# The Royal Borough of Kingston upon Thames

# Statement of Accounts

# 2018/19

THE ROYAL BOROUGH OF
KINGSTON
UPON THAMES

# Contents

# 1. Narrative Report

**Local authorities in England are required under the Accounts and Audit Regulation 2015 and the CIPFA Code of Practice to include a narrative report with their published statement of accounts. This report does not form part of the Accounts and so is not subject to the same inspection of accounts regime**

# Narrative Report

**Narrative Report of the Council's S151 Officer**

**About the Royal Borough of Kingston upon Thames**

The Royal Borough of Kingston upon Thames is one of only four Royal Boroughs in England and Wales, and is one of the 32 London Boroughs, along with the City of London.

The Royal Borough is located in south west London, on the banks of the Thames, 12 miles from central London. The Council works closely with its partners such as the healthcare trusts, Kingston University, housing cooperatives, the police and other Local Authorities to deliver public services such as health, education, affordable housing and other infrastructure such as waste management and transport facilities in a high quality environment.

The Borough has excellent transport links so is well placed as a visitor and commercial centre and Kingston's town centre is a popular shopping and entertainment destination.

In 2018 the Borough had 179,600 residents and this is projected to increase to 202,000 by 2030 (+22,400; +12%) and to 228,500 by 2050 (+48,900; +27% against 2018). Kingston is home to a higher proportion of older residents (aged 65+) compared with London. This age group is projected to grow from 24,300 in 2018 to 32,000 in 2030, an increase of 32%, whilst the number of young people (aged 0-19) is set to increase from 43,600 in 2018 to 47,300 over the same period (+8%).

Whilst people living longer is something to celebrate, Kingston's growing population - particularly the number of younger and older people who tend to require more social care support - puts increasing pressure on a range of services, particularly social care and housing.

Residents of Kingston are generally in good health, with 86% self-reporting their health as being good or better. Like much of the country, obesity levels are a concern - 53% of the borough's adults are classed as overweight or obese. That said, Kingston compares favourably to London and England on this and against a range of health and lifestyle indicators, including life expectancy.

Kingston ranks as the second least deprived local authority in London and is 143rd out of 152 authorities in England. Nonetheless, there are pockets of relative deprivation. The Index of Multiple Deprivation ranks every small area in England from 1 (most deprived area) to 32,844 (least deprived area). Three of Kingston's 98 small areas - within the Norbiton, Berrylands and Beverly wards - fall within the top 30% for deprivation in the country.

Kingston is one of the safest boroughs in London, with crime rates - including antisocial behaviour, violence and sexual offences - significantly lower than the London average. For more information about the borough visit data.kingston.gov.uk

**Political Structure**

The Council consists of 48 Councillors, who are elected for four year terms. The Council is split into 16 wards each represented by 3 councillors.

The last elections were in May 2018 and the political composition of the Council is currently:

- Liberal Democrats 38
- Conservative 9
- Green 1

The Council has a Committee system, involving all members of the Council in decision making. The Council sets the policy and budgetary framework and decisions are made by the strategic, neighbourhood and regulatory committees.

**Organisational overview and operational model**

Supporting the work of the elected members is the Council's Strategic Leadership Team (SLT) consisting of a team of 5 Directors (Children's Services, Adult Social Care, Communities, Growth, and Corporate and Commercial) and the Chief Executive.

Within this structure Children's services are delivered by Achieving for Children (AfC) which is a community interest company established in 2014. It is jointly-owned by three councils (Kingston, Richmond and Windsor and Maidenhead) to deliver social and educational services for children across the boroughs.

A review of the management tiers below SLT has been implemented in 2018/19 with a number of appointments made to new Assistant Director and Corporate Head of Service roles. The process of redesigning the roles and structures of each team reporting to those leadership positions is now well underway.

**Annual Governance Statement (AGS)**

The purpose of Kingston's AGS is to provide assurance regarding the Council's governance arrangements. The format and wording of the AGS are based upon official guidance. In respect of the previous financial year, it lists the key elements of the Council's governance framework – those systems and processes which must be effective if there is to be a high standard of governance across the Council. It summarises how assurance is obtained on these systems and processes, and lists the key areas where improvement is needed. Progress on any improvements is monitored during the following year.

The Annual Governance Statement is published alongside the statement of accounts and this narrative report.

**Financial Outlook**

Financially Kingston faces a number of challenges in the medium to longer term, including:

- There continues to be pressure on the Dedicated Schools Grant with a growing cumulative deficit on DSG of arising from funding for pupils with Special Educational Needs and Disabilities
- Reliance on Council Tax and Business Rates as Central Government's revenue support grant has now ceased for Kingston
- The proportion of the Council's budget funded from Council Tax is much higher than the London average
- Managing risk by maintaining an appropriate level of reserves, addressing Kingston's historically low level
- Potential volatility of income streams under the business rates retention finance system due to linkages with local economic performance
- Demographic growth and an increasingly ageing population will continue to put pressure on the Council's budget
- The financial impact of Brexit is as yet uncertain. It could be positive or negative, but could affect interest and inflation rates, labour costs and property and rental values.
- The medium term financial strategy reveals a budget gap of £22m to 2022/23 which will need to be closed by budget reductions and/or increases in resources through local taxation

In 2018/19, Kingston joined the London Business Rates pooling pilot. This London wide pilot scheme includes all 32 London Boroughs as well as the City of London and the Greater London Authority (GLA). Through this pilot, London is able to keep a greater share of the business rates it collects and benefit from 100% of any growth across the capital. A 'no detriment guarantee' ensures that no individual Borough will be worse off than they would have been under the existing system.

Participating in the Business Rates pooling pilot has enabled Kingston to benefit from additional business rates income of £1.485m above the level set in the budget for 2018/19.

**Risk**

Councillors considered a financial risk analysis of the Council's proposed budget for 2019/20 when setting the Budget at Full Council in February 2019.

The Council holds a general fund balance to help mitigate against strategic financial risks such as interest rates, inflation and demographic spending pressures. Given the likelihood of all the risks materialising in full being low, the General Fund balance was considered to be sufficient, and also taking into consideration that the Budget for 2019/20 includes a further contribution (£3.5m) to the general fund balance.

The budget for 2019/20 does not depend upon the drawdown of reserves, has provided for growth and pressures arising and the aforementioned contribution to the general fund balance to help mitigate strategic financial risks.

**Financial performance 2018/19**

From 2018/19 Kingston has had to become self sufficient in terms of funding as government grant has disappeared. This is the third year of the '4 Year Settlement Offer' which provides some certainty over our resource position, though the reliance on Business Rates means the Council is dependent, to a degree, on the performance of the local economy.

Within the Council, consistent with the national picture, there has continued to be a high level of demand for Adult Social Care. High levels of demand in Children's Services has also continued to be a significant issue centred on social care, children leaving care, Asylum Seeking children and SEN Transport. However, the most important financial pressure in recent years has been the emergence of a structural overspend in the activities covered by the Dedicated Schools Grant.

Taking all these risks and pressures into account, the Council set a balanced budget to deliver savings of £22m in 2018/19. This was always known to be challenging, and risks in achieving it required greater provision to be made for contingencies, including a planned contribution to the General Fund Balance in order to increase the Council's low level of reserves.

The General Fund revenue outturn position for 2018/19 is an overspend of £0.459m against a budget of £130.498m (a 0.35% overspend). The main contributors to the outturn position are:

- Additional income from the Business Rates retention pooling pilot of £1.485m

- A shortfall of income in relation to new investment in commercial property which has not yet proceeded. The associated growth in capital financing is also therefore not currently required which reduces the impact of this loss of income (net impact £1.5m)

- Delays in delivering expected savings from Commissioning and Contract management (£1.75m) although these have been offset by one off savings from contracts in-year.

- Ongoing pressures in relation to Unaccompanied Asylum Seeking Children (UASC) and Special Educational Needs (SEN) Transport within the Achieving for Children budget (total AfC overspend £1.675m).

The table below shows a summary of the outturn position at Directorate level:

| General Fund Revenue Outturn | Latest Budget 2018/19 | Outturn 2018/19 | Outturn Variance 2018/19 |
|---|---|---|---|
| | £'000 | £'000 | £'000 |
| Adults | 54,283 | 53,501 | (782) |
| Corporate and Commercial | 28,028 | 25,758 | (2,270) |
| Growth | (4,149) | (1,002) | 3,147 |
| Children's Services | 33,185 | 35,026 | 1,841 |
| Communities | 17,561 | 17,770 | 209 |
| Chief Executives | 1,590 | 1,570 | (20) |
| **Total Expenditure** | **130,498** | **132,623** | **2,125** |
| **Resources** | **(130,498)** | **(132,164)** | **(1,666)** |
| **Total Net Revenue** | **-** | **459** | **459** |

**Housing Revenue Account (HRA)**

The Housing Revenue Account (HRA) has an underspend of £1.300m for 2018/19 which will be transferred to the HRA balance to mitigate risks in future years. The outturn position mainly arises from the following areas:

- £332k of understated enhanced housing management income due to a systems error
- £507k additional revenue income from higher than budgeted major works income expected from leaseholders
- £332k underspend on bad debt provision following delayed full rollout of Universal Credit
- increase in depreciation charges (£425K) following a revaluation of properties and components from the new stock valuers.

**Schools Budget**

The final outturn position on the Dedicated Schools Grant (DSG) was an overspend of £0.381m. This position is after allowing for the one off £4m income that will not be available in 2019/20, which is made up of a £3m advance from the Department of Education and a £1m in-year movement from the Schools Block as agreed by Schools Forum during 2018/19 budget setting.

The main pressure continues to be in both pre and post 16 Special Educational Needs with the number of Education, Health and Care Plans (EHCP's) increasing by 144 in-year.

**Capital Programme**

The total adjusted capital budget for 2018/19 was £54.821m made up of Housing Revenue Account (HRA) Capital budget of £15.070m (27.5%) and General Fund (GF) £39.751m (72.5%).

The outturn position revealed a total capital spend of £41.262m made up of HRA spend of £14.524m and GF £26.738m. This resulted in a total underspend of £13.559m (24.7%) which can be broken down into HRA underspend of £0.546m and GF underspend of £13.013m.

The table below shows the revised capital budget, outturn position and slippage for each capital programme.

| Capital Programme | Revised Budget | Outturn | Outturn vs Budget Variance | Spend | Slippage |
|---|---|---|---|---|---|
| | **£000s** | **£000s** | **£000s** | **%** | **£000s** |
| Schools Building Programme | 4,753 | 3,436 | -1,317 | 72.3% | -2,514 |
| General Fund Property Programme | 8,723 | 5,123 | -3,600 | 58.7% | -3,937 |
| Housing General Fund Programme | 8,778 | 3,989 | -4,789 | 45.4% | -4,245 |
| ICT Programme | 3,088 | 1,585 | -1,503 | 51.3% | -1,273 |
| Regeneration Programme | 8,954 | 8,348 | -606 | 93.2% | -1,152 |
| Environment Programme | 979 | 993 | 14 | 101.4% | -52 |
| Highways | 4,476 | 3,264 | -1,212 | 72.9% | -185 |
| **General Fund Total** | **39,751** | **26,737** | **-13,013** | **67.3%** | **-13,358** |
| HRA | 15,070 | 14,524 | -546 | 96.4% | -1,834 |
| **CAPITAL TOTAL** | **54,821** | **41,261** | **-13,559** | **75.3%** | **-15,192** |

The programme has been funded from a variety of sources as shown in the table below.

| Capital Programme Funding | Borrowing | Capital Receipts | Government Grants | External Contributions | Direct Revenue Financing & Reserves | Total Financing |
|---|---|---|---|---|---|---|
| | £000s | £000s | £000s | £000s | £000s | £000s |
| Schools Building | - | - | 2,228 | 1,208 | - | 3,436 |
| General Fund Property | 4,959 | 1 | 144 | 19 | - | 5,123 |
| Housing General Fund | 2,743 | - | 1,233 | 14 | - | 3,990 |
| ICT | - | 1,525 | - | 37 | 22 | 1,584 |
| Regeneration | 184 | 182 | 7,963 | - | 19 | 8,348 |
| Environment | 263 | 421 | - | 309 | - | 993 |
| Highways | 1,940 | - | 1,323 | - | - | 3,263 |
| **Total General Fund** | **10,089** | **2,129** | **12,891** | **1,587** | **41** | **26,737** |
| Housing Revenue Account | - | 2,869 | - | 3,349 | 8,306 | 14,524 |
| **Grand Total** | **10,089** | **4,998** | **12,891** | **4,936** | **8,347** | **41,261** |

**Corporate Plan**

During 2018/19 a new corporate plan for 2019-23 was developed under the heading ‘Making Kingston Better, Together’ with four key outcomes:

- A well maintained borough with a sustainable approach to growth and development which benefits our communities
- A safe borough with diverse and vibrant communities which help to shape local priorities through participatory democracy
- Healthy, independent and resilient residents with effective support to those who need it most
- A financially and environmentally sustainable, engaging and collaborative council that works transparently in the best interests of Kingston’s residents and businesses

Full details of the corporate plan can be found on the Council’s website, www.kingston.gov.uk.

**Peer Review**

To support the council’s transformation and improvement - and to learn from best practice - the council asked the Local Government Association (LGA) to conduct a Corporate Peer Review of the organisation and this took place in January 2019.

LGA Peer Reviews are not a formal inspection. Such reviews are designed to complement and add value to a council’s own performance and improvement. The Peer Review team used their experience and knowledge of local government to reflect on the information presented to them by the people they met, things they saw and material that they read. They provided feedback as critical friends not as inspectors or assessors.

Overwhelmingly, the Review Team were struck by the potential and opportunity that exists for the council, both as an organisation and as a leader of place; ‘The council has much to call upon to drive things forward, including a committed and talented workforce, a passionate elected membership and the goodwill of partners. The prospect of harnessing all of this and uniting it behind fulfilling the potential and the opportunity means that these are very exciting times for Kingston’.

A summary of the key recommendations for improvement is that the Royal Borough of Kingston should:

- Capitalise upon the opportunity as an organisation and a leader of place, involving establishing a clear vision and sense of purpose.
- Seize the place leadership through building relationships with partners.
- Establish a single, shared understanding about the scale of the financial challenges being faced and mechanisms that provide real grip and rigour around the delivery of savings and budget spend.
- Bring about greatly improved communication across the council.
- Establish greater collective leadership of corporate and strategic issues.
- Determine what community engagement means in Kingston and the approaches to be adopted.
- Continue the review of the council’s Constitution and governance arrangements.
- Conclude the organisational restructure in as timely a fashion as possible.
- Prioritise/sequence the corporate system and process changes that the council recognises are needed and then inject pace and rigour at each stage.

A detailed action plan to address these recommendations has been prepared and was considered by Council in April 2019.

