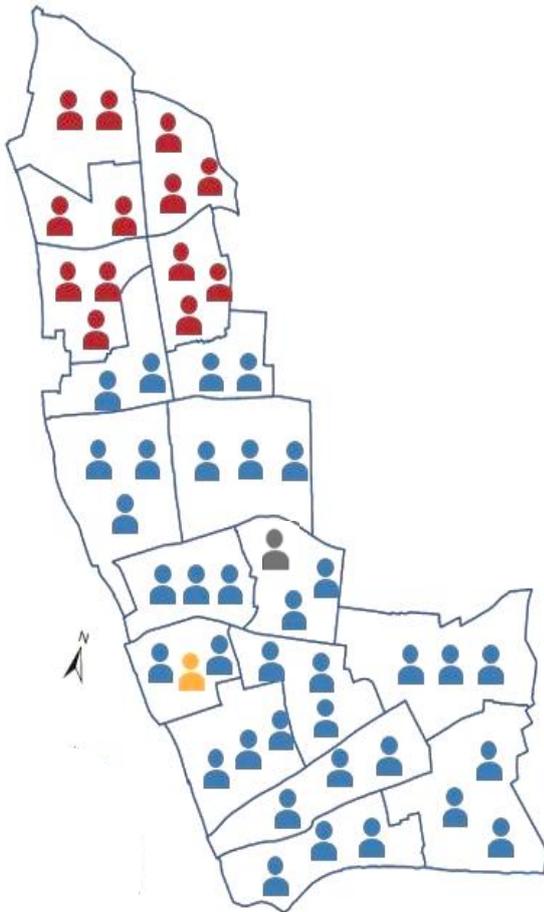
## About the Borough

Kensington and Chelsea is a unique central London borough, home to places of great cultural importance, diverse communities and attractive streets and squares. Whilst it has the smallest population of any London borough at 156,000, early forecasts indicate numbers will fall even further in the coming years and London's population is expected to decline for the first time in 35 years due to the pandemic and Brexit. The borough does however have the fourth highest population density in London, which brings challenges around traffic congestion, air pollution and noise nuisance and a visitor population usually on average of 56,000 per day.

The Council Plan and the Medium-Term Financial Strategy seek to ensure the Council's services are appropriately funded and targeted to meet the unique priorities of the borough.



## Political Structure



The Council consists of 50 councillors who are elected for four-year terms. The current political make-up is illustrated here with 35 Conservative Councillors making up a majority, 13 Labour Councillors making up the opposition, 1 Liberal Democrat, and 1 Independent.

Advised by officers, the Council sets the policy and budgetary framework, and the Leadership Team make executive key decisions within this framework.

The Leader annually chooses up to 8 councillors to act as Lead Members and take responsibility for a portfolio of services, and this is agreed at the Full Council Annual General Meeting. The Leader and Lead Members make up the Leadership Team.

### The 8 Portfolios are:

- Adult Social Care and Public Health
- Communities
- Economy, Employment and Innovation
- Grenfell, Housing and Social Investment
- Planning, Place and Environment
- Finance and Customer Delivery
- Community Safety, Culture and Leisure
- Family and Children's Services

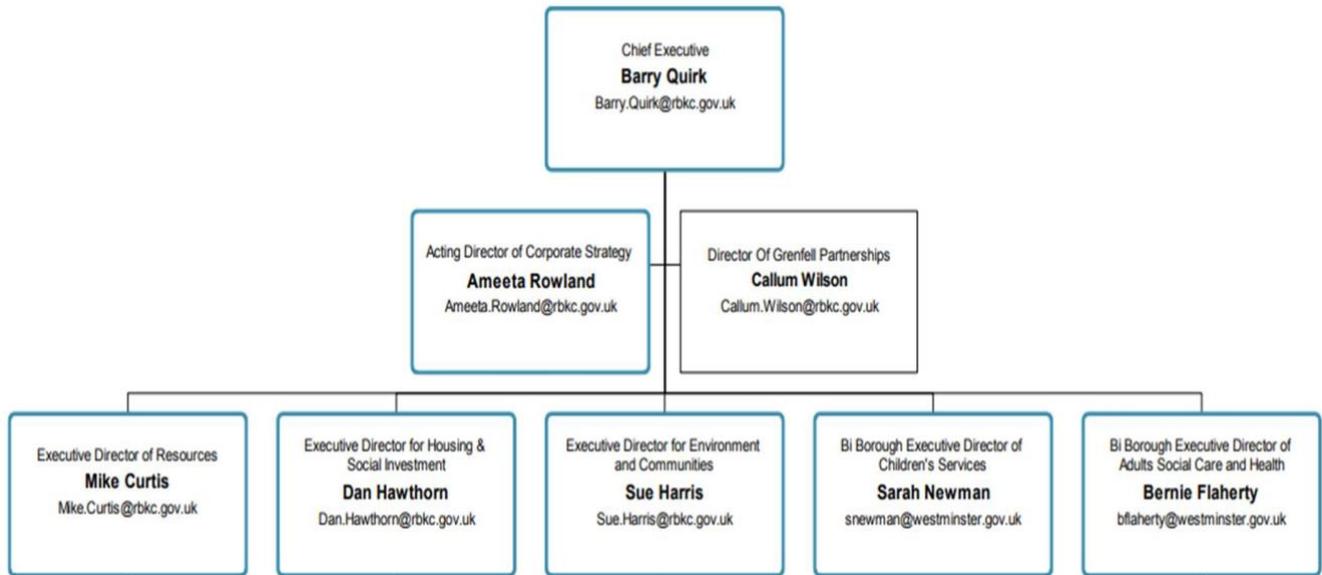
### Within their defined portfolios Lead Members are responsible for:

- Setting the strategic direction of the Council, usually linked to a political document such as a manifesto.
- Being a leader within our communities, (promoting the Council's direction of travel as detailed in our Council Plan, developing partnerships, and consulting on policy proposals).
- Being the public face for the Council's policies and processes.
- Making certain decisions, as defined by the Constitution.

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## Operational Model

Supporting the work of the elected members is the Council’s Executive Management Team (EMT), which is led by Barry Quirk, Chief Executive. This is the structure that is in effect at the time of writing, which consolidates all services into five operational directorates, as shown below:



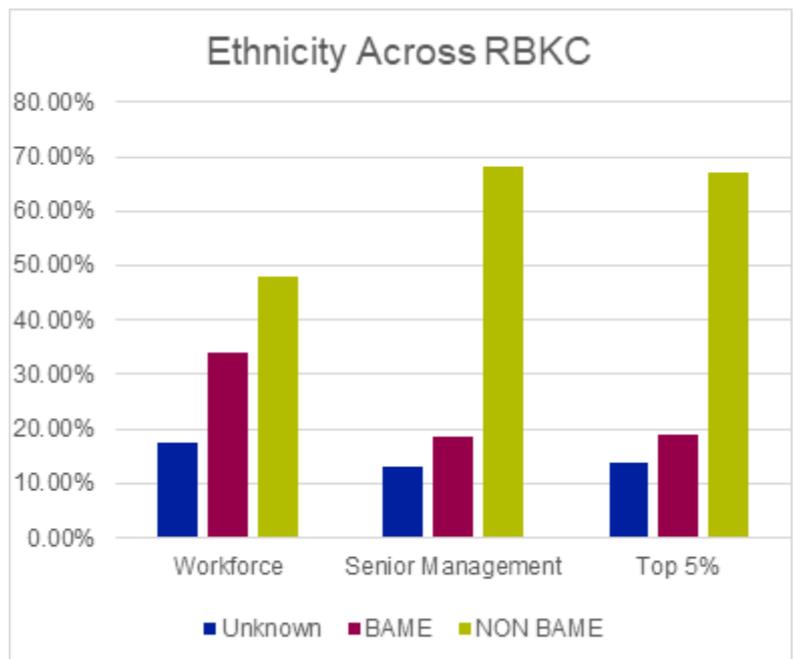
Across these five Executive Directorates, the Council employs 2,416 staff (2,298 FTE), which include some shared services.

The Council operates several shared services with Westminster City Council in respect of Adult Social Care, Public Health, Children’s Services and Libraries. Tri-Borough arrangements are still in place for some services such as Audit, Risk and Assurance, Fostering and Adoption, and Pensions and Treasury.

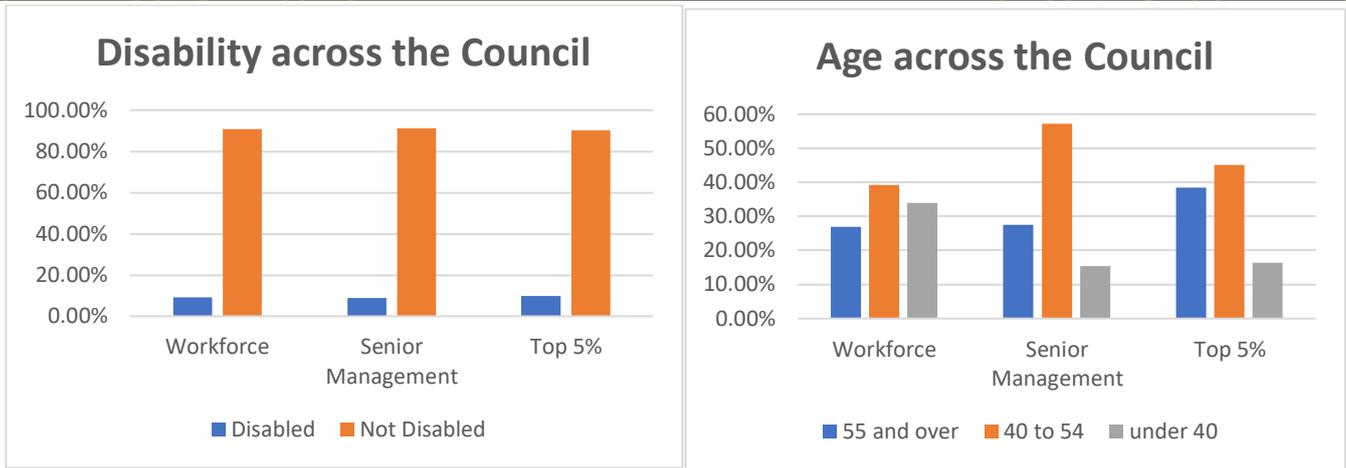
### Who works for the Council?

The Council’s policies ensure promotion of equality and respect for diversity, both through service delivery and as an employer. Our workforce reflects the diversity of the borough, and the Council is committed to increasing its diversity still further. We know that if we can develop an inclusive and empathetic culture in our workforce that this will influence how external organisations act too. The charts opposite and below show this broken down by ethnicity, age and disability.

As at March 2020, the Council’s mean gender pay gap is 6.9% and median gender pay gap is 7.4%.



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## COVID-19 Pandemic

During 2020/21 the COVID-19 pandemic has affected us all; our residents, communities, public institutions, businesses, and voluntary and community organisations.

Over the last 12 months, the Council has been on the front line in the fight against the virus, delivering Government backed support as well as developing and delivering locally funded support for residents. The Council directed essential expenditure to support the borough's residents through the crisis and set up the COVID-19 Hub to support 1,833 vulnerable residents and to ensure any urgent needs were met.

These were some of the ways the Council adapted its services to support residents during 2020/21:

- The Council created a hardship fund of £400,000 to support Council tenants during the pandemic.
- The Council provided emergency accommodation to rough sleepers as part of the national campaign in response to the COVID pandemic.
- The Council provided £150 extra relief for households that already receive partial council tax reduction.
- More than 2,000 virtual parking permits were issued to key workers and are keeping streets clear of obstructions for emergency vehicles and key workers.
- The Council's Home Library Service was relaunched to help tackle isolation and loneliness.
- Changes to front line services overnight to ensure continued support to our most vulnerable residents.
- Ensuring the Council had sufficient supplies of PPE to ensure front line staff and service users were kept as safe as possible from the virus.
- Council playgrounds on housing estates were cleaned more regularly than usual.

It has also been an extremely challenging year for businesses, with many being forced to close during the lockdowns and footfall in the borough being down throughout the year as people stayed at home. In response the Council provided the following support:

- Administrating on behalf of the Government business support grants totalling £109 million to approximately 3,000 businesses.

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- Delivered the business rate holiday promised by the Government, meaning around 2,700 eligible businesses in retail, leisure and hospitality did not pay business rates all year with some of this support extended into 2021/22.
- The Council has provided support to tenants in commercial properties through a combination of rent waivers and payment options depending on the impact of the pandemic.
- Invoices were suspended during the first 3 months of 2020/21 for those using the Council's commercial waste service.

Meanwhile the Council has strived to continue to deliver core services where possible and all staff have been involved in enabling vital service delivery in this difficult period.

The Government support, some use of Council resources and underspends in some areas as demand for services reduced during the pandemic means that all the additional spending and loss of income resulting from the response to the pandemic during 2020/21 can be funded as the table on page 10 shows. The 2021/22 financial year could be quite different – less Government support but still ongoing pressures and the emergence of some new and longer term pressures from COVID-19. There is also a possibility of a bounce back in areas that have seen reduced demand over the last year – particularly in social care. The Council's tax collection through business rates and council tax has been significantly impacted by the pandemic. There is a deficit across both of £9.8 million which is not immediately evident because the impact is not realised until 2021 and the Council took advantage of spreading the deficit over three years. The financial impact will therefore be felt for years to come.

The scale and extent of the pandemic's impact in the longer term is unknown but is very much part of the financial planning over the next few years. This may include long term changes in behaviour for travelling around the borough and London, increased use of online services reducing footfall on our high streets, long term impact on those forced into financial hardship, and the lasting impacts on our children and young people for their education and emotional wellbeing.

Recovering from this unprecedented health and economic crisis will require the Council to look at where it can take different approaches and make interventions that maximise impact and deliver longer term outcomes for our communities. Up to £8 million of additional funding has been identified to support the Council's recovery effort during 2021/22. Further details were set out in the COVID-19 Recovery Strategy that was agreed by Leadership Team in December 2020.

Government financial support over the last year has been a lifeline for individuals, businesses and the Council. In total, the Council received £231 million, of which £109 million the Council has passported directly to businesses, £75 million of further business support, and also £1.4 million to care homes. The remaining has been utilised by the Council to fund new services and support required in response to the pandemic and the spending pressures and loss of income on core services. The table below shows a summary of all the various grants relating to the pandemic the Council received during 2020/21 and a full breakdown is published in the Council's Outturn Report.

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COVID-19 Grants	Amount Received £'000
<b>Service Specific Grants</b>	<b>(6,269)</b>
<b>General Grants</b>	<b>(27,636)</b>
<b>Council Tax and NNDR 75% Compensation Scheme</b>	<b>(8,697)</b>
<b>Paid to Local Adult Social Care Providers</b>	<b>(1,426)</b>
<b>Paid to Local Taxpayers</b>	
- Local Authority Discretionary Grant	(2,228)
- Other Smaller Grants	(261)
<b>Paid to Local Taxpayers Total</b>	<b>(2,489)</b>
<b>Passported to Local Businesses</b>	
- Business Grants	(103,770)
- Local Restrictions Support Grant (Closed)	(5,273)
- Wet-Led Pubs	(64)
<b>Passported to Local Businesses Total</b>	<b>(109,107)</b>
<b>Other Business Support</b>	
- Additional Restrictions Grant	(4,509)
- Covid-19 Business Rate Retail/Nursery Discount	(68,449)
- Local Restrictions Support Grant (Open)	(2,110)
<b>Other Business Support Total</b>	<b>(75,068)</b>
<b>Grand Total</b>	<b>(230,692)</b>

## The Council's Priorities

The refreshed Council Plan was published in June 2021 and sets out the Council's key priorities during the period 2019 to 2023 and describes what the Council will do to deliver or achieve these aims.

### Grenfell

- Continuing our support for the wider community
- Adapting our services in light of the pandemic
- Building a longer-term legacy of learning
- Delivering in partnership

### Great place to live work and learn

- Supporting sectors most affected
- Enhancing local places and spaces
- Increasing local employment opportunities
- Achieving outstanding education for all
- Delivering more affordable homes

### Supporting and safeguarding vulnerable residents

- Continuing targeted support for young people at risk
- Looking beyond recovery to resilience
- Supporting older and more vulnerable residents to be independent
- Working in partnership to address existing and prevent escalating needs

### Healthy clean and safe

- Focusing on everyone's mental health
- Maintaining our clean, safe, attractive spaces
- Continuing our focus on climate action

### A place of culture to visit and explore

- Maintaining investment in our cultural landmarks
- Continuing our support of local talent and culture
- Enhancing our support offer to retail and hospitality
- Recognising our role in the London and UK economy

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These priorities continue to be underpinned by three cross-cutting themes – community involvement, narrowing the gap, and prevention and early intervention. However, the Council recognises the fundamental impact the COVID-19 pandemic has had on residents, businesses, and communities across the borough, in particular the impact on those in the community also affected by the Grenfell tragedy.

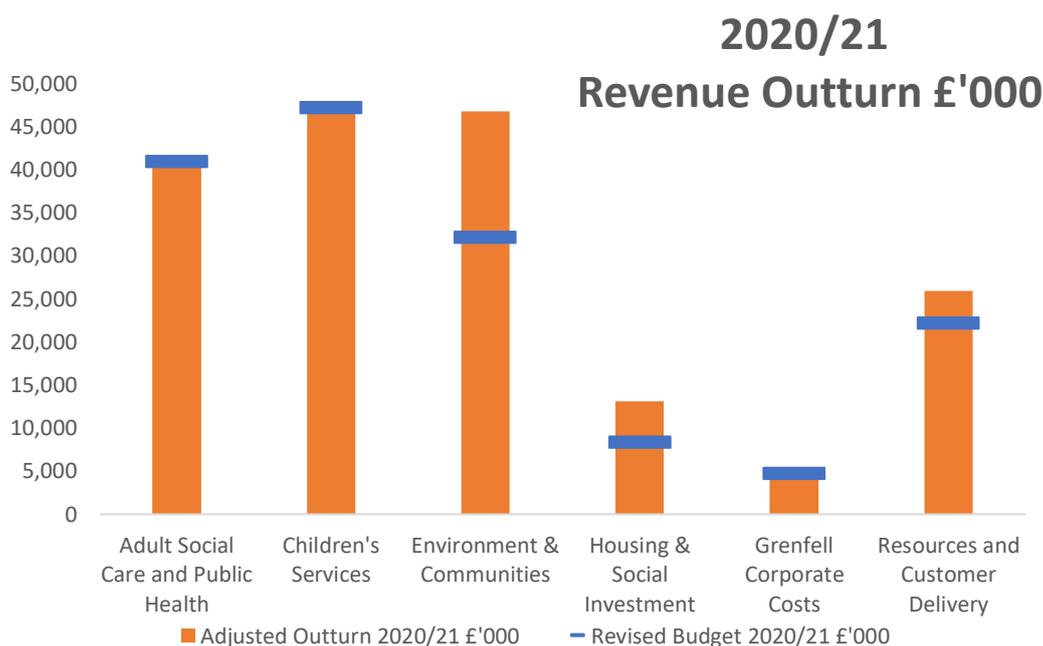
Going forward, the link between strategic and financial planning will be strengthened. The Medium Term Financial Strategy will provide the financial framework and resources for delivery of the priorities and for the first time this year, both will be agreed together by Council.

Aside from the five key priorities above the Council is also striving to become a more inclusive and open organisation where decisions are made in a more transparent, accountable, and equitable way. The Annual Governance Statement includes details of how this is being achieved, including through the Council's new Citizens' Panel which has recently been established. This is a large, demographically representative group of 2,000 residents from across the borough who are regularly invited to give views to help inform council decision making. Panel membership is broadly representative of the borough to ensure a diversity of views are heard. The Council also published the Customer Access Strategy in November 2020 which aims to improve all interactions between residents and the Council.

Equality, diversity and inclusion is central to our approach to public service. Our commitment to equality goes beyond complying with our statutory duties. We are working to remove barriers and supporting individuals and families to reach their full potential by focusing on those with the most urgent and pressing need. We have developed an Equality, Diversity and Inclusion Strategy which sets out our commitments. This includes working with our communities, improving our collection and use of equality data, increasing the diversity of our workforce and encouraging our service suppliers and contractors to adopt equality, diversity and inclusion outcomes.

## Financial Performance 2020/21: Revenue

The Council's day-to-day spending on services is known as revenue expenditure. The end of year position on these budgets during 2020/21 was an overspend of £2.3 million. Service expenditure against budget is shown in the following graph and table below.



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Directorate	Revised Budget £'000	Adjusted Outturn £'000	Variation £'000
Adult Social Care and Public Health	40,946	40,859	(87)
Children's Services	47,183	46,819	(364)
Environment & Communities	32,108	46,776	14,668
Housing & Social Investment	8,363	13,086	4,723
Grenfell Corporate Costs	4,529	4,880	351
Resources and Customer Delivery	22,206	25,931	3,725
<b>Total Service Expenditure</b>	<b>155,335</b>	<b>178,351</b>	<b>23,016</b>
Grenfell Recovery	12,210	12,210	0
<b>Total Service Expenditure (including Grenfell)</b>	<b>167,545</b>	<b>190,561</b>	<b>23,016</b>
<b>Total Levies and Corporate Items</b>	9,548	3,673	(5,875)
<b>COVID-19 Grant Income</b>	0	(24,655)	(24,655)
<b>Use of Reserves</b>	(10,500)	(10,500)	0
<b>Contribution to Collection Fund Deficit 20/21</b>	0	9,786	9,786
<b>Resourcing</b>	(166,593)	(166,543)	50
<b>Total</b>	<b>0</b>	<b>3,628</b>	<b>2,322</b>
Transfer to/(from) Parking Reserve			(3,745)
Transfer to/(from) Budget Stabilisation			1,423
<b>General Fund Deficit/Surplus</b>			<b>0</b>

The overall position on services is a very large overspend of £23 million on services, largely from the impact of the pandemic. However use of government support means this can be funded. As described above the long term impact of the pandemic is uncertain, but the Council expects the financial impact to be long lasting with additional pressures, loss of income and a potential permanent reduction in the Council's business rates and council tax base. At the time of writing additional government support in 2021/22 is significantly lower than 2020/21 with support grants of £7.4 million confirmed and the reimbursement of lost sales, fees and charges only being extended until June 2021. The Council is also committed to fund the £8 million COVID-19 Recovery Framework during 2021/22 from existing reserves.

Further details are available in the Council's Financial Outturn Report.

## Financial Performance 2020/21: Capital

The Council invests money into the purchase, improvement or enhancement of fixed assets that are central to delivery of the public services we provide. These budgets are treated entirely separate to the revenue budgets.

The Council's Capital Strategy will be presented to Council for approval in June 2021 and provides a framework for the allocation of resources to fund capital projects. The total General Fund capital expenditure incurred for the year was £67 million.

Work has continued on a wide range of other projects including £17 million on Barlby School as well as a range of highway related improvements, essential repairs to operational assets, and progressing delivery of the New Homes Delivery Programme (NHDP). There was £6.5 million spend in 2020/21 on the NHDP, mainly in respect to Phase 1 schemes, which although

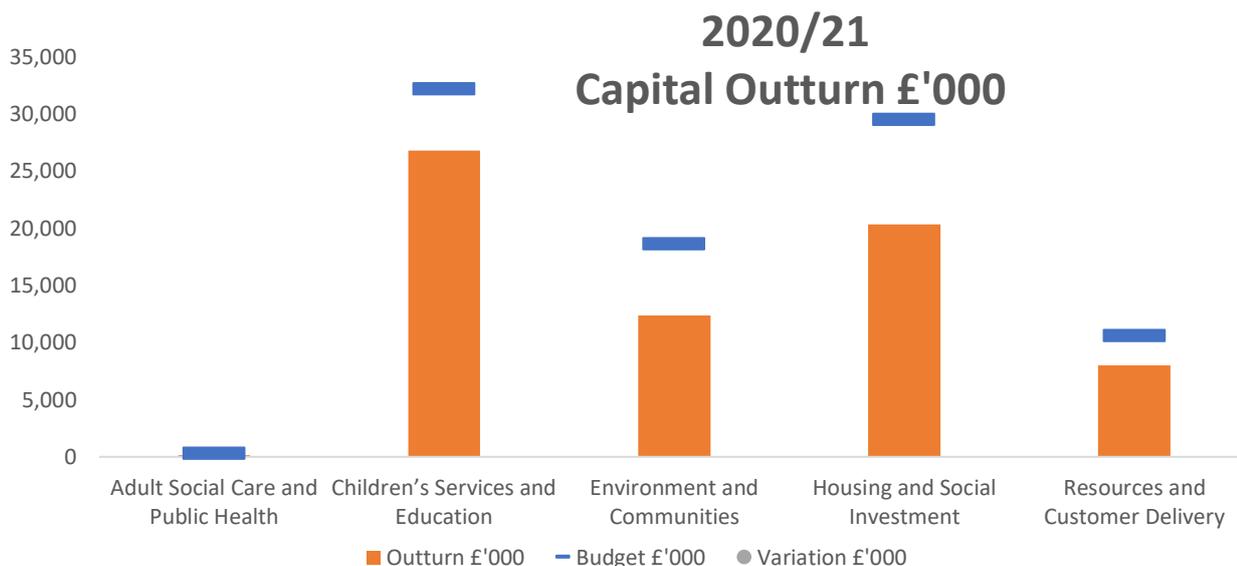
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equates to only 3% of the total £250 million budget, progress is expected to expediate as the Council progresses towards the plan to develop 600 new homes in the borough.

Although during 2020/21 the budget for capital spend overall has again been underspent, this time by £23.6 million against budget, this was not unexpected. At the start of the first lockdown the decision was taken to pause all construction/site-based schemes unless they were essential from a health and safety or fire safety perspective. This pausing had a significant impact on the overall delivery of the programme during 2020/21.

The majority of the net underspend relates to schemes that are delayed and will now be incurred in 2021/22 or future years. Any remaining balances are held in capital contingency against future risks to the Capital Programme.

	<b>Budget</b>	<b>Outturn</b>	<b>Variation</b>
	£'000	£'000	£'000
Adult Social Care and Public Health	270	149	(121)
Children's Services and Education	32,189	26,780	(5,409)
Environment and Communities	18,597	12,369	(6,228)
Housing and Social Investment	29,476	20,327	(9,149)
Resources and Customer Delivery	10,608	7,977	(2,631)
<b>Total</b>	<b>91,140</b>	<b>67,602</b>	<b>(23,538)</b>

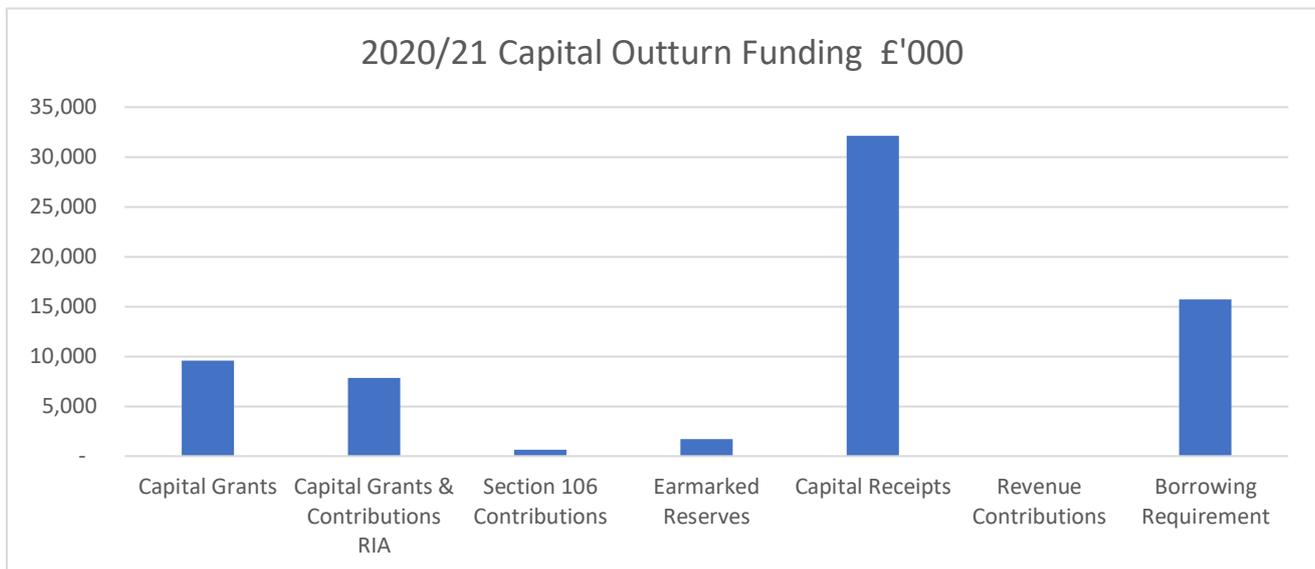


The Council's assumptions on capital funding includes borrowing in the long-term to finance capital expenditure and the principal source of long-term borrowing is the Public Works Loans Board (PWLB). At 31 March 2021, the Council's external borrowing totalled £252.3 million; a slight reduction on the £263.8 million at 31 March 2020. The Council's 2020/21 Treasury Management Strategy had anticipated £80 million of new borrowing during the year, with £11.6 million of PWLB debt being repaid. However cash balances during 2020/21 remained relatively high as a result of the pausing of the capital programme during the first lockdown meaning that fewer capital resources were needed than anticipated at the start of the financial year. Therefore no additional external borrowing was undertaken during the year.

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The Council's capital receipts in year totalled £3.7 million primarily arising from the renewal of leaseholder agreements. There were no significant sales of council assets during the year.

The funding of the capital programme in 2020/21 is summarised below, showing that 23% (£15.7 million) was funded by existing external borrowing.



## Financial Performance 2020/21: Housing Revenue Account (HRA)

The costs of managing and maintaining the Council's housing stock must be charged to a ring-fenced account – the HRA. The Council now directly manages approximately 10,000 dwellings, including leaseholders. Annual income from these dwellings is in the region of £60 million.

The HRA closed its 2020/21 accounts with an in-year surplus of £901,000. This is after making provision of £2.4 million for water charge rebates following the recent legal ruling.

At 31 March 2021, the HRA working balance increased to £8.4 million. Management's view is that a minimum working balance of £5 million should be maintained.

The total capital expenditure in 2020/21 amounted to £26.1 million compared to an original budget of £44.9 million. This change in expenditure reflects delays arising from the Covid pandemic and the reprofiling of some capital schemes.

## Risks

A risk management strategy is in place to identify and evaluate risks. Councillors considered a risk analysis of the Council's proposed budget for 2021/22 when setting the budget at Full Council in March 2021.

The Council's financial risks are published in the Medium Term Financial Strategy whilst the Council's other strategic risks, as well as its overall approach to risk and governance, is set out in full in the Annual Governance Statement.

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## Introduction to the Statutory Accounts

The **Statutory Accounts** set out the Council's income and expenditure for the year, and its financial position at 31 March 2021. This covers the General Fund (GF), Housing Revenue Account (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 2020/21, 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 **Movement in Reserves Statement** (MIRS) on page 27 shows the movement from the start to the end of the year on the different reserves held by the Council, analysed into 'usable' reserves (i.e. those that can currently be used to fund expenditure or reduce local taxation) and other 'unusable' reserves. The level of usable reserves, the Council's spending plans and other sources of funding will determine how much council tax needs to be raised.

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.

Statutory adjustments are made to usable reserves to remove transactions that are required by accounting standards and add transactions required by statute. For example, accounting standards require depreciation to be charged to the general fund to represent the cost of assets used in the delivery of services. Statute requires that all capital transactions are removed from the general fund. Depreciation is therefore taken out of the general fund and replaced with the minimum revenue provision (MRP). The MRP represents the Council's estimate of how much it should contribute to capital expenditure each year and is approved by members at the start of every year.

The **Comprehensive Income and Expenditure Statement** (CIES) on page 28 records all Council 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. This means that it does not have the same headings you see in commercial financial statements. The bottom part deals with corporate accounting transactions and funding. The CIES shows the accounting position of the Council before statutory overrides are applied.

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

The **Balance Sheet** on page 29 is a "snapshot" of the Council's assets, liabilities, cash balances and reserves at the year-end date. It shows the value as at 31 March of the assets

# Narrative Report

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** on page 30 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. Notes are only provided where the amounts involved are material. Materiality is determined by the magnitude of the disclosure and the potential for the user of the accounts being influenced by any omission.

The **Supplementary Financial Statements** on pages 88 to 121 provide details of the HRA, Collection Fund 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 **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 Account** – 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.

The **Annual Governance Statement** on pages 139 to 151 sets out the governance structures of the Council and its key internal controls. This statement is not formally part of the accounts

# Narrative Report

but published alongside to provide details of the risk and control framework within which the Council operates.

## Feedback

We are always seeking to improve our Statement of Accounts through engaging with residents and businesses who are amongst our key stakeholders. If you have any feedback on any items within the accounts or ideas on how we can improve the presentation, please contact us at [FinalAccounts@rbkc.gov.uk](mailto:FinalAccounts@rbkc.gov.uk). We welcome your comments.

If you need any part of this document in a different format or would like to discuss the content of any graphics or tables, please email [Lubna.Nasir@rbkc.gov.uk](mailto:Lubna.Nasir@rbkc.gov.uk). We will consider your request and get back to you within two working days.

Copies of these financial statements can be obtained by contacting:

Lubna Nasir CPFA ACMA(UK) CGMA  
Chief Accountant  
Kensington Town Hall  
Hornton Street  
London W8 7NX

# 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
- manage its affairs to secure economic, efficient, and effective use of resources and safeguard its assets
- 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
- 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 2020/21 (set out on pages 27 to 94 and 100 to 138) gives a true and fair view of the financial position of the Council as at 31 March 2021 and its income and expenditure for the year ended 31 March 2021.



Mike Curtis  
Executive Director of Resources (CFO)



Cllr Ian Wason  
Chairman, Audit and Transparency Committee

30 September 2021

## Report on the Audit of the Financial Statements

### Opinion on financial statements

We have audited the financial statements of the Royal Borough of Kensington and Chelsea (the 'Authority') for the year ended 31 March 2021, which comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the HRA Income and Expenditure Statement, the Movement on the HRA Statement, the Collection Fund Account and notes to the financial statements, including a summary of significant accounting policies. The notes to the financial statements include the Technical Notes, Judgements and Assumptions, the Notes to the Movement in Reserves Statement, the Notes to the Comprehensive Income and Expenditure Statement, the Notes to the Balance Sheet, the Notes to the Cash Flow Statement, the Notes to the Housing Revenue Account, the Notes to the Collection Fund and the Accounting Policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2021 and of its expenditure and income for the year then ended;
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law, as required by the Code of Audit Practice (2020) ("the Code of Audit Practice") approved by the Comptroller and Auditor General. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Emphasis of matter – contingent liability in respect of the Grenfell Tower fire

We draw attention to Note 32 to the financial statements, which describes the existence of a contingent liability in respect of the tragic fire at Grenfell Tower on 14 June 2017. As disclosed in note 32, the Metropolitan Police continues to investigate the Authority, Kensington and Chelsea Tenant Management Organisation and other parties for corporate manslaughter and the public inquiry continues to look into the causes of the fire. In management's opinion, it is therefore not possible to quantify any liability resulting from this investigation, which is yet to conclude, or any financial liability for civil claims, as financial quantum is yet to be presented in the civil claims process and liability apportioned between various defendants. Our opinion is not modified in respect of this matter.

### Conclusions relating to going concern

We are responsible for concluding on the appropriateness of the Executive Director of Resources' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material

# Independent Auditor's Report to Members

uncertainty exists related to events or conditions that may cast significant doubt on the Authority's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Authority to cease to continue as a going concern.

In our evaluation of the Executive Director of Resources' conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21 that the Authority's financial statements shall be prepared on a going concern basis, we considered the inherent risks associated with the continuation of services provided by the Authority. In doing so we had regard to the guidance provided in Practice Note 10 Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020) on the application of ISA (UK) 570 Going Concern to public sector entities. We assessed the reasonableness of the basis of preparation used by the Authority and the Authority's disclosures over the going concern period.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Authority's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the Executive Director of Resources' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. The responsibilities of the Executive Director of Resources with respect to going concern are described in the 'Responsibilities of the Authority, the Executive Director of Resources and Those Charged with Governance for the financial statements' section of this report.

## **Other information**

The Executive Director of Resources is responsible for the other information. The other information comprises the information included in the Statement of Accounts, other than the financial statements, our auditor's report thereon and our auditor's report on the pension fund financial statements. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

## **Other information we are required to report on by exception under the Code of Audit Practice**

Under the Code of Audit Practice published by the National Audit Office in April 2020 on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with 'delivering good governance in Local Government Framework 2016 Edition' published by CIPFA and SOLACE or is misleading or inconsistent with the

# Independent Auditor's Report to Members

information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

## **Opinion on other matters required by the Code of Audit Practice**

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority, the other information published together with the financial statements in the Statement of Accounts for the financial year for which the financial statements are prepared is consistent with the financial statements.

## **Matters on which we are required to report by exception**

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application 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 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters.

## **Responsibilities of the Authority, the Executive Director of Resources and Those Charged with Governance for the financial statements**

As explained in the Statement of Responsibilities, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Executive Director of Resources. The Executive Director of Resources is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21, for being satisfied that they give a true and fair view, and for such internal control as the Executive Director of Resources determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Executive Director of Resources is responsible for 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 unless there is an intention by government that the services provided by the Authority will no longer be provided.

The Audit and Transparency Committee is Those Charged with Governance. Those Charged with Governance are responsible for overseeing the Authority's financial reporting process.

## Auditor's responsibilities for the audit of the financial statements

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 an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a 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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

## Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Authority and determined that the most significant, which are directly relevant to specific assertions in the financial statements, are those related to the reporting frameworks (international accounting standards as interpreted and adapted by the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21, the Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015, the Local Government Act 2003, the Local Government Act 1972, the Local Government and Housing Act 1989, the Local Government Finance Act 1988 (as amended by the Local Government Finance Act 1992), and the Local Government Finance Act 2012.
- We enquired of senior officers and the Audit and Transparency Committee concerning the Authority's policies and procedures relating to:
  - the identification, evaluation and compliance with laws and regulations;
  - the detection and response to the risks of fraud; and
  - the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.
- We enquired of senior officers, internal audit and the Audit and Transparency Committee whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.
- We assessed the susceptibility of the Authority's financial statements to material misstatement, including how fraud might occur, by evaluating officers' incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls. We determined that the principal risks were in relation to:
  - journal entries posted which met a range of criteria determined during the course of the audit, in particular those posted around the reporting date which had an impact on the Comprehensive Income and Expenditure Statement, and

# Independent Auditor's Report to Members

- accounting estimates made in respect of the valuation of assets and liabilities in the Balance Sheet.
- Our audit procedures involved:
  - evaluation of the design effectiveness of controls that the Executive Director of Resources has in place to prevent and detect fraud;
  - journal entry testing, with a focus on entries meeting the risk criteria determined by the audit team;
  - challenging assumptions and judgements made by management in its significant accounting estimates in respect of the valuation of land and buildings, including council dwellings and investment property, and the valuation of the net defined benefit pensions liability;
  - assessing the extent of compliance with the relevant laws and regulations as part of our procedures on the related financial statement item.
- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. However, detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as those irregularities that result from fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.
- The team's communications in respect of potential non-compliance with relevant laws and regulations, included the potential for fraud in revenue and expenditure recognition, and the significant accounting estimates related to the valuation of land and buildings, including council dwellings and investment property, and the valuation of the net defined benefit pensions liability.
- Assessment of the appropriateness of the collective competence and capabilities of the engagement team included consideration of the engagement team's:
  - understanding of, and practical experience with, audit engagements of a similar nature and complexity through appropriate training and participation
  - knowledge of the local government sector
  - understanding of the legal and regulatory requirements specific to the Authority including:
    - the provisions of the applicable legislation
    - guidance issued by CIPFA/LASAAC and SOLACE
    - the applicable statutory provisions.
- In assessing the potential risks of material misstatement, we obtained an understanding of:
  - the Authority's operations, including the nature of its income and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.
  - the Authority's control environment, including the policies and procedures implemented by the Authority to ensure compliance with the requirements of the financial reporting framework.

## **Report on other legal and regulatory requirements – the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources**

### **Matter on which we are required to report by exception – the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources**

Under the Code of Audit Practice, we are required to report to you if, in our opinion, we have not been able to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2021.

# Independent Auditor's Report to Members

Our work on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources is not yet complete. The outcome of our work will be reported in our commentary on the Authority's arrangements in our Auditor's Annual Report. If we identify any significant weaknesses in these arrangements, these will be reported by exception in a further auditor's report. We are satisfied that this work does not have a material effect on our opinion on the financial statements for the year ended 31 March 2021.

## **Responsibilities of the Authority**

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

## **Auditor's responsibilities for the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources**

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Authority has made 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 undertake our review in accordance with the Code of Audit Practice, having regard to the guidance issued by the Comptroller and Auditor General in April 2021. This guidance sets out the arrangements that fall within the scope of 'proper arrangements'. When reporting on these arrangements, the Code of Audit Practice requires auditors to structure their commentary on arrangements under three specified reporting criteria:

- Financial sustainability: how the Authority plans and manages its resources to ensure it can continue to deliver its services;
- Governance: how the Authority ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness: how the Authority uses information about its costs and performance to improve the way it manages and delivers its services.

We document our understanding of the arrangements the Authority has in place for each of these three specified reporting criteria, gathering sufficient evidence to support our risk assessment and commentary in our Auditor's Annual Report. In undertaking our work, we consider whether there is evidence to suggest that there are significant weaknesses in arrangements.

## **Report on other legal and regulatory requirements – Delay in certification of completion of the audit**

We cannot formally conclude the audit and issue an audit certificate for the Royal Borough of Kensington and Chelsea for the year ended 31 March 2021 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed:

- our work on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources and issued our Auditor's Annual Report, and
- the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the Authority for the year ended 31 March 2021.

# Independent Auditor's Report to Members

In addition, we are required to give an opinion on the consistency of the pension fund financial statements of the Authority included in the Pension Fund Annual Report with the pension fund financial statements included in the Statement of Accounts. The Local Government Pension Scheme Regulations 2013 require authorities to publish the Pension Fund Annual Report by 1 December 2021. As the Authority has not prepared the Pension Fund Annual Report at the time of this report, we have yet to issue our report on the consistency of the pension fund financial statements. Until we have done so, we are unable to certify that we have completed the audit of the financial statements in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

We are satisfied that this work does not have a material effect on the financial statements for the year ended 31 March 2021.

## **Use of our report**

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 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members 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 Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Paul Grady, Key Audit Partner  
for and on behalf of Grant Thornton UK LLP, Local Auditor

London

30 September 2021

# Primary Financial Statements



# Movement in Reserves Statement

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
<b>Balance at 31 March 2020</b>	<b>(136,388)</b>	<b>(8,523)</b>	<b>(106,207)</b>	<b>0</b>	<b>(32,659)</b>	<b>(283,777)</b>	<b>(1,276,778)</b>	<b>(1,560,555)</b>
Reporting change to Schools Budget Deficit at 1 April 2020	(4,901)	0	0	0	0	(4,901)	4,901	0
<b>Restated balance at 1 April 2020</b>	<b>(141,289)</b>	<b>(8,523)</b>	<b>(106,207)</b>	<b>0</b>	<b>(32,659)</b>	<b>(288,678)</b>	<b>(1,271,877)</b>	<b>(1,560,555)</b>
<b><u>Movement in reserves during 2020/21</u></b>								
Total Comprehensive Income and Expenditure	98,720	29,516	0	0	0	<b>128,236</b>	6,476	<b>134,712</b>
Adjustments between accounting basis and funding basis under regulations (Note 6)	(185,961)	(30,417)	44,516	0	433	<b>(171,429)</b>	171,429	<b>0</b>
<b>Net (increase) / decrease in 2020/21</b>	<b>(87,241)</b>	<b>(901)</b>	44,516	0	433	<b>(43,193)</b>	<b>177,905</b>	<b>134,712</b>
<b>Balance at 31 March 2021</b>	<b>(228,530)</b>	<b>(9,424)</b>	<b>(61,691)</b>	<b>0</b>	<b>(32,226)</b>	<b>(331,871)</b>	<b>(1,093,972)</b>	<b>(1,425,843)</b>
<b>Balance at 31 March 2019</b>	<b>(145,474)</b>	<b>(15,679)</b>	<b>(115,596)</b>	<b>0</b>	<b>(21,968)</b>	<b>(298,717)</b>	<b>(1,225,506)</b>	<b>(1,524,223)</b>
<b><u>Movement in reserves during 2019/20</u></b>								
Total Comprehensive Income and Expenditure	76,119	27,476	0	0	0	<b>103,595</b>	(139,927)	<b>(36,332)</b>
Adjustments between accounting basis and funding basis under regulations (Note 6)	(67,033)	(20,320)	9,389	0	(10,691)	<b>(88,655)</b>	88,655	<b>0</b>
<b>Net (increase) / decrease in 2019/20</b>	<b>9,086</b>	<b>7,156</b>	9,389	0	(10,691)	<b>14,940</b>	<b>(51,272)</b>	<b>(36,332)</b>
<b>Balance at 31 March 2020</b>	<b>(136,388)</b>	<b>(8,523)</b>	<b>(106,207)</b>	<b>0</b>	<b>(32,659)</b>	<b>(283,777)</b>	<b>(1,276,778)</b>	<b>(1,560,555)</b>

# Comprehensive Income and Expenditure Statement

Comprehensive Income and Expenditure Statement	2020/21			2019/20		
	Gross	Gross	Net	Gross	Gross	Net
	Expenditure	Income	Expenditure	Expenditure	Income	Expenditure
	£'000	£'000	£'000	£'000	£'000	£'000
Adult Social Care and Public Health	87,221	(53,414)	33,807	85,587	(51,591)	33,996
Children's Services and Education	157,268	(108,457)	48,811	154,943	(103,117)	51,826
Environment and Communities	90,767	(55,059)	35,708	87,679	(77,060)	10,619
Housing and Social Investment	61,088	(40,523)	20,565	59,596	(40,509)	19,087
Resources and Customer Delivery	262,570	(151,941)	110,629	229,785	(139,127)	90,658
Grenfell - Recovery	13,265	(2,750)	10,515	17,169	(1,919)	15,250
Grenfell - Corporate	9,354	(7,228)	2,126	21,134	(1,435)	19,699
Housing Revenue Account	76,641	(55,200)	21,441	87,192	(61,663)	25,529
<b>Cost of Services</b>	<b>758,174</b>	<b>(474,572)</b>	<b>283,602</b>	<b>743,085</b>	<b>(476,421)</b>	<b>266,664</b>
Other operating income and expenditure (Note 12)			1,111			19,084
Financing and investment income and expenditure (Note 13)			41,525			22,844
Taxation and non-specific grant income and expenditure (Note 14)			(198,002)			(204,997)
<b>(Surplus) or Deficit on Provision of Services</b>			<b>128,236</b>			<b>103,595</b>
(Surplus) / deficit on revaluation of non current assets (Note 24)			2,275			(19,921)
Remeasurement of net defined benefit liability (Note 36)			4,201			(120,006)
<b>Other Comprehensive Income and Expenditure</b>			<b>6,476</b>			<b>(139,927)</b>
<b>Total Comprehensive Income and Expenditure</b>			<b>134,712</b>			<b>(36,332)</b>

# Balance Sheet

Balance Sheet	Note	31 March 2021	31 March 2020
		£'000	£'000
Property, Plant and Equipment	24	1,438,576	1,411,184
Intangible Assets	26	6,840	6,219
Heritage Assets	27	46,321	46,252
Investment Property	25	250,575	315,112
Long Term Debtors	29	32,112	3,900
<b>Long Term Assets</b>		<b>1,774,424</b>	<b>1,782,667</b>
Short Term Investments	33	82,616	186,497
Inventories		22	79
Debtors	29	224,509	90,022
Cash and Cash Equivalents	41	79,759	60,061
<b>Current Assets</b>		<b>386,906</b>	<b>336,659</b>
Short Term Borrowing	33	(20,711)	(14,404)
Creditors	30	(280,075)	(136,271)
Capital Grants Receipts in Advance	15	(19,741)	(6,921)
Revenue Grants Receipts in Advance	15	(6,247)	(5,468)
Provisions	31	(24,061)	(21,737)
<b>Current Liabilities</b>		<b>(350,835)</b>	<b>(184,801)</b>
Provisions	31	(2,319)	(2,574)
Long Term Borrowing	33	(234,237)	(252,246)
Long Term Creditors	30	(1,200)	(1,136)
Other Long Term Liabilities	33	(110,122)	(83,672)
Capital Grants Receipts in Advance	15	(36,774)	(34,342)
<b>Long Term Liabilities</b>		<b>(384,652)</b>	<b>(373,970)</b>
<b>Net Assets</b>		<b>1,425,843</b>	<b>1,560,555</b>
Usable Reserves	7	(331,871)	(288,678)
Unusable Reserves	8	(1,093,972)	(1,271,877)
<b>Total Reserves</b>		<b>(1,425,843)</b>	<b>(1,560,555)</b>

# Cash Flow Statement

<b>Cash Flow Statement</b>	Note	<b>2020/21</b>	<b>2019/20</b>
		£'000	£'000
<b>Net Surplus or (Deficit) on Provision of Services</b>		<b>(128,236)</b>	<b>(103,595)</b>
Adjustments to net surplus or deficit on the provision of services for non-cash movements	38	286,606	124,530
Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	38	<b>(16,613)</b>	<b>(36,498)</b>
<b>Net cash flows from Operating Activities</b>		<b>141,757</b>	<b>(15,563)</b>
Investing Activities	39	51,007	<b>(57,940)</b>
Financing Activities	40	<b>(173,066)</b>	54,676
<b>Net increase or (decrease) in cash and cash equivalents</b>		<b>19,698</b>	<b>(18,827)</b>
Cash and cash equivalents at the beginning of the reporting period		60,061	78,888
<b>Cash and cash equivalents at the end of the reporting period</b>	41	<b>79,759</b>	<b>60,061</b>

# Notes to the Accounts



## 1. Critical judgements in applying accounting policies

The Council made two critical judgements that may have a significant effect on the amounts recognised in the accounts, (apart from those involving estimations which are shown in note 2), in applying its accounting policies.

### Valuation of pension liability

To assess the value of the Council's liabilities at 31 March 2021, we have rolled forward the value calculated for the funding valuation as at 31 March 2019, using financial assumptions that comply with IAS 19. The full actuarial valuation involved projecting future cashflows to be paid from the Pensions Fund (the 'Fund') and placing a value on them. These cashflows include pensions currently being paid to members of the Fund as well as pensions (and lump sums) that may be payable in future to members of the Fund or their dependants. These pensions are linked to inflation and will normally be payable on retirement for the life of the member or a dependant following a member's death.

It is not possible to assess the accuracy of the estimated value of liabilities as at 31 March 2021 without completing a full valuation. However, the Council is satisfied that the approach used by its actuaries of rolling forward the previous valuation data to 31 March 2021 should not introduce any material distortions in the results given that the actual experience of the Council and the Fund has been broadly in line with the underlying assumptions, and that the structure of the liabilities is substantially the same as at the latest formal valuation.

Further information on the valuation basis, risks and assumptions made is shown in the Employee Benefits accounting policy and note 36.

### Grenfell Tower contingent liability

The Council's accounting policy on contingent liabilities is to disclose, where practicable, an estimated value for any liabilities falling within the scope of the disclosure note. In the case of the tragic fire at Grenfell Tower, although the potential liability may be significant, the Council has judged that it is unable to make a reliable estimate at this time as the various investigations and inquiries which would inform this estimate are yet to be concluded. See note 32 for further details.

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

The accounts contain estimated figures that are based on assumptions made by the Council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results in 2021/22 could be materially different from these estimates.

Whilst COVID-19 may have impacted on the value of these estimates, there have been no significant changes to the basis of these estimates compared to the previous year. The items in the Council's Balance Sheet at 31 March 2021 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows.

## Pensions Liability

The value of the Council's net pension liability is estimated by professional actuaries based on complex and interdependent assumptions, such as life expectancy, long-term salary and pension inflation, and the discount rate used. Any variation in these assumptions will lead to a change in the value of the net pension liability.

The liability is discounted at a rate set by reference to market yields at the end of the reporting period on high quality corporate bonds, using the Single Equivalent Discount Rate (SEDR) methodology. Significant judgement is required when setting the criteria for bonds to be included in the population from which the yield curve is derived. The assumptions selected and associated sensitivity analysis are disclosed in note 36.

There are currently uncertainties in relation to Local Government Pension Scheme benefits due to the McCloud and Sargeant judgement and the 2016 cost cap process. The Government has published its consultation on a remedy for the McCloud and Sargeant judgement and at the same time announced the unpausing of the 2016 cost cap process which will take into account the remedy for the McCloud and Sargeant judgement. These are yet to be finalised and therefore it remains uncertain what changes may be made to benefits as a result.

The COVID-19 pandemic has caused significant investment volatility throughout 2020 and 2021, creating uncertainty in property valuations due to the fall in observable transactions and subsequent lack of liquidity in the market. In 2020, a material uncertainty clause was provided on all pooled property as advised by the Royal Institute for Chartered Surveyors (RICS). Since September 2020 however, it has been recommended by RICS to remove this clause from all UK property and as such this material uncertainty valuation clause no longer applies as at 31 March 2021, due to the gradual return to normality for the commercial property markets.

## Investment Property

The Council's main property portfolios are determined using calculations and estimation techniques by the Council's valuers following Royal Institution of Chartered Surveyors (RICS) guidance. The pandemic and the measures taken to tackle COVID-19 continue to affect economies and real estate markets globally. Nevertheless, as at the valuation date some property markets have started to function again, with transaction volumes and other relevant evidence returning to levels where adequate market evidence exists upon which to base opinions of value. Accordingly, the Council's valuers have removed the 'material valuation uncertainty' which the 2019/20 valuations were subject to.

Investment properties are measured at Fair Value in line with the Council's accounting policies. The value of these assets is influenced by market forces, income or cost related information, all of which may be subject to volatility and estimation uncertainties.

Where possible the inputs to these valuations are based on observable data but there is a risk that market valuations and observable inputs may no longer be available and so in that case, estimation techniques would be required in establishing fair values. These estimates typically include considerations such as uncertainty and risk. The significant unobservable inputs used in the fair value measurement of Investment Property include management assumptions regarding rent growth, vacancy levels and discount rates.

Significant changes in any of the unobservable inputs would result in a significant change in the fair value measurement for the properties. It is estimated that a 1% change in the Fair Values of

Investment property would result in a change of approximately £2.506 million in asset values. Hence a change in valuation of the order of 4.39% would be likely to be considered material to the Council's accounts. Further information about the valuation techniques and inputs used in determining the fair value of the Council's investment property, and the impact of changes on the fair value are included in note 25.

### **3. Material items of income and expenditure**

The Council received various COVID-19 related income streams from Central Government to 'passport' to local taxpayers, in an agent capacity. This income is not reflected in the Council's CIES as it does not belong to the Council. Further information is shown in the Narrative Report.

During 2020/21, the Council received a £19.445 million capital grant for Social Housing Decarbonisation from the Department for Business, Energy and Industrial Strategy (BEIS). The purpose of the grant is to support social landlords to demonstrate innovative approaches to retrofitting social housing at scale, leading to more energy efficient homes, a reduction in household energy bills, and lower carbon emissions. The balance held on this grant as at 31 March 2021 is shown in note 15 and will be spent to fund related future capital spend.

### **4. Events after the reporting period**

There were no significant events affecting the 2020/21 accounts that occurred between 1 April and 28 September 2021, when these financial statements were approved by the Audit and Transparency Committee.

### **5. Accounting standards issued but 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. These are not expected to have any significant impact for the Council.

- Definition of a Business: Amendments to IFRS 3 Business Combinations
- Interest Rate Benchmark Reform: Amendments to IFRS 9, IAS 39 and IFRS 7
- Interest Rate Benchmark Reform –Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16.

# Notes to the Movement in Reserves Statement



## 6. Adjustments between accounting basis and funding basis under statutory provisions

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.

# Notes to the Movement in Reserves Statement

<b>Movement on Usable Reserves (with contra to Unusable Reserves) during 2020/21</b>	<b>GF</b>	<b>HRA</b>	<b>CRR</b>	<b>MRR</b>	<b>CGUR</b>	<b>Unusable</b>
	£'000	£'000	£'000	£'000	£'000	
<b>Adjustments to Revenue Resources</b>						
<u>Amounts by which income and expenditure included in the CIES are different from revenue for the year calculated in accordance with statutory requirements</u>						
- Pensions costs (transferred to / from the Pensions Reserve)	(20,112)	(2,213)	0	0	0	22,325
- Financial instruments (transferred to the Financial Instruments Adjustments Account)	(17)	0	0	0	0	17
- Council Tax and NDR (transfers to or from the Collection Fund)	(98,263)	0	0	0	0	98,263
- Holiday pay (transferred to the Accumulated Absence Reserve)	(1,675)	(304)	0	0	0	1,979
- Transfer in-year Dedicated Schools Grant deficit (to DSG Deficit Reserve)	(490)	0	0	0	0	490
- Reversal of entries included in the (Surplus) or Deficit on Provision of Services in relation to capital expenditure (charged to the Capital Adjustment Account)	(67,493)	(34,966)	0	0	(25,414)	127,873
<b>Total Adjustments to Revenue Resources</b>	<b>(188,050)</b>	<b>(37,483)</b>	<b>0</b>	<b>0</b>	<b>(25,414)</b>	<b>250,947</b>
<b>Adjustments between Revenue and Capital Resources</b>						
- Transfer of non-current asset sale proceeds from revenue to the CRR	10	3,645	(3,655)	0	0	0
- Payments to the government housing receipts pool (funded by a transfer from the CRR)	(1,161)	0	1,161	0	0	0
- Posting of HRA resources from revenue to the MRR	0	3,421	0	(3,421)	0	0
- Statutory provision for the repayment of debt (transfer from the CAA)	1,542	0	0	0	0	(1,542)
- Capital expenditure financed from revenue balances (transfer to the CAA)	1,698	0	0	0	0	(1,698)
<b>Total Adjustments between Revenue and Capital Resources</b>	<b>2,089</b>	<b>7,066</b>	<b>(2,494)</b>	<b>(3,421)</b>	<b>0</b>	<b>(3,240)</b>
<b>Adjustments to Capital Resources</b>						
- Use of the CRR to finance capital expenditure	0	0	47,011	0	0	(47,011)
- Use of the MRR to finance capital expenditure	0	0	0	3,421	0	(3,421)
- Application of capital grants to finance capital expenditure	0	0	0	0	25,847	(25,847)
- Cash payments in relation to deferred capital receipts	0	0	(1)	0	0	1
<b>Total Adjustments between Revenue and Capital Resources</b>	<b>0</b>	<b>0</b>	<b>47,010</b>	<b>3,421</b>	<b>25,847</b>	<b>(76,278)</b>
<b>Total Adjustments during 2020/21</b>	<b>(185,961)</b>	<b>(30,417)</b>	<b>44,516</b>	<b>0</b>	<b>433</b>	<b>171,429</b>

# Notes to the Movement in Reserves Statement

<b>Movement on Usable Reserves (with contra to Unusable Reserves) during 2019/20</b>	<b>GF</b>	<b>HRA</b>	<b>CRR</b>	<b>MRR</b>	<b>CGUR</b>	<b>Unusable</b>
	£'000	£'000	£'000	£'000	£'000	
<b>Adjustments to Revenue Resources</b>						
<u>Amounts by which income and expenditure included in the CIES are different from revenue for the year calculated in accordance with statutory requirements</u>						
- Pensions costs (transferred to / from the Pensions Reserve)	(18,075)	(1,384)	0	0	0	19,459
- Financial instruments (transferred to the Financial Instruments Adjustments Account)	56	0	0	0	0	(56)
- Council Tax and NDR (transfers to or from the Collection Fund)	711	0	0	0	0	(711)
- Holiday pay (transferred to the Accumulated Absence Reserve)	(438)	(62)	0	0	0	500
- Transfer in-year Dedicated Schools Grant deficit (to DSG Deficit Reserve)	0	0	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)	(62,578)	(26,219)	0	0	(25,238)	114,035
<b>Total Adjustments to Revenue Resources</b>	<b>(80,324)</b>	<b>(27,665)</b>	<b>0</b>	<b>0</b>	<b>(25,238)</b>	<b>133,227</b>
<b>Adjustments between Revenue and Capital Resources</b>						
- Transfer of non-current asset sale proceeds from revenue to the CRR	10,413	4,062	(14,475)	0	0	0
- Payments to the government housing receipts pool (funded by a transfer from the CRR)	(1,161)	0	1,161	0	0	0
- Posting of HRA resources from revenue to the MRR	0	3,283	0	(3,283)	0	0
- Statutory provision for the repayment of debt (transfer from the CAA)	1,250	0	0	0	0	(1,250)
- Capital expenditure financed from revenue balances (transfer to the CAA)	2,789	0	0	(2,074)	0	(715)
<b>Total Adjustments between Revenue and Capital Resources</b>	<b>13,291</b>	<b>7,345</b>	<b>(13,314)</b>	<b>(5,357)</b>	<b>0</b>	<b>(1,965)</b>
<b>Adjustments to Capital Resources</b>						
- Use of the CRR to finance capital expenditure	0	0	22,703	0	0	(22,703)
- Use of the MRR to finance capital expenditure	0	0	0	5,357	0	(5,357)
- Application of capital grants to finance capital expenditure	0	0	0	0	14,547	(14,547)
- Cash payments in relation to deferred capital receipts	0	0	0	0	0	0
<b>Total Adjustments between Revenue and Capital Resources</b>	<b>0</b>	<b>0</b>	<b>22,703</b>	<b>5,357</b>	<b>14,547</b>	<b>(42,607)</b>
<b>Total Adjustments during 2019/20</b>	<b>(67,033)</b>	<b>(20,320)</b>	<b>9,389</b>	<b>0</b>	<b>(10,691)</b>	<b>88,655</b>

# Notes to the Movement in Reserves Statement

## 7. 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 so that there is no net charge against council tax for the expenditure.