**The Statement of Accounts 2018/19**

The Statement of Accounts (SoA) provides a picture of the Council’s health as at the 31 March 2019, bringing together the financial performance of the Council for 2018/19 through the Comprehensive Income and Expenditure Statement (CIES) as well as highlighting the cumulative position of the assets, liabilities and reserves the Council holds on its Balance Sheet.

**Explanation of Accounting Statements**

The statement of accounts sets out the Council’s income and expenditure for the year and its financial position as at the 31 March 2019. It comprises core and supplementary statements as well as disclosure notes that provide additional information and explanation to the reader. Both the format and content of the financial statements are prescribed by CIPFA’s Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 which in turn is underpinned by International Financial Reporting Standards.

The core statements are listed below and are explained on the relevant page:

- Comprehensive Income and Expenditure Statement
- Movement in Reserves Statement
- Balance Sheet
- Cash Flow Statement

The accounts also include:
- Notes to the Accounts
- Collection Fund Account
- Housing Revenue Account
- Pension Fund Accounts
- Group Accounts

**Sarah Ireland, CPFA**
Director of Corporate and Commercial
6 September 2019

# 2. Statement of Responsibilities

**This sets out the different responsibilities of the Council and the Director, Corporate and Commercial (S151 Officer) in terms of financial administration and accounting.**

THE ROYAL BOROUGH OF KINGSTON UPON THAMES

# Statement of Responsibilities for the Statement of Accounts

## The Responsibility of the Council

The Council is required to manage its affairs in a way that secures the economic, efficient and effective use of resources and safeguards its assets.

The Council also has to make arrangements for the proper administration of its financial affairs and to ensure that one of its officers has responsibility for the administration of those affairs under S151 of the Local Government Act 1972. In this Council that officer is the Director, Corporate and Commercial

## The Responsibilities of the Chief Finance Officer

The Director, Corporate and Commercial is responsible for the preparation of the Council's Statement of Accounts, which in terms of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in Great Britain ("the Code"), is required to present a true and fair view of the financial position of the Council at the accounting date and its income and expenditure for the year ended 31 March 2019. The Director, Corporate and Commercial is also responsible for preparing the Pension Fund accounts administered by the Council in accordance with the current Code of Practice.

In preparing this Statement of Accounts the Director, Corporate and Commercial has:

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that were reasonable and prudent, and;
- complied with the code.

The Director, Corporate and Commercial has also:

- kept proper, up to date, accounting records, and;
- taken reasonable steps for the prevention and detection of fraud and other irregularities across the Council's service

My signature below certifies that the accounts were prepared in accordance with the requirements of the Accounts and Audit Regulations 2015 and, except where specifically stated, in accordance with all recognised statutory requirements and codes of practice applicable to local authorities. I certify that the Statement of Accounts presents a true and fair view of the financial position of the Council at 31 March 2019 and its income and expenditure for the year.

*Sarah Ireland*

**Sarah Ireland, CPFA**
**Director, Corporate and Commercial (S151 Officer)**
**6 September 2019**

## Approval of the Statement of Accounts

I certify that the Statement of Accounts was approved by the Audit, Governance and Standards Committee on 6 September 2019.

*Yogan Yoganathan*

**Councillor Yogan Yoganathan**
**Chair, Audit, Governance and Standards Committee**

# 3. Auditor's Reports

# Auditor’s Report on the Financial Statements

## INDEPENDENT AUDITOR’S REPORT TO THE MEMBERS OF THE ROYAL BOROUGH OF KINGSTON

### Report on the Audit of the Financial Statements

#### Opinion

We have audited the financial statements of the Royal Borough of Kingston upon Thames (the ‘Authority’) and its subsidiary (the ‘group’) for the year ended 31 March 2019 which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Statement of Movement on the Housing Revenue Account Balance, the Collection Fund Income and Expenditure Statement, the Group Comprehensive Income and Expenditure Statement, the Group Movement in Reserves Statement, the Group Balance Sheet and the Group Cash Flow Statement and the notes to the financial statements, including the accounting policies. The notes to the financial statements include the Expenditure and Funding Analysis, Notes to the Core Statements, Critical Judgements in Applying Accounting Policies, Notes to the Housing Revenue Account, Notes to the Collection Fund and Notes to the Group Accounts. 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 2018/19.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the group and of the Authority as at 31 March 2019 and of the group’s expenditure and income and the Authority’s expenditure and income for the year then ended;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19; 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. 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 group and 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.

#### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Director, Corporate and Commercial’s use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Director, Corporate and Commercial has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group’s or the Authority’s ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

#### Other information

The Director, Corporate and Commercial is responsible for the other information. The other information comprises the information included in the Statement of Accounts, the Narrative Report and the Annual Governance Statement other than the Authority and group financial statements and, 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 of the group and Authority 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 this 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 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 the 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE or is misleading or inconsistent with the 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 matter 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 gained through our work in relation to the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources, the other information published together with the financial statements in the Statement of Accounts, the Narrative Report and the Annual Governance Statement 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 Director, Corporate and Commercial 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 Director, Corporate and Commercial. The Director, Corporate and Commercial 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 2018/19, for being satisfied that they give a true and fair view, and for such internal control as the Director, Corporate and Commercial 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 Director, Corporate and Commercial is responsible for assessing the group's and 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, Governance and Standards Committee are 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. This description forms part of our auditor's report.

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

## Conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, we are satisfied that the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

## 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 have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether in all significant respects the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to be satisfied that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

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

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 2019. 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 cannot formally conclude the audit and issue an audit certificate for the Authority for the year ended 31 March 2019 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed our consideration of objections brought to our attention by local authority electors under Section 27 of the Local Audit and Accountability Act 2014. We are satisfied that these matters do not have a material effect on the financial statements or on our conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

## 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.

***Iain Murray***

Iain Murray, Key Audit Partner
for and on behalf of Grant Thornton UK LLP,
Local Auditor
London

6 September 2019

# Auditor’s Report on the Pension Fund Financial Statements

## Independent auditor’s report to the members of the Royal Borough of Kingston upon Thames on the pension fund financial statements of Royal Borough of Kingston upon Thames

### Opinion

We have audited the financial statements of the Royal Borough of Kingston upon Thames Pension Fund (the ‘pension fund’) administered by the Royal Borough of Kingston upon Thames (the ‘Authority’) for the year ended 31 March 2019 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 2018/19.

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 2019 and of the amount and disposition at that date of the fund’s assets and liabilities;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19; 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. 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 have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Director, Corporate and Commercial’s use of the going concern basis of accounting in the preparation of the pension fund’s financial statements is not appropriate; or
- the Director, Corporate and Commercial has not disclosed in the pension fund’s financial statements any identified material uncertainties that may cast significant doubt about the Authority’s ability to continue to adopt the going concern basis of accounting for the pension fund for a period of at least twelve months from the date when the pension fund’s financial statements are authorised for issue.

### Other information

The Director, Corporate and Commercial is responsible for the other information. The other information comprises the information included in the Statement of Accounts, the Narrative Report and the Annual Governance Statement, 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's 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 this 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 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, the Narrative Report and the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the pension fund's 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 Director, Corporate and Commercial 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 Director, Corporate and Commercial. The Director, Corporate and Commercial 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 2018/19, for being satisfied that they give a true and fair view, and for such internal control as the Director, Corporate and Commercial 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 Director, Corporate and Commercial 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, Governance and Standards 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 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. This description forms part of our auditor's report.

## 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.

***Iain Murray***

Iain Murray, Key Audit Partner

for and on behalf of Grant Thornton UK LLP, Local Auditor

London

6 September 2019

# 4. Core Financial Statements

# Comprehensive Income and Expenditure Statement

The Statement shows 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. Councils raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting costs. The taxation position is shown in the Movement in Reserves Statement.

2017/18 figures have been restated to reflect new organisational structure and the termination of the corporate recharge process.

| Gross Expenditure 2017/18 | Gross Income 2017/18 | Net Expenditure 2017/18 | | Notes | Gross Expenditure 2018/19 | Gross Income 2018/19 | Net Expenditure 2018/19 |
|---|---|---|---|---|---|---|---|
| £'000 | £'000 | £'000 | | | £'000 | £'000 | £'000 |
| 75,685 | (23,175) | 52,510 | Adult Social Care | | 81,601 | (24,454) | 57,147 |
| 1,560 | (35) | 1,525 | Chief Executive's | | 1,826 | (129) | 1,697 |
| 54,263 | (34,145) | 20,117 | Communities | | 54,626 | (34,627) | 19,999 |
| 128,330 | (106,335) | 21,994 | Corporate and Commercial | | 118,861 | (101,860) | 17,001 |
| 9,690 | (5,027) | 4,663 | Growth | | 11,756 | (4,520) | 7,236 |
| 69,919 | (25,969) | 43,951 | Children's Services | | 47,409 | (27,134) | 20,275 |
| 62,978 | (57,479) | 5,498 | Children's Services (schools) | | 65,301 | (62,075) | 3,226 |
| 14,622 | (32,286) | (17,664) | Housing Revenue Account | | 24,760 | (35,435) | (10,674) |
| **417,046** | **(284,451)** | **132,594** | **Cost of Services** | | **406,141** | **(290,234)** | **115,907** |

# Comprehensive Income and Expenditure Statement (continued)

| Gross Expenditure 2017/18 | Gross Income 2017/18 | Net Expenditure 2017/18 | | Notes | Gross Expenditure 2018/19 | Gross Income 2018/19 | Net Expenditure 2018/19 |
|---|---|---|---|---|---|---|---|
| **£000** | **£000** | **£000** | | | **£000** | **£000** | **£000** |
| (6,379) | 389 | (5,990) | Other operating expenditure | 6 | 2,850 | - | 2,850 |
| 17,762 | (7,247) | 10,515 | Financing and investment income and expenditure | 7 | 30,766 | (9,240) | 21,526 |
| - | (140,671) | (140,671) | Taxation and non-specific grant income | 8 | - | (144,780) | (144,780) |
| 428,429 | (431,980) | **(3,551)** | **(Surplus) or deficit on the provision of services** | | 439,757 | (444,254) | **(4,498)** |
| | | | **Items that will not be reclassified to the (Surplus) or Deficit on the Provision of Services** | | | | |
| - | - | (435) | Surplus or deficit on revaluation of non-current assets | 12a | | | (33,921) |
| - | - | (15,654) | Actuarial gains or losses on pension assets and liabilities | 12c | | | 12,434 |
| | | (16,089) | | | | | (21,486) |
| | | | **Items that may be reclassified to the (Surplus) or Deficit on the Provision of Services** | | | | |
| - | - | 176 | Surplus or deficit on revaluation of available-for-sale financial assets | | | | |
| | | **(15,913)** | **Other comprehensive income and expenditure** | | | | **(21,486)** |
| | | **(19,465)** | **Total comprehensive income and expenditure (surplus)/deficit** | | | | **25,983** |

# Movement in Reserves Statement

The Movement in Reserves Statement shows the movement from the start of the year to the end on the different reserves held by the Council, analysed into ‘usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other 'unusable reserves'. The Statement shows how the movements in year 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 the amounts chargeable to council tax (or rents) for the year. The Net Increase/Decrease line shows the statutory General Fund Balance and Housing Revenue Accounts Balance movements in the year following those adjustments.

| | Memorandum | | Usable Reserves | | | | | | Non-usable Reserves | Total Authority Reserves |
|---|---|---|---|---|---|---|---|---|---|---|
| **2018/19** | General Fund Balance | Earmarked General Fund Reserves | Total General Fund Balance & Earmarked Reserves | Housing Revenue Account (HRA) | Capital Grants & Contributions Unapplied | Major Repairs Reserve | Capital Receipts Reserve | Total Usable Reserves | | |
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| **Balance at 31 March 2018** | (11,619) | (17,454) | (29,074) | (6,184) | (4,831) | - | (17,878) | **(57,966)** | **(378,249)** | **(436,215)** |
| Movement during 2018/19: | | | | | | | | | | |
| Total Comprehensive Expenditure and Income | 4,397 | - | 4,397 | (8,895) | - | - | - | **(4,498)** | **(21,487)** | **(25,983)** |
| Adjustments between accounting basis and funding basis under regulations (Note 10) | (3,793) | - | (3,793) | 7,244 | (8,820) | (1,026) | 1,323 | **(5,071)** | **5,071** | **-** |
| **Net Increase/(Decrease) before transfers to Earmarked Reserves** | **604** | **-** | **604** | **(1,650)** | **(8,820)** | **(1,026)** | **1,323** | **(9,569)** | **(16,415)** | **(25,983)** |
| Transfers to / (from) Earmarked Reserves | (1,617) | 1,267 | (350) | 350 | - | - | - | **-** | **-** | **-** |
| **Increase / (Decrease) in Year** | **(1,013)** | **1,267** | **254** | **(1,300)** | **(8,820)** | **(1,026)** | **1,323** | **(9,569)** | **(16,415)** | **(25,983)** |
| **Balance at 31 March 2019** | **(12,632)** | **(16,187)** | **(28,820)** | **(7,484)** | **(13,651)** | **(1,026)** | **(16,554)** | **(67,535)** | **(394,665)** | **(462,198)** |

# Movement in Reserves Statement (continued)

| 2017/18 Comparative | Memorandum General Fund Balance | Memorandum Earmarked General Fund Reserves | Usable Reserves Total General Fund Balance & Earmarked Reserves | Housing Revenue Account (HRA) | Capital Grants & Contributions Unapplied | Major Repairs Reserve | Capital Receipts Reserve | Total Usable Reserves | Non-usable Reserves | Total Authority Reserves |
|---|---|---|---|---|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| **Balance at 31 March 2017** | (8,018) | (25,862) | (33,880) | (5,417) | (4,909) | - | (10,410) | **(54,617)** | **(362,133)** | **(416,750)** |
| Movement during 2017/18: | | | | | | | | | | |
| Total Comprehensive Expenditure and Income | 12,429 | - | 12,429 | (15,980) | - | - | - | **(3,551)** | **(15,913)** | **(19,465)** |
| Adjustments between accounting basis and funding basis under regulations (Note 10) | (7,623) | - | (7,623) | 15,213 | 78 | - | (7,467) | **201** | **(201)** | **-** |
| **Net Increase/(Decrease) before transfers to Earmarked Reserves** | **4,807** | **-** | **4,806** | **(767)** | **78** | **-** | **(7,467)** | **(3,350)** | **(16,115)** | **(19,465)** |
| Transfers to / (from) Earmarked Reserves | (8,408) | 8,408 | - | - | - | - | - | **-** | **-** | **-** |
| **Increase / (Decrease) in Year** | **(3,601)** | **8,408** | **4,806** | **(767)** | **78** | **-** | **(7,467)** | **(3,350)** | **(16,115)** | **(19,465)** |
| **Balance at 31 March 2018** | **(11,619)** | **(17,454)** | **(29,074)** | **(6,184)** | **(4,831)** | **-** | **(17,878)** | **(57,966)** | **(378,249)** | **(436,215)** |

# Balance Sheet

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Council. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council. 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 which may only be used to fund capital expenditure or repay debt). The second category of reserves are 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 Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'

| 31 March 2018 | | Notes | 31 March 2019 |
|---:|---|---:|---:|
| **£'000** | | | **£'000** |
| | **Long Term Assets** | | |
| 828,104 | Property, plant and equipment | 13a | 879,849 |
| 1,209 | Heritage assets | 13b | 1,209 |
| 84,530 | Investment property | 14 | 85,080 |
| 5,139 | Intangible assets | 13c | 4,960 |
| 5,229 | Long term investments | 17 | 5,207 |
| 7,570 | Long term debtors | 17 | 7,421 |
| **931,781** | **Total Long Term Assets** | | **983,726** |
| | **Current assets** | | |
| 5,908 | Asset held for sale | 15 | 337 |
| 9,803 | Short term investments | 17 | 30,609 |
| 46 | Inventories | | 41 |
| 43,081 | Short term debtors | 18 | 46,517 |
| 21,164 | Cash and cash equivalents | 20 | 4,651 |
| **80,001** | **Total Current Assets** | | **82,155** |

# Balance Sheet (Continued)

| 31 March 2018 | | Notes | 31 March 2019 |
|---|---|---|---|
| **£'000** | | | **£'000** |
| | **Current Liabilities** | | |
| (5,774) | Short term borrowing | 17 | (2,274) |
| (54,530) | Short term creditors | 19 | (55,425) |
| (2,633) | Provisions | 21 | (2,773) |
| (3,537) | Grants receipts in advance | | (815) |
| **(66,474)** | **Total Current Liabilities** | | **(61,287)** |
| | **Long Term Liabilities** | | |
| (6) | Long term creditors | | (3,000) |
| (289,308) | Long term borrowing | 17 | (294,038) |
| (218,500) | Other long term liabilities | 31 | (244,155) |
| (1,279) | Provisions | 21 | (1,203) |
| **(509,093)** | **Total Long Term Liabilities** | | **(542,396)** |
| **436,215** | **Net Assets** | | **462,198** |
| | | | |
| | **Reserves** | | |
| (57,966) | Usable reserves | | (67,535) |
| (378,249) | Unusable reserves | 12 | (394,664) |
| **(436,215)** | **Total Reserves** | | **(462,198)** |

# Cash Flow Statement

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

| 2017/18 | | | 2018/19 |
|---|---|---|---|
| £000 | | Notes | £000 |
| (3,551) | Net (surplus) or deficit on the provision of services | | (4,498) |
| (44,418) | Adjustment to the net surplus or deficit on the provision of services for non-cash movements | | (7,155) |
| 27,739 | Adjustment for items in the net surplus or deficit on the provision of services that are investing or financing activities | | 17,494 |
| (20,230) | Net cash flows from operating activities | 22 | 5,841 |
| | | | |
| 5,034 | **Net cash flows from investing activities** | 23 | 4,898 |
| 6,008 | **Net cash flows from financing activities** | 24 | 5,774 |
| | | | |
| **(9,188)** | **Net increase/(decrease) in cash and cash equivalents** | | **16,513** |
| | | | |
| | **Represented by:** | | |
| 11,976 | Cash and cash equivalents at the beginning of the reporting period | 20 | 21,164 |
| 9,188 | Net increase/(decrease) in cash and cash equivalents | 20 | (16,513) |
| **21,164** | **Cash and cash equivalents at the end of the reporting period** | | **4,651** |

# 5. Notes to the Core Financial Statements

THE ROYAL BOROUGH OF KINGSTON UPON THAMES

# Note 1 Accounting Policies

## a. General Principles

The Statement of Accounts summarises the Council's transactions for the 2018/19 financial year and its position at the year end of 31 March 2019. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015 which those regulations require to be prepared in accordance with proper accounting practices.

These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, 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.

## b. Accruals of Income and Expenditure

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

***Income***

- Revenue from the sale of goods and disposal of assets is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser.
- Revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.

***Expenditure***

- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption they are carried as inventories on the Balance Sheet. Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.

Notwithstanding this accrual principle, some items are recorded as received/paid on the basis that there is no material distortion of the 'true and fair view' concept. These items include weekly housing rents recorded as due on Mondays (52 weeks in most years). Benefits (rent rebates and rent allowances) recorded in accordance with weekly entitlement (also Mondays) and Parking income received through Penalty Charge Notices (PCN). Although a departure from the Code, it is more practical and does not cause any misunderstanding of the accounts.

***Debtors/Creditors***

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

## c. Accounting for Council Tax and Non-domestic Rates

Billing authorities act as agents, collecting Council Tax (CT) and Non-domestic Rates (NDR) on behalf of the major preceptors (including Government for NDR) and, as principals, collecting CT and NDR for themselves. Billing councils are required by statute to maintain a separate fund i.e. the Collection Fund (CF) for the collection and distribution of amounts due in respect of CT and NDR. Under the legislative framework for the CF, billing authorities, major preceptors and central government share proportionately the risks and rewards the amount of CT and NDR collected could be less or more than predicted.

The CT and NDR income included in the Comprehensive Income and Expenditure Statement (CIES) is the Council's share of accrued income for the year. However regulations determine the amount of CT and NDR that must be included in the Council's General Fund. Therefore the difference between the income included in the CIES and the amount required by regulation to be credited to the General Fund is taken to the Collection Fund Adjustment Account and included as a reconciliation item in the Movement in Reserves Statement (MiRS).

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

Where debtor balances for the above are identified as impaired because of the 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.

## d. Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value. This includes Call Accounts, Money Market Funds and Instant Access Accounts that are held to meet short-term cash flow requirements. It does not include fixed term deposits as they are not readily convertible to cash and, in certain market conditions, there could be a risk of change in value. In the Cash Flow statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the council's cash management.

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

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

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

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effects of transactions, other events and conditions on the Council's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied. There were no prior period adjustments this financial year.

## f. Charges to Revenue for Non Current Assets and Minimum Revenue Provision

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

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

The Council is not required to raise CT 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 (Minimum Revenue Provision (MRP)), by way of an adjusting transaction with the Capital Adjustment Account in the MiRS for the difference between the two.

## g. Employee Benefits

***Benefits Payable during Employment***
Short-term employee benefits such as wages and salaries, paid annual leave, sick leave and expenses are paid on a monthly basis and charged on an accruals basis to the relevant service line in the CIES.

***Termination Benefits***

Where the Council is committed to the termination of the employment of an officer or group of officers or to making an offer of voluntary redundancy, these costs are charged on an accruals basis to the respective service line in the CIES.

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 Authority are members of three separate pension schemes:

- The Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education (DfE),
- The National Health Service Pension Scheme administered by NHS Pensions, and
- The Local Government Pensions Scheme, administered by Kingston Council.

All schemes provide defined benefits to members (retirement lump sums and pensions), earned as employees working for the Council or for related parties.

However, the arrangements for the teachers' and NHS schemes mean that liabilities for these benefits cannot ordinarily be identified specifically to the Council. The schemes are therefore accounted for as if they were defined contribution schemes and no liability for future payments of benefits is recognised in the Balance Sheet.

***The Local Government Pension Scheme***

The Local Government Scheme is accounted for as a defined benefits scheme:

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

- Liabilities are discounted to their value at current prices, using a discount rate which has been based on the market yield on high quality corporate bonds and gilts.

- The assets of the Pension Fund attributable to the Authority are included in the Balance Sheet at their Fair Value:
  - quoted securities – current bid price
  - unquoted securities – professional estimate
  - unitised securities – current bid price
  - property – market value.

- The change in the net pensions' liability is analysed into the following components:
  - current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the CIES to the services for which the employees worked
  - past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the CIES.
  - net interest on the net defined benefit liability (asset), which represents the net interest expense for the authority that arises from the passage of time, charged to the Financing and Investment Income and Expenditure line of the CIES. This is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period – taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments
  - re-measurement of the return on plan assets – excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.
  - 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 – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure
  - contributions paid to the pension fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

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

**Discretionary Benefits**

The Authority also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements.

Any liabilities estimated to arise as a result of an award to any member of staff (including teachers) are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

## h. Events after the Balance Sheet Date

Events after the Balance Sheet date are those events 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:

- 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;
- 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.

## i. Financial Instruments

### Financial Liabilities

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

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

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 authority 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 General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

### Financial Assets

Financial assets are classified based on a classification and measurement approach that reflects the business model for holding the financial assets and their cashflow characteristics. There are three main classes of financial assets measured at:

- amortised cost
- fair value through profit or loss (FVPL), and
- fair value through other comprehensive income (FVOCI)

The categorisation of individual financial assets will depend on whether the financial instrument is 'solely principal and interest' (SPPI) or on the business model being used to hold that asset. The 'solely principal and interest' refers to the cashflows of the instrument and will be the first test to apply. This will cover most short-term lending and other deposits with financial institutions, as well as most loans to third parties. These assets will be held at amortised cost. Where the business model is to support a commercial activity with the objective of generating returns to support Council services then the financial instrument will be deemed to be held at fair value through profit or loss. If the business model to hold a particular financial instrument is to provide a Council service or support a Council policy then it will be classified at fair value through other comprehensive income.

### Financial Assets Measured at Amortised Cost

Financial assets measured at amortised cost are recognised on the Balance Sheet when the authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the CIES for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the financial assets held by the authority, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the CIES is the amount receivable for the year in the loan agreement.

Where the Council makes loans to voluntary organisations at less than market rates (soft loans), a loss is recorded in the CIES (debited to the appropriate service) for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal.

Interest is credited to the Financing and Investment Income and Expenditure line in the CIES at a marginally higher effective rate of interest than the rate receivable from the voluntary organisations, with the difference serving to increase the amortised cost of the loan in the Balance Sheet. Statutory provisions require that the impact of soft loans on the General Fund Balance is the interest receivable for the financial year – the reconciliation of amounts debited and credited to the CIES to the net gain required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

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

Expected Credit Loss Model

The authority recognises expected credit losses on all of its financial assets held at amortised cost [or where relevant FVOCI], either on a 12-month or lifetime basis. The expected credit loss model also applies to lease receivables and contract assets. Only lifetime losses are recognised for trade receivables (debtors) held by the authority.

Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. Credit risk plays a crucial part in assessing losses. Where risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of 12-month expected losses.

**Financial Assets Measured at Fair Value through Profit or Loss**

Financial assets that are measured at FVPL are recognised on the Balance Sheet when the authority becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Fair value gains and losses are recognised as they arise in the Surplus or Deficit on the Provision of Services.

The fair value measurements of financial assets are based on the following techniques:

- instruments with quoted market prices – the market price
- other instruments with fixed and determinable payments – discounted cash flow analysis.

The inputs to the measurement techniques are categorised in accordance with the following three levels:

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

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

**Financial Assets Measured at Fair Value through Other Comprehensive Income**

The Council has the option to designate investments in equity instruments to FVOCI. This will be appropriate where the investment is made to meet service objectives of the Council and where the primary purpose is not to generate a financial return.

## j. Government Grants and Contributions

Government grants and third party contributions are recognised when there is reasonable assurance that:

- the Council will comply with the conditions attached to the payments, and that
- 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 specify how and when the grants will be used.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors because until conditions are met the Council may be required to return the grant. When conditions are satisfied the grant or contribution is credited to the relevant service line in the CIES.

Where capital grants are credited to the CIES, they are reversed out of the General fund Balance in the MiRS. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied Reserve . Where it has been applied, it is posted to the Capital Adjustment Account.

Amounts in Capital Grants Unapplied reserves are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

## k. Intangible Assets

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

Internally generated assets are capitalised where it is demonstrable that the project is technically feasible and is intended to be completed (with adequate resources being available) and the Authority will be able to generate future economic benefits or deliver service potential by being able to sell or use the asset.

Expenditure is capitalised where it can be measured reliably as attributable to the asset and is restricted to that incurred during the development phase (research expenditure cannot be capitalised). Expenditure on the development of websites is not capitalised if the website is solely or primarily intended to promote or advertise the Council's goods or services.

Intangible assets are measured initially at cost. Amounts are only revalued where the Fair Value of the assets held by the Council can be determined by reference to an active market. In practice, no intangible asset held by the Council meets this criterion, and they are therefore carried at amortised cost. 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.

Amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the MiRS and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

## l. Interests in Companies and Other Entities

The Council has interests in companies and other entities that have the nature of subsidiaries, associates and jointly controlled entities. The Council has a joint venture Achieving for Children (AfC) which is a Community Interest Company (CIC) which commenced trading on 1 April 2014, The CIC is jointly owned and controlled by Royal Borough of Kingston (40%), London Borough of Richmond (40%) and The Royal Borough of Windsor and Maidenhead (20%) being a Private Limited Company limited by guarantee without share capital.

The Council has a subsidiary in the form of Kingston Theatre LLP. The interest in the company is not material and it is not incorporated into Group Accounts as its inclusion would not provide further benefit to the accounts. In the Council's own accounts, the interest in Kingston Theatre LLP is recorded as an investment.

## m. Investment Property

Investment properties are those that are used solely to earn rentals and/or for capital appreciation; they are measured initially at cost and subsequently at Fair Value, based on the amount that would be received to sell the asset in an orderly transaction between market participants at the measurement date. Properties are not depreciated but are re-valued 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.

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

## n. Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant and 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.

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

**The Council as Lessee**

**Finance Leases**

Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its Fair Value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for 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 applied 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 – applied to write down the lease liability, and
- A finance charge (debited to the Financing and Investment Income and expenditure line in the CIES).

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

**Operating Leases**

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

**The Council as Lessor**

**Finance Leases**

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

Lease rentals receivable are apportioned between:

- a charge for the acquisition of interest in the property – applied to write down the lease debtor (together with any premiums received) in the balance, and
- finance income (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 general fund balance and is required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund Balance 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 General Fund Balance to the Deferred Capital receipts Reserve in the MiRS. When the future rentals are received, the element for the capital receipt for the disposal of the asset is transferred to the Capital Receipts Reserve.

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

**Operating Leases**

Where the Authority 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.

## o. Property, Plant and Equipment

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

**Recognition**

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

**Measurement**

Assets are initially measured at cost, comprising:

- the purchase price
- 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 an asset 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 authority.

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 and Expenditure 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 Capital Adjustment Account in the MiRS.

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

- Infrastructure, community assets and assets under construction – depreciated historical cost

- Dwellings – current value, determined using the basis of existing use value for social housing (EUV-SH)

- Council offices – current value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV), except for a few offices that are situated close to the council's housing properties, where there is no market for office accommodation, and that are measured at depreciated replacement cost (instant build) as an estimate of current value.