	Note	Balance at 31 March 2019	Transfer Out 2019/20	Transfer In 2019/20	Balance at 31 March 2020	Transfer Out 2020/21	Transfer In 2020/21	Balance at 31 March 2021
		£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>General Fund:</b>								
Grenfell	i	(48,713)	20,365	(1,762)	(30,110)	10,734	(3,769)	(23,145)
Special Projects	ii	(22,299)	6,585	0	(15,714)	5,271	(7,194)	(17,637)
Car Parking	iii	(24,386)	1,246	(381)	(23,521)	4,109	0	(19,412)
Budget Carry Forward	iv	(2,517)	1,030	(1,518)	(3,005)	1,246	(2,323)	(4,082)
Budget Stabilisation	v	(11,482)	2,975	(12,692)	(21,199)	450	(18,534)	(39,283)
Reorganisation	vi	(10,000)	1,326	0	(8,674)	1,489	(341)	(7,526)
Schools Reserves	vii	(5,465)	1,217	(822)	(5,070)	726	(1,411)	(5,755)
Insurance	viii	(5,267)	1,556	(68)	(3,779)	612	0	(3,167)
Public Health	ix	(4,908)	442	0	(4,466)	134	0	(4,332)
London Residuary Body	x	(3,984)	0	(55)	(4,039)	4,039	0	0
Notting Hill Carnival	xi	(375)	0	0	(375)	0	0	(375)
Street Trading	xii	(341)	69	0	(272)	30	0	(242)
Capital Expenditure	xiii	0	0	(9,900)	(9,900)	0	0	(9,900)
Staff Healthcare	xiv	0	0	(341)	(341)	341	0	0
Local Projects	xv	0	0	(175)	(175)	0	(171)	(346)
Troubled Families	xvi	0	0	(539)	(539)	0	(114)	(653)
Proceeds of Crime Act	xvii	0	0	(110)	(110)	0	0	(110)
Dedicated Schools Grant (restatement)	xix	4,263	0	638	4,901	(4,901)	0	0
<b>Sub-total of Usable earmarked reserves</b>		<b>(135,474)</b>	<b>36,811</b>	<b>(27,725)</b>	<b>(126,388)</b>	<b>24,280</b>	<b>(33,857)</b>	<b>(135,965)</b>

# Notes to the Movement in Reserves Statement

The Council also holds £82.565 million in a Collection Fund related reserve. This is fully committed to fund a change in accounting for expanded business rate relief. The Council would normally receive its 30% share of the retail, hospitality and leisure service S31 grant but to avoid cashflow issues, it was given 100% of the S31 grant in 2020/21. This reserve balance is therefore unavailable for resourcing any future plans as it will be used to finance the 2021/22 payment of 70% S31 grant owed to MHCLG.

	Note	Balance at 31 March 2019	Transfer Out 2019/20	Transfer In 2019/20	Balance at 31 March 2020	Transfer Out 2020/21	Transfer In 2020/21	Balance at 31 March 2021
		£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>General Fund:</b>								
<b>Sub-total of Usable earmarked reserves</b>		<b>(135,474)</b>	<b>36,811</b>	<b>(27,725)</b>	<b>(126,388)</b>	<b>24,280</b>	<b>(33,857)</b>	<b>(135,965)</b>
Collection Fund (timing difference)	xviii	0	0	0	0	0	(82,565)	(82,565)
<b>Total GF Earmarked Reserves</b>		<b>(135,474)</b>	<b>36,811</b>	<b>(27,725)</b>	<b>(126,388)</b>	<b>24,280</b>	<b>(116,422)</b>	<b>(218,530)</b>
GF Working Balance		(10,000)			(10,000)			(10,000)
<b>Total GF Reserves per MIRS</b>		<b>(145,474)</b>			<b>(136,388)</b>			<b>(228,530)</b>

	Note	Balance at 31 March 2019	Transfer Out 2019/20	Transfer In 2019/20	Balance at 31 March 2020	Transfer Out 2020/21	Transfer In 2020/21	Balance at 31 March 2021
		£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>HRA:</b>								
HRA Controlled Repairs	xx	(988)	0	0	(988)	0	0	(988)
HRA Working Balance		(14,691)	7,156	0	(7,535)	0	(901)	(8,436)
<b>Total HRA Reserves per MIRS</b>		<b>(15,679)</b>	<b>7,156</b>	<b>0</b>	<b>(8,523)</b>	<b>0</b>	<b>(901)</b>	<b>(9,424)</b>

- i. This reserve is held to support the Grenfell Recovery Strategy.
- ii. The funds are primarily available for one-off costs associated with service and re-design and supporting the delivery of long term savings or unexpected spending needs.
- iii. 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.

## Notes to the Movement in Reserves Statement

- iv. This reserve contains earmarked funds for budgets carried forward from prior years to meet committed spend in the following year and for specific named projects.
- v. 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. The balance is from prior year underspends.
- vi. This reserve has been established to support one-off costs associated with all aspects of workforce planning.
- vii. Schools balances are held on behalf of maintained schools across the Borough.
- viii. The Insurance Fund is held to cover future insurance liabilities.
- ix. This reserve holds unspent Public Health grant income and is earmarked for use in future years.
- x. The LRB reserve was held to fund residual liabilities relating to the former LRB. The Council assessed the need for earmarking funds for claims and determined based on historical evidence that this reserve is no longer required.
- xi. This reserve holds funding that will be used to support the annual Notting Hill Carnival.
- xii. Street Trading operates as a ring-fenced account and this reserve is maintained to offset any losses on that account.
- xiii. This reserve contains funding ring-fenced for the Lancaster West Main Refurbishment capital scheme.
- xiv. This reserve was used for staff healthcare costs to speed up return to work following sickness. A separate reserve is no longer required and the balance has been moved to the Reorganisation reserve.
- xv. An annual sum equivalent to council tax receivable from the bereaved and survivors of the Grenfell Tower fire will be ringfenced to support opportunities for disadvantaged young people or those who need help with employment and skills.
- xvi. This reserve has been created to manage balances of Troubled Families grant funding between years.
- xvii. This reserve has been created for fraud recoveries arising from the Proceeds of Crime Act. The money will be ringfenced to fund asset recovery work and local crime-fighting initiatives.
- xviii. The government granted business rates relief to retail, hospitality, and leisure services during 2020/21, and compensated Councils for these reliefs with a Section 31 grant. These reliefs must be shown as a deficit on the Council's share of income within the Collection Fund Adjustment Account reserve (see note 8), while the grant income must be shown within the Council's General Fund. In 2021/22, £72.507 million is expected to be transferred from the Collection Fund Adjustment Account to the General Fund and this will be funded from the Section 31 grant in this reserve. As this is an exceptional circumstance related to COVID-19, this is shown below the sub-total of what are 'true' usable earmarked reserves.
- xix. In line with the School and Early Years Finance (England) Regulations 2020, the DSG earmarked reserve was reclassified as an unusable reserve from 1st April 2020. Information on the new DSG Deficit Reserve can be found in notes 8 and 16.
- xx. This reserve provides resources for housing repair projects.

# Notes to the Movement in Reserves Statement

## 8. Movements in unusable reserves

The following is a summary of reserves held to manage accounting processes. These do not represent usable resources for the Council.

	31 March 2021	31 March 2020
	£'000	£'000
Revaluation Reserve	(677,918)	(686,255)
Capital Adjustment Account	(627,096)	(669,388)
Collection Fund Adjustment Account	90,091	(8,173)
Pensions Reserve	110,122	83,596
Dedicated Schools Grant Adjustment Account	5,390	4,901
Deferred Capital Receipts	(4)	(5)
Financial Instruments Adjustment Account	481	464
Accumulated Absences Adjustment Account	4,962	2,983
<b>Total unusable reserves</b>	<b>(1,093,972)</b>	<b>(1,271,877)</b>

### Revaluation Reserve

The Revaluation Reserve contains the gains made by the Council arising from increases in the value of its PPE since 1 April 2007 when the reserve was created. 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.

	2020/21		2019/20	
	£'000	£'000	£'000	£'000
<b>Balance at 1 April</b>		(686,255)		(670,189)
Upward revaluations of assets	(40,210)		(29,842)	
Downward revaluation of assets	42,485		9,921	
<b>Revaluation not posted to the (Surplus) or Deficit on Provision of Services</b>		<b>2,275</b>		<b>(19,921)</b>
Difference between current and historic cost depreciation		5,995		3,516
Accumulated depreciation on assets sold or scrapped		67		339
<b>Balance at 31 March</b>		<b>(677,918)</b>		<b>(686,255)</b>

### Capital Adjustment Account (CAA)

The CAA 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.

# Notes to the Movement in Reserves Statement

	2020/21	2019/20
	£'000	£'000
<b>Balance at 1 April</b>	<b>(669,388)</b>	<b>(734,996)</b>
<i>Reversal of items debited or credited to the CIES:</i>		
Impairment / Revaluation charged to the CIES	67,748	46,914
Charges for depreciation	10,418	10,348
Reversal of depreciation charged in respect of dwellings	3,422	3,283
Amortisation of intangible assets	1,449	803
Revenue expenditure funded from capital under statute	6,330	4,083
Amounts written off on disposal or sale as part of the gain / loss on disposal to the CIES	211	30,847
<i>Adjusting amounts written out of the Revaluation Reserve:</i>		
Accumulated revaluation gains on assets sold or scrapped	(67)	(339)
Difference between fair value depreciation and historic cost depreciation	(5,995)	(3,516)
<i>Capital financing applied in the year:</i>		
Use of the Capital Receipts Reserve to finance new capital expenditure	(47,011)	(22,703)
Use of the MRR to finance new capital expenditure	(3,421)	(5,357)
Capital grants and contributions credited to the CIES that have been applied to capital financing	(16,295)	(9,264)
Application of grants to capital financing from the Capital Grants Unapplied Account	(9,552)	(5,283)
Statutory provision for the repayment of debt - MRP	(1,542)	(1,251)
Capital expenditure charged against the General Fund and HRA balances	(1,698)	(2,789)
<i>Other Movements:</i>		
Movements in the market value of investment properties	38,295	19,832
<b>Movement in year</b>	<b>42,292</b>	<b>65,608</b>
<b>Closing balance at 31 March</b>	<b>(627,096)</b>	<b>(669,388)</b>

## 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.

	2020/21	2019/20
	£'000	£'000
<b>Balance at 1 April</b>	<b>(8,173)</b>	<b>(7,462)</b>
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	98,264	(711)
<b>Balance at 31 March</b>	<b>90,091</b>	<b>(8,173)</b>

# Notes to the Movement in Reserves Statement

## 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 amounts shown below bring together adjustments for the Local Government Pension Scheme and unfunded teachers' discretionary benefits (LPFA Scheme) disclosed in note 36.

	2020/21	2019/20
	£'000	£'000
<b>Balance at 1 April</b>	83,596	184,144
Remeasurements recognised in Other Comprehensive Income and Expenditure	4,201	(120,006)
Reversal of items relating to retirement benefits debited or credited to (Surplus) or Deficit on the Provision of Services	38,769	36,286
Employers contributions payable to scheme	(16,444)	(16,828)
<b>Balance at 31 March</b>	<b>110,122</b>	<b>83,596</b>

## Dedicated Schools Grant (DSG)

New provisions have been put into the School and Early Years Finance (England) Regulations 2020 so that for the financial years beginning on 1 April 2020, 2021 and 2022, the Council must carry forward its overall DSG deficit in an account established, charged and used solely for the purpose of recognising deficits in respect of its schools budget. This means that the Council can no longer hold a negative earmarked DSG reserve as in previous years and the deficit balance is now held in an unusable reserve..

## Accumulated Absences Account

The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund and HRA Balances from accruing for compensated absences earned but not taken in the year e.g. annual leave entitlement carried forward at the year end. Statutory arrangements require that the impact on the General Fund and HRA Balances is neutralised by transfers to or from the account.

	2020/21	2019/20
	£'000	£'000
<b>Balance at 1 April</b>		
Settlement or cancellation of accrual made at the end of the preceding year	2,983	2,484
Amounts accrued at the end of the current year	1,979	499
Amount by which officer remuneration charged to the CIES on an accrual basis is different from remuneration chargeable in the year in accordance with statutory requirements	4,962	2,983
<b>Balance at 31 March</b>	<b>4,962</b>	<b>2,983</b>

The Council's standard annual leave policy allows employees to take 5 days leave forward into the following financial year. Due to the current pandemic and restrictions during lockdown periods, the Council increased the maximum number of untaken leave days that employees could take forward at 31 March 2021 to 13 days. This has increased the adjustment made for 2020/21.

# Notes to the Comprehensive Income and Expenditure Statement



## 9. Expenditure and Funding Analysis (EFA)

The 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.

Two additional columns have been added to the EFA table to show adjustments between the revenue outturn reported in the Narrative Report and the net expenditure chargeable to GF and HRA balances. These adjustments mainly reflect the fact that:

- revenue outturn includes movements to earmarked reserves within individual services, while the EFA shows the surplus or deficit on services prior to any movements to earmarked reserves
- revenue outturn includes charges for depreciation and amortisation within individual services with a reversing adjustment within Resourcing, whilst the EFA excludes these charges.

Resources and Customer Delivery includes the following services:

Audit, Risk, Fraud and Insurance is responsible for the Council's internal audit, fraud, insurance and strategic procurement services.

The Chief Executive service supports the Chief Executive's Office and democratic representation.

The Chief Information Officer is responsible for the Council's ICT function.

Communications covers the Council's internal and external communications and is the first contact point for all media enquiries.

Corporate Strategy and Economic Development is responsible for delivering the Council's Corporate strategy programme, economic development and Adult and Family Learning services.

The main 'front door' access point for a wide range of council services is provided by Customer Delivery. These include Revenues and Benefits, residential parking permits, housing needs, planning and cashiers. It also provided internal facilities management services to over 100 operational properties.

Financial Management is responsible for meeting the Council's statutory financial requirements and embedding a culture of good financial management across the organisation.

The Human Resources function supports more than 2,600 staff.

Legal and Governance Services provides a wide range of legal services to the Council, Members and Officers and is responsible for the Council's governance arrangements.

# Notes to the Comprehensive Income and Expenditure Statement

Expenditure and Funding Analysis	As reported in the Narrative Report		2020/21 Expenditure charged to GF and HRA balances		Adjustments between accounting and funding (note 10)		2019/20 Expenditure charged to GF and HRA balances		Adjustments between accounting and funding (note 10)		Net Expenditure in the CIES	
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Adult Social Care and Public Health	40,859	(1,917)	38,942	(5,135)	33,807	40,715	(6,719)	33,996				
Children's Services and Education	46,819	(2,962)	43,857	4,954	48,811	46,158	5,668	51,826				
Environment and Communities	46,776	(5,099)	41,677	(5,969)	35,708	19,508	(8,889)	10,619				
Housing and Social Investment	13,086	1,439	14,525	6,040	20,565	21,527	(2,440)	19,087				
Resources and Customer Delivery	25,931	(554)	25,377	85,251	110,628	36,511	54,147	90,658				
Grenfell - Recovery	12,210	(3,746)	8,464	2,052	10,516	14,616	634	15,250				
Grenfell - Corporate	4,880	(2,504)	2,376	(250)	2,126	19,621	78	19,699				
Housing Revenue Account	0	(900)	(900)	22,341	21,441	(515)	26,044	25,529				
<b>Net Costs of Services</b>	<b>190,561</b>	<b>(16,243)</b>	<b>174,318</b>	<b>109,284</b>	<b>283,602</b>	<b>198,141</b>	<b>68,523</b>	<b>266,664</b>				
Other GF income and expenditure	(190,561)	(70,592)	(261,153)	97,711	(163,442)	(189,570)	24,554	(165,016)				
Other HRA income and expenditure	0	0	0	8,076	8,076	7,671	(5,724)	1,947				
<b>(Surplus) / Deficit on Services</b>	<b>0</b>	<b>(86,835)</b>	<b>(86,835)</b>	<b>215,071</b>	<b>128,236</b>	<b>16,242</b>	<b>87,353</b>	<b>103,595</b>				

Movement on GF and HRA balances	2020/21			2019/20		
	GF	HRA	Total	GF	HRA	Total
	£'000	£'000	£'000	£'000	£'000	£'000
<b>*Opening Balance:</b>	<b>(141,289)</b>	<b>(8,523)</b>	<b>(149,812)</b>	<b>(145,474)</b>	<b>(15,679)</b>	<b>(161,153)</b>
(Surplus) / Deficit on Balance in Year	(85,934)	(901)	(86,835)	9,086	7,156	16,242
<b>Closing Balance:</b>	<b>(227,223)</b>	<b>(9,424)</b>	<b>(236,647)</b>	<b>(136,388)</b>	<b>(8,523)</b>	<b>(144,911)</b>

\*The 2020/21 opening balance has been adjusted to reflect the statutory change requiring the DSG reserve to be shown as an unusable reserve. See note 8 for further details.

## 10. Adjustments between accounting and funding bases – 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.

The following adjustments were made to arrive at the CIES amounts:

# Notes to the Comprehensive Income and Expenditure Statement

	2020/21				2019/20			
	Capital £'000	Pension £'000	Other £'000	Total £'000	Capital £'000	Pension £'000	Other £'000	Total £'000
Adult Social Care and Public Health	170	1,211	(6,516)	(5,135)	101	797	(7,617)	(6,719)
Children's Services and Education	9,084	6,255	(10,385)	4,954	11,564	4,452	(10,348)	5,668
Environment and Communities	5,617	3,335	(14,921)	(5,969)	5,172	2,005	(16,066)	(8,889)
Housing and Social Investment	182	1,011	4,847	6,040	69	673	(3,182)	(2,440)
Resources and Customer Delivery	42,901	6,067	36,283	85,251	15,346	5,803	32,998	54,147
Grenfell - Recovery	210	611	1,231	2,052	377	381	(124)	634
Grenfell - Corporate	1,514	18	(1,782)	(250)	711	16	(649)	78
Housing Revenue Account	27,900	2,213	(7,772)	22,341	25,590	1,089	(635)	26,044
<b>Net Cost of Services</b>	<b>87,578</b>	<b>20,721</b>	<b>985</b>	<b>109,284</b>	<b>58,930</b>	<b>15,216</b>	<b>(5,623)</b>	<b>68,523</b>
Other income and expenditure (GF)	5,726	1,604	90,381	97,711	15,948	3,947	4,659	24,554
Other income and expenditure (HRA)	0	0	8,076	8,076	(6,716)	295	697	(5,724)
<b>Total Adjustments</b>	<b>93,304</b>	<b>22,325</b>	<b>99,442</b>	<b>215,071</b>	<b>68,162</b>	<b>19,458</b>	<b>(267)</b>	<b>87,353</b>

## 11. Expenditure and income analysed by nature - EFA

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

	2020/21 £'000	2019/20 £'000
<u>Expenditure</u>		
Employee benefits expenses	219,787	213,162
Other service expenses	462,755	480,824
Depreciation, amortisation and impairment	83,035	61,348
Interest Payments	10,531	11,025
Net interest on net defined benefit liability	1,778	4,242
Payments to the Government Housing Capital Receipts Pool	1,162	1,161
Precepts and Levies	4,649	4,971
<b>Total expenditure</b>	<b>783,697</b>	<b>776,733</b>
<u>Income</u>		
Fees, charges and other service income	(205,666)	(240,218)
Loss / (Gain) on disposal of non-current assets	(3,444)	14,297
Government grants & contributions	(431,058)	(315,223)
Interest Income	(930)	(2,432)
Net income from Council Tax and Business Rates	(52,658)	(149,394)
Change in Fair Value of Investment Properties	38,295	19,832
<b>Total income</b>	<b>(655,461)</b>	<b>(673,138)</b>
<b>(Surplus) or Deficit on Provision of Services</b>	<b>128,236</b>	<b>103,595</b>

## 12. Other operating expenditure

	2020/21	2019/20
	£'000	£'000
Levies	3,393	3,626
Payments to the government Housing Capital Receipts Pool	1,162	1,161
(Gains) / losses on the disposal of non-current assets	(3,444)	14,297
<b>Total other operating expenditure</b>	<b>1,111</b>	<b>19,084</b>

## 13. Financing and investment income and expenditure

	2020/21	2019/20
	£'000	£'000
Interest payable and similar charges	10,531	11,025
Net interest on the net defined benefit liability	1,778	4,242
Interest receivable and similar income	(930)	(2,433)
Income and expenditure in relation to investment properties	(13,314)	(17,160)
Changes in fair values of investment properties	38,295	19,832
Deficit on trading operations not allocated to services	0	2,148
Expected Credit Loss - impairment allowance	5,165	5,190
<b>Total financing and investment income and expenditure</b>	<b>41,525</b>	<b>22,844</b>

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

	2020/21	2019/20
	£'000	£'000
Council tax income	(83,499)	(88,375)
Non domestic rates	(22,831)	(166,702)
Business rates tariff	53,672	105,684
<b>COVID-19 Non-ringfenced government grants</b>		
- COVID-19 Business Rate Retail/Nursery Discount	(68,449)	0
- COVID-19 LA Support Grant	(10,373)	(5,949)
- COVID-19 Income Loss Compensation	(11,288)	0
- COVID-19 75% Tax Income Guarantee		
Compensation	(8,697)	0
- COVID-19 Other Grants	(1,030)	0
<b>Other Non-ringfenced government grants</b>		
- Revenue Support Grant	(10,108)	0
- Social Care Support Grant	(5,093)	(1,481)
- S31 Business Rate Relief	(4,850)	(7,208)
- MHCLG S31 Grenfell Grant	0	(15,943)
- Other general grants / contributions	(1,853)	(2,195)
<b>Capital grants and contributions</b>		
- Building Council Houses for Londoners	(5,836)	0
- MHCLG S31 Grenfell Grant	(5,000)	(8,283)
- Community Infrastructure Levy	(5,172)	(5,127)
- DFE - Basic Needs Grant	(99)	(3,776)
- Other capital grants and contributions	(7,496)	(5,642)
<b>Total taxation and non-specific grants</b>	<b>(198,002)</b>	<b>(204,996)</b>

## 15. Grant income

The following revenue grants, contributions and donations were credited to Net Cost of Services in the CIES during 2020/21.

<b>Net Cost of Services</b>	<b>2020/21</b>	<b>2019/20</b>
	£'000	£'000
Housing Benefit Subsidy	(120,961)	(122,490)
Dedicated Schools Grant	(73,996)	(70,224)
Public Health Grant	(21,123)	(20,347)
Improved Better Care Fund	(7,437)	(6,570)
Preventing Homelessness Grant	(4,242)	(3,780)
Pupil Premium Grant	(3,320)	(3,551)
UASC and Leaving Care Fund	(2,792)	(1,669)
Other Grants (under £1 million each)	(16,814)	(15,073)
Revenue contributions	(18,566)	(15,915)
COVID-19 Grants		
- Additional Restrictions Grant	(4,509)	0
- Local Authority Discretionary Grant	(2,228)	0
- Contain Outbreak Management Fund	(1,874)	0
- Local Restrictions Support Grant (Open)	(418)	0
- Other Covid-19 Grants (under £2 million each)	(7,435)	0
<b>Total</b>	<b>(285,715)</b>	<b>(259,619)</b>

The Council also received a number of grants and contributions that have yet to be recognised as income as they have unmet conditions attached to them. The balances at year end are as follows:

<b>Capital</b>	<b>2020/21</b>	<b>2019/20</b>
	£'000	£'000
<u>Current Liabilities</u>		
Social Housing Decarbonisation Fund	(18,430)	0
GLA Building Council Homes Programme	(696)	(6,000)
DFE School Condition allocation	(176)	(687)
Other Grants (under £500k)	(439)	(234)
	<u>(19,741)</u>	<u>(6,921)</u>
<u>Long Term Liabilities</u>		
Section 106 and private contributions	(34,692)	(32,851)
Section 278 contributions	(2,082)	(1,491)
	<u>(36,774)</u>	<u>(34,342)</u>
<b>Balance as at 31 March</b>	<b>(56,515)</b>	<b>(41,263)</b>

# Notes to the Comprehensive Income and Expenditure Statement

<u>Revenue</u>	<b>2020/21</b>	<b>2019/20</b>
	£'000	£'000
<u>Current Liabilities</u>		
COVID-19 grants		
- Contain Outbreak Management Fund	(1,895)	0
- Local Restrictions Support Grant (Open)	(1,692)	0
- Test and Trace Support Grant	(1,203)	0
- Other Grants (under £500k)	(494)	0
Other Grants		
- MHCLG - S31 Business Rates Relief Grant	0	(4,850)
- Other Grants (under £500k)	(963)	(618)
<b>Balance as at 31 March</b>	<b>(6,247)</b>	<b>(5,468)</b>

## 16. Dedicated Schools Grant (DSG)

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 and Early Years Finance (England) Regulations 2020. 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 2020/21 are below.

<u>2020/21</u>	<b>Central Expenditure</b>	<b>ISB</b>	<b>Total</b>
	£'000	£'000	£'000
<b>Balance on reserve brought forward at 1 April</b>			<b>4,901</b>
Final DSG for 2020/21			<b>(103,118)</b>
Less academy and high needs figure recouped			<b>29,843</b>
<b>DSG after academy and high needs recoupment</b>			<b>(73,275)</b>
Plus brought forward from 2019/20			<b>(4,901)</b>
Less carry forward to 2021/22 agreed in advance			<b>4,901</b>
<b>Agreed initial budget distribution in 2020/21</b>	<b>(15,202)</b>	<b>(58,073)</b>	<b>(73,275)</b>
In year adjustments	0	0	0
<b>Final budgeted distribution for 2020/21</b>	<b>(15,202)</b>	<b>(58,073)</b>	<b>(73,275)</b>
Less actual central expenditure	16,689		<b>16,689</b>
Less actual ISB deployed to schools		57,075	<b>57,075</b>
<b>Net appropriation / (drawdown)</b>	<b>1,487</b>	<b>(998)</b>	<b>489</b>
<b>Balance on reserve carried forward at 31 March</b>			<b>5,390</b>

# Notes to the Comprehensive Income and Expenditure Statement

2019/20	Central		Total
	Expenditure	ISB	
	£'000	£'000	£'000
<b>Balance on reserve brought forward at 1 April</b>			<b>4,263</b>
Final DSG for 2019/20			<b>(99,890)</b>
Less academy and high needs figure recouped			<b>27,032</b>
<b>DSG after academy and high needs recoupment</b>			<b>(72,858)</b>
Plus brought forward from 2018/19			<b>(4,263)</b>
Less carry forward to 2020/21 agreed in advance			<b>4,263</b>
<b>Agreed initial budget distribution in 2019/20</b>	<b>(14,512)</b>	<b>(58,346)</b>	<b>(72,858)</b>
In year adjustments	0	2,957	<b>2,957</b>
<b>Final budgeted distribution for 2019/20</b>	<b>(14,512)</b>	<b>(55,389)</b>	<b>(69,901)</b>
Less actual central expenditure	15,147		<b>15,147</b>
Less actual ISB deployed to schools		55,392	<b>55,392</b>
<b>Net appropriation / (drawdown)</b>	<b>635</b>	<b>3</b>	<b>638</b>
<b>Balance on reserve carried forward at 31 March</b>			<b>4,901</b>

The deficit on DSG has increased in 2020/21 by £0.489 million to £5.390 million at 31 March 2021 due to the significant and increased spend pressures in the High Needs Block, which relates to children with Special Educational Needs and Disabilities (SEND). The Schools Forum has continued to commit to contributing to the spending in the High Needs Block by transferring funding from the school's block of the DSG. It is however clear government policy to limit this amount. Movements from the schools block to the High Needs Block in 2020/21 have been restricted to 0.5% (£357k). As a result, and despite additional funding from central government, the increasing number of children and young people with SEND requiring specialist placements means that it will be difficult to eliminate the cumulative deficit.

The Council has detailed plans in place to mitigate the above, pressure which have a significant impact on the potential deficit, including a significant expansion in local specialist placements. The Council has produced a detailed deficit management plan which has been discussed with the Department for Education including a request for safety valve funding which has currently been allocated to five local authorities with DSG deficits.

The accumulated DSG deficit has been disclosed as a statutory unusable reserve in note 8. The Council has not sought permission from the Secretary of State for Education to fund the deficit from general resources. The accumulated DSG deficit will be carried forward and recovered from future years DSG settlements, rather than from wider General Fund reserves. The Council's latest Deficit Management Plan was agreed in March 2021.

## 17. Revenue from contracts with service recipients

The income from Fees, Charges and Other Services shown in note 11 includes the following revenue from contracts with service recipients.

	<b>2020/21</b>	<b>2019/20</b>
	£'000	£'000
Social Housing Rentals	(49,373)	(48,760)
Temporary Accommodation Rentals	(33,681)	(33,923)
Shared Services Income	(19,554)	(19,035)
On Street Parking	(17,622)	(22,404)
Commercial Property	(16,809)	(19,150)
Parking Suspensions	(8,481)	(9,282)
Commercial Waste	(3,931)	(7,047)
Residents' Parking	(5,808)	(6,090)
Other (below £5m)	(28,613)	(41,239)
<b>Total income</b>	<b>(183,872)</b>	<b>(206,930)</b>

The Council typically satisfies its performance obligations as services are rendered, or upon completion of a service. No significant contract assets or liabilities have therefore been recognised.

## 18. Member allowances

The total of Members' Allowances paid in 2020/21 was £1.179 million (£1.154 million in 2019/20). For full details of individual Members' payments, please access the Council's website and search for Councillor allowances and training.

# Notes to the Comprehensive Income and Expenditure Statement

## 19. Officer remuneration

### Senior officers

The following table sets out the remuneration for senior officers who report directly to the Chief Executive, have statutory posts or who have responsibility for directing or controlling major activities of the Council, as well as any other officer whose salary is more than £150,000.

2020/21	Note	Salary, Fees and Allowances	*PRP	Expenses	Compensation for loss of office	Total Remuneration (excluding employer pension contribution)	Employer Pension Contribution	Total Remuneration (including employer pension contribution)
Job Title		£	£	£	£	£	£	£
Chief Executive (Barry Quirk)		209,800	0	0	0	<b>209,800</b>	0	209,800
Deputy Chief Executive (Robyn Fairman)	1	82,312	0	0	109,222	<b>191,534</b>	255,942	447,476
Executive Director of Resources (Mike Curtis)	2	177,000	6,815	273	0	<b>184,088</b>	28,498	212,586
Executive Director for Environment and Communities (Sue Harris)		164,200	6,322	468	0	<b>170,990</b>	26,437	197,427
Executive Director for Housing and Social Investment (Dan Hawthorn)		153,261	6,116	0	0	<b>159,377</b>	24,675	184,052
Director of Grenfell Partnerships		114,700	6,423	1,444	0	<b>122,567</b>	18,467	141,034
Director of Financial Management	3	107,400	4,887	0	0	<b>112,287</b>	17,291	129,578
Director of Corporate Strategy		85,543	0	0	0	<b>85,543</b>	16,278	101,821

\*The Council's PRP scheme ended during 2020/21 and the amounts shown above include a final compensatory payment.

### Notes

1. The Deputy Chief Executive was an interim role covered by a permanent member of staff who was made redundant with effect from 18 September 2020. The compensation for loss of office is the contractual redundancy payment and pay in lieu of notice.
2. The Council received £24,257 as a 10% contribution from the Pension Fund for the work carried out in this area by the Executive Director of Resources.
3. Total remuneration for the Director of Financial Management in 2019/20 was £112,104 and employer pension contribution was £18,258.

# Notes to the Comprehensive Income and Expenditure Statement

<b>2019/20</b>	<b>Note</b>	<b>Salary, Fees and Allowances</b>	<b>*PRP</b>	<b>Expenses</b>	<b>Total Remuneration (excluding employer pension contribution)</b>	<b>Employer Pension Contribution</b>	<b>Total Remuneration (including employer pension contribution)</b>
<b>Job Title</b>		£	£	£	£	£	£
Chief Executive (Barry Quirk)		204,200	0	0	<b>204,200</b>	0	204,200
Executive Director of Resources (Mike Curtis)	1	173,800	8,500	1,666	<b>183,966</b>	2,462	186,428
Executive Director for Grenfell (Robyn Fairman)		160,000	0	0	<b>160,000</b>	27,200	187,200
Executive Director for Environment and Communities		143,250	7,542	936	<b>151,728</b>	26,759	178,487
Chief Solicitor		97,100	4,900	1,404	<b>103,404</b>	18,103	121,507
Director of Grenfell Partnerships	2	91,633	0	1,404	<b>93,037</b>	16,807	109,844
Director of Communications and Community	3	10,308	0	0	<b>10,308</b>	0	10,308
Head of Communications	4	124,248	0	0	<b>124,248</b>	0	124,248
Director of Corporate Strategy	5	64,400	3,600	0	<b>68,000</b>	11,548	79,548
Principal Policy Management Advisor		72,800	3,600	0	<b>76,400</b>	12,976	89,376

In some years the Chief and Deputy Returning Officers and other senior officers receive payments for election duties. Payments in respect of Parliamentary and European election expenses are not considered as remuneration for employment by the Council and are funded by other sources. Payments made in respect of local elections are considered to be remuneration for employment by the Council.

## Senior Officer shared posts employed by other local authorities

The following officers are formally employed by WCC but provide services for both councils. The Council paid £125,902 for the Bi-Borough Executive Director of Adults Social Care and Health and £107,454 for the Bi-Borough Executive Director of Childrens Services, being 50% of their total remuneration. During the year, three officers covered the post of Bi-Borough Director of Public Health and their remuneration costs paid by the Council of £175,499 represent a 44% share of total remuneration.

Remuneration details for these officers can be found within WCC's Statement of Accounts, available on their Council website.

## Salary bandings

The number of employees in each salary band is based on all sums paid to or receivable by an employee and sums due by way of taxable expenses, allowances and the monetary value of any other benefits received other than in cash, excluding employer pension contributions. The numbers below cover all Council activities, including schools based staff, receiving more than £50,000 remuneration for the year. Senior officers are excluded from this table as their remuneration is disclosed separately above.

	<b>2020/21</b>	<b>2019/20</b>
	<b>No. of employees</b>	<b>No. of employees</b>
£50,000 - £54,999	175	147
£55,000 - £59,999	133	125
£60,000 - £64,999	94	69
£65,000 - £69,999	52	44
£70,000 - £74,999	32	40
£75,000 - £79,999	23	28
£80,000 - £84,999	23	9
£85,000 - £89,999	20	15
£90,000 - £94,999	5	6
£95,000 - £99,999	5	7
£100,000 - £104,999	10	6
£105,000 - £109,999	9	7
£110,000 - £114,999	8	1
£115,000 - £119,999	1	3
£120,000 - £124,999	4	2
£125,000 - £129,999	0	0
£130,000 - £134,999	0	1
£135,000 - £139,999	2	1
£140,000 - £144,999	2	1
£145,000 - £149,999	0	1
<b>Total</b>	<b>598</b>	<b>513</b>

The number of officers within the disclosure threshold has increased as a the result of the 2.75% national wage increase for all Council officers and school workers.

## **20. Termination benefits**

The numbers of exit packages with total cost per band are set out in the table below.

The cost disclosed under the £351k to £400k bracket includes £243k of capitalised employer pension costs ('pension strain'). If an active member of the Local Government Pension Scheme (LGPS) is made redundant or leaves on grounds of efficiency and they are aged 55 or over but below their normal pension age, and meet the relevant vesting period, they have an entitlement under LGPS regulations to the early payment of their LGPS pension and the Council has to set aside the capitalised cost of paying this to the Pension Scheme.

Pension strain and redundancy are the main costs incurred. Other less significant costs include Pay In Lieu of Notice and payment for unused holiday entitlement.

# Notes to the Comprehensive Income and Expenditure Statement

2020/21				
Exit Package Cost Band	Redundancies (all compulsory)	Other agreed departures	Total departures	Total cost of exit packages
£'000	Number	Number	Number	£
0 - 20	11	6	17	144,773
21 - 40	1	0	1	30,727
41 - 60	1	1	2	89,129
61 - 80	0	2	2	139,849
151 - 200	1	1	2	331,506
201 - 250	1	0	1	246,175
351-400	1	0	1	351,912
<b>Total</b>	<b>16</b>	<b>10</b>	<b>26</b>	<b>1,334,071</b>

2019/20				
Exit Package Cost Band	Redundancies (all compulsory)	Other agreed departures	Total departures	Total cost of exit packages
£'000	Number	Number	Number	£
0 - 20	18	9	27	296,313
21 - 40	5	2	7	193,773
41 - 60	1	1	2	82,280
61 - 80	3	1	4	266,150
81 - 100	2	0	2	174,244
101 - 150	3	1	4	432,287
151 - 200	1	0	1	195,605
201 - 250	1	0	1	205,087
<b>Total</b>	<b>34</b>	<b>14</b>	<b>48</b>	<b>1,845,739</b>

## 21. External audit costs

	2020/21	2019/20*
	£'000	£'000
Fees payable with regard to external audit services carried out by the appointed auditor for the year	173	141
Fees payable for the certification of grant claims and returns for the year	33	33
Fees payable in respect of other services provided during the year	18	18
<b>Total audit costs</b>	<b>224</b>	<b>192</b>

\*2019/20 has been restated to include additional fees relating to the impact of COVID-19.

## 22. Joint Funding Arrangements

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 (BCF). Any

# Notes to the Comprehensive Income and Expenditure Statement

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 BCF, 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 Council's accounting system.

	<b>2020/21</b>	<b>2019/20</b>
	£'000	£'000
RBKC contributions to the pooled budget	(8,396)	(8,283)
WLCCG contributions to the pooled budget	(13,575)	(13,151)
<b>Total contributions into the pooled budget</b>	<b>(21,971)</b>	<b>(21,434)</b>
Costs relating to the reablement of residents	4,188	4,336
Costs relating to care provided in residential or community settings	11,273	10,192
Support Services and programme management relating to the BCF	738	846
iBCF Programme	6,570	6,570
<b>Total expenditure met by the pooled budget</b>	<b>22,769</b>	<b>21,944</b>
<b>Net in-year (surplus) / deficit</b>	<b>798</b>	<b>510</b>
<b>Comprising shares due to:</b>		
RBKC	(222)	0
WLCCG	1,020	510

COVID-19 has resulted in a number of challenges for some programmes, including having to respond to Government restrictions on the closure of day opportunities, the closure of care homes for new admissions and the impact on the care market. To respond to these challenges, the Council had to reassess the way in which services were delivered during the year.

The Council continues to work in partnership with Health services in response to the pandemic e.g. in supporting hospital discharges and helping care homes with infection control.

## Net in-year deficit on the pooled budget

The surplus due to RBKC relates to the Disabled Facilities Grant (DFG) of £0.222 million. The unused DFG grant has been carried forward into 2021/22. The MHCLG have agreed that underspends can be carried forward into 2021/22 as a result of services impacted by the Covid pandemic

Over the last few years there has been increased spend on costs commissioned by WLCCG due to increased cases and complexity. The deficit due to WLCCG comprises £0.226 million relating to occupational therapy equipment and £0.794 million deficit relating to schemes directly managed by them.

## **23. Related party transactions**

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

### Central Government

The Government has effective control of all local authorities. It is responsible for the statutory framework in which the Council operates, provides some of the Council's funding in the form of

# Notes to the Comprehensive Income and Expenditure Statement

grants and prescribes the terms of many of the transactions that the Council has with other parties e.g. council tax and housing benefits. Grants received from the Government are set out in notes 14 and 15.

## Members and Officers

Elected Members have direct control of the Council's policies and strategies. The total of Members allowances paid during 2020/21 is shown in note 18.

Day-to-day responsibility lies with the Council's Leadership Team which in 2020/21 comprised nine Members with authority within their respective portfolios to approve decisions of a value less than £500,000. Decisions with a value greater than £500,000 are taken by Leadership Team collectively or by full Council, as appropriate.

No Member has declared a relationship or position held with a company that has a material commercial relationship with the Council. Some Members have relationships or hold positions with other public bodies, schools, charities, voluntary organisations and development trusts with which the Council interacts but does not have a financially material relationship.

Several Members held positions of control or significant influence in related parties to the Council during 2020/21. These include charitable organisations which received funds from the Council; where greater than £10k these are detailed below.

	£'000	Charity No.	Board Trustees
Action Disability Kensington and Chelsea	136	1045769	Adrian Berrill-Cox
Kensington and Chelsea Citizens Advice Bureau	1,027	1057195	Monica Press, Ian Wason, Dori Schmetterling
Muslim Cultural Heritage Centre Trust	95	1059085	Gerard Hargreaves, Kasim Ali
Pepper Pot Day Centre	101	297952	Julie Mills
Kensington and Chelsea Over 50s Forum	54	1158108	Marie Therese Rossi
Westway Trust	556	1123127	Sof McVeigh, Marwan Elnaghi, Marie Therese Rossi
North Kensington Law Centre	88	279699	Pat Healy
The Earl's Court Youth Club	103	273199	Marie Therese Rossi
<b>Total</b>	<b>2,160</b>		

Further details about these registered charities can be found on the Charity Commission website.

At the time of publication, four Members and eight officers had not returned their declarations; seven of these officers are no longer Council employees and one is on maternity leave.

## Entities Controlled or Significantly Influenced

The Council undertakes an annual assessment of joint arrangements and interests in other companies. The Council has two wholly owned subsidiaries, Kensington and Chelsea Estates Limited and Repairs Direct, both of which were effectively dormant during 2020/21. Group accounts are not prepared for any of these entities as the consolidated position would not be materially different to the single entity accounts.

Kensington and Chelsea Estates Ltd – (Company ref 05740666 incorporated 19 August 2015) was established to facilitate investment in existing housing stock. The company has not yet started trading.

Kensington and Chelsea Repairs Direct Ltd (Company reference 08375353 incorporated on 25 January 2013) was purchased by the Council for a nominal sum on 1 March 2018. On 1 April 2019 the Council took direct control of housing repairs and maintenance and the company ceased trading. The Council's Director of Financial Management is a Director of the limited company.

## 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 notes 14 and 15.

The Council entered into a Tri-Borough shared services joint working arrangement Westminster City Council (WCC) and the London Borough of Hammersmith and Fulham (LBHF) from 1 April 2012. During 2019/20, LBHF formally withdrew from the Tri-Borough arrangement. The Council and WCC continue to work together to deliver some Bi-Borough services for the benefit of local people. The nature of these arrangements means that each borough influences the others whilst maintaining its sovereignty. The net payments between the councils are not material.

During 2018/19, the Council entered a partnership arrangement with Hampshire County Council (HCC), Hampshire Constabulary, Hampshire Fire and Rescue Service, Oxfordshire County Council, WCC and LBHF. These working agreements are hosted by HCC and involve joint use of the assets and resources of each organisation, collectively delivering greater efficiency, better value, sharing costs, risks and benefits. The Council recognises the assets that it controls and the liabilities that it incurs on its Balance Sheet, and the expenditure it incurs and the share of income it earns from the activity of the operation in its CIES.

# Notes to the Balance Sheet



# Notes to the Balance Sheet

## 24. Property, plant and equipment

Movement in balances	Council Dwellings*	Other Land and Buildings	Plant, Furniture and Equipment	Infrastructure Assets	Community Assets	Assets Under Construction	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Movements in cost or values</b>							
<b>Gross Book Value at 1 April 2019</b>	<b>777,238</b>	<b>536,756</b>	<b>18,453</b>	<b>73,109</b>	<b>14,585</b>	<b>38,400</b>	<b>1,458,541</b>
Additions and enhancement	23,742	16,196	1,015	3,031	2,141	7,940	54,065
Revaluation increases / (decreases) recognised in Revaluation Reserve	1,908	10,761	0	0	0	0	12,669
Revaluation increases / (decreases) recognised in (Surplus) or Deficit on Provision of Services	(35,878)	(13,049)	0	0	0	0	(48,927)
Derecognition - disposals	(238)	0	(3,745)	0	0	(2,074)	(6,057)
Reclassifications and transfers	17,531	0	0	0	1	(17,531)	1
<b>Gross Book Value 31 March 2020</b>	<b>784,303</b>	<b>550,664</b>	<b>15,723</b>	<b>76,140</b>	<b>16,727</b>	<b>26,735</b>	<b>1,470,292</b>
Additions and enhancement	27,676	19,967	4,605	2,752	2,420	24,073	81,493
Revaluation increases / (decreases) recognised in Revaluation Reserve	21,178	(29,259)	0	0	0	0	(8,081)
Revaluation increases / (decreases) recognised in (Surplus) or Deficit on Provision of Services	(46,706)	(20,874)	0	0	0	0	(67,580)
Derecognition - disposals	(214)	0	(516)	0	0	0	(730)
Reclassifications and transfers	31,652	0	0	0	0	(4,868)	26,784
<b>Gross Book Value 31 March 2021</b>	<b>817,889</b>	<b>520,498</b>	<b>19,812</b>	<b>78,892</b>	<b>19,147</b>	<b>45,940</b>	<b>1,502,178</b>
<b>Movements in depreciation and impairment</b>							
<b>Accumulated Depreciation at 1 April 2019</b>	<b>(1)</b>	<b>(98)</b>	<b>(10,329)</b>	<b>(43,869)</b>	<b>0</b>	<b>0</b>	<b>(54,297)</b>
Depreciation charge	(3,151)	(5,194)	(931)	(4,187)	0	0	(13,463)
Depreciation / Impairment written out to the Revaluation Reserve	2,904	2,792	0	0	0	0	5,696
Depreciation / Impairment written out to (Surplus) or Deficit on Provision of Services	245	2,500	0	0	0	0	2,745
Derecognition - disposals	3	0	208	0	0	0	211
<b>Accumulated Depreciation at 31 March 2020</b>	<b>0</b>	<b>0</b>	<b>(11,052)</b>	<b>(48,056)</b>	<b>0</b>	<b>0</b>	<b>(59,108)</b>
Depreciation charge	(3,327)	(5,332)	(690)	(4,321)	0	0	(13,670)
Depreciation / Impairment written out to the Revaluation Reserve	3,050	2,756	0	0	0	0	5,806
Depreciation / Impairment written out to (Surplus) or Deficit on Provision of Services	273	2,577	0	0	0	0	2,850
Derecognition - disposals	3	0	516	0	0	0	519
<b>Accumulated Depreciation at 31 March 2021</b>	<b>(1)</b>	<b>1</b>	<b>(11,226)</b>	<b>(52,377)</b>	<b>0</b>	<b>0</b>	<b>(63,603)</b>
<b>Net Book Value (NBV):</b>							
- At 31 March 2020	784,303	550,664	4,671	28,084	16,727	26,735	1,411,184
- At 31 March 2021	817,888	520,499	8,586	26,515	19,147	45,940	1,438,575

# Notes to the Balance Sheet

\*Council dwellings at 31 March 2021 include 296 properties held within the GF with a NBV of £51.296 million (252 properties held within the GF with a NBV of £41.807 million at 31 March 2020).

The Council currently carries out annual valuations on a rolling programme that ensures all operational assets required to be measured at market value are revalued at least every five years and reviewed as appropriate. The latest valuation was during 2020/21 with an effective valuation date of 31 March 2021. 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.

Similarly, Investment Property assets and any Assets Held for Sale are subject to a revaluation review on an annual basis to ensure that their carrying values are reflective of the latest market value conditions. The basis of the Council's valuations are set out in the Accounting Policies.

## Disposals

The Council replaced its old Radio Frequency Identification (RFID) equipment (net book value of £0.394 million) with an updated RFID system.

## Capital Commitments

As at 31 March 2021 the Council has outstanding capital commitments of £19.520 million GF (£27.7 million at 31 March 2020) and £3.163 million HRA (£1.4 million at 31 March 2020) in respect of contracted schemes.

The major commitments as at 31 March 2021 were:

- Barlby and Special Education Needs Schools - £4.4 million (£22.3 million as at 31 March 2020)
- Leighton House Museum - £2.1 million (£4.4 million as at 31 March 2020)
- Latimer Centre - £3.2 million (no commitments as at 31 March 2020)
- New Homes Delivery Programme - £5.4 million (no commitments as at 31 March 2020)
- HRA Fire Doors - £1.8 million (£1.4 million as at 31 March 2020)
- Lancaster West Estate - £1.3 million (no commitments as at 31 March 2020).

## **25. 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:

	<b>2020/21</b>	<b>2019/20</b>
	£'000	£'000
Office units	9,001	9,001
Commercial units	222,551	288,245
Land	18,675	17,418
Other investment property	349	448
<b>Total fair value</b>	<b>250,576</b>	<b>315,112</b>

# Notes to the Balance Sheet

There were no transfers between any of the three levels of the fair value hierarchy during 2019/20 or the preceding year. During 2020/21, two investment sites transferred from investment properties to GF dwellings assets.

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:

	2020/21	2019/20
	£'000	£'000
Rental income from investment property	(16,810)	(19,510)
Direct operating expenses arising from investment property	3,495	2,350
<b>Net (gain) / loss</b>	<b>(13,315)</b>	<b>(17,160)</b>

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

	2020/21	2019/20
	£'000	£'000
<b>Balance at 1 April</b>	<b>315,112</b>	<b>355,145</b>
Additions		
- Purchases	0	0
- Subsequent expenditure	543	4,801
Net gains / (losses) from fair value adjustments	(38,295)	(19,832)
Disposals	0	(25,001)
Transfers (to) / from Property, Plant and Equipment	(26,784)	(1)
<b>Balance at 31 March</b>	<b>250,576</b>	<b>315,112</b>

## 26. Intangible assets

<b>Software Licences</b>	2020/21	2019/20
	£'000	£'000
Gross carrying amount at 1 April	14,759	11,476
- Purchases	2,070	3,283
- Disposals	(98)	0
<b>Gross carrying amount at 31 March</b>	<b>16,731</b>	<b>14,759</b>
Accumulated amortisation at 1 April	(8,540)	(7,737)
- Amortisation for the period	(1,449)	(803)
- Disposals	98	0
<b>Accumulated amortisation at 31 March</b>	<b>(9,891)</b>	<b>(8,540)</b>
<b>Net carrying amount at 1 April</b>	<b>6,219</b>	<b>3,739</b>
<b>Net carrying amount at 31 March</b>	<b>6,840</b>	<b>6,219</b>

## 27. Heritage assets

### Heritage Properties

Heritage property assets are valued and accounted for in accordance with the Council's accounting policies on property. Valuations 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.

The Council operates two museums;

- 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 Borough, mainly in Holland Park. Details of these items can be found on the Council's website.

The museum collections and the art in parks are reported in the Balance Sheet at insurance valuation (based on market values) and historical information from curators. 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.

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

	2020/21				2019/20			
	Heritage Properties	Museum Collections	Art in Parks	Total	Heritage Properties	Museum Collections	Art in Parks	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Cost/Valuation at 1 April</b>	<b>19,993</b>	<b>24,296</b>	<b>1,963</b>	<b>46,252</b>	<b>19,993</b>	<b>22,753</b>	<b>1,963</b>	<b>44,709</b>
Additions	3,189	26	43	<b>3,258</b>	823	66	0	<b>889</b>
Revaluations	(3,189)	0	0	<b>(3,189)</b>	(823)	1,477	0	<b>654</b>
<b>Cost/Valuation at 31 March</b>	<b>19,993</b>	<b>24,322</b>	<b>2,006</b>	<b>46,321</b>	<b>19,993</b>	<b>24,296</b>	<b>1,963</b>	<b>46,252</b>

# Notes to the Balance Sheet

The figures above include the following net nil depreciation movement on heritage properties.

	2020/21	2019/20
	£'000	£'000
Depreciation and impairment charge	169	169
Depreciation written out on revaluations recognised in the Revaluation Reserve	(90)	(90)
Depreciation written out on revaluations recognised in the Surplus / Deficit on Provision of Services	(79)	(79)
<b>Total</b>	<b>0</b>	<b>0</b>

## 28. Capital expenditure and capital financing

The total amount of capital expenditure incurred in the year is shown in the table below, together with the resources that have been used to finance it. The net movement in the Capital Financing Requirement illustrates the change in the underlying need for the Council to borrow during the year to fund capital investment which has not been funded immediately from resources such as grants, capital receipts and direct funding from revenue.

	2020/21	2019/20
	£'000	£'000
<b>Opening Capital Financing Requirement</b>	<b>423,554</b>	<b>403,082</b>
<u>Capital investment</u>		
Property, Plant and Equipment	81,493	54,064
Heritage Assets	3,258	888
Investment Properties	543	4,801
Intangible Assets	2,070	3,283
Revenue Expenditure Funded from Capital Under Statute	6,330	4,083
<u>Sources of finance</u>		
Capital receipts	(47,011)	(22,703)
Government grants and other contributions	(25,847)	(14,547)
Sums set aside from revenue:		
- Direct revenue contributions	(1,698)	(2,789)
- Direct Revenue Funding (Major Repairs Reserve)	(3,421)	(5,357)
- MRP / loans fund principal	(1,542)	(1,251)
<b>Closing Capital Financing Requirement</b>	<b>437,729</b>	<b>423,554</b>

	2020/21	2019/20
	£'000	£'000
Provision to reduce the underlying need to borrow (MRP)		
- Supported borrowing	(769)	(801)
- Unsupported borrowing	(773)	(450)
Increase in underlying need to borrow (supported by capital receipts)	15,717	21,723
<b>Increase / (decrease) in the Capital Financing Requirement</b>	<b>14,175</b>	<b>20,472</b>

# Notes to the Balance Sheet

## 29. Debtors

The table below provides a breakdown of current and long term debtors with respective ECL.

Category of debt (all at amortised cost)	31 March 2021			31 March 2020		
	Gross Debtor	ECL	Net Debtor	Gross Debtor	ECL	Net Debtor
	£000	£000	£000	£000	£000	£000
<b>Current Debtors</b>						
Trade receivables	27,088	(6,397)	20,691	12,553	(4,725)	7,828
Other receivables	2,026	(1,669)	357	3,096	(1,729)	1,367
Central government - Grenfell	8,435	0	8,435	16,037	0	16,037
Central government - Other	77,868	0	77,868	19,925	0	19,925
Health Authorities	10,455	0	10,455	4,970	0	4,970
Other Local Authorities	88,780	0	88,780	17,347	0	17,347
Temporary Accommodation	3,098	(1,897)	1,201	3,569	(2,020)	1,549
Commercial Waste	182	(28)	154	171	(18)	153
Housing Benefit Overpayments	7,895	(6,647)	1,248	8,750	(6,840)	1,910
Local Taxation	28,205	(23,506)	4,699	18,422	(9,669)	8,753
HRA Rent Payers	4,305	(2,326)	1,979	4,530	(2,466)	2,064
HRA Service Charge	5,015	(820)	4,195	2,031	(338)	1,693
Parking	19,381	(18,184)	1,197	20,161	(18,570)	1,591
Service loans	54	0	54	30	0	30
Payments in advance and deposits	3,196	0	3,196	4,805	0	4,805
<b>Total Current Debtors</b>	<b>285,983</b>	<b>(61,474)</b>	<b>224,509</b>	<b>136,397</b>	<b>(46,375)</b>	<b>90,022</b>
<b>Long Term Debtors</b>						
Trade receivables	150	0	150	398	0	398
Service loans	560	(359)	201	506	0	506
HRA Service Charge	293	(147)	146	2,947	(429)	2,518
Advances and deposits	550	(215)	335	693	(215)	478
Central government - Other	14,746	0	14,746	0	0	0
Other Local Authorities	16,534	0	16,534	0	0	0
<b>Total Long Term Debtors</b>	<b>32,833</b>	<b>(721)</b>	<b>32,112</b>	<b>4,544</b>	<b>(644)</b>	<b>3,900</b>
<b>Total Debtors</b>	<b>318,816</b>	<b>(62,195)</b>	<b>256,621</b>	<b>140,941</b>	<b>(47,019)</b>	<b>93,922</b>

Due to the COVID-19 pandemic, the government granted 12-month business rates relief to retail, hospitality and leisure services. However, the Collection Fund was still required to pay the original business rate shares for the year to preceptors. This means that in 2020/21 the Collection Fund paid out far more income than it received, which is reflected in the debtors position for the Collection Fund shown to MHCLG (£75 million) and GLA (£84 million). This money will be recovered from the preceptors in 2021/22.

The Council has assessed the impact of COVID-19 on credit losses using the limited information available about forecasts of future economic conditions. The categories deemed potentially to be most affected include local taxation, parking services and commercial rents. Any adjustments required to the level of impairment provisions are included in the above table.

A lifetime expected credit loss approach has been applied and the credit loss rates used in calculating the ECL vary widely due to the different type of debts that were reviewed by each service. For local taxation arrears the loss rates applied range from 70% to 100%; the average

# Notes to the Balance Sheet

loss rate for parking is 94%; trade receivables include ECL for commercial rents with a loss rate ranging from 10% to 100%.

## 30. Creditors

The following table provides a breakdown of current and long term creditors.

	31 March 2021		31 March 2020	
	Current	Long Term	Current	Long Term
	£'000	£'000	£'000	£'000
Trade payables	(34,116)	(683)	(45,295)	(619)
Receipts in advance	(19,566)	0	(17,452)	0
Central government bodies	(191,194)	0	(21,328)	0
Other local authorities	(9,947)	0	(30,137)	0
NHS bodies	(11,757)	0	(9,730)	0
Other payables	(13,495)	(517)	(12,329)	(517)
<b>Total creditors</b>	<b>(280,075)</b>	<b>(1,200)</b>	<b>(136,271)</b>	<b>(1,136)</b>

In order for the Council to facilitate cash payments to the Collection Fund preceptors, where reliefs had been granted to businesses, MHCLG paid the Council a Section 31 grant. This grant is repayable to MHCLG in 2021/22 and is included within the 'Central government bodies' figure above (£159 million at 31 March 2021). This liability relates to the preceptor share of the 2020/21 Collection Fund deficit.

## 31. Provisions

Provisions are amounts set aside by the Council for an obligation which are likely to lead to a payment, but where the exact amount and timing of the payment is uncertain.

2020/21	Insurance	NNDR Appeals	Thames Water	Disputed Invoices	Other	Total
	£'000	£'000	£'000	£'000	£'000	£'000
<b>Balance at 1 April</b>	(4,281)	(19,057)	0	(900)	(73)	<b>(24,311)</b>
Additional provisions made	(1,142)	(9,423)	(2,430)	(200)	(187)	<b>(13,382)</b>
Amounts used	1,639	1,982	0	205	40	<b>3,866</b>
Unused amounts reversed	0	7,146	0	284	17	<b>7,447</b>
<b>Balance at 31 March</b>	<b>(3,784)</b>	<b>(19,352)</b>	<b>(2,430)</b>	<b>(611)</b>	<b>(203)</b>	<b>(26,380)</b>
Of which:						
<b>Long Term</b>	<b>(2,319)</b>	0	0	0	0	<b>(2,319)</b>

### 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.

### NNDR Appeals

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

The Valuation Office Agency continues to process appeals to the 2010 and 2017 lists. Further to a new agreement between the London Pool and central government, the Council's share of NDR assets and liabilities decreased from 48% in 2019/20 to 30% in 2020/21.

## Thames Water charges

The Council received commission from Thames Water for collecting water charges from tenants along with their rent. Following a Court of Appeal decision involving another local authority, all councils who had this arrangement were deemed to be 'water resellers' and as a result of this the commission received must be repaid to tenants.

## Disputed Invoices

These relate to HRA contractor payments that the Council is disputing.

## Other Provisions

Other provisions include the Looked After Children savings and a legal tribunal.

## **32. Contingent liabilities**

Contingent liabilities are not recognised in the Balance Sheet but disclosed in notes to the accounts when an outflow is possible. At 31 March 2021, the Council's one contingent liability was in respect of the tragic fire at Grenfell Tower on the 14th June 2017. The Metropolitan Police continues to investigate the Council, Kensington and Chelsea Tenant Management Organisation (KCTMO) and other parties for corporate manslaughter and the public inquiry continues to look into the causes of the fire. It is therefore not possible to quantify any liability resulting from this investigation, which is yet to conclude, or any financial liability for civil claims, as financial quantum is yet to be presented in the civil claims process and liability apportioned between various defendants.

## **33. Financial instruments**

Financial instruments are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of the financial instrument.

No financial instruments have been reclassified in 2020/21 or the preceding year. There has been no change in the valuation technique used during the year for financial instruments.

## Financial Assets

The financial assets disclosed in the Council's Balance Sheet are made up of the following:

# Notes to the Balance Sheet

Financial Assets	31 March 2021		31 March 2020	
	Long-term	Current	Long-term	Current
	£'000	£'000	£'000	£'000
<b>Investments</b>				
At amortised cost - principal amount	0	82,500	0	185,500
At amortised cost - accrued interest	0	116	0	997
<b>Total investments</b>	<b>0</b>	<b>82,616</b>	<b>0</b>	<b>186,497</b>
<b>Debtors</b>				
Loans at amortised cost	202	405	506	1,137
Other receivables at amortised cost	631	28,618	3,394	17,603
<b>Total included in debtors</b>	<b>833</b>	<b>29,023</b>	<b>3,900</b>	<b>18,740</b>
<b>Cash and Cash Equivalents (CCE)</b>				
At amortised cost - principal amount	0	78,070	0	60,037
At amortised cost - accrued interest	0	0	0	24
<b>Total included in CCE</b>	<b>0</b>	<b>78,070</b>	<b>0</b>	<b>60,061</b>
<b>Total financial assets</b>	<b>833</b>	<b>189,709</b>	<b>3,900</b>	<b>265,298</b>
Other Assets	1,773,591	197,197	1,778,767	71,361
<b>Total Assets per Balance Sheet</b>	<b>1,774,424</b>	<b>386,906</b>	<b>1,782,667</b>	<b>336,659</b>

## Financial Liabilities

The financial liabilities disclosed in the Balance Sheet are made up of the following:

Financial Liabilities	31 March 2021		31 March 2020	
	Long-term	Current	Long-term	Current
	£'000	£'000	£'000	£'000
<b>Borrowings</b>				
Amortised cost - principal amount	(234,237)	(18,009)	(252,246)	(11,589)
Amortised cost - accrued interest	0	(2,702)	0	(2,815)
<b>Total borrowings</b>	<b>(234,237)</b>	<b>(20,711)</b>	<b>(252,246)</b>	<b>(14,404)</b>
<b>Creditors</b>				
Financial liabilities carried at contract amounts	(683)	(34,115)	(1,136)	(53,022)
<b>Total included in creditors</b>	<b>(683)</b>	<b>(34,115)</b>	<b>(1,136)</b>	<b>(53,022)</b>
<b>Total financial liabilities</b>	<b>(234,920)</b>	<b>(54,826)</b>	<b>(253,382)</b>	<b>(67,426)</b>
Other liabilities*	(149,732)	(296,009)	(120,588)	(117,376)
<b>Total Liabilities per Balance Sheet</b>	<b>(384,652)</b>	<b>(350,835)</b>	<b>(373,970)</b>	<b>(184,802)</b>

\*Included in this figure is the Council's obligation in respect of its defined benefit pension plans, which do not meet the definition of a financial liability. The obligation is shown on the Balance Sheet under Other Long-Term Liabilities. Further information can be found in note 36.