- 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 – the current value measurement base is Fair Value, estimated at highest and best use from a market participant's perspective

- All other assets – current 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 current value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of current value. Where non-property assets that have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for current value.

Assets included in the Balance Sheet at current value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their current 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 Surplus or Deficit on the Provision of Services where they arise from the reversal of a loss previously charged to a service.

Where decreases in value 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.

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

***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, adjusted for depreciation that would have been charged if the loss had not been recognised.

***Depreciation***

Depreciation is provided for on all Property, Plant and Equipment 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). Depreciation is calculated on the following basis:

- Housing Revenue Account dwellings are depreciated based on componentisation of blocks of similar properties (using beacon principles).
- other buildings – straight-line allocation over the useful life of the property as estimated by the Valuer.
- vehicles, plant, furniture and equipment – a percentage of the value of each class of assets in the Balance Sheet, as advised by a suitably qualified officer.
- Infrastructure – straight-line allocation over 20 years.

Where an item of Property, Plant and Equipment has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

***Heritage Assets***

Heritage assets are assets held or maintained principally for their contribution to knowledge and culture. Where the Council identifies such assets and cost or value information is available, these assets will be included in the Authority balance sheet. Where information on the value or cost of an identified heritage asset is not available and the cost of obtaining a valuation is not commensurate with the benefits to the users of the financial statements, then this asset will not be recognised in the balance sheet. Where a Heritage asset is used for operational purposes, this asset will be classed as an operational asset and will be subject to the same accounting policies as any other operational asset. Heritage assets are not subject to depreciation but can be impaired if a fall in value has occurred.

***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 previous 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 is written off to the Other Operating Expenditure line in the CIES as part of the gain or loss on disposal.

Any receipts from disposals are credited to the same line in the CIES as part of the gain or loss on disposal. Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. 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), or in line with the Council's flexible use of capital receipts strategy. Receipts are appropriated to the Reserve from the General Fund Balance in the MiRS.

A proportion of housing receipts relating to 'Right to Buy' disposals is payable to the Government, net of statutory deductions, allowances and optional retention of one for one additional receipts. Any housing non-Right to buy or non-dwelling disposals are exempt from proportional payments to the Government as long as their use complies with statutory legislation.

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 appropriated to the Capital Adjustment Account from the General Fund Balance in the MiRS.

## p. 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 can be made of the amount of the obligation. For instance, the Council may be involved in a court case that could eventually result in the making of a 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, and are measured at the best estimate at the Balance Sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties. When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now 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 payments required to settle a provision are expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the Council settles the obligation.

***Contingent Assets and liabilities***

Contingent assets arise where an event has taken place in the past that gives the council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events where it is probable that there will be an inflow of economic benefits or service potential.

A contingent liability arises where an event has taken place that gives the Authority 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 and assets are not recognised in the Balance Sheet but disclosed in a note to the accounts.

## q. Reserves

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

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

### r. Revenue Expenditure Funded from Capital under Statute

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 General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so there is no impact on the level of Council Tax.

### s. Schools

The Code of Practice on Local Authority Accounting in the United Kingdom confirms that the balance of control for local authority maintained schools (i.e. those categories of schools identified in the School Standards and Framework Act 1998, as amended) lies with the local authority. The Code also stipulates that those schools' assets, liabilities, reserves and cash flows are recognised in the local authority financial statements (and not the Group Accounts). Therefore schools' transactions, cash flows and balances are recognised in each of the financial statements of the authority as if they were the transactions, cash flows and balances of the council.

When a school that is held on the Council's balance sheet transfers to Academy status the Council accounts for this as a disposal for nil consideration, on the date that the school converts to Academy status, rather than as an impairment on the date that approval to transfer to Academy status is announced. Similarly, income and expense is only recognised up to the date that the Schools converts to Academy status.

### t. Value Added Tax (VAT)

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

### u. Business Improvement District Schemes

A Business Improvement District (BID) scheme applies in Kingston town centre and is known as Kingston First. The scheme is funded by a BID levy paid by non-domestic ratepayers. The Council acts as principal under the scheme, and accounts for income received and expenditure incurred (including contributions to the BID project) within the relevant services within the CIES.

### v. Community Infrastructure Levy

The Council has elected to charge a Community Infrastructure Levy (CIL). The levy is charged on new builds (chargeable developments for the Council) with appropriate planning consent. The Council charges for and collects the levy, which is a planning charge.

The income from the levy will be used to fund a number of infrastructure projects (these include transport, flood defences and schools) to support the development of the area.

CIL is received without outstanding conditions; it is therefore recognised at the commencement date of the chargeable development in the CIES in accordance with the accounting policy for government grants and contributions set out above.

CIL charges will be largely used to fund capital expenditure. However, a small proportion of the charges may be used to fund revenue expenditure.

# Note 2 Accounting Standards issued but not yet adopted

At the Balance Sheet date the following new standards and amendments to existing standards have been published but not yet adopted by the Code of Practice on Local Government Accounting in the United Kingdom

- IFRS 16 Leases will require local authorities that are lessees to recognise most leases on their balance sheets as right-of-use assets with corresponding lease liabilities (there is recognition for low-value and short-term leases). CIPFA/LASAAC have deferred implementation of IFRS16 for local government to 1 April 2020.
- IAS 40 Investment Property: Transfers of Investment Property provides further explanation of the instances in which a property can be reclassified as investment property. This will have no impact on the Council as it already complies.
- IFRIC 22 Foreign Currency Transactions and Advance Consideration clarifies the treatment of payments in a foreign currency made in advance of obtaining or delivering services or goods. The Council does not have any material transactions within the scope of the amendment.
- IFRIC 23 Uncertainty over Income Tax Treatments provides additional guidance on income tax treatment where there is uncertainty. This is not expected to have any impact on the single entity accounts or group accounts.
- IFRS 9 Financial instruments: prepayment features with negative compensation amends IFRS9 to make clear that amortised cost should be used where prepayments are substantially lower than the unpaid principal and interest. The Council has no loans to whom this will apply.

# Note 3 Critical Judgements in Applying Accounting Policies

In applying the accounting policies as set out in Note 1, the council has had to make certain judgements about the complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are:

- There remains a high degree of uncertainty about the sustainability of current funding for local government activity. However, the Council has determined that this uncertainty is not sufficient to provide an indication that the assets of the Authority might be impaired as a result of a need to close facilities and reduce levels of service provision.

- Group Account boundaries have been estimated using the criteria associated with the Code of Practice. The Council has recognised the significant interest in Achieving for Children (AfC) CIC which it jointly owns with the London Borough of Richmond Upon Thames and the Royal Borough of Windsor and Maidenhead. From the Council's perspective, AfC is considered to be a Joint Venture which is consolidated into the Council's Group Accounts using the equity method.

- As with previous years the Council has not consolidated into Group Accounts its interest in Kingston Theatre LLP on the grounds that they do not have a material effect on the overall financial statements and therefore their inclusion would not provide any further benefit to the users of the Statement of Accounts. The Council's shareholding in Kingston Theatre LLP is recognised as an investment within the accounts and measured at Fair Value. The Council's share of any profits or losses made by the LLP has been recognised through the Council's CIES.

- The South London Waste Partnership (SLWP), is a joint operation with three other boroughs and is not included for consideration in being part of the Group Accounts. It is merely a cost sharing arrangement where there is no intention to make profit. The entity does not trade but instead collects cost from the waste activities for the four boroughs which are paid for proportionately, similar to a levying arrangement. The proportionate cost of the entity is shown in the Council's single entity accounts. The SLWP also does not have any Long Term Assets on its Balance Sheet.

- Accruals Materiality. As per the Code, these accounts have been prepared under the accounting concept of materiality. Specifically the Authority has stipulated a de minimus level for accruals set at £20k for revenue and capital accruals. There is a caveat where not making an accrual below the de minimus threshold would have a material effect to the service e.g. schools.

- In line with accepted practice, the Council has recognised Community, Voluntary Controlled and Foundation Schools on the Council's balance sheet. Individual assessments are made on a case by case basis for Voluntary Aided Schools and in practice this has led to the recognition of 4 such schools, whilst Free and Academy Schools remain excluded from the balance sheet.

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

The Statement of Accounts contains estimated figures that are based on assumptions made by the Authority 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 always be determined with certainty, it is possible that actual results could be materially different from the assumptions and estimates.

| Item | Uncertainties | Effect if Actual Results Differ from Assumptions |
|---|---|---|
| Property, Plant and Equipment | Assets are depreciated over useful lives that are dependant on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Authority will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets. | If the useful life of assets is reduced, depreciation increases and the carrying amount of the asset falls. |
| | Our accounting policy is to depreciate assets on their brought forward values at the 1 April and any effects of in-year revaluations are not taken into account until the year following the revaluation. | If significant revaluation increases or impairments were experienced there is a risk that the charge for depreciation to reflect the economic consumption of the asset may be over or under stated. |
| | Revaluations of property, plant and equipment are estimations of asset values using comparable recent market transactions, depreciated replacement costs, indices, and data from third parties such as Land Registry and Valuation Office Agency. | The effect of any over or under estimation on the revaluation of property, plant and equipment cannot be quantified until an asset is disposed. |

## Assumptions made about the future and other major sources of estimation uncertainty (continued)

| Item | Uncertainties | Effect if Actual Results Differ from Assumptions |
|---|---|---|
| Pension Liability | Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets.<br>A firm of consulting actuaries is engaged to provide the Authority with expert advice about the assumptions to be applied. | The effects on the net pension fund liability for the Royal Borough of Kingston pension fund can be measured. For example a 0.5% decrease in the discount rate assumption would result in an approximate increase of £70.2m in the Council's pension liability; a 0.5% increase in the pension increase rate would increase the liability by approximately £63.0m and a 0.5% increase in the salary increase rate would increase the liability by approximately £6.3m. |
| | There is further uncertainty arising from a legal challenge to the Government’s transitional arrangements following the public sector pension reforms in 2015. The McCloud case was upheld by the Court of Appeal in December 2018 which found the transitional arrangements to be discriminatory on the grounds of age and gender. The Government was refused appeal to the Supreme Court in June 2019 and now it is for the Scheme Advisory Body to determine how this matter is to be resolved. | The potential impact of the McCloud case has been assessed by the Government Actuary Department (GAD) on a national LGPS-wide basis using a range of remedies and assumptions. The Council’s actuaries have applied the same assumptions as used to prepare the IAS19 report to the remedies in the GAD review which indicate a potential increase in pension liabilities of 0.2%, or £1.6m. This figure is based on a worst case scenario and the impact will be reduced if the remedies proposed are not as extensive as in the original GAD report. |

## Assumptions made about the future and other major sources of estimation uncertainty (continued)

| Item | Uncertainties | Effect if Actual Results Differ from Assumptions |
|---|---|---|
| Debtors | At 31 March 2019, the Authority had a balance of gross sundry debtors of £65.846m and a provision for doubtful debts of £19.329m. These debtors have specific provisions which are calculated on past experience of collection rates and current economic conditions, and debt recovery performance. However, in the current economic climate and the changes in welfare benefits could give rise to greater levels of non-payment of the Council's charges. To mitigate the risk of increasing non-payment, a review is regularly undertaken and where applicable, additional reserves would be set aside to protect the council against this risk | If collection rates were to deteriorate further by 1%, the additional amount of impairment of doubtful debts that would be required on average to be set aside as an allowance is £0.658m. |
| Business Rates Appeals | Local Authorities are liable for successful appeals against business rates charged to businesses in 2018/19 and earlier financial years in their proportionate share. Therefore, a provision has been recognised for the best estimate of the amount that businesses have been overcharged up to 31 March 2019. The estimate has been calculated using the latest Valuation Office Agency (VOA) ratings list of appeals and the analysis of successful appeals to date when providing the estimate of total provision up to and including 31 March 2019. The final outcome of outstanding appeals is unknown and determined by the VOA. | The Council's share of the balance of business rate appeals provisions at this date amounted to £0.860m. Any variation on this will be dependent on the result of each individual appeal. |
| Britain Leaving the European Union: Asset Values & Pension Liability | There is a high level of uncertainty about the implications of Britain leaving the European Union. It is not possible to predict whether Britain leaving will affect asset values & discount rates. The assumption has been made that this will not significantly impair the value of the council's assets or change the discount rate. However, this assumption needs to be revisited and reviewed regularly. | Higher impairment allowances may need to be charged in the future if asset values fall. If the discount rate changes, the size of the net pension liability will also vary. |

# Note 5 Expenditure and Funding Analysis

Expenditure on services and income relating to or derived from those services is classified in the Comprehensive Income and Expenditure Statement (CIES) in accordance with the CIPFA Code of Local Authority Accounting in the United Kingdom. The 2018/19 Code requires that councils present expenditure and income on services on the basis of its reportable segments. These reportable segments are based on the council's internal management reporting structure. This represents a re-analysis of the Cost of Services presented in the CIES, however, there is no change to the total Cost of Services.

| **2018/19** | As Reported for Finance & Partnerships Committee | Adjustment to arrive at net amount charged to GF and HRA | **Net Expenditure Chargeable to the General Fund and HRA Balances** | Adjustments between the Funding and Accounting Basis | **Net Expenditure in the CIES** |
|---|---|---|---|---|---|
| | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** |
| Adult Social Care | 53,501 | | **53,501** | 3,646 | **57,147** |
| Chief Executive's | 1,570 | | **1,570** | 127 | **1,697** |
| Communities | 17,770 | | **17,770** | 2,229 | **19,999** |
| Corporate and Commercial | 25,758 | (8,262) | **17,496** | (495) | **17,001** |
| Growth | (1,002) | | **(1,002)** | 8,238 | **7,236** |
| Children's Services (incl schools) | 35,026 | | **35,026** | (11,525) | **23,501** |
| Housing Revenue Account | (1,300) | (4,607) | **(5,907)** | (4,767) | **(10,674)** |
| **Net cost of services** | **131,323** | **(12,869)** | **118,454** | **(2,547)** | **115,907** |
| Other Operating Expenditure | - | 555 | **555** | 2,295 | **2,850** |
| Financing and investment income | - | 10,841 | **10,841** | 10,684 | **21,525** |
| Taxation and non - specific grants | (132,164) | | **(132,164)** | (12,616) | **(144,780)** |
| **(Surplus) or Deficit on provision of services** | **(841)** | **(1,473)** | **(2,314)** | **(2,184)** | **(4,498)** |
| **Opening General Fund and HRA Balances** | | | **(17,803)** | | |
| Add surplus/ deficit on GF & HRA Balance in year | | | **(2,314)** | | |
| **Closing General Fund and HRA Balances** | | | **(20,117)** | | |