## Income, Expenses, Gains and Losses

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

# Notes to the Balance Sheet

	2020/21			2019/20		
	Assets	Liabilities	Total	Assets	Liabilities	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Interest expense in CIES	0	10,531	<b>10,531</b>	0	11,024	<b>11,024</b>
Interest and investment income in CIES	(930)	0	<b>(930)</b>	(2,432)	0	<b>(2,432)</b>
<b>Net (gain) / loss for the year</b>	<b>(930)</b>	<b>10,531</b>	<b>9,601</b>	<b>(2,432)</b>	<b>11,024</b>	<b>8,592</b>

## Fair values

Financial assets classified as loans and receivables and all non-derivative financial liabilities are carried on the Balance Sheet at amortised cost. Their fair values have been estimated by calculating the net present value of the remaining contractual cash flows as at 31 March 2021, using the following methods and assumptions:

- Loans taken 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
- No early repayment or impairment is recognised for any financial instrument
- The fair value of short-term instruments, including trade payables and receivables, is deemed to be not materially different to the carrying amount.

The fair values are calculated as follows:

	Level	31 March 2021		31 March 2020	
		Fair Value	Carrying Amount	Fair Value	Carrying Amount
		£'000	£'000	£'000	£'000
PWLB loans	2	(294,452)	(254,949)	(291,174)	(266,651)
Liabilities where fair value is not disclosed			(480,336)		(292,596)
		(294,452)	(735,285)	(291,174)	(559,247)

## 34. 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:

# Notes to the Balance Sheet

- 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
- By approving 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 at the meeting which sets the Council's budget 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 in the outturn report after each year end and in the 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 Annual Treasury Management Strategy Statement 2020/21 can be found on the Council's website. See Full Council committee meeting documents for 4 March 2020.

## 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. Outside of the UK, the Sovereign credit rating of individual countries is taken into account prior to considering the ratings of individual institutions. Only institutions from countries with a minimum sovereign rating of AA+ or equivalent will be considered. When lending to other local authorities, the treasury management team independently assess the financial health of that authority before investing.

No credit limits were exceeded during the reporting period.

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

	<b>Fitch Rating</b>	<b>2020/21</b>	<b>2019/20</b>
		£'000	£'000
Other local authorities	UNRATED	27,500	115,500
Money Market Funds	AAA	78,070	58,200
Banks	A+ or above	55,000	70,000
<b>Total</b>		<b>160,570</b>	<b>243,700</b>

Approximately 70% of all investments as at 31 March 2020 are with UK domiciliary institutions.

# Notes to the Balance Sheet

Loss allowances are calculated on the Council's investments based on externally assessed risk of default by individual counterparties. In 2020/21 and the preceding year, the risk of loss on the Council's investments was considered immaterial.

The Council does not generally allow extended credit for its customers. Risk of default by customers is assessed based on historic collection rates and forward-looking assessments and, where appropriate, expected credit loss impairments are charged to the CIES. Receivables are written off to the Surplus or Deficit on Provision of Services where recovery action indicates there is no realistic chance of recovery. Details of expected credit losses for receivables can be found in note 29.

The Council has made loans to the National Army Museum (NAM) and Greenwich Lesiure Limited (GLL), both in furtherance of its service objectives. The Council has also made a commitment to provide additional loans to GLL if requested.

The loans are recognised on the Balance Sheet at amortised cost. The Council's ECL and its total exposure to credit risk in respect of these loans is shown in the following table.

Borrower	Exposure Type	Loan	ECL	Risk	Loan	ECL	Risk
		2020/21			2019/20		
		£'000	£'000	£'000	£'000	£'000	£'000
NAM	Loan at market rate	149	0	0	489	0	0
GLL	Loan at zero rate	395	(234)	0	0	0	0
GLL	Loan Commitment	0	(125)	250	0	0	0
<b>Total</b>		<b>544</b>	<b>(359)</b>	<b>250</b>	<b>489</b>	<b>0</b>	<b>0</b>

## 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 from 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 to finance its capital programme. In order to meet current and future revenue expenditure commitments, the Council is required to set an annual balanced budget (Local Government Act 1992) and to maintain a sufficient level of revenue reserves.

The Council's cash reserves are either invested externally, or used to fund its capital programme in place of external borrowing. Since the Council is financing some of its capital programme from cash reserves, this means there is additional headroom in how much funding it can borrow from the PWLB.

At 31 March 2021, the Council had £160.570 million (£243.700 million in 2019/20) invested externally which was due to be paid back in less than a year, and could borrow a further £185.483 million (£159.719 million in 2019/20) from the PWLB to finance its capital programme.

There is no perceived risk that the Council will be unable to raise finance to meet its commitments. It is however exposed to the risk that it may need to refinance a significant proportion of its borrowing at a time of unfavourably high interest rates. This risk is managed by maintaining a spread of fixed rate loans and maturities and ensuring that no more than 30% of the Council's borrowing matures in any one financial year. .

# Notes to the Balance Sheet

The following table shows the maturity analysis of the Council's financial liabilities:.

Maturity Period	2020/21		2019/20	
	Principal £'000	Interest	Principal £'000	Interest
Maturing in under one year	18,009	9,132	11,588	10,499
Maturing between one and two years	5,009	8,001	17,992	9,132
Maturing between two and five years	22,728	21,991	17,700	23,227
Maturing between five and ten years	20,532	31,340	20,531	32,367
Maturing between ten and 20 years	35,047	49,886	45,004	51,231
Maturing between 20 and 30 years	90,047	30,137	90,000	32,697
Maturing after 30 years	60,875	7,754	61,020	9,586
<b>Total</b>	<b>252,247</b>	<b>158,241</b>	<b>263,835</b>	<b>168,739</b>

## 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.

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.

None of the Council's investments or borrowings are carried at fair value in the Council's Balance Sheet, so nominal gains and losses on these do not impact on the Surplus or Deficit on Provision of Services in the CIES. The Council does not have any variable rate borrowing.

The Council has several 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.

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	(839)
Impact on CIES	(839)
Share of overall impact debited to the HRA	675
Decrease in fair value of fixed rate borrowing liabilities	(333)

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

## **35. Pension schemes accounted for as defined contribution schemes**

Although the Teachers Pension Scheme is a defined benefit scheme, 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 therefore accounted for on the same basis as a defined contributions scheme.

In 2020/21, the Council paid £5.331 million (£4.612 million in 2019/20) to Teachers' Pensions in respect of teachers' retirement benefits, representing 23.68% (16.48% until September 2019) of pensionable pay. There were no contributions remaining payable at the year-end.

The Children's Services and Education line in the CIES is charged with the employer's contributions payable to the Teachers' Pension Scheme for the year.

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

## **36. Defined benefit pension schemes**

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

Most employees of the Council are members of the Local Government Pension Scheme (LGPS), which for most staff is administered by the Council and for a relatively small number, by the Local Pensions Partnership (previously London Pension Fund Authority). This 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 following transactions have been made in the CIES and the GF Balance via the MIRS during the year.

# Notes to the Balance Sheet

Transactions made in the CIES	2020/21	2019/20	2020/21	2019/20
	RBKC Pension Scheme	RBKC Pension Scheme	LPFA Pension Scheme	LPFA Pension Scheme
	£'000	£'000	£'000	£'000
<u>Service cost comprising:</u>				
- Current service cost	35,012	29,312	85	90
- Past service costs	1,458	2,132	0	56
- (Gain) / loss on settlements	(734)	(277)	0	0
<u>Financing and Investment Income and Expenditure:</u>				
- Net interest expense	1,738	4,214	40	28
- Administration expenses	1,134	691	36	40
<b>Post Employment Benefits charged to the (Surplus)/Deficit on Services in the CIES</b>	<b>38,608</b>	<b>36,072</b>	<b>161</b>	<b>214</b>
<u>Remeasurement of the net defined benefit liability / asset comprising:</u>				
- Return on plan assets	(302,231)	70,091	(4,202)	1,382
- Actuarial gains and losses arising on changes in demographic assumptions	(13,055)	(40,854)	(312)	756
- Actuarial gains and losses arising on change in financial assumptions	335,799	(118,668)	4,432	(2,113)
- Experience (gain) / loss	(15,783)	(30,382)	(447)	(235)
- Changes in effect of asset ceiling / Other (gains) / losses	0	(734)	0	751
<b>Total Post Employment Benefits charged to Other Income and Expenditure in the CIES</b>	<b>4,730</b>	<b>(120,547)</b>	<b>(529)</b>	<b>541</b>
<b>Total Post Employment Benefits charged to the CIES</b>	<b>43,338</b>	<b>(84,475)</b>	<b>(368)</b>	<b>755</b>

Transactions made in the MIRS	2020/21	2019/20	2020/21	2019/20
	RBKC Pension Scheme	RBKC Pension Scheme	LPFA Pension Scheme	LPFA Pension Scheme
	£'000	£'000	£'000	£'000
Reversal of net IAS 19 charges	(38,608)	(36,072)	(161)	(214)
Actual amount charged to GF/HRA	16,265	16,671	179	157

The total net liability included in the Balance Sheet in respect of its defined benefit schemes is as follows:

Pension Assets and Liabilities recognised in the Balance Sheet	31 March 2021	31 March 2020	31 March 2021	31 March 2020
	RBKC Pension Scheme	RBKC Pension Scheme	LPFA Pension Scheme	LPFA Pension Scheme
	£'000	£'000	£'000	£'000
Present value of the defined benefit obligation	(1,508,875)	(1,154,427)	(30,955)	(28,247)
Fair value of plan assets	1,400,044	1,072,669	31,080	27,771
<b>Sub-total</b>	<b>(108,831)</b>	<b>(81,758)</b>	<b>125</b>	<b>(476)</b>
Present value of unfunded obligation	0	0	(1,416)	(1,613)
Impact of asset ceiling	0	0	0	(241)
<b>Net liability arising from defined benefit obligation</b>	<b>(108,831)</b>	<b>(81,758)</b>	<b>(1,291)</b>	<b>(2,330)</b>

# Notes to the Balance Sheet

As LGPS Funds are usually invested in a range of asset classes, the performance of the assets may be quite different from that of the accounting liabilities (which are linked to corporate bonds) and so the results can be very volatile from year to year.

Reconciliation of Present Value of Scheme Liabilities	31 March 2021		31 March 2020	
	RBKC Pension Scheme		LPFA Pension Scheme	
	£'000	£'000	£'000	£'000
<b>Opening balance at 1 April</b>	<b>(1,154,427)</b>	<b>(1,308,308)</b>	<b>(29,609)</b>	<b>(32,124)</b>
Current service cost	(35,012)	(29,312)	(85)	(90)
Interest cost	(27,020)	(31,103)	(662)	(719)
Change in financial assumptions	(335,799)	118,508	(4,432)	2,100
Change in demographic assumptions	13,055	40,854	312	(756)
Experience (loss) / gain	15,783	30,382	447	235
Liabilities assumed / (extinguished) on settlements	(4,543)	888	0	0
Estimated benefits paid net of transfers in	28,026	31,886	1,544	1,687
Past service costs and curtailments	(1,458)	(2,132)	0	(56)
Contributions - scheme participants	(7,480)	(6,090)	(14)	(14)
Unfunded pension payments	0	0	128	128
<b>Closing balance at 31 March</b>	<b>(1,508,875)</b>	<b>(1,154,427)</b>	<b>(32,371)</b>	<b>(29,609)</b>

Reconciliation of Movement in the Fair Value of Scheme Assets	31 March 2021		31 March 2020	
	RBKC Pension Scheme		LPFA Pension Scheme	
	£'000	£'000	£'000	£'000
<b>Opening balance at 1 April</b>	<b>1,072,669</b>	<b>1,125,404</b>	<b>27,771</b>	<b>31,125</b>
Interest on assets	25,282	26,889	622	697
Return on assets less interest	302,231	(70,091)	4,202	(1,382)
Administration expenses	(1,134)	(691)	(36)	(40)
Contributions - employer	16,265	16,831	179	170
Contributions - scheme participants	7,480	6,090	14	14
Estimated benefits paid plus unfunded net of transfers in	(28,026)	(31,886)	(1,672)	(1,815)
Other actuarial gains / (losses)	0	734	0	(998)
Settlement prices received / (paid)	5,277	(611)	0	0
<b>Closing balance at 31 March</b>	<b>1,400,044</b>	<b>1,072,669</b>	<b>31,080</b>	<b>27,771</b>

	31 March 2021		31 March 2020		31 March 2021		31 March 2020	
	RBKC Pension Scheme				LPFA Pension Scheme			
	£'000	%	£'000	%	£'000	%	£'000	%
Equities	1,117,426	80	762,594	71	16,887	54	15,101	54
Property	71,485	5	63,398	6	2,828	9	2,536	9
Absolute return portfolio	0	0	95,907	9	0	0	0	0
Cash plus funds	198,063	14	146,993	14	0	0	0	0
Cash	13,070	1	3,777	0	1,416	5	1,416	5
Target return portfolio	0	0	0	0	7,315	24	6,769	24
Infrastructure	0	0	0	0	2,634	8	1,949	7
<b>Total</b>	<b>1,400,044</b>	<b>100</b>	<b>1,072,669</b>	<b>100</b>	<b>31,080</b>	<b>100</b>	<b>27,771</b>	<b>100</b>

# Notes to the Balance Sheet

The above table shows the fair value of scheme assets. The LGPS scheme includes UK equities, private equity and property assets of £150.682 million (£130.115 million at 31 March 2020) that do not have a quoted market price in an active market.

## Basis for estimating assets and liabilities

Both the Local Government Pension Scheme and discretionary benefits liabilities have been assessed by Barnett Waddingham LLP, an independent firm of actuaries. Contributions are set every three years as a result of the actuarial valuation of the Fund required by Regulations. The next actuarial valuation of the Fund will be carried out as at 31 March 2022 and will set contributions for the period from 1 April 2023 to 31 March 2026.

The liabilities 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.

The 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.

There are no minimum funding requirements in the Local Government Pension Scheme but the contributions are generally set to target a funding level of 100% using the actuarial valuation assumptions.

## Demographic / statistical assumptions

The post retirement mortality tables have been updated to use the latest version of the Continuous Mortality Investigation's model, CMI\_2020, released in March 2021. This update has been made in light of the coronavirus pandemic and reflects the latest information available from the CMI. The new CMI\_2020 Model introduces a "2020 weight parameter" for the mortality data in 2020 so that the exceptional mortality experienced due to the coronavirus pandemic can be incorporated without having a disproportionate impact on results. Placing too much weight on the 2020 mortality experience would not be appropriate given the abnormality of the 2020 data, however, the overall outlook for best-estimate future mortality improvements looks less positive as a result of the pandemic. Therefore we have updated to use the CMI\_2020 Model with a 2020 weight parameter of 25%.

The assumed life expectations from age 65 for LGPS are:

<b>Life expectancy in years</b>	<b>31 March 2021 (after CMI_2020 update)</b>	<b>31 March 2021 (before CMI_2020 update)</b>	<b>31 March 2020 (using CMI_2018)</b>
<b>Retiring today</b>			
- Males	21.6	21.9	21.8
- Females	24.3	24.5	24.4
<b>Retiring in 20 years</b>			
- Males	22.9	23.3	23.2
- Females	25.7	25.9	25.8

# Notes to the Balance Sheet

The assumed life expectations from age 65 for LPFA are:

Life expectancy in years	31 March 2021 (after CMI_2020 update)	31 March 2021 (before CMI_2020 update)	31 March 2020 (using CMI_2018)
<b>Retiring today</b>			
- Males	21.7	22.1	22.0
- Females	24.0	24.1	24.0
<b>Retiring in 20 years</b>			
- Males	23.1	23.6	23.5
- Females	25.9	26.1	26.0

## Financial assumptions

The financial assumptions used are set with reference to market conditions at 31 March 2021.

	31 March 2021 RBKC	31 March 2020	31 March 2021 LPFA	31 March 2020
Discount rate (% p.a.)	2.00	2.35	1.90	2.30
Pension increases (% p.a.)	2.85	1.90	2.85	1.95
Salary increases (% p.a.)	3.85	2.90	3.85	2.95

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the tables above. The sensitivity analysis below has been based on realistic changes of the major 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.

Sensitivity analysis	RBKC Pension Scheme		LPFA Pension Scheme	
	Increase in assumption	Decrease in assumption	Increase in assumption	Decrease in assumption
	£'000	£'000	£'000	£'000
<b>Life expectancy (increase or decrease of 1 year):</b>				
- Present value of total obligation	1,576,452	1,444,337	34,734	30,180
- Projected service cost	55,762	51,319	109	99
<b>Long term increase in salaries (increase or decrease of 0.1%)</b>				
- Present value of total obligation	1,511,126	1,506,640	32,379	32,363
- Projected service cost	53,529	53,471	104	104
<b>Increase in pensions (increase or decrease of 0.1%)</b>				
- Present value of total obligation	1,537,029	1,481,276	32,772	31,975

The last triennial actuarial valuation, as at 31 March 2019, indicated that the RBKC Pension Fund was 125% funded, with a minimum employer contribution rate of 16.1%. The funding level was estimated to be 128% at 31 March 2021.

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.

At 31 March 2021, the Council anticipated paying contributions of £16.262 million to the LGPS for the year to 31 March 2022 (£12.642 million estimated at 31 March 2020). The LPFA figures were £0.058 million and £0.059 million respectively.

# Notes to the Balance Sheet

The average age of active members, based on the March 2019 valuation, is 46 years for the Council's Pension Fund and 61 years for the London Pension Fund Authority. The same based on the March 2016 valuation was 45 years and 59 years respectively.

## Impact of the McCloud and Sargeant transitional protection pensions ruling

The above disclosures include an allowance to reflect the Court of Appeal judgement in respect of the McCloud and Sargeant cases which relate to age discrimination within the Judicial and Fire Pension schemes, respectively. This allowance was incorporated into the accounting results as at 31 March 2019. These results, including the allowance, have been rolled forward and remeasured to obtain the accounting results as at 31 March 2021.

On 16 July 2020, the Government published a consultation on the proposed remedy to be applied to LGPS benefits in response to the McCloud and Sargeant cases. The consultation closed on 8 October 2020 and the final remedy will only be known after the consultation responses have been reviewed and a final set of remedial Regulations are published. We do not believe there are any material differences between the approach underlying our estimated allowance and the proposed remedy.

## Guaranteed Minimum Pension (GMP) Equalisation

As a result of the High Court's recent Lloyds ruling on the equalisation of GMP between genders, a number of pension schemes have made adjustments to accounting disclosures to reflect the effect this ruling has on the value of pension liabilities.

On 23 March 2021, the Government published the outcome to its Guaranteed Minimum Pension Indexation consultation, concluding that all public service pension schemes, including the LGPS, will be directed to provide full indexation to members with a GMP reaching State Pension Age (SPA) beyond 5 April 2021. This is a permanent extension of the existing 'interim solution' that has applied to members with a GMP reaching SPA on or after 6 April 2016.

The valuation assumption for GMP is that the Fund will pay limited increases for members that have reached SPA by 6 April 2016, with the Government providing the remainder of the inflationary increase. For members that reach SPA after this date, we have assumed that the Fund will be required to pay the entire inflationary increase. Therefore we have not made any adjustments to the value placed on the liabilities as a result of the above outcome.

## Goodwin case

Following a case involving the Teachers' Pension scheme, differences between survivor benefits payable to members with same-sex or opposite-sex survivors have been identified within some public sector pension schemes. As a result, the Government has confirmed that a remedy is required in all affected public sector pension schemes, which includes the LGPS. As this has just recently been announced, we do not yet have an accurate indication of the potential impact this may have on the value of employers' liabilities or the cost of the scheme. The Government Actuary's Department (GAD) is undertaking a review to assess the potential impact on public sector pension schemes, which we expect will be minimal for LGPS funds. No allowance has been made for this decision in the above disclosures.

## Risks

Participating in a defined benefit pension scheme means that the Council is exposed to the following risks.

# Notes to the Balance Sheet

- Investment risk: The Fund holds investment in asset classes, such as equities, which have volatile market values and while these assets are expected to provide real returns over the long-term, the short-term volatility can cause additional funding to be required if a deficit emerges
- Interest rate risk: The Fund's liabilities are assessed using market yields on high quality corporate bonds to discount future liability cashflows. As the Fund holds assets such as equities the value of the assets and liabilities may not move in the same way
- Inflation risk: All the benefits under the Fund are linked to inflation and so deficits may emerge to the extent that the assets are not linked to inflation
- Longevity risk: If the members live longer than assumed a deficit will emerge in the Fund. There are also other demographic risks.

In addition, as many unrelated employers participate in the Council's Pension Fund, there is an orphan liability risk where employers leave the Fund but with insufficient assets to cover their pension obligations so that the difference may fall on the remaining employers. All the risks above may also benefit the Council e.g. higher than expected investment returns or employers leaving the Fund with excess assets which eventually get inherited by the remaining employers.

## 37. Leases

### The Council as Lessee

Assets acquired under finance leases were held as PPE (Other Land and Buildings) in the Balance Sheet at £0.825 million as at 31 March 2021 (£0.850 million as at 31 March 2020).

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

	31 March 2021	31 March 2020
	£'000	£'000
Not later than one year	75	75
Later than one year and not later than five years	103	173
Later than five years	68	68
<b>Total minimum lease payments</b>	<b>246</b>	<b>316</b>

Minimum lease payments of £0.077 million were charged to the CIES in 2020/21 and the preceding year.

### The 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 Tesco store in Fenelon Place, the Great Western Studios, 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.

# Notes to the Balance Sheet

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.

## Operating Leases

The Council leases out property and equipment under operating leases to generate additional income and to provide smaller premises for small businesses and charitable organisations in the Council 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.

	<b>31 March 2021</b>	<b>31 March 2020</b>
	£'000	£'000
Not later than one year	13,997	11,538
Later than one year and not later than five years	42,848	38,695
Later than five years	135,083	103,720
<b>Total future minimum lease payments</b>	<b>191,928</b>	<b>153,953</b>

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.

## Changes to accounting standards: IFRS 16 Leases

The implementation of IFRS 16 Leases in the Code has been deferred until the 2022/23 financial year. This aligns with the decision at the Government's Financial Reporting Advisory Board to establish a new effective date of 1 April 2022 for the implementation of IFRS 16.

The main change introduced by IFRS 16 that is likely to impact the Council is accounting as a lessee for what are currently referred to as operating leases. These are where the Council enters into contracts for services with asset implications and / or where it has benefits and use of those assets. Under IFRS 16 the Council will be required to recognise a right of use asset and a lease liability on the Balance Sheet (subject to certain exemptions); currently the Council includes these costs as operating lease payments in the CIES. The Council will update its accounting policy on leases for 2022/23 to reflect the changes, including a threshold for exempt low-value leases.

# Notes to the Cash Flow Statement



# Notes to the Cash Flow Statement

## 38. Cash Flow Statement - Operating Activities

	2020/21	2019/20
	£'000	£'000
<b>Net Surplus / (Deficit) on the Provision of Services</b>	<b>(128,236)</b>	<b>(103,595)</b>
<b>Remove non-cash movements</b>		
Depreciation and amortisation	15,288	14,435
Impairment and downward revaluations	67,749	46,913
Increase / (decrease) in creditors	141,600	(469)
(Increase) / decrease in debtors	(911)	5,941
Movement in pension liability	22,249	19,458
Carrying amount of non-current assets and assets held for sale, sold or derecognised	211	30,847
Other non-cash items	40,420	7,405
<b>Sub-total</b>	<b>286,606</b>	<b>124,530</b>
<b>Adjust for items that are investing and financing activities</b>		
Proceeds from the sale of non-current assets	(3,655)	(14,475)
Grants for the financing of capital expenditure	(12,958)	(22,023)
<b>Sub-total</b>	<b>(16,613)</b>	<b>(36,498)</b>
<b>Net cash flows from revenue activities</b>	<b>141,757</b>	<b>(15,563)</b>

## 39. Cash Flow Statement - Investing Activities

	2020/21	2019/20
	£'000	£'000
Purchase of non-current assets	(87,818)	(62,560)
(Purchase) / disposal of short-term and long-term investments	104,000	(47,400)
Other (payments) / receipts for investing activities	(8)	0
Proceeds from the sale of non-current assets	3,655	14,475
Capital grants and contributions received	31,178	37,545
<b>Net cash flows from investing activities</b>	<b>51,007</b>	<b>(57,940)</b>

## 40. Cash Flow Statement - Financing Activities

	2020/21	2019/20
	£'000	£'000
Cash receipts / (repayments) of borrowing	(11,588)	44,991
Cash receipts / (repayments) of other liabilities	28,000	(499)
Collection Fund adjustments	(189,478)	10,184
<b>Net cash flows from financing activities</b>	<b>(173,066)</b>	<b>54,676</b>

# Notes to the Cash Flow Statement

## 41. Cash and cash equivalents

The Council held the following cash and cash equivalent at 31 March 2021.

	<b>31 March 2021</b>	<b>31 March 2020</b>
	£'000	£'000
Cash held by the Council	575	23
Bank current accounts	1,114	1,814
Short-term deposits	78,070	58,224
<b>Total cash and cash equivalents</b>	<b>79,759</b>	<b>60,061</b>

# Supplementary Financial Statements



# 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.

<b>HRA Income &amp; Expenditure Statement</b>	<b>31 March 2021</b>	<b>31 March 2020</b>
	£'000	£'000
<b>Expenditure</b>		
Repairs and maintenance	14,961	19,989
Supervision and management	33,547	41,259
Rents, rates, taxes and other charges	204	287
Dwellings Depreciation	3,117	2,982
Depreciation of other non current assets	305	301
(Gains) / Losses as a result of revaluation or impairment	24,455	22,308
Debt Management Costs	52	52
<b>Total Expenditure</b>	<b>76,641</b>	<b>87,178</b>
<b>Income</b>		
Dwelling rents	(42,038)	(40,421)
Non-dwelling rents	(685)	(709)
Charges for services and facilities	(12,385)	(20,441)
Contributions towards expenditure	(92)	(92)
<b>Total Income</b>	<b>(55,200)</b>	<b>(61,663)</b>
<b>Net Cost of HRA Services as included in the CIES</b>	<b>21,441</b>	<b>25,515</b>
HRA service share of Corporate and Democratic Core	0	14
<b>Net (Income) / Cost for HRA Services</b>	<b>21,441</b>	<b>25,529</b>
<b>HRA share of operating income and expenditure included in the CIES</b>		
(Gain) or loss on sale of HRA non-current assets	(3,433)	(3,828)
Interest payable and similar charges	8,023	9,031
Movement in Expected Credit Loss (ECL) impairment provision	845	697
Interest and net investment income	(44)	(128)
Changes to fair value of investment properties	10,132	2,920
Income and expenditure relating to investment properties	(4,193)	(4,219)
Capital grants and contributions receivable	(3,255)	(2,526)
<b>HRA share of operating income and expenditure</b>	<b>8,075</b>	<b>1,947</b>
<b>(Surplus) or deficit for the year on HRA services</b>	<b>29,516</b>	<b>27,476</b>

# Housing Revenue Account and Notes

Movement on the HRA Statement	31 March 2021	31 March 2020
<b>HRA balance at the end of the previous year</b>	<b>(7,535)</b>	<b>(14,691)</b>
(Surplus) or deficit for the year on the HRA Income and Expenditure Statement	29,516	27,476
<b>Adjustments between accounting basis and funding basis under statute</b>		
Reversal of gain or (loss) on sale of HRA non-current assets	3,433	3,828
Reversal of revaluation losses	(24,455)	(22,308)
Difference between any other item of income and expenditure determined in accordance with the Code and determined in accordance with statutory HR requirements	(12,816)	(5,123)
Transfer to / (from) Major Repairs Reserve	3,421	3,283
<b>Net (increase) or decrease before transfers to or from earmarked reserves</b>	<b>(901)</b>	<b>7,156</b>
<b>Transfers to / (from) reserves</b>		
HRA Controlled Repairs Reserve	0	0
<b>(Increase) or decrease in year on the HRA</b>	<b>(901)</b>	<b>7,156</b>
<b>HRA balance at the end of the year</b>	<b>(8,436)</b>	<b>(7,535)</b>
HRA general balance	(8,523)	(7,535)
HRA earmarked reserves	(901)	(988)
<b>Total HRA reserves at the end of the year</b>	<b>(9,424)</b>	<b>(8,523)</b>

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

	31 March 2021	31 March 2020
	£'000	£'000
Council dwellings	766,595	742,496
Other land and buildings	12,491	12,961
Assets under construction	523	2,698
Investment properties	52,901	62,969
<b>Total</b>	<b>832,510</b>	<b>821,124</b>

## 2. Number and types of dwelling

Archetype description	1 April 2021	1 April 2020	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	65	67	-2
Bungalows	11	11	0
Low-Rise Flats <1945	208	208	0
Low-Rise Flats >1945	187	188	-1
Medium	3,595	3,596	-1
High Rise	2,506	2,507	-1
Multi-Occupancy	47	44	3
<b>Total</b>	<b>6,691</b>	<b>6,693</b>	<b>-2</b>

# Housing Revenue Account and Notes

## 3. Depreciation

HRA non-current assets are depreciated in line with the estimated useful lives disclosed in the note on accounting policies.

## 4. Vacant Possession Value and Valuation Basis

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

As at 31 March 2021 the vacant possession value of dwellings within the HRA was £3,062.388 million (£2,969.984 million as at 31 March 2020). The difference of £2,295.793 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. Capital Expenditure

	2020/21	2019/20
	£'000	£'000
<b>Capital expenditure</b>		
- dwellings	26,093	17,167
- assets under construction	0	2,175
	<b>26,093</b>	<b>19,342</b>
<b>Funded by:</b>		
Usable capital receipts	(16,856)	(11,911)
Capital grants and contributions	(5,816)	(2,074)
Major Repairs Reserve	(3,421)	(5,357)
Borrowing	0	0
	<b>(26,093)</b>	<b>(19,342)</b>

## 6. Capital Receipts in Year

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

	2020/21	2019/20
	£'000	£'000
Dwellings (net of sale expenses)	(1,932)	(1,797)
Other property	(1,713)	(2,266)
<b>Total</b>	<b>(3,645)</b>	<b>(4,063)</b>

## 7. Cost of Borrowing

The HRA paid interest on borrowing of £7.849 million during 2020/21 (£8.736 million in 2019/20).