## Note 5 Expenditure and Funding Analysis (continued)

| **2017/18 Comparative figures** | As Reported for Financing Contracts Committee | Adjustment to arrive at net amount charged to GF and HRA | **Net Expenditure Chargeable to the General Fund and HRA Balances** | Adjustments between the Funding and Accounting Basis | **Net Expenditure in the CIES** |
|---|---|---|---|---|---|
| | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** |
| Adult social care and Health | 55,700 | - | **55,700** | (358) | **55,342** |
| Learning and Children's Services (incl schools) | 34,073 | - | **34,073** | 16,547 | **50,621** |
| Place | 41,000 | - | **41,000** | (10,518) | **30,482** |
| One Council Services | 5,083 | - | **5,083** | 8,495 | **13,578** |
| Neighbourhoods | 75 | - | **75** | (12) | **63** |
| Our Kingston Services | 2,143 | - | **2,143** | (249) | **1,894** |
| Other Corporate Services and Recharges | (9,992) | (5,312) | **(15,305)** | 13,584 | **(1,721)** |
| HRA | (767) | (4,764) | **(5,531)** | (12,133) | **(17,664)** |
| **Net cost of services** | **127,315** | **(10,076)** | **117,238** | **15,356** | **132,594** |
| Other Operating Expenditure | - | 562 | **562** | (6,552) | **(5,990)** |
| Financing and investment income | - | 9,514 | **9,514** | 1,001 | **10,515** |
| Taxation and non - specific grants | (131,683) | - | **(131,683)** | (8,988) | **(140,671)** |
| **(Surplus) or Deficit on provision of services** | **(4,368)** | **-** | **(4,368)** | **817** | **(3,551)** |
| **Opening General Fund and HRA Balances** | | | **(13,435)** | | |
| Add surplus/ deficit on GF & HRA Balance in year | | | **(4,368)** | | |
| **Closing General Fund and HRA Balances** | | | **(17,803)** | | |

# Note 5a Note to the Expenditure and Funding Analysis

## Adjustments between Funding and Accounting Basis

Adjustment from the General Fund to arrive at the Comprehensive Income and Expenditure Statement Amounts.

| Levy and Reserve Adjustments | Adjustments other | **Adjustment to arrive at net amount charged to GF and HRA** | **2018/19** | Adjustment for Capital Purposes | Net Changes for the Pensions Adjustments | Other Difference Expenditure Statements | **Total Adjustment** |
|---:|---:|---:|---|---:|---:|---:|---:|
| **£'000** | **£'000** | **£'000** | | **£'000** | **£'000** | **£'000** | **£'000** |
| - | - | **-** | Adult Social Care | 2,770 | 918 | (42) | **3,646** |
| - | - | **-** | Chief Executive's | - | 125 | 2 | **127** |
| - | - | **-** | Communities | 241 | 2,189 | (201) | **2,229** |
| (555) | (7,707) | **(8,262)** | Corporate and Commercial | 2,589 | (10,207) | 7,123 | **(495)** |
| - | - | **-** | Growth | 921 | 255 | 7,063 | **8,238** |
| - | | **-** | Children's Services (incl schools) | (18,835) | 3,614 | 3,696 | **(11,525)** |
| - | (4,607) | **(4,607)** | HRA | (1,731) | 508 | (3,545) | **(4,767)** |
| **(555)** | **(12,314)** | **(12,869)** | Net cost of services | **(14,044)** | **(2,597)** | **14,095** | **(2,547)** |
| | | | | | | | |
| 555 | | **555** | Other Operating Expenditure | 1,605 | - | 690 | **2,295** |
| - | 10,841 | **10,841** | Financing and investment income | 3,357 | 15,818 | (8,491) | **10,684** |
| - | - | **-** | Taxation and non - specific grants | (12,861) | - | 244 | **(12,616)** |
| **-** | **(1,473)** | **(1,473)** | Difference between GF/HRA (surplus)/ deficit and CIES (surplus) /deficit | **(21,943)** | **13,221** | **6,538** | **(2,184)** |

# Note 5a Note to the Expenditure and Funding Analysis (continued)

## Adjustments between Funding and Accounting Basis

| Levy and Reserve Adjustments | Adjustments other | **Adjustment to arrive at net amount charged to GF and HRA** | **2017/18 Comparative Figures** | Adjustment for Capital Purposes | Net Changes for the Pensions Adjustments | Other Difference Expenditure Statements | **Total Adjustment** |
|---|---|---|---|---|---|---|---|
| **£'000** | **£'000** | **£'000** | | **£'000** | **£'000** | **£'000** | **£'000** |
| - | - | **-** | Adult social care and Health | (709) | 1,008 | (657) | **(358)** |
| - | - | **-** | Learning and Children's Services | 11,531 | 1,174 | 3,842 | **16,547** |
| - | - | **-** | Place | (575) | 1,792 | (11,735) | **(10,518)** |
| - | - | **-** | One Council Services | 195 | 2,018 | 6,282 | **8,495** |
| - | - | **-** | Neighbourhoods | - | - | (12) | **(12)** |
| - | - | **-** | Our Kingston Services | - | 25 | (274) | **(249)** |
| (562) | (4,750) | **(5,312)** | Other Corporate Services and Recharges | 5,315 | (1,239) | 9,507 | **13,583** |
| - | (4,764) | **(4,764)** | HRA | (12,133) | 442 | (442) | **(12,133)** |
| **(562)** | **(9,514)** | **(10,076)** | Net cost of services | **3,623** | **5,222** | **6,510** | **15,356** |
| | | | | | | | |
| 562 | - | **562** | Other Operating Expenditure | (6,552) | - | - | **(6,552)** |
| - | 9,514 | **9,514** | Financing and investment income | (4,630) | 5,631 | - | **1,001** |
| - | - | **-** | Taxation and non - specific grants | (9,302) | - | 315 | **(8,987)** |
| **-** | **-** | **-** | Difference between GF/HRA (surplus)/ deficit and CIES (surplus) /deficit | **(16,861)** | **10,853** | **6,825** | **817** |

# Note 5b Expenditure and Income Analysed by Nature

The Council's expenditure and income is analysed as follows:

| 2017/18 | | 2018/19 |
|---|---|---|
| **£000** | | **£000** |
| | **Expenditure** | |
| 122,386 | Employee benefits expenses | 126,499 |
| 282,600 | Other service expenses | 275,984 |
| 19,328 | Depreciation, amortisation and impairment | 24,221 |
| (7,242) | Gain or Loss on disposal of non-current assets | 1,605 |
| 10,796 | Interest payments | 10,892 |
| 562 | Precept and Levies | 555 |
| **428,429** | **Total Expenditure** | **439,757** |
| | | |
| | **Income** | |
| (134,464) | Fees and charges and other service income | (143,453) |
| (112,972) | Income from Council Tax and Business Rates | (114,979) |
| (183,677) | Government grants and contributions | (184,880) |
| (868) | Interest and investment income | (942) |
| **(431,980)** | **Total Income** | **(444,254)** |
| **(3,551)** | **(Surplus) or Deficit on Provision of Services** | **(4,498)** |

# Note 6 Other Operating Expenditure

| 2017/18 | | 2018/19 |
|---|---|---|
| £'000 | | £'000 |
| | | |
| 562 | Levies paid to Other Local and Public Authorities | 555 |
| 690 | Payment to the Government Housing Capital Receipts Pool | 690 |
| (7,242) | Net Losses/(Profit) on the disposal of non-current assets | 1,605 |
| - | Deficit/(Surplus) on Trading Undertakings not included in Net Cost of Services | - |
| **(5,990)** | **TOTAL** | **2,850** |

# Note 7 Financing and Investment Income and Expenditure

| 2017/18 | | 2018/19 |
|---|---|---|
| £'000 | | £'000 |
| 10,590 | Interest payable and similar charges | 10,887 |
| 9 | Interest payable from finance lease | 5 |
| 5,631 | Net interest on the net defined benefit pension scheme liability | 5,773 |
| | Remeasurements of the net defined benefit liability (asset) | 10,045 |
| (182) | Interest income | (384) |
| (686) | Interest receivable from finance leases | (557) |
| (3,953) | Income and expenditure in relation to investment properties and changes in their fair value | 1,295 |
| (894) | Other investment income | (5,539) |
| **10,515** | **TOTAL** | **21,525** |

# Note 8 Taxation and non-specific grant income

This note consolidates all non-specific grants and contributions receivable that are not allocated to particular service areas and therefore cannot be credited to the gross income amount relevant to that service area.  All capital grants and contributions are credited to non-specific grant income even if service specific.

| 2017/18 | | 2018/19 |
|---|---|---|
| **£’000** | | **£’000** |
| (90,780) | Council Tax Income | (91,894) |
| (22,192) | Business Rates Retention Scheme | (23,084) |
| (13,514) | Non ringfenced government grants | (8,121) |
| (14,185) | Capital grants and contributions | (21,681) |
| **(140,671)** | Total Credited to Taxation and Non-Specific Grant Income | **(144,780)** |

# Note 9 Grant Income

The Council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2018/19:

| 2017/18 | Grants Credited to Taxation and Non-Specific Grant Income | 2018/19 |
|---|---|---|
| £'000 | | £'000 |
| | **Non ringfenced government grants:** | |
| (5,522) | Revenue Support Grant | - |
| (346) | Education Services Grant | - |
| (3,676) | New Homes Bonus | (2,314) |
| (1,288) | Transition Grant | - |
| (786) | Section 31 Business Rate Grant | (3,473) |
| (1,896) | Other Non-ringfenced government grants | (2,334) |
| **(13,514)** | Total | **(8,121)** |
| | **Capital Grants and Contributions:** | |
| (6,579) | Transport for London | (8,806) |
| (3,343) | Schools Basic Need | (7,046) |
| (937) | Schools Capital funding | - |
| (1,268) | Disabled Facilities | (1,379) |
| (831) | Community Infrastructure Levy | (1,842) |
| (1,227) | Other Capital Grants and Contributions | (2,608) |
| **(14,185)** | Total | **(21,681)** |

## Note 9 Grant Income (continued)

| 2017/18 | Revenue Grants Credited to Services | 2018/19 |
|---|---|---|
| **£'000** | | **£'000** |
| (77,701) | Dedicated Schools Grant | (81,097) |
| (1,426) | Skills Funding Agency funding | (1,296) |
| (10,374) | Public Health Grant | (10,107) |
| (2,901) | Pupil Premium | (2,832) |
| (847) | Unaccompanied Asylum Seeking Children (UASC) | (1,093) |
| (249) | Troubled Families Grant | (337) |
| (1,890) | Universal Infants Free School Meals | (1,925) |
| (941) | Private Leasing Scheme | (1,298) |
| (71,103) | Benefit Subsidy | (68,210) |
| (6,079) | Other Revenue Grants Credited to Services | (5,140) |
| **(173,511)** | **Total Revenue Grants included in Cost of Services** | **(173,335)** |

# Note 10 Adjustments between accounting basis and funding basis under regulations

This note details the adjustments that are made to the total comprehensive income and expenditure recognised by the Council in the year in accordance with proper accounting practice to arrive at the resources that are specified by statutory provisions as being available to the authority to meet future capital and revenue expenditure. The following sets out a description of the reserves that the adjustments are made against.

### General Fund Balance

The General Fund is the statutory fund into which all the receipts of a council are required to be paid and out of which all liabilities of the Council are to be met, except to the extent that statutory rules might provide otherwise. These rules can also specify the financial year in which liabilities and payments should impact on the General Fund Balance, which is not necessarily in accordance with proper accounting practice. The General Fund Balance therefore 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. For housing authorities - however, the balance is not available to be applied to funding HRA services.

### Housing Revenue Account Balance

The Housing Revenue Account 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 as defined by the 1989 Act 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.

### Major Repairs Reserve

The council is required to maintain the Major Repairs Reserve, which controls an element of the capital resources limited to being used on capital expenditure on HRA assets or the financing of historical capital expenditure by the HRA. The balance shows the capital resources that have yet to be applied at the year end.

### Capital Receipts Reserve

The Capital Receipts Reserve 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 reduce the Council's underlying need to borrow (the capital financing requirement), or in line with the Council's flexible use of capital receipts strategy. The balance on the reserve shows the resources that have yet to be applied for these purposes at the year end.

### Capital Grants Unapplied

The Capital Grants Unapplied Account (Reserve) 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.

## Note 10 Adjustments between accounting basis and funding basis under regulations (continued)

| 2018/19 | Usable Reserves | | | | | Non-usable Reserves |
|---|---|---|---|---|---|---|
| | General Fund Balance | Housing Revenue Account | Capital Grants Unapplied | Major Repairs Reserve | Capital Receipts Reserve | |
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| **Adjustments primarily involving the Capital Adjustment Account** | | | | | | |
| **Reversal of items debited or credited to the Comprehensive Income & Expenditure Statement:** | | | | | | |
| Charges for depreciation | (20,452) | (9,316) | - | - | - | **29,768** |
| Revaluation losses on Property Plant & Equipment | 12,043 | 2,462 | - | - | - | **(14,505)** |
| Amortisation of Intangible Assets | (1,615) | (15) | - | - | - | **1,631** |
| Movements in the market value of investment properties | (1,275) | (20) | - | - | - | **1,295** |
| Capital Grants and contributions applied | 12,266 | - | - | - | - | **(12,266)** |
| Revenue expenditure funded from capital under statute | (2,889) | (732) | - | - | - | **3,621** |
| Impairment Losses | (21) | - | - | - | - | **21** |
| Non-current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES | (4,736) | (2,092) | - | - | - | **6,828** |
| Statutory provision for repayment of debt | 6,651 | - | - | - | - | **(6,651)** |
| Any voluntary provision for repayment of debt | 3 | 53 | - | - | - | **(56)** |
| Capital expenditure charged against the General Fund and HRA balances | 1,658 | 3,349 | - | - | - | **(5,007)** |
| **Adjustments primarily involving the Capital Grants Unapplied Account:** | | | | | | |
| Capital grants and contributions unapplied credited to the CIES | 9,414 | - | (9,414) | - | - | **-** |
| Application of grants to capital financing transferred to the Capital Adjustment Account | | | 595 | | | **(595)** |
| **Adjustments primarily involving the Deferred Capital Receipts Reserve:** | | | | | | |
| Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the CIES | 604 | - | - | - | - | **(604)** |