## 8. Rent Arrears and Provision for ECL

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

<b>Tenant Arrears</b>	<b>2020/21</b>	<b>2019/20</b>
	£'000	£'000
<b>Gross arrears</b>	<b>4,306</b>	<b>4,530</b>
<b>Net arrears (including credit balances)</b>		
- Former tenants	1,099	1,379
- Current tenants	605	751
<b>Net arrears at 31 March</b>	<b>1,704</b>	<b>2,130</b>

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.

<b>Other Arrears</b>	<b>2020/21</b>	<b>2019/20</b>
	£'000	£'000
<b>Gross arrears</b>	<b>6,987</b>	<b>5,504</b>
<b>Net arrears (including credit balances)</b>		
- Leaseholder charges	4,772	4,019
- Commercial properties	1,628	885
<b>Net arrears at 31 March</b>	<b>6,400</b>	<b>4,904</b>

The total provision included in the Balance Sheet in respect of all HRA ECL is £3.850 million (£3.598 million at 31 March 2020).

# Collection Fund Account and Notes

The Collection Fund reflects the Council's statutory responsibility as a billing authority to maintain a separate fund account, which shows the transactions in relation to council tax and business rates and illustrates how these have been distributed to preceptors and the General Fund.

	2020/21				2019/20			
	BRS £'000	NNDR £'000	Council Tax £'000	Total £'000	BRS £'000	NNDR £'000	Council Tax £'000	Total £'000
<b>Income</b>								
Council Tax Receivable	0	0	(123,436)	(123,436)	0	0	(118,727)	(118,727)
Business Rates Receivable	0	(111,969)	0	(111,969)	0	(347,712)	0	(347,712)
Business Rates Supplement	(2,781)	0	0	(2,781)	(10,917)	0	0	(10,917)
Transactional Protection Payments	0	(1,155)	0	(1,155)	0	807	0	807
	<b>(2,781)</b>	<b>(113,124)</b>	<b>(123,436)</b>	<b>(239,341)</b>	<b>(10,917)</b>	<b>(346,905)</b>	<b>(118,727)</b>	<b>(476,549)</b>
<b>Expenditure</b>								
<b>Precepts, Demands and Shares</b>								
Central Government	0	113,721	0	113,721	0	83,379	0	83,379
Greater London Authority	0	127,505	32,379	159,884	0	90,049	31,227	121,276
Billing Authority	0	103,383	89,895	193,278	0	160,088	86,453	246,541
	<b>0</b>	<b>344,609</b>	<b>122,274</b>	<b>466,883</b>	<b>0</b>	<b>333,516</b>	<b>117,680</b>	<b>451,196</b>
<b>Apportionment of PY Surplus / (Deficit)</b>								
Central Government	0	2,696	0	2,696	0	(1,204)	0	(1,204)
Greater London Authority	0	1,914	921	2,835	0	1,188	2,018	3,206
Billing Authority	0	3,404	2,551	5,955	0	3,418	5,796	9,214
	<b>0</b>	<b>8,014</b>	<b>3,472</b>	<b>11,486</b>	<b>0</b>	<b>3,402</b>	<b>7,814</b>	<b>11,216</b>
<b>BRS - Payment to Levying authorities</b>	<b>2,480</b>	<b>0</b>	<b>0</b>	<b>2,480</b>	<b>10,550</b>	<b>0</b>	<b>0</b>	<b>10,550</b>
<b>Charges to Collection Fund</b>								
Increase / (Decrease) in Impairment	281	29,456	9,876	39,613	348	5,305	(1,570)	4,083
Increase / (Decrease) in Provision for Appeals	0	24,802	0	24,802	0	(9,231)	0	(9,231)
Cost of Collection	20	634	0	654	19	643	0	662
	<b>301</b>	<b>54,892</b>	<b>9,876</b>	<b>65,069</b>	<b>367</b>	<b>(3,283)</b>	<b>(1,570)</b>	<b>(4,486)</b>
<b>(Surplus) / Deficit arising during the year</b>	<b>0</b>	<b>294,391</b>	<b>12,186</b>	<b>306,577</b>	<b>0</b>	<b>(13,270)</b>	<b>5,197</b>	<b>(8,073)</b>
<b>(Surplus) / Deficit at start of year</b>	<b>0</b>	<b>(13,901)</b>	<b>(2,646)</b>	<b>(16,547)</b>	<b>0</b>	<b>(631)</b>	<b>(7,843)</b>	<b>(8,474)</b>
<b>(Surplus) / Deficit at end of year</b>	<b>0</b>	<b>280,490</b>	<b>9,540</b>	<b>290,030</b>	<b>0</b>	<b>(13,901)</b>	<b>(2,646)</b>	<b>(16,547)</b>

# Collection Fund Account and Notes

## 1. Council Tax

In 2020/21 the tax base for the Council was 97,506 properties (97,429 in 2019/20) which was used to calculate the Band D council tax of £1,236.83 (£1,190.59 in 2019/20), excluding Garden Squares. This includes the GLA Band D precept of £332.07 (£320.51 in 2019/20).

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.	
	£	£	2020/21	2019/20		2020/21	2019/20
A	up to	40,000	793	741	0.67	529	494
B	40,001	52,000	1,739	1,727	0.78	1,353	1,343
C	52,001	68,000	5,560	5,531	0.89	4,942	4,917
D	68,001	88,000	9,050	9,134	1.00	9,050	9,134
E	88,001	120,000	9,996	9,957	1.22	12,217	12,170
F	120,001	160,000	9,700	9,747	1.44	14,011	14,079
G	160,001	320,000	17,274	17,272	1.67	28,790	28,787
H	320,001	and above	14,429	14,373	2.00	28,857	28,746
			<b>68,541</b>	<b>68,482</b>		<b>99,749</b>	<b>99,670</b>
					Collection rate after allowance for non-collection	97.75%	97.75%
					<b>Council Tax base used to calculate Band D</b>	<b>97,506</b>	<b>97,429</b>

## 2. Non-Domestic Rates (NDR)

The Council collects business 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 Council entered a pooling arrangement with all other London Councils from 1 April 2018. The total amount collected, less reliefs and deductions, is divided between the Council (30%), the Greater London Authority (37%) and the government (33%).

Following the 2017 Revaluation, the Non-Domestic Rateable Value was £783 million at 31 March 2021 (£800 million at 31 March 2020). The standard NDR multiplier for 2020/21 was 51.2 pence (50.4 pence in 2019/20). The Small Business Rate Relief multiplier for 2020/21 was 49.9 pence (49.1 pence for 2019/20).

The Government introduced a 12-month relief period to properties within the retail, hospitality, and leisure sectors, as part of its assistance package to businesses during the pandemic. As a result, the billable business rates within the Collection Fund have been significantly reduced by as much as two thirds of its normal level. As expenditure was set (per regulations) before the outbreak of the pandemic, this created a substantial deficit in the Collection Fund Accounts. The deficit will be repaid by the preceptors to the Collection Fund in 2021/22 as all preceptors (including the Council as a billing authority) were compensated by the Government through a S31 grant.

## 3. Business Rate Supplement (BRS)

Under the arrangements for the Business Rate Supplement, the Council collects a supplement for its area based on local rateable values in excess of £70,000 multiplied by the designated

# Collection Fund Account and Notes

rate poundage. The total amount, less reliefs and deductions, is paid to the Greater London Authority on whose behalf it is collected.

The Business Rate Supplement Rateable Value at 31 March 2021 was £635 million (£653 million at 31 March 2020). The standard BRS multiplier for 2020/21 was 2 pence, unchanged from previous years.

## 4. Debtors for Local Taxation

The following table analyses the age of council tax and business rate debtors and shows the impairment allowance in respect of those debts. The figures shown represent the Council's shares only.

	Long Term		Current	
	2020/21	2019/20	2020/21	2019/20
	£'000	£'000	£'000	£'000
Council tax arrears	5,995	4,318	7,466	3284
Business rates arrears	6,548	4,579	8,196	6241
<b>Gross tax payers arrears at 31 March</b>	<b>12,543</b>	<b>8,897</b>	<b>15,662</b>	<b>9,525</b>
Council tax arrears	(5,033)	(4,234)	(5,734)	-4458
Business rates arrears	(2,993)	(2,254)	(1,159)	-2735
<b>Gross tax payers prepayments at 31 March</b>	<b>(8,026)</b>	<b>(6,488)</b>	<b>(6,893)</b>	<b>(7,193)</b>
<b>Net taxpayers arrears at 31 March</b>	<b>4,517</b>	<b>2,409</b>	<b>8,769</b>	<b>2,332</b>
<u>Allowance for bad debts</u>				
Council tax	(5,995)	(3,498)	(5,226)	(666)
Business rates	(6,548)	(3,845)	(5,737)	-1660
<b>Total taxpayers bad debt allowance</b>	<b>(12,543)</b>	<b>(7,343)</b>	<b>(10,963)</b>	<b>(2,326)</b>

## 5. Apportionment of Balance Sheet items

	2020/21				2019/20			
	RBKC	GLA	Govt.	Total	RBKC	GLA	Govt.	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<u>Council Tax</u>								
Debtors	13,461	5,061	0	<b>18,522</b>	7,602	2,738	0	<b>10,340</b>
Bad debt allowance	(11,221)	(4,219)	0	<b>(15,440)</b>	(4,164)	(1,500)	0	<b>(5,664)</b>
Prepayments and overpayments	(10,767)	(4,048)	0	<b>(14,815)</b>	(8,692)	(3,131)	0	<b>(11,823)</b>
(Surplus) / Deficit at 31 March	7,003	2,537	0	<b>9,540</b>	(1,944)	(702)	0	<b>(2,646)</b>
<u>Business Rates</u>								
Debtors	14,744	18,184	16,219	<b>49,147</b>	10,820	6,086	5,636	<b>22,542</b>
Bad debt allowance	(12,285)	(15,152)	(13,514)	<b>(40,951)</b>	(5,505)	(3,097)	(2,867)	<b>(11,469)</b>
Prepayments and overpayments	(4,152)	(5,121)	(4,568)	<b>(13,841)</b>	(4,989)	(2,806)	(2,598)	<b>(10,393)</b>
Provision for appeals	(19,351)	(23,867)	(21,287)	<b>(64,505)</b>	(19,058)	(10,720)	(9,926)	<b>(39,704)</b>
(Surplus) / Deficit at 31 March	83,088	104,371	93,031	<b>280,490</b>	(6,229)	(3,504)	(4,168)	<b>(13,901)</b>

# Independent Auditor's Report on the Pension Fund

## Independent auditor's report to the members of the Royal Borough of Kensington and Chelsea on the pension fund financial statements of Kensington and Chelsea Pension Fund

### Opinion

We have audited the financial statements of Kensington and Chelsea Pension Fund (the 'Pension Fund') administered by the Royal Borough of Kensington and Chelsea (the 'Authority') for the year ended 31 March 2021 which comprise the Fund Account, the Net Assets Statement and notes to the pension fund financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21.

In our opinion, the financial statements:

- give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2021 and of the amount and disposition at that date of the fund's assets and liabilities;
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law, as required by the Code of Audit Practice (2020) ("the Code of Audit Practice") approved by the Comptroller and Auditor General. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the Pension Fund's financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Conclusions relating to going concern

We are responsible for concluding on the appropriateness of the Executive Director of Resources' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Pension Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Pension Fund to cease to continue as a going concern.

In our evaluation of the Executive Director of Resources' conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21 that the Pension Fund's financial statements shall be prepared on a going concern basis, we considered the inherent risks associated with the continuation of services provided by the Pension Fund. In doing so we had regard to the guidance provided in Practice Note 10 Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020) on the application of ISA (UK) 570 Going Concern to public sector entities. We assessed the reasonableness of the basis of preparation used by the Authority in the Pension Fund financial statements and the disclosures in the Pension Fund financial statements over the going concern period.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Pension Fund's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

# Independent Auditor's Report on the Pension Fund

In auditing the financial statements, we have concluded that the Executive Director of Resources' use of the going concern basis of accounting in the preparation of the Pension Fund financial statements is appropriate.

The responsibilities of the Executive Director of Resources with respect to going concern are described in the 'Responsibilities of the Authority, the Executive Director of Resources and Those Charged with Governance for the financial statements' section of this report.

## Other information

The Executive Director of Resources is responsible for the other information. The other information comprises the information included in the Statement of Accounts, other than the Pension Fund's financial statements, our auditor's report thereon, and our auditor's report on the Authority's financial statements. Our opinion on the Pension Fund's financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the Pension Fund's financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Pension Fund's financial statements, or our knowledge of the Pension Fund obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the Pension Fund financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

[Opinion on other matter required by the Code of Audit Practice \(2020\) published by the National Audit Office on behalf of the Comptroller and Auditor General \(the Code of Audit Practice\)](#)

In our opinion, based on the work undertaken in the course of the audit of the Pension Fund's financial statements and our knowledge of the Pension Fund, the other information published together with the Pension Fund's financial statements in the Statement of Accounts, for the financial year for which the financial statements are prepared is consistent with the Pension Fund financial statements.

## Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application 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 in the course of, or at the conclusion of the audit; or
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters in relation to the Pension Fund.

# Independent Auditor's Report on the Pension Fund

## Responsibilities of the Authority, the Executive Director of Resources and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Executive Director of Resources. The Executive Director of Resources is responsible for the preparation of the Statement of Accounts, which includes the Pension Fund'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 2020/21, for being satisfied that they give a true and fair view, and for such internal control as the Executive Director of Resources determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the Pension Fund's financial statements, the Executive Director of Resources is responsible for assessing the Pension Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the Pension Fund will no longer be provided.

The Audit and Transparency Committee is Those Charged with Governance for the Pension Fund. Those charged with governance are responsible for overseeing the Authority's financial reporting process.

## Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the Pension Fund's financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a 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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

## Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Pension Fund and determined that the most significant, which are directly relevant to specific assertions in the financial statements, are those related to the reporting frameworks (international accounting standards as interpreted and adapted by the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21, the Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015, the Public Service Pensions Act 2013, The Local government Pension Scheme Regulations 2013 and the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

# Independent Auditor's Report on the Pension Fund

- We enquired of senior officers and the Audit and Transparency Committee concerning the Authority's policies and procedures relating to:
  - the identification, evaluation and compliance with laws and regulations;
  - the detection and response to the risks of fraud; and
  - the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.
- We enquired of senior officers, internal audit and the Audit and Transparency Committee whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.
- We assessed the susceptibility of the Pension Fund's financial statements to material misstatement, including how fraud might occur, by evaluating officers' incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls. We determined that the principal risks were in relation to:
  - journal entries posted which met a range of criteria determined during the course of the audit, in particular those posted around the reporting date which had an impact on the Fund Account, and
  - accounting estimates made in respect of the valuation of assets and liabilities in the Net Assets Statement.
- Our audit procedures involved:
  - evaluation of the design effectiveness of controls that the Executive Director of Resources has in place to prevent and detect fraud;
  - journal entry testing, with a focus on entries meeting the criteria determined by the audit team;
  - challenging assumptions and judgements made by management in its significant accounting estimates in respect of the valuation of level 3 investments, including directly held investments in property, and the IAS 26 pensions liability valuation;
  - assessing the extent of compliance with the relevant laws and regulations as part of our procedures on the related financial statement item.
- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. However, detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as those irregularities that result from fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.
- The team's communications in respect of potential non-compliance with relevant laws and regulations, included the potential for fraud in revenue and expenditure recognition, and the significant accounting estimates related to the valuation of level 3 investments, including directly-held investments in property, and the IAS 26 pensions liability valuation.
- Assessment of the appropriateness of the collective competence and capabilities of the engagement team included consideration of the engagement team's:
  - understanding of, and practical experience with audit engagements of a similar nature and complexity through appropriate training and participation
  - knowledge of the local government pensions sector
  - understanding of the legal and regulatory requirements specific to the Pension Fund including:
    - the provisions of the applicable legislation
    - guidance issued by CIPFA, LASAAC and SOLACE
    - the applicable statutory provisions.

# Independent Auditor's Report on the Pension Fund

- In assessing the potential risks of material misstatement, we obtained an understanding of:
  - the Pension Fund's operations, including the nature of its income and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.
  - the Authority's control environment, including the policies and procedures implemented by the Authority to ensure compliance with the requirements of the financial reporting framework.

## Use of our report

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 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members 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 Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Paul Grady, Key Audit Partner  
for and on behalf of Grant Thornton UK LLP, Local Auditor

London

30 September 2021

# Pension Fund Account and Notes

<b>Fund Account</b>	<b>Note</b>	<b>2020/21</b>	<b>2019/20</b>
		<b>£000</b>	<b>£000</b>
<b>Dealings with members, employers and others directly involved in the fund</b>			
Contributions	7	(27,189)	(26,577)
Individual transfer in from other pension funds		(8,703)	(4,661)
		<b>(35,892)</b>	<b>(31,238)</b>
Benefits	8	33,847	32,180
Payments to and on account of leavers			
- Refunds to members leaving service		46	86
- Individual transfers out to other pension funds		3,806	5,400
- Payments in respect of tax		91	505
Other expenditure		135	436
		<b>37,925</b>	<b>38,607</b>
<b>Net (additions)/withdrawals from dealing with members</b>		<b>2,033</b>	<b>7,369</b>
Management expenses	9	6,690	7,344
<b>Net (additions) / withdrawals including fund management expenses</b>		<b>8,723</b>	<b>14,713</b>
Returns on Investments:			
Investment income	10	(5,226)	(6,908)
Other income		(10)	(46)
Profit and losses on disposal of investments and changes in market value of investments	11	(346,506)	42,388
Taxes on income	10	96	110
<b>Net return on investments</b>		<b>(351,646)</b>	<b>35,544</b>
<b>Net (increase) / decrease in the net assets available for benefits during the year</b>		<b>(342,923)</b>	<b>50,257</b>
Opening net assets of the scheme		(1,138,328)	(1,188,585)
<b>Closing net assets of the scheme</b>		<b>(1,481,251)</b>	<b>(1,138,328)</b>

<b>Net Assets Statement</b>	<b>Note</b>	<b>31 March 2021</b>	<b>31 March 2020</b>
		<b>£'000</b>	<b>£'000</b>
Investment assets	12	1,476,866	1,135,264
Investment liabilities		0	(612)
<b>Total Net Investments</b>		<b>1,476,866</b>	<b>1,134,652</b>
Current assets	21	6,182	5,690
Current liabilities	22	(1,797)	(2,014)
		<b>1,481,251</b>	<b>1,138,328</b>

# Pension Fund Account and Notes

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

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.

### (b) Membership

Membership of the LGPS is subject to auto-enrolment but remains 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:

	2020/21	2019/20
Active members	3,980	3,499
Pensioners receiving benefits	3,283	3,157
Deferred pensioners*	4,728	4,734
<b>Total</b>	<b>11,991</b>	<b>11,390</b>

\*In 2020/21 there were an additional 781 leavers (921 in 2019/20) who had not yet decided whether to defer their pension or to obtain a refund.

### (c) Funding

The Fund is financed by employee and employer 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 (see note 20) and the current contribution rates range from 16.1% to 25.2% of pensionable pay.

## (d) Benefits

These benefits include retirement pensions, early payment of benefits on medical grounds and payment of death benefits where death occurs either in service or in retirement. The benefits payable in respect of service from 1 April 2014 are based on career average revalued earnings (CARE) 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 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 six 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 Executive Director of Resources, and as necessary, from the Fund's appointed investment advisers, managers and actuary.

### Local 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 three times a year and has its own Terms of Reference. Board members are independent of the 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 10th February 2020 (available on the Council's website). The Statement shows the Council'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 13) 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 2020/21 and its position at the year-end as at 31 March 2021. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 (the Code) issued by 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 21).

It is recognised that the current environment gives rise to a risk of uncertainty and volatility in investment markets and the Fund has reviewed fund managers assessments and no material uncertainty has been identified. The Fund continues to monitor cashflows and invests in a diverse range of investment vehicles including availability to liquid assets.

### Going Concern

The LGPS is a statutory, state back scheme that is 128% funded on a conservative basis and backed by an administering authority with tax raising powers. As such, the Pension Fund Accounts have been prepared on a going concern basis, with the assumption that the functions of the Council will continue in operational existence for the foreseeable future.

The Royal Borough of Kensington and Chelsea Pension Fund remains a statutory open scheme, with a strong covenant from the active employers and is therefore able to take a long-term outlook when considering the general investment and funding implications of external events

## 3. Summary of significant accounting policies

### Fund Account – revenue recognition

#### (a) Contribution Income

Normal contributions, both from the members and from the employer, are accounted for on an accruals basis 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 Investment 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 17).

### (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 21.

## (l) Additional Voluntary Contributions

Members of the Fund may choose to make Additional Voluntary Contributions (AVCs) into a separate scheme run by Prudential Assurance 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 24.

## (m) Rounding

The accounts have been rounded to the nearest thousand throughout.

## 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 considering historical experience, current trends, and other relevant factors. However, the nature of estimation means that the actual results could differ from the assumptions and estimates.

The items in the Net Asset Statement at 31 March 2021 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows.

### Uncertainties in actuarial PV of promised retirement benefits

Estimation of the net liability to pay pensions depends on a number of complex judgments relating to the discount rates used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the fund with expert advice about the assumptions to be applied.

The effects on the net pension liability of changes in assumptions can be measured. For instance.

- a 0.1% increase in the discount rate assumption would result in a decrease in the pension liability of £32.6 million.
- a 0.1% increase in assumed earnings would increase the liabilities by approximately £2.4 million.
- a one-year increase in assumed life expectancy would increase the liability by approximately £69.6 million.

Present Value of Promised Retirement Benefits comprise of £1,591 million (2019/20: £1,214 million) and £23.4 million (2019/20: £17.2 million) in respect of vested benefits and non-vested benefits respectively as at 31 March 2021.

### Pension Fund Liability

The Pension Fund liability is calculated triennially by the appointed actuary with annual updates in the intervening years. The methodology used in the intervening years follows generally agreed guidelines and is in accordance with IAS19. These assumptions are summarised in note 20. The estimates are sensitive to changes in the underlying assumptions underpinning the valuations.

# Pension Fund Account and Notes

## 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 £83.393 million (£70.468 million on 31 March 2020). If these assets are under or over valued by 7.5%, this would affect the overall value of the fund by £ 6.3 million. Further sensitivities of level 3 assets are detailed in note 16. Management have taken the valuations of the Fund Manager (Adams Street) which has been corroborated with the Fund's custodian, Northern Trust. Assurance on valuation is placed on the Manager's Audited annual accounts as at 31 December 2020 rolled forward to 31 March 2021 with a market value adjustment.

## COVID-19

Following the outbreak of COVID-19 during late 2019/20, pooled property valuations were reported on the basis of 'material valuation uncertainty' (MVU) as set out in VPGA 10 of the Royal Institute for Chartered Surveyors (RICS) Valuation Global Standards. RICS has since recommended the removal of MVU, and officers now believe asset values have stabilised in order that a materially accurate value can be applied to illiquid assets.

## **5. Events after the Balance Sheet date**

Following Committee approval and successful bidding on 01 April 2021, the Fund is progressing with the acquisition of a commercial property, costing £11.2 million.

Following Committee approval and successful bidding in April 2021 the Fund is progressing with the acquisition of a Hotel ground rent property, costing £9.1 million.

## **6. Accounting Standards issued but not yet adopted**

At the Balance Sheet date, there were no new standards or amendments yet to be adopted by the Code of Practice on Local Authority Accounting in the United Kingdom which affected the Pension Fund.

## **7. Contributions receivable**

<u>By category</u>	<u>2020/21</u>	<u>2019/20</u>
	£000	£000
<b>Employee contributions</b>	<b>(8,211)</b>	<b>(7,505)</b>
Employer contributions		
- Normal contributions	(18,102)	(17,391)
- Deficity recovery contributions	(6)	(9)
- Augmentation contributions	(870)	(1,672)
<b>Total employers' contributions</b>	<b>(18,978)</b>	<b>(19,072)</b>
<b>Total</b>	<b>(27,189)</b>	<b>(26,577)</b>

<u>By authority</u>	<u>2020/21</u>	<u>2019/20</u>
	£000	£000
Administering authority	(24,403)	(23,675)
Scheduled bodies	(2,355)	(2,166)
Admitted bodies	(431)	(736)
<b>Total</b>	<b>(27,189)</b>	<b>(26,577)</b>

# Pension Fund Account and Notes

## 8. Benefits payable

<b>By category</b>	<b>2020/21</b>	<b>2019/20</b>
	£000	£000
Pensions	28,559	27,142
Commutation and lump sum retirement benefits	4,476	4,704
Lump sum death benefits	812	334
<b>Total</b>	<b>33,847</b>	<b>32,180</b>

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

<b>By authority</b>	<b>2020/21</b>	<b>2019/20</b>
	£000	£000
Administering authority	30,313	29,190
Scheduled bodies	670	637
Admitted bodies	2,864	2,353
<b>Total</b>	<b>33,847</b>	<b>32,180</b>

## 9. Management expenses

	<b>2020/21</b>	<b>2019/20</b>
	£000	£000
Administrative costs	869	576
Investment management expenses		
- management fees	4,566	4,140
- transaction costs	560	2,019
- custody fees	52	74
- performance related fees	270	77
Oversight and governance costs	373	458
<b>Total</b>	<b>6,690</b>	<b>7,344</b>

The decrease in transaction costs is due to property acquisition expenses incurred in 2019/20. During 2020/21 these costs were capitalised into the initial cost of investment, as per IAS 40 Investment Property.

## 10. Investment income

	<b>2020/21</b>	<b>2019/20</b>
	£000	£000
Equity dividends	(2,212)	(5,001)
Pooled property investments	(1,272)	(1,687)
Private equity income	0	28
Interest on cash deposits	(9)	(248)
Rental income	(1,733)	0
<b>Total</b>	<b>(5,226)</b>	<b>(6,908)</b>
Taxes on income	96	110
<b>Total</b>	<b>(5,130)</b>	<b>(6,798)</b>

# Pension Fund Account and Notes

## 11. Movements in investments

Market value (MV)	Change in				31 March		Change in			
	1 April 2019	Purchases	Sales	MV	2020	Purchases	Sales	MV	2021	
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	
Equities	225,752	49,963	(41,759)	(34,096)	199,860	25,131	(30,484)	(194,357)	150	
Pooled investments	840,472	1,233	(26,419)	(22,020)	793,266	116,986	(130,360)	524,236	1,304,129	
Pooled property investments	44,261	0	(1,109)	(1,091)	42,061	0	(8,343)	(236)	33,482	
Private equity/infrastructure	61,063	5,913	(10,979)	14,471	70,468	9,373	(15,507)	19,059	83,393	
Directly managed	0	25,000	0	0	25,000	18,579	0	(1,654)	41,925	
<b>Sub-total</b>	<b>1,171,548</b>	<b>82,109</b>	<b>(80,266)</b>	<b>(42,736)</b>	<b>1,130,655</b>	<b>170,069</b>	<b>(184,694)</b>	<b>347,048</b>	<b>1,463,079</b>	
Investment income due	352			0	462			0	273	
Amount receivable for sales of investments	488			(5)	914			1	0	
Spot FX contracts	0			4	0			58	0	
Cash deposits	14,420			335	3,232			(601)	13,514	
Amounts payable for purchases of investments	(1,525)			14	(612)			0	0	
<b>Net investment assets</b>	<b>1,185,283</b>	<b>82,109</b>	<b>(80,266)</b>	<b>(42,388)</b>	<b>1,134,651</b>	<b>170,069</b>	<b>(184,694)</b>	<b>346,506</b>	<b>1,476,866</b>	

# Pension Fund Account and Notes

## 12. Investments by Fund Manager

Fund manager (market value)	31 March 2021		31 March 2020	
	£'000	%	£'000	%
L and G Liquidity	208,931	14.3%	155,486	13.7%
Baillie Gifford	363,316	24.8%	232,196	20.5%
Longview	0	0.0%	202,166	17.8%
L and G Equities	655,593	44.8%	277,096	24.4%
L and G Multi Factor	76,289	5.2%	27,039	2.4%
Pyrford	0	0.0%	101,449	9.0%
CBRE	20,409	1.4%	27,331	2.4%
KAMES	13,073	0.9%	15,378	1.4%
Adams Street	83,393	5.7%	70,468	6.2%
London CIV	150	0.0%	150	0.0%
Directly managed	41,925	2.9%	25,000	2.2%
<b>Total Fund Managers</b>	<b>1,463,079</b>	<b>100%</b>	<b>1,133,759</b>	<b>100%</b>
Cash held at custody	13,787		893	
<b>Total Investments</b>	<b>1,476,866</b>		<b>1,134,652</b>	

## 13. Investments exceeding 5% of Net Assets

Fund Manager (MV)	31 March 2021		31 March 2020	
	£'000	%	£'000	%
L and G Equities	655,593	44.8%	277,096	24.4%
Baillie Gifford	363,316	24.8%	232,196	20.5%
L and G Liquidity	208,931	14.3%	155,486	13.7%
Adams Street	83,393	5.7%	70,468	6.2%
L and G Multi Factor	76,289	5.2%	27,039	2.4%
<b>Total Fund Managers</b>	<b>1,387,522</b>	<b>94.8%</b>	<b>762,286</b>	<b>67.2%</b>

During 2020/21, investments with some fund managers changed to bring them within, or remove them from, the 5% threshold. The 2019/20 disclosure table is included below for information.

Fund Manager (MV)	31 March 2020		31 March 2019	
	£'000	%	£'000	%
L and G Liquidity	155,486	13.7	179,056	15.1
Baillie Gifford	232,196	20.5	234,461	19.8
Longview	202,166	17.8	234,328	19.8
L and G Equities	277,096	24.4	292,574	24.7
Adams Street	70,468	6.2	61,986	5.2
Pyrford	101,449	9.0	103,857	8.8
<b>Total Fund Managers</b>	<b>1,038,861</b>	<b>91.6</b>	<b>1,106,262</b>	<b>93.4</b>

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%.

## 14. Investment property

	31 March 2021	31 March 2020
	£000	£000
<b>Opening balance</b>	25,000	0
Purchases	18,579	25,000
Net increase / (decrease) in MV	(1,654)	0
<b>Total</b>	<b>41,925</b>	<b>25,000</b>

The future minimum lease payments are as follows.

	31 March 2021	31 March 2020
	£000	£000
Within one year	1,928	1,062
Between one and five years	7,652	3,927
Later than five years	5,384	3,451
<b>Total future lease payment due under existing contracts</b>	<b>14,964</b>	<b>8,440</b>

## 15. Classification of Financial Instruments

Financial liabilities (creditors) at amortised cost totalled £1.797 million (£2.014 million at 31 March 2020). There were none designated as fair value through profit and loss (FVPL) at 31 March 2021 (£0.612 million at 31 March 2020).