## Note 10 Adjustments between accounting basis and funding basis under regulations (continued)

| **2018/19** (continued) | Usable Reserves | | | | | Non-usable Reserves |
|---|---|---|---|---|---|---|
| | **General Fund Balance** | **Housing Revenue Account** | **Capital Grants Unapplied** | **Major Repairs Reserve** | **Capital Receipts Reserve** | |
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| **Adjustments primarily involving the Capital Receipts Reserve:** | | | | | | |
| Transfer of cash sale proceeds credited as part of the gain/loss on the disposal to the CIES | 87 | 5,142 | - | - | (5,228) | **-** |
| Use of the Capital Receipts Reserve to finance new capital expenditure | - | - | - | - | 5,000 | **(5,000)** |
| Contribution from the Capital Receipts Reserve towards administrative costs of non-current asset disposals | - | (71) | - | - | 71 | **-** |
| Contribution from the Capital Receipts Reserve to finance the payments to the Government Capital Receipts pool | (690) | - | - | - | 690 | **-** |
| Transfer from Deferred Capital Receipts Reserve upon receipt of cash | - | - | - | - | - | **-** |
| Use of capital receipts for revenue purposes | (791) | | | | 791 | |
| **Adjustments primarily involving the Major Repairs Reserve:** | | | | | | |
| Contribution to Major Repairs Reserve | - | 9,332 | - | (9,332) | - | **-** |
| Use of the Major Repairs Reserve to finance new capital expenditure | - | - | - | 8,305 | - | **(8,305)** |
| **Adjustments primarily involving the Financial Instruments Adjustment Account:** | | | | | | |
| Amount by which finance costs charged to the CIES are different from finance costs chargeable in the year in accordance with statutory requirements | 1,120 | - | - | - | - | **(1,120)** |
| **Adjustments primarily involving the Pensions Reserve:** | | | | | | |
| Reversal of items relating to retirement benefits debited to the CIES (see Note 31) | (25,228) | (1,513) | - | - | - | **26,741** |
| Employers Pensions contributions and direct payments to pensioners payable in the year | 12,843 | 677 | - | - | - | **(13,520)** |
| **Adjustments primarily involving the Collection Fund Adjustment Account:** | | | | | | |
| Amount by which Council Tax income and residual community charge adjustment included in the CIES is different from the amount taken to the General Fund in accordance with regulation | (2,014) | **-** | **-** | **-** | **-** | **2,014** |

## Note 10 Adjustments between accounting basis and funding basis under regulations (continued)

| **2018/19** (continued) | Usable Reserves | | | | | Non-usable Reserves |
|---|---|---|---|---|---|---|
| | General Fund Balance | Housing Revenue Account | Capital Grants Unapplied | Major Repairs Reserve | Capital Receipts Reserve | |
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| **Adjustments primarily involving the Accumulated Absences Account:** | | | | | | |
| Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements | (771) | (11) | - | - | - | **783** |
| **Total Adjustments** | **(3,793)** | **7,244** | **(8,820)** | **(1,026)** | **1,323** | **5,071** |

## Note 10 Adjustments between accounting basis and funding basis under regulations (continued)

| 2017/18 | Usable Reserves | | | | | |
|---|---|---|---|---|---|---|
| | General Fund Balance £'000 | Housing Revenue Account £'000 | Capital Grants Unapplied £'000 | Major Repairs Reserve £'000 | Capital Receipts Reserve £'000 | Non-usable Reserves £'000 |
| **Adjustments primarily involving the Capital Adjustment Account** | | | | | | |
| **Reversal of items debited or credited to the Comprehensive Income & Expenditure Statement:** | | | | | | |
| Charges for depreciation | (17,014) | (8,930) | - | - | - | **25,944** |
| Revaluation losses on Property Plant & Equipment | (13,435) | 11,935 | - | - | - | **1,500** |
| Amortisation of Intangible Assets | (1,451) | (99) | - | - | - | **1,550** |
| Movements in the market value of investment properties | 3,815 | 159 | - | - | - | **(3,974)** |
| Capital Grants and contributions applied | 13,003 | - | - | - | - | **(13,003)** |
| Revenue expenditure funded from capital under statute | (2,053) | (50) | - | - | - | **2,103** |
| Impairment Losses | (21) | - | - | - | - | **21** |
| Non-current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES | (5,000) | (1,920) | - | - | - | **6,920** |
| Statutory provision for repayment of debt | 5,902 | - | - | - | - | **(5,902)** |
| Any voluntary provision for repayment of debt | 9 | 51 | - | - | - | **(60)** |
| Capital expenditure charged against the General Fund and HRA balances | 1,466 | 1,004 | - | - | - | **(2,470)** |
| **Adjustments primarily involving the Capital Grants Unapplied Account:** | | | | | | |
| Capital grants and contributions unapplied credited to the CIES | 1,182 | - | (1,182) | - | - | **-** |
| Application of grants to capital financing transferred to the Capital Adjustment Account | - | - | 1,260 | - | - | **(1,260)** |

## Note 10 Adjustments between accounting basis and funding basis under regulations (continued)

| 2017/18 continued | Usable Reserves | | | | | |
|---|---|---|---|---|---|---|
| | General Fund Balance £'000 | Housing Revenue Account £'000 | Capital Grants Unapplied £'000 | Major Repairs Reserve £'000 | Capital Receipts Reserve £'000 | Non-usable Reserves £'000 |
| **Adjustments primarily involving the Capital Receipts Reserve:** | | | | | | |
| Transfer of cash sale proceeds credited as part of the gain/loss on the disposal to the CIES | 9,737 | 5,000 | - | - | (14,736) | **-** |
| Use of the Capital Receipts Reserve to finance new capital expenditure | - | - | - | - | 6,124 | **(6,124)** |
| Contribution from the Capital Receipts Reserve towards administrative costs of non-current asset disposals | (389) | (66) | - | - | 455 | **-** |
| Contribution from the Capital Receipts Reserve to finance payments to the Government Capital Receipt pool | (690) | - | - | - | 690 | **-** |
| Transfer from Deferred Capital Receipts Reserve upon receipt of cash | (46) | - | - | - | - | **46** |
| **Adjustments primarily involving the Major Repairs Reserve:** | | | | | | |
| Contribution to Major Repairs Reserve | - | 8,930 | - | (8,930) | - | **-** |
| Use of the Major Repairs Reserve to finance new capital expenditure | - | - | - | 8,930 | - | **(8,930)** |
| **Adjustments primarily involving the Financial Instruments Adjustment Account:** | | | | | | |
| Amount by which finance costs charged to the CIES are different from finance costs chargeable in the year in accordance with statutory requirements | 3,545 | (8) | - | - | - | **(3,538)** |
| **Adjustments primarily involving the Pensions Reserve:** | | | | | | |
| Reversal of items relating to retirement benefits debited to the CIES (see Note 31) | (22,165) | (1,617) | - | - | - | **23,782** |
| Employers Pensions contributions and direct payments to pensioners payable in the year | 12,139 | 790 | - | - | - | **(12,929)** |

## Note 10 Adjustments between accounting basis and funding basis under regulations (continued)

| 2017/18 continued | Usable Reserves | | | | | |
|---|---|---|---|---|---|---|
| | General Fund Balance £'000 | Housing Revenue Account £'000 | Capital Grants Unapplied £'000 | Major Repairs Reserve £'000 | Capital Receipts Reserve £'000 | Non-usable Reserves £'000 |
| **Adjustments primarily involving the Collection Fund Adjustment Account:** | | | | | | |
| Amount by which Council Tax income and residual community charge adjustment included in the CIES is different from the amount taken to the General Fund in accordance with regulation | 2,304 | - | - | - | - | **(2,304)** |
| **Adjustments primarily involving the Accumulated Absences Account:** | | | | | | |
| Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements | 1,539 | 34 | - | - | - | **(1,573)** |
| **Total Adjustments** | **(7,623)** | **15,213** | **78** | **-** | **(7,467)** | **(201)** |

# Note 11 Transfers to/from earmarked and usable reserves

This note sets out the amounts set aside from the General Fund and HRA balances in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund and HRA expenditure in 2018/19.

| Earmarked Reserves | Balance 1 April 2017 | Transfers In | Transfers Out | Transfers Between | Balance 31 March 2018 | Transfers In | Transfers Out | Transfers Between | Balance 31 March 2019 |
|---|---|---|---|---|---|---|---|---|---|
| | **£000s** | £000s | £000s | £000s | **£000s** | £000s | £000s | £000s | **£000s** |
| **Reserves earmarked for future revenue expenditure:** | | | | | | | | | |
| **Corporate Reserves:** | | | | | | | | | |
| Strategic Investment Reserve | **(2,570)** | (544) | 1,831 | (1,718) | **(3,002)** | (1,494) | 747 | **(16)** | **(3,765)** |
| Strategic Investment Reserve (Operational) | **(2,103)** | (2,343) | 1,436 | 1,135 | **(1,875)** | (597) | 722 | **16** | **(1,734)** |
| Redundancy Reserve | **(472)** | (272) | - | - | **(744)** | - | 312 | **-** | **(432)** |
| LPFA Sub Fund Reserve | **(718)** | - | - | 718 | **-** | - | - | **-** | **-** |
| Election Reserve | **(213)** | (42) | 51 | | **(204)** | (92) | 153 | - | **(143)** |
| Company Loss Reserve | **(702)** | - | - | - | **(702)** | - | - | - | **(702)** |
| Children's Services and Education Reserve | **-** | - | - | - | **-** | (2,000) | - | - | **(2,000)** |
| **Service Specific Reserves:** | | | | | | | | | |
| Communities | **(399)** | (39) | - | - | **(438)** | - | 60 | **-** | **(378)** |
| Corporate and Commercial | **(764)** | - | 182 | - | **(582)** | - | 26 | **-** | **(556)** |
| Children's Services | **(229)** | - | 14 | (125) | **(341)** | - | 29 | **-** | **(312)** |
| Adults Services | **(360)** | (62) | 312 | - | **(110)** | - | - | **-** | **(110)** |
| Statutory Reserves: | | | | | | | | | |
| On Street Parking Reserve | **(939)** | (3,411) | 2,933 | - | **(1,417)** | (2,845) | 3,533 | **-** | **(729)** |
| Bus Lane Enforcement Reserve | **(1,167)** | (1,312) | 2,100 | - | **(379)** | (1,482) | 1,800 | **-** | **(61)** |
| Moving Traffic Contravention Reserve | **(1,059)** | (2,999) | 2,469 | - | **(1,589)** | (2,043) | 2,050 | **-** | **(1,582)** |
| Kingston Theatre LLP Retained Profits Reserve | **(878)** | - | 142 | - | **(736)** | (223) | - | **-** | **(959)** |

# Transfer To/From Earmarked Reserves (continued)

| **Earmarked Reserves** | **Balance 1 April 2017** | **Transfers In** | **Transfers Out** | **Transfers Between** | **Balance 31 March 2018** | **Transfers In** | **Transfers Out** | **Transfers Between** | **Balance 31 March 2019** |
|---|---|---|---|---|---|---|---|---|---|
| | **£000s** | £000s | £000s | | **£000s** | £000s | £000s | £000s | **£000s** |
| **Other Revenue Funds:** | | | | | | | | | |
| Kingston Bridge Reserve Fund | **(558)** | (1) | - | - | **(559)** | (3) | - | **-** | **(562)** |
| Gloucester Rd Bridge Reserve | **(83)** | - | - | - | **(83)** | - | - | **-** | **(83)** |
| Other Funds | **(112)** | (9) | 9 | | **(112)** | (13) | - | **-** | **(125)** |
| Earmarked Revenue Grants Funding | **(8,666)** | (938) | 688 | - | **(8,916)** | (1,577) | 1,753 | **-** | **(8,740)** |
| **Total earmarked for future revenue expenditure** | **(21,992)** | **(11,972)** | **12,166** | **9** | **(21,790)** | **(12,369)** | **11,185** | **-** | **(22,973)** |
| **HRA Earmarked Reserves:** | | | | | | | | | |
| HRA Earmarked Reserves | (118) | - | - | (18) | **(136)** | (350) | - | **-** | **(486)** |
| **Total HRA earmarked reserve** | **(118)** | **-** | **-** | **(18)** | **(136)** | **(350)** | **-** | **-** | **(486)** |
| **Reserves earmarked for meeting future insurance claims:** | | | | | | | | | |
| Insurance Reserve | (1,177) | - | 366 | - | (811) | (163) | - | | **(974)** |
| **Total earmarked for future insurance claims** | **(1,177)** | **-** | **366** | | **(811)** | **(163)** | **-** | **-** | **(974)** |
| **Schools** | | | | | | | | | |
| Schools (held by Schools under delegated schemes) | (5,996) | (696) | 2,051 | 9 | **(4,631)** | (1,277) | 1,296 | **-** | **(4,612)** |
| Unallocated DSG | 6,482 | - | 4,208 | - | **10,690** | - | 3,381 | **-** | **14,071** |
| **Total Schools** | **486** | **(696)** | **6,260** | **9** | **6,059** | **(1,277)** | **4,678** | **-** | **9,459** |
| **Reserves earmarked for future capital expenditure:** | | | | | | | | | |
| Earmarked capital reserves | (3,061) | (5) | 2,289 | - | **(777)** | (612) | 176 | | **(1,212)** |
| **Total earmarked for future capital expenditure** | **(3,061)** | **(5)** | **2,289** | | **(777)** | **(612)** | **176** | **-** | **(1,212)** |
| **Total Earmarked Reserves** | **(25,862)** | **(12,673)** | **21,081** | **-** | **(17,454)** | **(14,771)** | **16,039** | **-** | **(16,187)** |

# Transfer To/From Earmarked Reserves (continued)

Some reserves have been recategorised due to changes in the management structure and therefore 2017-18 balances have been restated in some places, however the overall balance remains the same.

**Corporate Reserves:**

**Strategic Investment Reserve –** set aside to fund the Council's strategic and transformational priorities
**Strategic Investment Reserve (Operational) –** used to carry forward non-ring fenced grants or other carry forward amounts to meet the cost of operational priorities in the following year.
**Redundancy Reserve –** for the potential liabilities resulting from redundancies from the Council's various transformational programmes
**LPFA Sub Fund –** originally set up potential future requirement to contribute towards the London Pensions Fund Authority deficit on the fund when regulatory issues were resolved. This fund is no longer required and the balance transferred to the Strategic Investment Reserve during 2017-18
**Election Reserve** - funds set aside to fund the cost of local elections.
**Company Loss Reserve –** to cover the ownership share of the current loss in AfC generated by the set up costs of the company.
**Children's Service & Education Reserve** - funds set aside to due additional pressures in both Education and Children's Services.

**Service Specific Reserves:**

**Communities –** service specific reserves primarily relating to Community Safety and Public Health.
**Corporate & Commercial –** residual reserve relating to a corporate project.
**Children's Services –** specific reserves predominantly relating to the self-funding Education Kingston.
**Adults Services –** specific reserves, this includes Kingston Coordinated Care and temporary accommodation.

**Statutory Reserves:**

**On Street Parking reserve –** the statutory On Street Parking Account surpluses. This reserve is used to meet qualifying expenditure in relation to transport and highways projects and concessionary fares.
**Bus Lane Enforcement reserve –** the statutory Bus Lane Enforcement Account surpluses. This reserve is used to meet qualifying expenditure in relation to transport and highways projects and concessionary fares.
**Moving Traffic Contravention reserve –** a statutory reserve for Moving Traffic Contravention surpluses. This reserve is used to meet qualifying expenditure in relation to transport and highways projects and concessionary fares.
**Kingston Theatre LLP Retained Profits Reserve –** reserve showing accounting adjustment related to Council's share of any retained profits from Kingston Theatre LLP. This is an accounting reserve and does not constitute available resource to the Council.

**Other Revenue Funds:**

**Kingston Bridge Reserve Fund –** earmarked and ring fenced for expenditure on the maintenance of Kingston Bridge.
**Gloucester Rd Bridge Reserve –** earmarked and ring fenced for expenditure on the maintenance of Gloucester Road Bridge.
**Other Funds –** a number of small operational reserves.
**Earmarked Revenue Grants Funding –** containing unspent grants which have no specific conditions.

**Other Funds:**

**Insurance Reserve –** established to underwrite a proportion of the Council's insurable risks. Held in conjunction with the Council's Insurance provision.
**Schools (held by Schools under delegated Schemes) –** this balance is comprised of unspent revenue balances held by Schools at year end which may be applied the following year. The balances can only be used by the Schools and are not available to the Council for general use.
**Unallocated DSG –** residual balance relating to the 2018/19 Dedicated Schools Grants which is ring-fenced for use within Schools or to related Schools expenditure as directed by the Schools Forum. This is not available for general Council use. The Council received an additional advance of Dedicated Schools Grant in 2018-19, of £3m, to support the short-term costs and cash position. This amount is not included in the note above but is included as part of the Long term Liability balance on the Balance Sheet.

**Earmarked capital expenditure –** to fund future capital expenditure.

# Note 12 Unusable Reserves

| 31 March 2018 | | 31 March 2019 |
|---|---|---|
| **£'000** | | **£'000** |
| (123,678) | Revaluation Reserve | (155,037) |
| (462,930) | Capital Adjustment Account | (474,831) |
| 218,500 | Pensions Reserve | 244,155 |
| (2,604) | Financial Instruments Adjustment Account | (3,725) |
| (7,537) | Deferred Capital Receipts | (8,139) |
| (2,596) | Collection Fund Adjustment Account | (583) |
| 2,821 | Accumulated Absences Account | 3,603 |
| - | Financial Instruments Revaluation Reserve | (107) |
| (223) | Available for Sale Financial Instruments Account | - |
| **(378,249)** | **TOTAL** | **(394,665)** |

## Note 12 Unusable Reserves (continued)

### Revaluation Reserve

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

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

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

For 2018/19, £2.563m (2017/18 £6.950m) of revaluation gains were written out due to asset disposal and fair value depreciation and £33.921m (2017/18 £0.435m) was added to the reserve due to revaluation gains.

| 2017/18 | | 2018/19 |
|---|---|---|
| £'000 | | £'000 |
| **(130,193)** | **Balance at 1 April** | **(123,678)** |
| (38,518) | Upward revaluation of assets | (57,900) |
| 38,082 | Downward revaluation of assets and impairment losses not charged to the surplus/(deficit) on the provision of services | 23,979 |
| (435) | Surplus or deficit on revaluation of non current assets not posted to the surplus/(deficit) on the provision of services | (33,921) |
| 1,957 | Difference between fair value depreciation and historical cost depreciation | 1,747 |
| 4,993 | Accumulated losses on assets sold or scrapped | 816 |
| 6,950 | Amount written off to the Capital Adjustment Account | 2,563 |
| **(123,678)** | **Balance at 31 March** | **(155,037)** |

## Note 12 Unusable Reserves (continued)

### Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions.

The account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisation are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The account is credited with the amounts set aside by the Authority as finance for the costs of acquisition, construction and enhancement.

The account contains accumulated gains and losses on Investment Properties and gains recognised on donated assets that have yet to be consumed by the Authority.

The account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.

The table below details the transactions that took place on the Capital Adjustment Account for 2017/18 and 2018/19:

| **2017/18** | | **2018/19** |
|---:|---|---:|
| **£'000** | | **£'000** |
| **(452,295)** | **Balance at 1 April** | **(462,930)** |
| | **Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:** | |
| 25,965 | Charge for depreciation and impairment of non-current assets | 29,768 |
| - | Impairment of available for sale financial assets | (95) |
| 1,500 | Revaluation gains/(losses) on Property, Plant and Equipment | (14,505) |
| 1,550 | Amortisation of intangible assets | 1,630 |
| 2,103 | Revenue expenditure funded from capital under statute | 3,621 |
| 6,920 | Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement | 6,828 |
| **38,038** | | **27,247** |
| (1,957) | Difference between fair value depreciation and historical cost depreciation | (1,747) |
| (4,993) | Accumulated losses on assets sold or scrapped | (816) |
| **31,088** | **Net written out amount of the cost of non-current assets consumed in the year** | **24,684** |

## Capital Adjustment Account (continued)

| 2017/18 | | 2018/19 |
|---|---|---|
| **£'000** | | **£'000** |
| | **Capital financing applied in the year:** | |
| (6,124) | Use of the Capital Receipts Reserve to finance new capital expenditure | (5,000) |
| (8,930) | Use of the Major Repairs Reserve to finance new capital expenditure | (8,305) |
| (13,003) | Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing | (12,266) |
| (1,260) | Application of grants to capital financing from the Capital Grants Unapplied Account | (595) |
| (5,902) | Statutory provision for the financing of capital investment charged against the General Fund and HRA Balances | (6,651) |
| (60) | Voluntary provision for the repayment of debt | (56) |
| (1,466) | Funded from Revenue Reserves | (1,658) |
| (1,003) | Capital expenditure charged against General Fund and HRA balances | (3,349) |
| **(37,749)** | | **(37,880)** |
| (3,974) | Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement | 1,295 |
| **(462,930)** | **Balance at 31 March** | **(474,831)** |

## Pension 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 Authority accounts for post employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Authority makes employer’s contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Authority has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

| 2017/18 | | 2018/19 |
|---|---|---|
| £’000 | | £’000 |
| **223,301** | **Balance at 1 April** | **218,500** |
| (15,654) | Remeasurement of the net defined benefit liability | 12,434 |
| (12,929) | Actual contributions from employers including unfunded element | (13,520) |
| 18,003 | Current Service Costs | 20,838 |
| 148 | Past service costs | 308 |
| - | Effect of settlements | (10,223) |
| 5,631 | Effect of interest costs | 5,773 |
| - | Effect of business combinations | 10,045 |
| **218,500** | **Balance at 31 March** | **244,155** |

## Note 12 Unusable Reserves (continued)

### Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account absorbs the adjustments to Financials Instruments, mainly liabilities.

| 2017/18 | | 2018/19 |
|---|---|---|
| **£'000** | | **£'000** |
| **933** | **Balance at 1 April** | **(2,605)** |
| (18) | Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in year in accordance with statutory requirements | (19) |
| (3,520) | Calculated interest on Loan from Greater London Authority | (1,101) |
| **(2,605)** | **Balance at 31 March** | **(3,725)** |

## Note 12 Unusable Reserves (continued)

### Deferred Capital Receipts Reserve

The Deferred Capital Receipts Reserve holds the receipts from leases.

| 2017/18 | | 2018/19 |
|---|---|---|
| **£'000** | | **£'000** |
| **(7,583)** | **Balance at 1 April** | **(7,537)** |
| 46 | Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement | 98 |
| - | Transfer to the Capital Receipts Reserve upon receipt of cash | (700) |
| **(7,537)** | **Balance at 31 March** | **(8,139)** |

## Note 12 Unusable Reserves (continued)

### Collection Fund Adjustment Account

The Collection Fund Adjustment Account manages the differences arising from the recognition of Council Tax and Business Rates income in the Comprehensive Income and Expenditure Statement as it falls due from Council Tax payers, compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.

| 2017/18 | | 2018/19 |
|---|---|---|
| £'000 | | £'000 |
| **(1,147)** | **Balance at 1 April - Council Tax** | **(327)** |
| 1,147 | Opening balance reversed back to the Collection Fund Control Account | 327 |
| (327) | Amount by which Council Tax income credited to the Comprehensive Income and Expenditure Statement is different from Council Tax income calculated for the year in accordance with statutory requirements | (62) |
| **(327)** | **Balance at 31 March** | **(62)** |
| | | |
| **855** | **Balance at 1 April - Business Rates** | **(2,269)** |
| (855) | Opening balance reversed back to the Collection Fund Control Account | 2,269 |
| (2,269) | Amount by which Business Rates income credited to the Comprehensive Income and Expenditure Statement is different from Business Rates income calculated for the year in accordance with statutory requirements | (521) |
| **(2,269)** | **Balance at 31 March** | **(521)** |
| | | |
| **(2,596)** | **Grand Total** | **(583)** |

## Accumulated Absences Account

The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year, i.e. annual leave entitlement carried forward at 31 March 2019. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from this Account.

| 2017/18 | | 2018/19 |
|---|---|---|
| **£'000** | | **£'000** |
| **4,393** | **Balance at 1 April** | **2,820** |
| (4,393) | Settlement or cancellation of accrual at the end of the preceding year | (2,820) |
| 2,820 | Amounts accrued at the end of the current year | 3,603 |
| **2,820** | **Balance at 31 March** | **3,603** |

## Financial Instruments Revaluation Reserve

The Financial Instruments Revaluation Reserve contains the gains and losses made by the authority arising from increases and decreases in the value of its investments that are measured at fair value through other comprehensive income.

| 2017/18 | | 2018/19 |
|---|---|---|
| **£'000** | | **£'000** |
| **-** | **Balance at 1 April** | |
| | Transfer of Available for Sale balances - IFRS 9 Categorisation | **(129)** |
| | Upward revaluation of investments | (1) |
| | Downward revaluation of investments | 22 |
| | Change in impairment loss allowances | |
| **-** | **Balance at 31 March** | **(107)** |

## Note 12 Unusable Reserves (continued)

### Available for Sale Reserve

The Available for Sale Reserve contains the gains and losses made by the authority arising from increases and decreases in the value of its investments. Due to IFRS 9 code changes, the balances here have been moved to the Financial Instruments Revaluation reserve.

| 2017/18 | | 2018/19 |
|---|---|---|
| **£'000** | | **£'000** |
| **(399)** | **Balance at 1 April** | **(223)** |
| 176 | Amounts charged to the Comprehensive Income and Expenditure Statement | |
| | Transfer of Available for Sale balances - IFRS 9 Categorisation | **223** |
| **(223)** | **Balance at 31 March** | **-** |

# Note 13a Property Plant & Equipment

| 2018/19 | Council dwellings | Other land and buildings | Vehicles, plant, furniture and equipment | Infrastructure assets | Community assets | Surplus assets | Assets under construction | Total Property, Plant and Equipment |
|---|---|---|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Cost or Valuation | | | | | | | | |
| **At 1st April 2018** | **370,859** | **365,214** | **27,645** | **156,028** | **2,848** | **16,500** | **37** | **939,131** |
| Additions | 12,582 | 8,398 | 1,283 | 11,801 | 250 | - | 1,633 | 35,948 |
| Revaluation increases/(decreases) recognised in the Revaluation Reserve | 935 | 22,857 | - | - | - | - | - | 23,792 |
| Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services | (5,282) | 10,812 | - | - | - | (1,271) | - | 4,259 |
| Derecognition - Disposals | (2,092) | (4,771) | - | - | - | - | - | (6,863) |
| Reclassifications/Transfers | (678) | 4,645 | - | - | - | - | - | 3,967 |
| **At 31st March 2019** | **376,324** | **407,156** | **28,928** | **167,829** | **3,098** | **15,229** | **1,670** | **1,000,234** |

## Note 13a Property Plant & Equipment (continued)

| 2018/19 | Council dwellings | Other land and buildings | Vehicles, plant, furniture and equipment | Infrastructure assets | Community assets | Surplus assets | Assets under construction | Total Property, Plant and Equipment |
|---|---|---|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Accumulated Depreciation and Impairment | | | | | | | | |
| **At 1st April 2018** | **-** | **(2,881)** | **(19,803)** | **(88,342)** | **-** | **-** | **-** | **(111,026)** |
| Depreciation charge | (8,667) | (12,191) | (2,549) | (6,361) | - | - | - | (29,768) |
| Depreciation charge written out to the Revaluation Reserve | 167 | 9,962 | - | - | - | - | - | 10,129 |
| Depreciation charge written out to the Surplus/Deficit on the Provision of Services | 8,500 | 1,746 | - | - | - | - | - | 10,246 |
| Derecognition - Disposals | - | 35 | - | - | | - | - | 35 |
| **At 31st March 2019** | **0** | **(3,329)** | **(22,352)** | **(94,703)** | **-** | **-** | **-** | **(120,385)** |
| | | | | | | | | |
| Net book value at 31st March 2019 | 376,324 | 403,827 | 6,576 | 73,126 | 3,098 | 15,229 | 1,670 | 879,849 |
| Net book value at 31st March 2018 | 370,859 | 362,333 | 7,842 | 67,685 | 2,848 | 16,500 | 37 | 828,104 |
| **Nature of asset holding** | | | | | | | | |
| Owned | 376,324 | 400,802 | 6,519 | 73,126 | 3,098 | 15,229 | 1,670 | 876,768 |
| Leased | - | 3,025 | 57 | - | - | - | - | 3,082 |
| | **376,324** | **403,827** | **6,576** | **73,126** | **3,098** | **15,229** | **1,670** | **879,849** |

## Note 13a Property Plant & Equipment (continued)

| 2017/18 | Council dwellings | Other land and buildings | Vehicles, plant, furniture and equipment | Infrastructure assets | Community assets | Surplus assets | Assets under construction | Total Property, Plant and Equipment |
|---|---|---|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Cost or Valuation | | | | | | | | |
| **At 1st April 2017** | **352,656** | **376,095** | **25,870** | **144,912** | **2,805** | **14,658** | **4,014** | **921,010** |
| Additions | 16,143 | 13,944 | 1,775 | 11,115 | 42 | - | 37 | 43,057 |
| Revaluation increases/(decreases) recognised in the Revaluation Reserve | 108 | (5,216) | - | - | - | - | - | (5,108) |
| Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services | 3,871 | (11,080) | - | - | - | (5,047) | - | (12,255) |
| Derecognition - Disposals | (1,920) | - | - | - | - | - | - | (1,920) |
| Derecognition - Other | - | (5,908) | - | - | - | - | - | (5,908) |
| Other movements in cost or valuation | - | 4,014 | - | - | - | - | (4,014) | - |
| Reclassifications/Transfers | - | (6,636) | - | - | - | 6,888 | - | 252 |
| **At 31st March 2018** | **370,859** | **365,214** | **27,645** | **156,028** | **2,848** | **16,500** | **37** | **939,131** |

## Note 13a Property Plant & Equipment (continued)

| 2017/18 | Council dwellings | Other land and buildings | Vehicles, plant, furniture and equipment | Infrastructure assets | Community assets | Surplus assets | Assets under construction | Total Property, Plant and Equipment |
|---|---|---|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Accumulated Depreciation and Impairment | | | | | | | | |
| **At 1st April 2017** | **-** | **(1,898)** | **(17,251)** | **(82,231)** | **-** | **-** | **-** | **(101,380)** |
| Depreciation charge | (8,375) | (8,907) | (2,552) | (6,111) | - | - | - | (25,944) |
| Depreciation charge written out to the Revaluation Reserve | 311 | 5,232 | - | - | - | - | - | 5,543 |
| Depreciation charge written out to the Surplus/Deficit on the Provision of Services | 8,064 | 2,691 | - | - | - | - | - | 10,755 |
| Derecognition - Disposals | - | - | - | - | - | - | - | - |
| Derecognition - Others | | | | | | | | |
| **At 31st March 2018** | **-** | **(2,881)** | **(19,803)** | **(88,342)** | **-** | **-** | **-** | **(111,026)** |
| | | | | | | | | |
| Ner book value at 31st March 2018 | 370,859 | 362,333 | 7,842 | 67,685 | 2,848 | 16,500 | 37 | 828,104 |
| Net book value at 31st March 2017 | 352,656 | 374,197 | 8,619 | 62,681 | 2,805 | 14,658 | 4,014 | 819,630 |
| **Nature of asset holding** | | | | | | | | |
| Owned | 370,858 | 359,310 | 7,736 | 67,685 | 2,848 | 16,500 | 37 | 824,975 |
| Leased | - | 3,023 | 106 | - | - | - | - | 3,129 |
| | **370,858** | **362,333** | **7,842** | **67,685** | **2,848** | **16,500** | **37** | **828,104** |

## Note 13a Property Plant & Equipment (continued)

**REVALUATIONS**

The Council carries out a rolling programme that ensures that all Property, Plant and Equipment required to be measured at Current Value is re-valued at least every five years.