The following table shows the classification of the Fund's financial assets, 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.

31 March 2021	FVPL	Amortised Cost	Total
	£'000	£'000	£'000
Pooled funds - investment vehicles			
- UK pooled liquidity fund	208,931	0	<b>208,931</b>
- Pooled global equities	1,095,198	0	<b>1,095,198</b>
- Pooled property investments	33,482	0	<b>33,482</b>
- Pooled private equity funds (unquoted)	83,393	0	<b>83,393</b>
<b>Sub-total</b>	<b>1,421,004</b>	<b>0</b>	<b>1,421,004</b>
UK unquoted	150	0	<b>150</b>
Investment income due	0	273	<b>273</b>
Cash with investment managers	0	13,514	<b>13,514</b>
Cash with administering authority	0	2,618	<b>2,618</b>
Debtors	0	3,564	<b>3,564</b>
<b>Total financial assets</b>	<b>1,421,154</b>	<b>19,969</b>	<b>1,441,123</b>

# Pension Fund Account and Notes

<b>31 March 2020</b>	<b>FVPL</b>	<b>Amortised Cost</b>	<b>Total</b>
	£'000	£'000	£'000
Pooled funds - investment vehicles			
- UK pooled liquidity fund	155,486	0	<b>155,486</b>
- Pooled global equities	536,331	0	<b>536,331</b>
- Pooled global absolute return fund	101,449	0	<b>101,449</b>
- Pooled property investments	42,062	0	<b>42,062</b>
- Pooled private equity funds (unquoted)	70,468	0	<b>70,468</b>
<b>Sub-total</b>	<b>905,796</b>	<b>0</b>	<b>905,796</b>
Equities			
- UK quoted	18,258	0	<b>18,258</b>
- UK unquoted	150	0	<b>150</b>
- Overseas	181,452	0	<b>181,452</b>
<b>Sub-total</b>	<b>199,860</b>	<b>0</b>	<b>199,860</b>
Direct property investment	25,000	0	<b>25,000</b>
Investment income due	0	1,376	<b>1,376</b>
Cash with investment managers	0	3,232	<b>3,232</b>
Cash with administering authority	0	2,044	<b>2,044</b>
Debtors	0	3,646	<b>3,646</b>
<b>Total financial assets</b>	<b>1,130,656</b>	<b>10,298</b>	<b>1,140,954</b>

## 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.

The observable inputs to the Pooled Funds that are valued in this way are the evaluated price feeds, apart from property which is in house evaluation of 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.

# Pension Fund Account and Notes

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.

<b>31 March 2021</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	£'000	£'000	£'000
<b>Financial assets</b>			
- at fair value through profit and loss	1,337,611	83,543	<b>1,421,154</b>
<b>Total financial assets</b>	<b>1,337,611</b>	<b>83,543</b>	<b>1,421,154</b>
<b>Non financial assets</b>			
- at fair value through profit and loss	0	41,925	<b>41,925</b>
<b>Total non financial assets</b>	<b>0</b>	<b>41,925</b>	<b>41,925</b>
<b>Total assets at FV through profit and loss</b>	<b>1,337,611</b>	<b>125,468</b>	<b>1,463,079</b>

<b>31 March 2020</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	£'000	£'000	£'000	£'000
<b>Financial assets</b>				
- at fair value through profit and loss	199,710	860,328	70,618	<b>1,130,656</b>
<b>Total financial assets</b>	<b>199,710</b>	<b>860,328</b>	<b>70,618</b>	<b>1,130,656</b>
<b>Financial liabilities</b>				
- at fair value through profit and loss	0	(612)	0	<b>(612)</b>
<b>Total financial liabilities</b>	<b>0</b>	<b>(612)</b>	<b>0</b>	<b>(612)</b>
<b>Net financial assets</b>	<b>199,710</b>	<b>859,716</b>	<b>70,618</b>	<b>1,130,044</b>

The following table provides a reconciliation of movements in Level 3:

<b>31 March 2021</b>	<b>Market Value</b>	<b>Purchases</b>	<b>Sales</b>	<b>Change in MV</b>	<b>Total</b>
	£'000	£'000	£'000	£'000	£'000
London LGPS CIV	150	0	0	0	<b>150</b>
Overseas VC	70,468	9,372	(14,350)	17,903	<b>83,393</b>
Directly held property	25,000	18,579	0	(1,654)	<b>41,925</b>
<b>Total</b>	<b>95,618</b>	<b>27,952</b>	<b>(14,350)</b>	<b>16,249</b>	<b>125,468</b>
<b>31 March 2020</b>	<b>Market Value</b>	<b>Purchases</b>	<b>Sales</b>	<b>Change in MV</b>	<b>Total</b>
	£'000	£'000	£'000	£'000	£'000
London LGPS CIV	150	0	0	0	<b>150</b>
Overseas VC	61,063	6,586	(9,943)	12,762	<b>70,468</b>
<b>Total</b>	<b>61,213</b>	<b>6,586</b>	<b>(9,943)</b>	<b>12,762</b>	<b>70,618</b>

# Pension Fund Account and Notes

Description of asset	Valuation hierarchy 2020/21	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
<b>Pooled Investments - Equity Funds UK and Overseas</b>	Level 2	The NAV for each share class is calculated based on the market value of	Evaluated price feeds	Not required
<b>UK and Overseas Bonds</b>	Level 2	Fixed income securities are priced based on evaluated prices provided	Evaluated price feeds	Not required
<b>Pooled Property Funds</b>	Level 2	The Pension Fund's Property Funds are priced on a Single Swinging Price	In house evaluation of market data	Not required
<b>Private Equity</b>	Level 3	Comparable valuation of similar companies in accordance with International Private and Venture Capital Valuation Guidelines 2012	Earnings before interest, tax, depreciation and amortisation (EBITDA) multiple Revenue multiple	Valuations could be affected by changes to expected cashflows, cost of replacing key business assets, or by any differences between the audited and unaudited accounts
<b>Directly managed property</b>	Level 3	Independent valuations conducted by external RICS valuer	Comparable valuations of properties within same asset class.	Valuations can be affected by rental yields and vacancy of units.

## Sensitivities of Level 3 Assets

If the Valuation of the underlying companies within the private equity portfolio was out by 0.17% this would alter the value of the Fund's investment assets in this class by £0.142 million.

	Valuation Range	Value 31 March 2021	Value on increase	Value on decrease
	%	£'000	£'000	£'000
Overseas VC	0.17	83,393	83,535	83,251
<b>Total</b>		<b>83,393</b>	<b>83,535</b>	<b>83,251</b>

The 0.17% valuation sensitivity represents the estimate for movement in valuation from the audited accounts as at 31 December 2020 to an estimated value as at 31 March 2021. This valuation is carried out by the Fund's global custodian, who adjusts for all capital calls and distributions and provide a market value adjustment based on market movements over the period.

## 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 and will be unable to pay pensions due. The Fund's liabilities are sensitive to inflation via pension and pay increases, to interest rates and to mortality rates.

# Pension Fund Account and Notes

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 Committee and is reviewed on a regular basis, along with the Pension Fund Risk Register.

The Fund had achieved fully funded status by the 2016 valuation, and this has been maintained as at the 2019 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 except for cash, unquoted equities, debtors and creditors are exposed to different levels of price risk. The value of the assets exposed to price movements along with what the value would have been if prices had been higher or lower in accordance with a single spread of variance for the relevant asset class is shown below.

	<b>Value</b>	<b>Value on increase</b>	<b>Value on decrease</b>
	£'000	£'000	£'000
At 31 March 2021	1,253,999	1,429,212	1,078,786
At 31 March 2020	975,020	1,064,544	885,496

## 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 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.

	<b>Value</b>	<b>Value on increase</b>	<b>Value on decrease</b>
	£'000	£'000	£'000
At 31 March 2021	222,445	224,669	220,220
At 31 March 2020	158,718	160,305	157,131

## 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 7.7% higher or lower, in accordance with volatility advised by an external consultant.

	<b>Volatility</b>	<b>Value</b>	<b>Value on increase</b>	<b>Value on decrease</b>
	%	£'000	£'000	£'000
At 31 March 2021	7.7	1,144,077	1,232,170	1,055,983
At 31 March 2020	10.1	879,692	967,661	791,722

## (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.

The Fund's entire investment portfolio is essentially 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 31 March 2021, the Fund has outstanding commitments of \$91.2 million (£66.1 million) to a variety of Adams Street private equity funds of funds. It is anticipated that these commitments will be spread over the next ten 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 can meet its liabilities to past and present contributors and to review employer contribution rates.

The last such valuation for the Fund was carried out by Barnett Waddingham as at 31 March 2019, 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 can be found on the Council's website. The next valuation will take place as at 31 March 2022.

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 2020/21, the common contribution rate was 21.3% (17.5% in 2019/20) of pensionable pay to be paid by each employing body participating in the Fund. In addition, each employing body must pay an individual adjustment to reflect its own 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:

# Pension Fund Account and Notes

<b>Financial assumptions</b>	<b>March 2019</b>	<b>March 2016</b>	<b>March 2013</b>
	%	%	%
Consumer Price Index (CPI) increases	2.6	2.4	2.7
Salary increases	3.6	3.9	4.5
Pension increases	2.6	2.4	2.7
Discount rate	4.3	4.9	5.9

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 full valuation of the scheme as at 31 March 2019. The next actuarial valuation of the Fund will be carried out as at 31 March 2022 and will set contribution rates for the period 1 April 2023 to 31 March 2026.

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 1.25% per annum.

The actuary's smoothed market value of the scheme's assets at 31 March 2019 was £1.189 billion and the Actuary assessed the present value of the funded obligation at £951 million. This indicates a net surplus of £236 million, which equates to a funding position of 125% (2016: £26 million and 103%).

## 20. Actuarial Present Value of Promised Retirement Benefits

The table below shows the total net liability of the Fund as at 31 March 2021. 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). 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 20, the Actuary has taken into account the investment policy when determining the assumptions to be used.

	<b>31 March 2021</b>	<b>31 March 2020</b>
	£'000	£'000
Present value of promised retirement benefits		
- Vested obligation	(1,590,833)	(1,213,594)
- Non vested obligation	(23,430)	(17,208)
Fair value of scheme assets (bid value)	1,476,866	1,134,652
<b>Net liability</b>	<b>(137,397)</b>	<b>(96,150)</b>

# Pension Fund Account and Notes

## Financial assumptions

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

<b>Financial assumptions</b>	<b>31 March 2021</b>	<b>31 March 2020</b>
	%	%
Retail Price Index (RPI) increases	3.20	2.70
Consumer Price Index (CPI) increases	2.85	1.90
Salary increases	3.85	2.90
Pension increases	2.85	1.90
Discount rate	2.00	2.35

## Demographic Assumptions

The post mortality tables adopted are the S3PMA tables with a multiplier of 110% for males and 105% for females. These base tables are then projected using the CMI 2020 Model allowing for a long-term rate of improvement of 1.25% per annum.

<b>Life expectancy from age 65 years</b>	<b>31 March 2021</b>	<b>31 March 2020</b>
	Years	Years
Retiring today		
- Males	21.6	21.8
- Females	24.3	24.4
Retiring in 20 years		
- Males	22.9	23.2
- Females	25.7	25.8

## 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
- 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

	<b>31 March 2021</b>	<b>31 March 2020</b>
	£'000	£'000
Debtors		
- Contributions due - employers	2,259	1,317
- Contributions due - employees	612	572
- Sundry debtors	693	1,757
<b>Sub-total</b>	<b>3,564</b>	<b>3,646</b>
Cash balances	2,618	2,044
<b>Total</b>	<b>6,182</b>	<b>5,690</b>

# Pension Fund Account and Notes

<b>Analysis of debtors</b>	<b>31 March 2021</b>	<b>31 March 2020</b>
	£000	£000
Central government bodies	0	2
RBKC	2,586	3,125
Other entities and individuals	978	519
<b>Total</b>	<b>3,564</b>	<b>3,646</b>

## 22. Current Liabilities

	<b>31 March 2021</b>	<b>31 March 2020</b>
	£'000	£'000
Creditors		
- Sundry creditors	(1,735)	(2,014)
- Benefits payable	(62)	0
<b>Total</b>	<b>(1,797)</b>	<b>(2,014)</b>

<b>Analysis of creditors</b>	<b>31 March 2021</b>	<b>31 March 2020</b>
	£'000	£'000
Central government bodies	(392)	(346)
Other local authorities	(253)	(279)
RBKC	(613)	(317)
Other entities and individuals	(539)	(1,072)
<b>Total</b>	<b>(1,797)</b>	<b>(2,014)</b>

## 23. Additional Voluntary Contributions (AVC)

The Council has arranged 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 2019/20, AVC of £0.462 million (£0.624 million in 2018/19) were paid to the provider, Prudential. The market value of these funds at 31 March 2020 is £3.514 million (£3.511 million at 31 March 2019). The figures for 2020/21 are pending following servicing delays experienced by Prudential Assurance. Amounts are not expected to differ significantly from prior years and have no effect on the Pension Fund accounts

## 24. Related Party Transactions

The Fund is administered by RBKC and the Council also has a shared service arrangement with Westminster City Council for oversight and governance services. Costs incurred and reimbursed for Westminster City Council and RBKC totalled £0.097 million and £0.599 million respectively in the financial year 2020/21 (£0.163 million and £0.401 million respectively in 2019/20).

In year, and in total, the Council contributed £14.129 million to the Fund compared to £13.348 million in 2019/20. At 31 March 2021 the Council owed the Pension Fund a net amount of £2.586 million (£3.073 million at 31 March 2020).

The key management personnel of the Fund are the Members of the Committee, the Executive Director of Resources and the Tri-Borough Director of Pensions and Treasury. During the year, £0.126 million (£0.056 million in 2019/20) was payable to key management personnel by the Pension Fund.

## **25. Agency Services**

The Fund pays discretionary awards to the former employees of the Council. The amounts are not included within the Fund Account as they are not expenses or income related to the Pension Fund but are provided as a service and fully reclaimed from the Council. During 2020/21, the Fund paid the gross sum of £0.226 million (£0.237 million in 2019/20) on behalf of RBKC.

## **26. External Audit Costs**

The external audit fee payable to the Fund's external auditors, Grant Thornton, was £0.045 million (£0.025 million in 2019/20).

## **27. Contingent liabilities**

The Pension Fund had no contingent liabilities for 2020/21

## 1. General Principles

The Statement of Accounts summarises the Council's financial transactions for the 2020/21 financial year and its position at 31 March 2021. 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 2020/21 (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. The Council's significant accounting policies are detailed below.

## 2. Accruals

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, subject to a de minimis of £10k for both capital and revenue, although manager's discretion may be used.

## 3. Cash and cash equivalents

Cash is represented by cash in hand and at bank. Cash equivalents are call accounts with financial institutions repayable 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.

## 4. Charges to revenue for non-current assets

Services, support services and trading accounts are charged with the following amounts to record the cost of holding property, plant, and equipment during the year:

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

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

The Council's MRP policy on GF assets is as follows:

- for capital expenditure prior to 1st April 2008, the Council adopts 'the regulatory method' (Option 1) under Regulation 27 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003. 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 1 April 2008, the Council adopts Option 3 under Regulation 28 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003, '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. If 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.

## 5. Community Infrastructure Levy (CIL)

The Council has elected to charge 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 several infrastructure projects (these 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 further in this document. CIL charges will be largely used to fund capital expenditure. However, a proportion of the charges may be used to fund revenue expenditure.

## 6. Collection Fund – council tax and business rates

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 itself. 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, prepayments, and appeals.

Where debtor balances for the above are identified as impaired because of a likelihood arising from a past event that payments due under the statutory arrangements will not be made (fixed or determinable payments), the asset is written down and a charge made to the Collection Fund. The impairment loss is measured as the difference between the carrying amount and the revised future cash flows.

## **7. Employee benefits**

### Benefits payable during employment

Short-term employee benefits are those due to be settled wholly within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits for current employees and are recognised as an expense for services in the year in which employees render service to the Council. An accrual is made for the cost of holiday entitlements or time off in lieu, earned by employees but not taken before the year-end, which employees can carry forward into the next financial year. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the MIRS so that holiday entitlements 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 to five years unless, in the intervening period, there is evidence of a change in circumstances which would materially affect the amount to be disclosed. The annual accrual is therefore adjusted in line with trends in FTE number of employees in the intervening years.

### Termination benefits

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy in exchange for those benefits and are charged on an accruals basis to the appropriate service segment or, where applicable, to a corporate service segment at the earlier of when the Council can no longer withdraw the offer of those benefits or when the Council recognises costs for a restructuring.

Where termination benefits involve the enhancement of pensions, statutory provisions require the GF Balance to be charged with the amount payable by the Council to the Pension Fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the MIRS, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination 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.

### 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 most staff is administered by Surrey County Council on behalf of RBKC and for a relatively small number, by the London Pension Fund Authority.

# Accounting Policies

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.

## The Local Government Pension Scheme

The liabilities 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.

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 pension 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
- 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
- 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.

## Discretionary Benefits

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.

## **8. 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 as either:

- 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; or
- 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.

## **9. Fair value measurement**

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.

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.

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.

## 10. Financial instruments

### Financial liabilities

Financial liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the CIES for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. For the Council's borrowings, this means that the amount on the Balance Sheet comprises the principal repayable plus accrued interest.

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

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

Where premiums and discounts have been charged to the CIES, regulations allow the impact on the General Fund Balance to be spread over future years. The Council has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the CIES to the net charge required against the GF Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the MIRS.

### Financial assets

Financial assets are classified based on a classification and measurement approach that reflects the business model for holding the financial assets and their cash flow characteristics.

The financial assets which the Council holds are accounted for under the following classifications:

- Amortised cost
  - cash in hand
  - current and deposit accounts with the Council's bankers
  - loans to other local authorities and commercial banks
  - loans to other organisations
  - trade receivables
- Fair value through profit or loss (FVPL)
  - money market funds.

# Accounting Policies

The Council's business model for holding most of its financial assets is to collect contract cash flows, so they are initially measured at fair value and subsequently measured at amortised cost. The only exception is money market funds, which are measured only at fair value.

For most of the financial assets held by the Council, this means that:

- The amount included in the Balance Sheet is the outstanding principal receivable, plus accrued interest, less loss allowance; and
- Interest credited to the CIES is the amount receivable for the year according to the contract agreement.

The Council may sometimes make loans at less than market rates (soft loans), e.g. to employees, voluntary organisations, or other entities. When soft loans are made, and if material, a loss is recorded in the CIES for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal. Interest is credited to the Financing & Investment Income line in the Comprehensive Income and Expenditure Statement at a marginally higher effective rate of interest than the rate receivable from the soft loan debtor, with the difference increasing the amortised cost of the loan in the Balance Sheet.

## Expected Credit Loss (ECL) model

Loss allowances are calculated for financial assets held at amortised cost, based on the statistical likelihood that the borrower or debtor will be unable to meet their contractual commitments to the Council. The Council recognises expected credit losses on all its financial assets held at amortised cost, either on a 12-month or lifetime basis. The ECL model also applies to lease receivables and contract assets. Only lifetime losses are recognised for trade receivables (debtors) held by the Council. Together with any gains and losses arising from the de-recognition of an asset, these are credited/debited to the Financing and Investment Income and Expenditure line in the CIES.

## **11. 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 and is posted to the Capital Grants Unapplied Reserve. Amounts in the Capital Grants Unapplied reserve are transferred to the CAA once they have been applied to fund capital expenditure.

## 12. 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 "EUUV"). 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) and historical information from curators. 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.

## 13. Intangible assets

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

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held can be determined by reference to an active market. No intangible asset held by the Council meets this criterion and they are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over its 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 – 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. The gains and losses are therefore reversed out of the GF balance in the MIRS and posted to the CAA and (for any sale proceeds greater than £10,000) the capital receipts reserve.

The Council does not have internally generated assets.

The Council accounts for its software as intangible assets, to the extent that the software is not an integral part of any IT system and accounted for as part of the hardware item of PPE.

## 14. Inventories

The Council holds low levels of inventory stock on the Balance Sheet and exercises discretion to account for some stocks through the CIES e.g. housing repairs material held in mobile repair vehicles. Where stocks are held on the Balance Sheet, this is on the basis of cost price. No allowance is usually made for obsolescence or slow-moving stock items. This approach does not materially affect the accounts for the year as the values held are extremely low.

## 15. Investment properties

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale. Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's-length. As a non-financial asset, investment properties are measured at highest and best use. 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 CAA and, for any sale proceeds greater than £10,000, the Capital Receipts Reserve.

## 16. 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.

### The Council as Lessee

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

PPE 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 CAA 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 PPE 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 CAA from the GF via the MIRS.

## Operating Leases

Where the Council grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the 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.

## 17. Overheads and support services

The costs of overheads and support services charged to the HRA are in accordance with the Council's arrangements for accountability and financial performance. Those which relate to GF departments are shown in the department in which the expenditure was originally incurred and adjusted through the EFA to reconcile management reporting with financial reporting of the accounts.

## 18. Property, plant, and equipment (PPE)

PPE are tangible assets that have a physical substance and are held for operational reasons i.e. in the production or supply of goods and services or for administrative purposes.

### Recognition

Expenditure on the acquisition, creation or enhancement of PPE is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably.

Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred. The Council has a capitalisation threshold of £10,000 and allows the capitalisation of staffing costs that are directly associated with delivering of the capital schemes.

### Measurement

Assets are initially measured at cost, comprising:

- the purchase price
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management
- the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located

The Council does not capitalise borrowing costs incurred whilst assets are under construction.

The cost of assets acquired other than by purchase is deemed to be its fair value unless the acquisition does not have commercial substance (i.e. it will not lead to a variation in the cash flows of the Council). In the latter case 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.

Donated assets are measured initially at fair value. The difference between fair value and any consideration paid is credited to the Taxation and Non-specific Grant Income line of the CIES unless the donation has been made conditionally. Until conditions are satisfied the gain is held in the Donated Assets Account. Where gains are credited to the CIES, they are reversed out of the General Fund Balance to the CAA through the MIRS.

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

- community assets and assets under construction – historical cost
- infrastructure and vehicles, plant, and equipment – depreciated historical cost
- dwellings at fair value, determined using the basis of existing use value for social housing (EUV-SH)

# Accounting Policies

- school buildings – current value but because of their specialist nature, are measured at depreciated replacement cost which is used as an estimate of current value
- surplus assets at fair value estimated at highest and best use from a market participant's perspective
- all other assets at fair value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

Where there is no market-based evidence of fair value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of fair value. Where non-property assets that have short useful lives or low values (or both), depreciated historical cost is used as a proxy for fair value.

## Subsequent changes in value

Assets included in the Balance Sheet at fair value are re-valued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year-end, but as a minimum 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.

Where decreases in value are identified, they are accounted for as follows:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the CIES.

The Revaluation Reserve contains revaluation gains recognised since 1st April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the CAA.

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.

## Impairment

Assets are assessed at each year-end as to whether 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. Where impairment losses are identified, they are accounted for by:

- where there is a balance of revaluation gains for the asset in the revaluation reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- where there is no balance in the revaluation reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the CIES.

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

## Depreciation

Depreciation is provided for on all PPE assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land and certain Community Assets) and assets that are not yet available for use (i.e. assets under construction).

The following useful lives and depreciation rates have been used in the calculation of depreciation, all on a straight-line basis:

- Council Dwellings – 50 to 100 years
- Other Land and Buildings – 5 to 70 years
- Vehicles – 4 to 7 years; Plant – 21 to 24 years; Equipment and Furniture – 2 to 38 years
- Infrastructure – 16 to 50 years (normally 25 years)

The residual value, useful life and depreciation method are reviewed on a regular basis. If expectations differ from previous estimates the changes will be accounted for as a change in accounting estimates.

Depreciation is calculated on the current value of an asset. Where this valuation is above the historic cost, the difference between depreciation as calculated on current value and that calculated on historic cost is transferred each year from the Revaluation Reserve to the CAA.

## Componentisation of valuations

Where beneficial to the accuracy of the accounts the Council may opt to recognise each of the component parts of a material asset in its own right. This may be necessary to reflect the fact that some components may have an appreciably shorter useful life than the wider asset and will therefore need replacing sooner. Where assets are recognised as their component parts then each element is considered independently for future valuations, depreciation, replacement and disposal accounting. This Council will recognise the Structure, Roof, Heating & associated systems, Electrical, Lift and Externals as components.

PPE depreciation will be calculated using the weighted average remaining useful life of the structure and associated components provided by the Council's Valuer on an annual basis. The

# Accounting Policies

weighted average remaining useful life satisfies the requirement for accounting for PPE assets on a component basis where each part of an item of PPE with a cost that is significant in relation to the total cost of the item is separately depreciated.

Where a component is replaced or restored, the carrying amount of the old component is derecognised to avoid double counting and the new component reflected in the carrying amount. This recognition and de-recognition takes place regardless of whether the replaced part had been depreciated separately.

There are a number of circumstances where componentisation will not apply, including:

- Vehicles and Equipment will be considered immaterial and not subject to componentisation.
- Infrastructure assets are excluded pending the status of the Code of Practice on Transport Infrastructure Assets.
- Investment properties are not depreciated but must be considered for componentisation where enhancement expenditure is incurred.

## Disposals and non-current assets held for sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the CIES. Gains in fair value are recognised only up to the amount of any previously losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

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

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether PPE 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. Receipts from disposals (if any) are credited to the same line in the CIES also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the CAA.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. A proportion of receipts relating to housing disposals (75% for dwellings, 50% for land and other assets, net of statutory deductions and allowances) is payable to the Government. The balance of receipts remains within the Capital Receipts Reserve and can then only be used for new capital investment or set aside to reduce the Council's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Reserve from the General Fund Balance in the MIRS.

From April 2012 a proportion of receipts arising from additional RTB sales, following an increase in the maximum cash cap on discounts, is retained by the Council where it agrees to spend a

# Accounting Policies

sufficient level of resources on replacement social housing. The same applies to non-RTB sales where the agreement is to spend on provision of additional affordable housing or regeneration projects.

The written-off value of disposals is not a charge against council tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the CAA from the General Fund Balance in the MIRS.

## Assets under construction

Where works will result in an asset but the works are not completed by the end of the financial year and the asset is not yet in operational use, the cost is charged to Assets under Construction within Non-Current Assets in the Balance Sheet. Assets under Construction are carried in the Balance Sheet at accumulated historical cost during the period of construction and are exempt from depreciation. In exceptional cases, impairment losses might need to be charged during the construction period, should they arise. Once assets are ready for operational use, the assets are reclassified and valued in accordance with the basis relevant to that class of assets.

## Schools

The Code of Practice on Local Authority Accounting in the UK confirms that the balance of control for local authority maintained schools (i.e. those categories of school identified in the School Standards and Framework Act 1998, as amended) lies with the Council.

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 cash flows of each school are recognised in the Council's single entity accounts. The Council has the following types of maintained schools under its control:

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

Capital expenditure on community schools is added to the balances for those schools. Capital expenditure on voluntary aided, controlled and foundation schools not included on the Council's Balance Sheet is treated as "REFCUS" (Revenue Expenditure Funded from Capital under Statute") and written off each year to the CIES within Education and Children's services.

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 CAA.

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 CAA from the GF balance in the MIRS.

## **19. Provisions, contingent liabilities and contingent assets**

### Provisions

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

Provisions are charged as an expense to the appropriate service line in the 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, considering 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 Liabilities

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

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

### Contingent Assets

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

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

## **20. Revenue expenditure funded from capital under statute (REFCUS)**

Expenditure incurred during the year that may be capitalised under statutory provisions, but that does not result in the creation of a non-current asset, has been charged as expenditure to the relevant service in the CIES in the year. Where the Council has determined to meet the cost of

this expenditure from existing capital resources or by borrowing, a transfer in the MIRS from the GF Balance to the CAA then reverses out the amounts charged so that there is no impact on the level of council tax.

## **21. Revenue from service contracts**

Revenue from contracts with service recipients, whether for services or the provision of goods, is recognised generally at the point that the service is provided or is charged for. It is not considered that this would be materially different from recognising revenue from contracts with service recipients when (or as) the goods or services are transferred to the service recipient in accordance with the performance obligations in the contract.

## **22. Reserves**

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by transferring amounts out of the GF Balance in the MIRS. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on the Provision of Services in the CIES. The reserve is then appropriated back into the GF Balance in the MIRS so that there is no net charge against council tax for the expenditure. Details of earmarked reserves are given in note 7.

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, local taxation and retirement and employee benefits and do not represent usable resources for the Council. These are detailed in note 8.

## **23. Rounding**

It is not the Council's policy to adjust for immaterial cross-casting differences between the main statements and disclosure notes.

## **24. 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.

# Annual Governance Statement

## 1. Executive Summary

### 1.1. Scope of responsibility

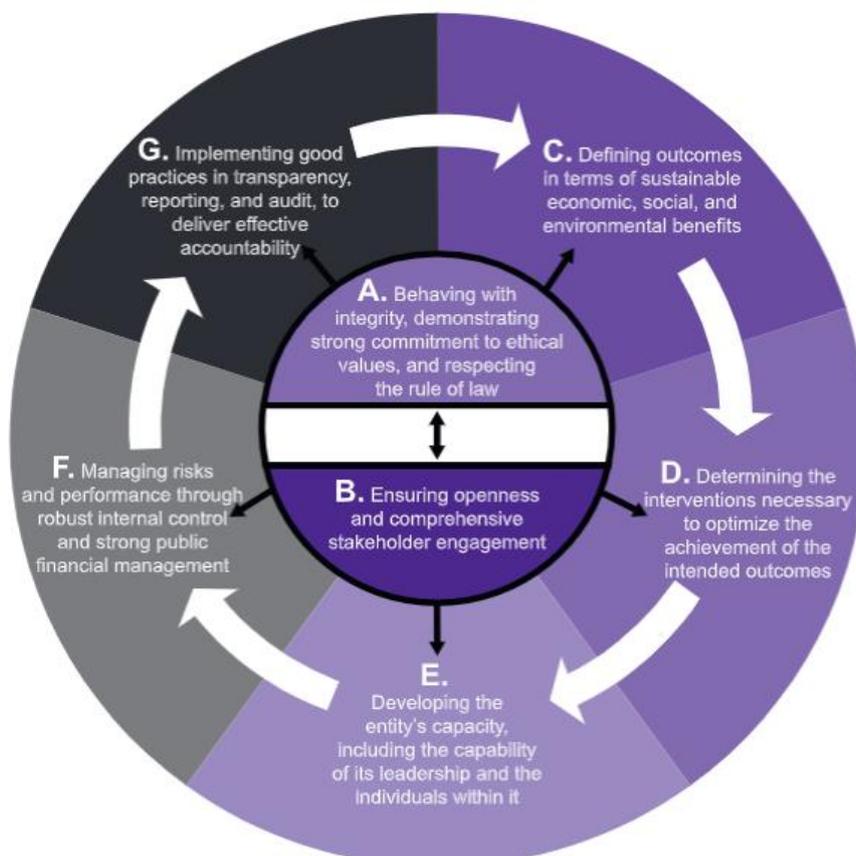
This Annual Governance Statement explains how the Council has complied with the Governance Framework. It also meets the requirements of Regulation 6 of the Accounts and Audit Regulations 2015 in relation to the publication of the statement of internal control.

The CIPFA/SOLACE Delivering Good Governance in Local Government Framework (2016) expects local authorities to put in place proper governance arrangements to ensure that these responsibilities are being met. The Council's Audit and Transparency Committee reviews governance arrangements, risk registers and quarterly performance reports.

The Council is responsible for ensuring that:

- its business is conducted in accordance with the law and proper standards
- public money is safeguarded, properly accounted for and used economically, efficiently and effectively
- it maintains a sound system of governance, which includes its system of internal controls and arrangements for the management of risk.

The Council is committed to improving governance on a continuing basis through a process of evaluation and review and delivering the seven principles of good governance as identified in Delivering Good Governance in Local Government Framework 2016. The Council has revised its Local Code of Corporate Governance to reflect these principles which are:



## 1.2. Overall opinion on level of assurance

The Council receives a substantial amount of assurance from the work that is undertaken by its Internal Audit team and external auditors, Grant Thornton UK LLP. In terms of the finance, HR and payroll managed service provided by Hampshire County Council, the partnership receives independent assurance over the controls in place which is provided by Hampshire's external auditor. No issues were identified in respect of testing undertaken in 2020/21.

In March 2020 the Council commissioned the Local Government Association to undertake a Corporate Peer Challenge, where a team of senior local government officers and councillors visited the Council to examine its plans and its capacity to deliver, and to make recommendations. In early 2021, the Council commissioned a further review of governance by the Centre for Governance and Scrutiny, as agreed by the Administration Committee in July 2020. The results of this review are expected shortly and will be reflected within the final AGS published later in the year.

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.

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 2020/21 is that the Council's internal control systems in the areas audited were adequate, with 89% of the audits undertaken receiving a positive assurance opinion. The annual report on internal audit and control for 2020/21 can be accessed on the Council's website using the link: [Internal audit and control report 2020-21](#).

The Chief Financial Officer (CFO) 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 CFO considers the arrangements are working effectively and that all matters of significance have been identified and included within this statement.

The Council has been implementing a range of actions to strengthen governance, scrutiny and oversight arrangements. Under the leadership of the Chief Executive the Council has put in place appropriate strategies and plans, including the Council Plan, which set a clear vision, direction and approach for how the Council meets the needs of its residents. This together with the details of the review set out in this statement demonstrate that the Council has appropriate arrangements in place, in accordance with the governance framework. Progress has been made on the significant issues identified in the previous year as set out in section 4.1 below. As a result, a satisfactory level of assurance has been achieved following the conclusion of the Review.

## 2. Identification of key governance arrangements

### 2.1. Governance arrangements

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
- how to manage the risks appropriately, given the agreed objectives.

# Annual Governance Statement

A key focus of the Council's governance processes and structures is attainment of sustainable economic, societal, and environmental outcomes. The Council has a duty to improve outcomes for communities and citizens and make the most of opportunities that add value locally. In a rapidly changing world, we need to think about what the main threats and opportunities to citizens' outcomes are, what impact they will have and the role the Council can play – i.e. helping communities develop resilience to social and economic changes. This requires us to look both inwardly (to ensure we have effective governance and controls) but also more importantly outwardly at risk (e.g. to the risk to citizens, to protect citizens and build resilience).

Governance arrangements for the Hampshire Partnership are subject to a partnership agreement which sets out 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 were put in place to successfully manage the implementation of the new systems and to embed the new system and processes, referred to as 'Stabilisation'. The Council came out of stabilisation on 31 March 2020 and is now part of the standard all partner governance arrangements.

The Council's Local Code of Corporate Governance is incorporated into the Council's Constitution and is available on its website at: Part 8 Section 1 Code of Corporate Governance ([rbkc.gov.uk](http://rbkc.gov.uk)). This will be updated as a result of the 2020/21 review of governance arrangements.

The Annual Governance Statement is based on more detailed reports presented to the Audit and Transparency Committee throughout 2020/21, copies of which can be found on the Council's website at: [Council Committees > Audit and Transparency Committee \(rbkc.gov.uk\)](#).

## **2.2. Response to COVID-19 pandemic**

Following the announcement of the lockdown by Government on 23 March 2020, the Council's Emergency Planning arrangements were invoked, and the structures set out in the Emergency Plan came into operation. Specifically, Gold (Strategic) and Silver (Tactical) meetings were initially taking place on a daily basis from mid-March. Regular informal meetings of Leadership Team were also taking place throughout the period. The capital's emergency response was overseen by London Gold through the London Resilience Forum. The Council published its Outbreak Management Plan in June 2020, which was refreshed in February 2021, to include community testing and vaccination roll out. Gold and Silver meetings continued on a weekly basis throughout the year, with tactical groups responsible for a range of activities, including outbreak management, community testing and vaccination support also meeting on a regular basis.

For a short period at the beginning of lockdown the Council put in place arrangements for urgent decisions to be approved by the Leader and published the intention to do so on the Forward Plan. The Council subsequently returned to taking decisions in the normal manner by mid-May 2020. Other than the short-term measure introduced to enable urgent decisions regarding the emergency response to be made and a short period where public meetings were not held, the Council's governance framework has not been impacted. Following the introduction of remote meetings in April 2020, the Leadership Team and other committees (including scrutiny) began meeting remotely from May 2020 onwards. Face to face meetings have been in place from May 2021.

## **3. Evaluation of the effectiveness of governance**

### **3.1. Outline of assurance process**

To monitor the effectiveness of the Council's key corporate governance systems, a review is undertaken each year of the governance framework, the sources of assurance from this review are shown below.

# Annual Governance Statement

Corporate Governance	Management Team	Services are delivered economically, efficiently & effectively
<ul style="list-style-type: none"> <li>•Constitution (incl. statutory officers, scheme of delegation, financial procedure, management and procurement rules)</li> <li>•Audit and Transparency Committee</li> <li>•Internal and external audit</li> <li>•Independent external assurance sources</li> <li>•Overview and Scrutiny function and Select Committees</li> <li>•Council, Leadership Team and Panels</li> <li>•Council Plan and Peoples Strategy</li> <li>•Medium Term Financial Strategy, including Capital Strategy</li> <li>•Complaints system</li> <li>•HR policies and procedures</li> <li>•Whistleblowing and other countering fraud arrangements</li> <li>•Risk management framework</li> <li>•Performance management system</li> <li>•Codes of conduct</li> </ul>	<ul style="list-style-type: none"> <li>•The role of Chief Officers</li> <li>•Delivery of Council's aims and objectives</li> <li>•Corporate Planning</li> <li>•Business, Financial and Commissioning Plans</li> <li>•Officer codes of conduct</li> <li>•Performance appraisal</li> <li>•The role of the Chief Financial Officer</li> <li>•The role of the Head of Internal Audit</li> <li>•Roles and responsibilities of Members and Officers</li> <li>•Timely production of a Statement of accounts</li> <li>•External and Internal audit reports recommendations</li> <li>•Review of Corporate Governance</li> <li>•Risk and Control Board</li> </ul>	<ul style="list-style-type: none"> <li>•Management of risk</li> <li>•Effectiveness of internal controls</li> <li>•Democratic engagement and public accountability</li> <li>•Budget and financial management arrangements</li> <li>•Standards of conduct and behaviour</li> <li>•Compliance with laws and regulations, internal policies and procedures</li> <li>•Action plans dealing with significant issues are approved, actioned and reported on</li> <li>•Local Government Ombudsman reports</li> <li>•Electoral Commission report</li> <li>•Overview and Scrutiny reviews</li> <li>•Effectiveness reviews of Audit and Transparency Committee and Overview and Scrutiny Committees, Internal Audit</li> <li>•Employee performance</li> <li>•Budgetary control</li> <li>•Compliance with the Code of Procurement</li> <li>•Stakeholder engagement</li> <li>•Evaluation of benefits gained from investments and projects</li> </ul>

During 2020/21 the Council's Director of Financial Management (Deputy CFO) established a working party to assess the Council's current compliance and propose actions to become fully compliant with the CIPFA Financial Management (FM) Code. The FM Code was launched in October 2019 as the first professional code for general financial management in local authorities. 2020/21 was a 'shadow year' for implementation of the FM Code which came into effect from April 2021.

The diagram below sets out the application of the FM Code.



The working party assessed the key elements of each chapter of the FM Code, reflected on the current position against its 17 standards and six underlying principles and gathered evidence to support the Council's current position. This was reported to Audit and Transparency Committee in June 2021 along with a proposed action plan to become fully compliant; implementing the action plan will be the focus of 2021/22.

# Annual Governance Statement

## 3.2. Assessment of effectiveness of governance arrangements

The governance framework described in section 2 has been in place throughout 2020/21 and maintained up to the date of the approval of the Statement of Accounts. Key governance processes during 2020/21 comprised the following:

<p>Audit and Transparency Committee</p>	<p>Receives reports on key issues and areas requiring improvement, holds Directors and officers to account for systems, services and risks they manage, seeks assurance over implementation of risk and counter fraud policies and approves the annual accounts</p>
<p>Lead Members (Executive Leadership Team)</p>	<p>Undertake Council functions not reserved to full Council or delegated to Committees or officers, take key decisions (individually or collectively)</p> <p>Lead Members provide leadership, develop and set policy. They uphold Codes of Corporate Governance and the expected standards of behaviour.</p>
<p>Overview and Scrutiny Committee and 4 Select Committees</p>	<p>Hold the Executive Leadership Team to account, agree and co-ordinate the annual scrutiny work programme (with residents, councillors and officers) across all committees to ensure they scrutinise the most important topics and issues falling within their remit</p>
<p>Ethics Panel</p>	<p>Advises the Council on best practice and provides advice on complaints that Members have breached the Code of Conduct</p>
<p>Executive Directors</p>	<p>Complete annual assurance 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, including the management of strategic and operational risk, the effectiveness of controls, financial management, service delivery and continuity, information governance and compliance with other legislation relevant to their areas</p>
<p>Monitoring Officer</p>	<p>Maintains the register of councillors' interests, deals with complaints that councillors have breached the Councillor Code of Conduct and has a statutory duty to report breaches of the Council's legal obligations and findings of maladministration by the Local Government and Social Care Ombudsman to the Council</p>
<p>Chief Financial Officer (CFO)</p>	<p>Delivers and oversees financial management arrangements, complies with requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government and is a member of the Council's Executive Management Team</p>

# Annual Governance Statement

<p>Information Governance</p>	<p>Information Security and Governance is the overall process of analysing, evaluating, assessing and mitigating the impact of risks to the Council’s information and information systems.</p> <p>Information risk is managed by assigning roles and responsibilities and co-ordinating the implementation of mitigating controls and security based on information policies and all supporting documentation. Together these measures form the Information Security and Governance lifecycle and apply across the Council and in its dealings with all partners and third parties.</p> <p>The Executive Director of Resources, who has overall responsibility for ensuring that information risks are assessed and mitigated to an acceptable level. Senior Information Risk Owner: the Chief Information Officer fulfils this role who is familiar with and takes ownership of the Council’s information governance policy and strategy.</p> <p>All Directors hold responsibility for their own area and 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.</p>
<p>Anti-Fraud work</p>	<p>The Audit and Transparency Committee review the Anti-Fraud Strategy (in line with the national Fighting Fraud and Corruption Locally strategy) and associated policies (including Fraud Response Plan, Anti-Bribery and Corruption Policy, Whistleblowing Policy and Anti-Money Laundering Policy). The Corporate Anti-Fraud Service leads on the implementation of the strategy and policies and the delivery of the Annual Anti-Fraud Plan, which is reported to the Audit and Transparency Committee.</p>
<p>Risk management</p>	<p>The Executive Management Team adopted a strategic approach to Risk Management in 2018, with the Risk and Control Board meeting on a bi-monthly basis to review and update the Strategic Risk Register. The Strategic Risk Register is reported to the Audit and Transparency Committee, who select specific risks for further deep dive reports from responsible directors. Executive Directors are responsible for maintaining risk registers for their area and to escalate risks as appropriate to the Strategic Risk Register.</p>
<p>Partnerships</p>	<p>The Council has a number of partnerships in place which are supported through their own governance and decision making, including:</p> <ul style="list-style-type: none"> <li>• Bi Brough and Tri Borough - through the Section 113 of Local Government Act 1972</li> <li>• Health Partnerships – through Section 75 Agreement</li> </ul>

# Annual Governance Statement

	<ul style="list-style-type: none"> <li>Hampshire County Council - a partnership agreement for the provision of a managed HR, Payroll and Finance service, with the new service and system becoming operational in December 2018.</li> </ul>
Performance management	<p>Performance management has a large scope. A cross service team are currently reviewing existing business planning processes to ensure consistency across the Council - from the council plan through to individual priorities. This is supported by a new appraisal process that is in place from April 2021.</p> <p>Performance is measured through a range of tools – performance measures but also externally using benchmarking tools and statistics.</p>
Complaints investigations	<p>The Leadership Team have agreed a new 2 stage complaints process for the Council. Quarterly reporting is now presented to Directorate Management Teams and the Executive Management Team.</p>
Citizen's Panel	<p>The Council consulted widely for twelve weeks, between mid-September and mid-December 2019, on a 'Charter for Public Participation'. The Charter provides sets out how local people can get involved in Council meetings and influence decisions, and in the development of policies, plans and services that affect them.</p> <p>Through the Charter we aspire to inform, consult, involve and codesign or co-produce with local people. This charter is now in place and 2000 residents are now part of a new, representative Citizens' Panel.</p>
Risk and Control Board	<p>The Chief Executive chairs a bi-monthly Risk and Control Board to oversee and develop the Council's risk strategy and strategic risk register. Membership comprises Executive Management Team members along with the Director of Audit Fraud, Risk and Insurance. The Risk and Control Board sets the standards and ensures the Council has the right policies, practices and behaviours in place for effective assurance and risk management. The Board is also responsible for ensuring that new and emerging risks are identified, captured and appropriate mitigations are put in place. It sets the standards and ensures the Council has the right policies, practices and behaviours in place for effective assurance and risk management.</p>

# Annual Governance Statement

External Audit	The Council's external auditor, Grant Thornton, provides assurance on the accuracy of the year-end Statement of Accounts and the overall adequacy of arrangements for securing and improving value for money. The most recent Audit Letter, issued in September 2020, confirmed that they had been able to give an unqualified audit opinion in respect of the Council's 2019/20 Statement of Accounts.
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### 3.3. Securing Value for Money (VFM) in use of resources

The Council has in place various arrangements for securing Value for Money (VFM) from its use of resources. The significant qualitative aspects of the Council's arrangements for delivering economy, efficiency and effectiveness are subject to external audit review annually.

In arriving at their most recent (2019/20) VFM conclusion, Grant Thornton considered the following areas to identify the most significant risks in the Council's arrangements:

- Revenue and capital outturn for 2019/20
- Approved revenue and capital budget for 2020/21
- Officer assessment of the impact of Covid-19 on forecasted costs and income for 2020/21 and future years, as reported to members
- Medium term financial plan for 2020/21-2022/23
- Analysis of reserves position relative to other comparable local authorities
- Findings of Phase 1 of the Public Inquiry into the Grenfell Tower fire
- Findings of the Independent Grenfell Recovery Taskforce
- Council and Committee reports discussing implementation of the Council's revised Housing and Social Value Strategy and change and transformation programmes
- Discussions with key officers and internal audit

Further details of the external audit review can be found on the RBKC website at: [2019.20 LG Audit Findings Report \(rbkc.gov.uk\)](https://www.rbkc.gov.uk/2019-20-LG-Audit-Findings-Report).

The Council uses an outcomes-based approach to align budget commitments more closely to corporate priorities, and this is reflected in the Medium Term Financial Strategy. Achieving value for money is an integral part of this strategy – looking at small scale efficiencies in services through to transforming and re-designing services to achieve the same or improved outcomes for less. Benchmarking information shows that in some areas, Kensington and Chelsea is high spending but achieving lower outcomes compared to other authorities. This information will facilitate discussions around balancing the books whilst still retaining outcomes.

The Council has put in place robust arrangements to ensure that risks and uncertainties are given due consideration in short and medium-term financial planning and the impact is effectively modelled. The Council's understanding of the key drivers for income and expenditure relating to core services and ability to understand the impact of decisions taken is strong. The Council remains responsive to emerging circumstances, whilst keeping sight of longer-term strategic goals which underpin future investment decisions from use of reserves.

A key part of providing VFM is ensuring appropriate governance procedures under collaborative arrangements and demonstrating transparent, consistent ways of working. The Council has reflected this approach in its response to the COVID-19 pandemic in working collaboratively with other London Borough Councils and wider stakeholders, openly sharing information, and adopting best practice in respect of monitoring and reporting on risks and responses.

The Council continues to work to change its organisational culture by embedding the principles of good governance as recommended by the Centre for Public Scrutiny. Alongside this, Council priorities have been redeveloped under the Council Plan and investment decisions have been aligned to these as part of the outcomes-based budgeting programme.

### **3.4. Identification of significant governance issues**

A prime purpose of the governance framework is to ensure that any significant risks which do arise are highlighted so that appropriate mitigating action can be taken. Key risks identified in 2020/21 are set out below together with the Council's response:

#### COVID-19 pandemic

During 2020/21 the COVID-19 pandemic has affected us all; our residents, communities, public institutions, businesses, and voluntary and community organisations.

Over the last 12 months, the Council has been on the front line in the fight against the virus, delivering Government backed support as well as developing and delivering locally funded support for residents. Meanwhile the Council has strived to continue to deliver core services where possible and all staff have been involved in enabling vital service delivery in this difficult period.

The scale and extent of the pandemic's impact in the longer term is unknown but is very much part of the financial planning over the next few years. This may include long term changes in behaviour for travelling around the borough and London, increased use of online services reducing footfall on our high streets, long term impact on those forced into financial hardship, and the lasting impacts on our children and young people for their education and emotional wellbeing.

Further details of the Council's approach to Covid recovery is set out in the Council Plan and Medium Term Financial Strategy, presented to Leadership Team on 9 June 2021.

#### Grenfell

In responding to the Grenfell tragedy, the Council has worked closely with the emergency services, the health sector, the local community and voluntary sector, schools, national Government, and emerging self-organised groups of bereaved and survivors. The Council is part way through its five-year Grenfell Recovery Strategy and the plans for the remaining three years was agreed in December 2020.

Given the ongoing Public Inquiry, Grant Thornton has not been able to issue an overall conclusion in respect of VFM since 2018/19 as the Council's predecessor auditors have not yet issued their VFM conclusions in respect of the 2016/17 and 2017/18 audits. This matter has been reported to and considered by the Audit and Transparency Committee when considering the audit of each year's annual accounts.

The Council is committed to building a longer-term legacy of learning. Moving forward, we will continue to work with the bereaved, survivors and the local community as equal partners to shape the recovery programme and focus on building a long-term, sustainable legacy from the tragedy. The work of the Grenfell Tower Inquiry and the criminal investigation will be vital. The Council will continue to support the search for the truth, adhering to the commitments set out in the Charter for Bereaved Families.

#### Pension Administration Service

With effect from 1 April 2021, the Council's pensions administration service was brought in-house. The service was previously administered by Surrey County Council. The system was successfully implemented, and no new risks have currently been identified at this early stage although the service will remain under review during the next year.

# Annual Governance Statement

## Financial Management Code

A key goal of the FM Code is to improve the financial resilience of organisations by embedding enhanced standards of financial management. The impact of COVID-19 has tested that financial resilience in 2020/21 and will continue to do so in coming years.

The FM Code sets out six underlying principles by which local authorities should be guided in managing their finances and the specific standards that they should, as a minimum, seek to achieve.

- *Organisational leadership* – demonstrating a clear strategic direction based on a vision in which financial management is embedded into organisational culture.
- *Accountability* – based on medium-term financial planning that drives the annual budget process supported by effective risk management, quality supporting data and whole life costs.
- *Financial management is undertaken with transparency* at its core using consistent, meaningful and understandable data, reported frequently with evidence of periodic officer action and elected member decision making.
- *Adherence to professional standards* is promoted by the leadership team and is evidenced.
- *Sources of assurance* are recognised as an effective tool mainstreamed into financial management, including political scrutiny and the results of external audit, internal audit and inspection.
- The *long-term sustainability* of local services is at the heart of all financial management processes and is evidenced by prudent use of public resources.

The Council's self-assessment of compliance with the FM Code during the 2020/21 shadow year is that it is already compliant with several of the principles of the FM Code and partially compliant against some of the standards recommended. Where not yet fully compliant, the Council has prepared an action plan to become fully compliant by 31 March 2022.

The key areas identified for improvement in the action plan include:

1. Making greater use of benchmarking, internal reviews and feedback to evidence that the Council's services provide Value for Money (VFM).
2. Greater transparency and consistency in processes for follow up on actions from internal reports and externally commissioned reviews.
3. Embedding a financial management style that supports financial sustainability into the Council's core values and staff performance monitoring targets.
4. Developing service plans that cover financial sustainability as a corporate objective for all Executive Directors and their service areas. This should be aligned with the Council's new business planning processes that are currently being developed.
5. Ensuring the CFO budget report explicitly covers the robustness of the significant estimates used in setting the budget.
6. Ensuring community and key stakeholder engagement feed into its long-term financial strategy, medium-term financial and annual budget through further developing initiatives such as the Citizens Panel, wider budget consultation and the fees and charges consultation.
7. Improving guidance on the bidding criteria for 'invest to save' schemes e.g. special projects and Star Chamber business cases, to ensure greater transparency and robustness in decision making and the tracking of benefits achieved.
8. Improving ways in which the Leadership Team (Lead Members and Executive Management) takes action using reports enabling it to identify and correct emerging risks to its budget strategy and financial sustainability, with clear links to decisions taken.
9. Reviewing the information provided to Leadership Team in respect of key Balance Sheet items and including this in monitoring reports by the end of the 2021/22 financial year.
10. Ensuring the presentation of the final outturn figures and variations from budget allow the Leadership Team (Lead Members and Executive Management) to make strategic financial decisions.

## 3.5. Strategic risks

The risks that could impact on the sustainability and delivery of the Council's statutory and non-statutory services and operations are of strategic significance. At the time of preparing the latest Audit Plan the Council's Strategic Risks were identified as failure to:

- appropriately and effectively meet the housing, emotional and psychological needs of former residents of the Tower and Walk
- manage the impact of Public Inquiry hearings (particularly modules 3 and 4 of Phase 2), potential criminal charges and other legal action related to Grenfell on organisational effectiveness
- create an effective new model for social housing in Lancaster West.
- meet landlord health and safety requirements (maintenance and housing services) for social housing tenants/properties.
- protect/safeguard residents/businesses/visitors from the effects of significant incidents (e.g. terrorist attack or being drawn into terrorist activity, pandemic health incident, infectious disease outbreaks, legionella outbreaks), protect/safeguard individuals/businesses / visitors from the effects and impact of the Coronavirus pandemic
- respond effectively to another major incident
- respond to the impact of significant external economic factors, affecting service delivery
- establish corporate mechanisms for corporate planning, policy development, performance and control framework.
- ensure service continuity/safeguarding arrangements in social care
- protect against serious information/cyber security Incident leading to all or multiple council systems shutdown and/or council unable to undertake business and/or significant ICO fine & reputational damage due to data breach, malware outbreak, phishing or ransomware attack address the medium-term budget challenge
- protect against failure of on-premise datacentre RBKC & WCC and restoration of back-ups/service fails or takes a long time impacting on the Council's ability to deliver services, key contractor/supplier/ partner organisations
- fragility of the local Care Market in light of COVID-19 (pressures include staffing and financial resilience).
- prepare for the impact associated with climate change, including air quality/pollution, water quality/availability, extreme weather (e.g. flooding, heat).

Since the Grenfell fire the Council has been reflecting on its organisational culture and governance to ensure it is fit for new purposes and outward facing. The risk strategy and strategic risk register, presented regularly to Audit and Transparency Committee, is a key part of the Council's decision-making approach and culture. In addition, during the last year the Council has also had in place a separate risk register for the response to the pandemic. This included both a tactical risk register reported and monitored by the Council's silver arrangements and the Covid-19 strategic risk register reported to GOLD. During the first 12 months on the pandemic this was reviewed and reported weekly but to date these separate risk registers are in place and reported bi-weekly.

The Council also has a duty to improve outcomes for communities and citizens and make the most of opportunities that add value locally. This requires us to look both inwardly (to ensure we have effective governance and controls) but also more importantly outwardly at risk (e.g. to the risk to citizens, to protect citizens and build resilience).

The Chief Executive chairs a bi-monthly Risk and Control Board to oversee and develop the Council's risk strategy and strategic risk register. Membership comprises Executive Management Team members along with the Director of Audit Fraud, Risk and Insurance.

During the period covered by this Statement the Monitoring Officer has received nine complaints alleging a breach of the Councillor Code of Conduct. Five of those complaints are still being considered (three are about the same councillor arising from a single event). Two of the complaints were settled informally by apologies accepted by the complainants and two revealed no breach of the Code.

## 4. Accountability and action plans

### 4.1. Update on significant issues addressed in 2019/20 AGS

#### Grenfell

Following the Grenfell Tower fire, the Council commissioned an independent review of its governance by the Centre for Public Scrutiny (CfPS). The Borough and Area Governance Review Panel then undertook a review which concluded in Spring 2019, with reports implementing governance changes submitted to the May and July 2019 Council meetings. All recommendations from this review were completed. The CfPS have been carrying out a further review in 2020/21 which will be reported shortly and any updates will be included in the final AGS published later in the year.

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 adopted the Charter for Families Bereaved through Public Tragedy and continues to support the Public Inquiry through the retention and provision of documents covering all aspects of the Inquiry's terms of reference. The Council is also under an ongoing duty to retain and disclose documentation and electronic records for the police investigation.

#### PWC review

During 2019/20 the Council commissioned PWC to undertake an external review of the processes and governance arrangements for capital investment across the borough. Officers are currently implementing the Action Plan arising from that review, which will strengthen the governance and control over developing the Capital Programme each year and its delivery. This is expected to address the high levels of slippage that has incurred in recent years, improve accuracy of budgets, monitoring and scrutiny of delivery, and timely delivery of projects. The action plan is expected to be fully implemented by March 2022.

### 4.2. Action plan to address significant governance issues

The Council Plan adopted in March 2019 sets out our priorities as a Council for the four years up to 2023. It seeks both to express the shifting aims of the Council in the light of Grenfell and also to place resident priorities truly at the heart of the Council's business. It blends a fundamental focus on engaging, involving and listening to our communities with a commitment to maintaining public amenity, enabling opportunity and responding to inequalities. A refreshed Council Plan will be agreed by Leadership Team on 9 June 2021 alongside the Medium-Term Financial Strategy. The Council's priorities remain the same but the plan has been updated to reflect progress since 2019 but also to take into consideration the response to and recovery from the impact of Covid-19 on people and the local economy. The Council Plan is aligned to the Medium-Term Financial Strategy to ensure our objectives and delivery of services are affordable and achievable within current and future budgets. Together these documents describe what the Council will focus on and how our activity will be resourced.

#### Recovery Outcomes Framework

During a large part of 2020/21, the Council's focus was on its response to the pandemic. Subsequently, in December 2020, Leadership Team agreed a recovery framework of outcomes that based on the data and evidence that had emerged during the pandemic. It sets out the needs and interventions required to support the economy, the borough and its residents and the Council. ([RBKC Committees > Meetings](#)). The programme is governed through the Recovery Board (Lead Members and Executive Directors) and a series of Task and Finish Groups who develop proposals to deliver the outcomes framework. It is early days with the programme and regular updates will be presented to Leadership Team through 2021/22.

#### Review of Historic Property Transactions (Kroll Report)

# Annual Governance Statement

Kroll and Associates were commissioned to undertake an independent forensic examination of four historic property transactions at the Council in light of the report published by Kensington and Chelsea College in October 2018 which Kroll had also undertaken. The independent Kroll report shows that previous decisions, in the period from 2011 to 2016, were based on a strategic rationale to maximise rental income so as to support the Council's revenue base. While forms of information provision about the Council's objectives for these transactions were in place at that time, it was apparent that a wider and more open style of community engagement was not an aspect of the Council's general approach.

While the Kroll report identified no wrongdoing on the part of Members nor officers it did highlight a number of areas for the Council to consider its future approach. The report was presented to the Audit and Transparency Committee in March 2021, with six key recommendations being made by the Chief Executive. This includes providing guidance on the sufficiency, appropriateness and adequacy of officer drafted reports so as to ensure that Members receive rounded, objective, impartial, balanced and best professional advice in achieving the Council's agreed policies and plans. Progress against the recommendations will be reported to the Audit and Transparency Committee.

## 5. Conclusion

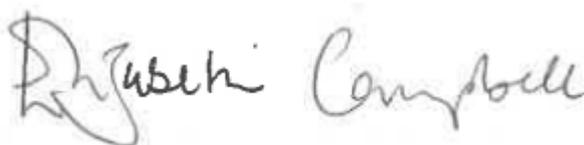
The Council is satisfied that appropriate governance arrangements have been maintained in 2020/21. It recognises however that these arrangements are designed only to manage risk down to a reasonable level and cannot provide absolute assurance that the Council will successfully deliver all of its policies, aims and objectives. We remain committed to maintaining and where possible improving these arrangements, by:

- Addressing issues identified by Internal Audit
- Addressing issues identified by External Review – including external inspections, peer reviews, the Centre for Governance and Scrutiny review, the ongoing Grenfell Public Inquiry and the recommendations arising from the independent Kroll review
- Focussing on key risks and areas for improvement
- Continuing regular, open and transparent engagement with local people



Barry Quirk  
Chief Executive

27 September 2021



Cllr Elizabeth Campbell  
Leader

27 September 2021

# Glossary of Terms and Abbreviations

**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.

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

**BUSINESS, ENERGY AND INDUSTRIAL STRATEGY (BEIS)** is the UK Government department responsible for policy areas such as business and industrial strategy, science, innovation, energy and climate change.

**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, which may only be used to repay loan debt or to finance new capital expenditure. Certain flexibilities may be available in the use of Capital Receipts, but this would only be through a Secretary of State Direction.

**CIPFA (CHARTERED INSTITUTE OF PUBLIC FINANCE AND ACCOUNTANCY)** 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).

**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'.

**EFFECTIVE INTEREST RATE (EIR)** is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

**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.

# Glossary of Terms and Abbreviations

**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).

**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.

**MINISTRY OF HOUSING, COMMUNITIES AND LOCAL GOVERNMENT (MHCLG)** is the UK Government department for housing, communities, and local government in England.

**NON-DOMESTIC RATES (NDR)** is a levy on businesses, based on a national rate in the pound set by the Government and multiplied by the assessed rateable value of the premises they occupy. It is collected by the Council on behalf of itself, the Greater London Authority (GLA) and Central Government

**NON-CURRENT ASSETS** are assets that provide benefit to the Council and its services for a period more than 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 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).

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