In 2018/19, Council properties were re-valued if they met one of the following criteria:

- Property valued at more than 1% of the total value of other land and buildings
- Property with a carrying value above £1.5m not re-valued within the past 3 years
- any properties that have reached the maximum interval between valuations of 5 years.
- all Investment Properties
- any property classed as a Council Dwelling

All General Fund and HRA valuations were carried out by Montagu Evans LLP, under the instruction of the Council's Asset services. Valuation of land and buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors.

Where assets have been re-valued and the revaluation reserve balance for an asset is nil, a charge has been taken to the individual service lines within the Net Cost of Service of the Comprehensive Income and Expenditure Statement and reversed out to the Capital Adjustment Account.

These charges include the value of onward revaluations on properties with a nil or exhausted revaluation balance and upward revaluations for properties which previously had downward revaluation charges to the Comprehensive Income & Expenditure Statement. The Revaluation reserve is credited with gains on revaluation of assets. Revaluation gains which are subsequently reversed through impairment or disposal of the asset are debited from the reserve.

**EFFECT OF CHANGES IN ESTIMATES – COMPONENTISATION**

For 2018/19 depreciation for Council dwellings has been calculated based on componentisation of blocks of similar properties (using beacon principles). This resulted in depreciation of £8.667m being charged to the HRA (2017/18 £8.375m).

**CAPITAL COMMITMENTS**

At 31 March 2019, the Authority has entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in future years.
The major commitments are:

| Value of commitment 31 Mar 2018 | | Value of commitment 31 Mar 2019 |
|---|---|---|
| **£'000** | | **£'000** |
| 15 | Schools programme | 204 |
| 98 | General fund property programme | 519 |
| 2,876 | Public realm programme | 506 |
| 393 | Highways & transport programme | 4,853 |
| - | Housing general fund | - |
| 647 | ICT programme | 501 |
| 13,880 | HRA housing | 9,760 |
| **17,909** | | **16,343** |

# Note 13a Property Plant & Equipment (continued)

**FAIR VALUE MEASUREMENT OF NON-FINANCIAL ASSETS**

The following table shows the Levels within the hierarchy of non-financial assets measured at fair value on a recurring basis at 31 March 2019. Note the majority of property plant and equipment is carried at current value in accordance with IAS 16, as adapted for the public sector context. Fair value of the Council's main property assets is estimated based on appraisals performed by independent, professionally-qualified property Valuers. The significant inputs and assumptions are developed in consultation with management. The valuation processes and fair value changes are reviewed by the S151 Officer and the Audit, Governance and Standards Committee at each reporting date.

| **31 March 2019** | **£'000** | **£'000** | **£'000** | **£'000** |
|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Total** |
| Surplus Assets | - | - | 15,229 | 15,229 |
| Investment Properties | - | - | 85,080 | 85,080 |
| Assets Held for sale | - | - | 337 | 337 |
| | **-** | **-** | **100,646** | **100,646** |

# Note 13b Heritage Assets

The value of the Council's Heritage Assets totalled £1.209m as at 31 March 2019. The last valuation was undertaken in 2014/15. The Council's Civic Regalia and paintings located in the Guildhall are included in the valuation. No additions or disposals occurred during the year.
A number of other items have been identified as Heritage Assets but have not been included on the balance sheet because seeking a valuation is either impossible given their nature or would cost too much to be commensurate with benefits to the users of the financial statements. These items include:

- **Museum Collection –** Comprises of just under 9,000 items of either historical, rather than monetary, value or which are costly to value or impossible to value given their nature. The collection is varied, and though most are items of local interest, some items in the collection do hold national and international significance.

- **Art Collection –** Over 700 items, mostly of local topographical interest and some commercially produced pieces. Within this collection are a small selection of pieces by more notable artists and the ever-growing Brill collection, aspects of which will appreciate in value as the artists achieve success in their later careers.

- **The Eadweard Muybridge Collection –** A collection of an early photographic pioneer donated to the Authority at the end of his life. Muybridge achieved international success and was key to the progress of early 20th century photography and the development of moving images. Some items are highly collectible but seeking a valuation basis is impossible due to their unique nature.

- **Local History Collection –** Collection includes books, pamphlets, maps, ephemera, oral histories, photographs and volumes of newspapers, totalling more than 18,000 items. There is no information detailing historical cost for significant items.

- **Archives –** The majority of the collection relates to the Royal Borough of Kingston upon Thames as an entity, this includes royal charters dating back to 1208. In addition to the records of the borough, over 350 collections from local organisations and individuals have been deposited with the archive.

- **Public Art –** sculptures and mosaics in public areas. There is no information on historic cost and given their nature the cost of valuation is not commensurate with benefits to users of the financial statements.

5 Year Summary of Transactions – the heritage collections continue to grow year on year, but there have been no significant acquisitions in the last 5 years.

# Note 13c Intangible Assets

Intangible assets are those which do not have physical substance, but bring economic benefit to the Council. Intangible assets include both purchased licenses and internally generated software.

The carrying amount of intangible assets is amortised on a straight-line basis. The amortisation of £1.631m charged to revenue in 2018/19 was charged directly to each service heading (£1.550m in 2017/18).

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

| **2017/18** | | **2018/19** |
|---:|---|---:|
| **£'000** | | **£'000** |
| | **Balance at start of year:** | |
| 9,378 | - Gross carrying amounts | 11,344 |
| (4,655) | - Accumulated amortisation | (6,205) |
| **4,723** | **Net carrying amount at the start of year** | **5,139** |
| | Additions: | |
| 1,966 | - Purchases | 1,452 |
| (1,550) | Amortisation for the period | (1,631) |
| **5,139** | **Net carrying amount at end of year** | **4,960** |
| | Comprising: | |
| 11,344 | - Gross carrying amounts | 12,796 |
| (6,205) | - Accumulated amortisation | (7,836) |
| **5,139** | | **4,960** |

# Note 14 Investment Properties

There are no restrictions on the Council's ability to realise the value inherent in its investment property or on the Council's right to the remittance of income and the proceeds of disposal. The Council has no contractual obligations to purchase, construct or develop investment property. Investment properties were valued by Montagu Evans LLP.

The following table summarises the movement in the Fair Value of investment properties over the year:

| 2017/18 | | 2018/19 |
|---|---|---|
| **£'000** | | **£'000** |
| 23,433 | Balance at the start of the year | 84,530 |
| - | Reclassifications | 1,604 |
| 57,375 | Additions | 241 |
| - | Disposals | - |
| (252) | Transfers to and from Investment properties | - |
| 3,974 | Net gains/(losses) from fair value adjustments (Revaluations and Impairments) | (1,295) |
| **84,530** | **Balance at the end of the year** | **85,080** |

Fair value of the Council's main property assets is estimated based on appraisals performed by independent, professionally-qualified property Valuers. The valuations comprise a combination of Market Approach, Income Approach and Cost Approach. Investment Property valuations are categorised at Level 3 in the Fair Value Hierarchy, since they include both observable and unobservable inputs. The significant inputs and assumptions are developed in consultation with management, and the valuation processes and fair value changes are reviewed by the S151 Officer and the Audit, Governance and Standards Committee at each reporting date.

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

| 2017/18 | | 2018/19 |
|---|---|---|
| **£'000** | | **£'000** |
| (7,066) | Rental Income from Investment Properties | (8,205) |
| 635 | Direct Operating Expenses arising from Investment Property | 735 |
| **(6,431)** | | **(7,470)** |

# Note 15 Assets Held for Sale

| 2017/18 £000's | | 2018/19 £000's |
|---|---|---|
| **5,000** | **Balance outstanding at start of the year** | **5,908** |
| | Assets newly classified as held for sale: | |
| 5,908 | - Land & buildings | 337 |
| | Assets declassified as held for sale: | |
| (5,000) | Derecognition - disposals | - |
| | Reclassifications | (5,908) |
| **5,908** | **Balance outstanding at year-end** | **337** |
| | Represented by: | |
| 5,908 | - Short term assets held for sale | 337 |
| **5,908** | **Total assets held for sale** | **337** |

# Note 16 Capital Expenditure and Capital Financing

The total amount of capital expenditure incurred in the year is shown in the table below (including the value of assets acquired under finance leases), together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Council, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Council that has yet to be financed. The CFR is analysed in the table below:

| 2017/18 | | 2018/19 |
|---|---|---|
| **£'000** | | **£'000** |
| **271,276** | **Opening Capital Financing Requirement** | **338,030** |
| | **Capital Investment** | |
| 43,057 | - Property, Plant and Equipment | 35,948 |
| 57,375 | - Investment Properties | 241 |
| 1,967 | - Intangible Assets | 1,452 |
| 2,103 | - Revenue Expenditure Funded from Capital Under Statute | 3,621 |
| | **Sources of Finance** | |
| (6,124) | - Capital Receipts | (5,000) |
| (16,733) | - Government grants and other contributions | (17,868) |
| | - Sums set aside from revenue | - |
| (8,930) | - Direct revenue contributions | (8,305) |
| (5,962) | - MRP / Loans fund principal | (6,707) |
| **338,030** | **Closing Capital Financing Requirement** | **341,411** |
| | | |
| | **Explanation of movements in year** | |
| 66,766 | - Increase in underlying need to borrow (unsupported by government financial assistance) | 3,381 |
| **66,766** | **Increase in Capital Financing Requirement** | **3,381** |

# Note 17 Financial Instruments

## a) Financial Instruments Balances

Accounting regulations require financial instruments shown on the balance sheet to be further analysed into various defined categories as shown in the table below.

### Categories of financial assets and financial liabilities

| | | | | 31 March 2018 | | | | | | 31 March 2019 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Non-current** | | **Current** | | **Total** | FINANCIAL ASSETS | **Non-current** | | **Current** | | **Total** |
| **Investments** | **Debtors** | **Investments** | **Debtors** | | | **Investments** | **Debtors** | **Investments** | **Debtors** | |
| **£'000** | **£'000** | **£'000** | **£'000** | **£'000** | | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** |
| 4,979 | - | - | - | 4,979 | Fair value through profit and loss | 4,973 | | | | 4,973 |
| - | 7,570 | 36,874 | 29,140 | 73,584 | Amortised Cost | | 7,421 | 35,596 | 39,502 | 82,519 |
| 249 | - | - | - | 249 | Fair value through other comprehensive income - designated equity instruments | 235 | - | - | - | 235 |
| 5,228 | 7,570 | 36,874 | 29,140 | 78,812 | **Total financial assets** | 5,207 | 7,421 | 35,596 | 39,502 | 87,726 |
| | | | 13,941 | 13,941 | Non-financial assets | | | | 7,015 | 7,015 |
| 5,228 | 7,570 | 36,874 | 43,081 | 92,753 | **Total** | 5,207 | 7,421 | 35,596 | 46,517 | 94,741 |

Current Investments figure shown in the table above includes Short term Investments, Assets held for sale and Cash & Cash Equivalents.

## Note 17 Financial Instruments (continued)

This note shows the effect of reclassification of financial assets following the adoption of IFRS 9 Financial Instruments by the Code of Practice on Local Authority Accounting and the remeasurements of carrying amounts then required.

| | | | | 31 March 2018 | | | | | | 31 March 2019 |
|---|---|---|---|---|---|---|---|---|---|---|
| Non-current | | Current | | Total | FINANCIAL LIABILITIES | Non-current | | Current | | Total |
| Borrowings | Creditors | Borrowings | Creditors | | | Borrowings | Creditors | Borrowings | Creditors | |
| £'000 | £'000 | £'000 | £'000 | £'000 | | £'000 | £'000 | £'000 | £'000 | £'000 |
| (289,308) | (6) | (5,774) | (36,102) | (331,190) | Amortised Cost | (294,038) | (0) | (2,274) | (25,561) | (321,874) |
| (289,308) | (6) | (5,774) | (36,102) | (331,190) | Total financial liabilities | (294,038) | (0) | (2,274) | (25,561) | (321,874) |
| | | | (18,428) | (18,428) | Non-financial liabilities | | (3,000) | | (29,864) | (29,864) |
| (289,308) | (6) | (5,774) | (54,530) | (349,618) | Total | (294,038) | (3,000) | (2,274) | (55,425) | (351,738) |

## Note 17 Financial Instruments (continued)

**Reclassification and remeasurement of financial assets at 1 April 2018**

| | | New Classifications at 1 April 2018 | | |
|---|---|---|---|---|
| | Carrying amount brought forward at 1 April | Amortised cost | Fair value through other comprehensive income | Fair value through profit and loss |
| | £'000 | £'000 | £'000 | £'000 |
| **Previous classifications** | | | | |
| Investments and cash and cash equivalents | 36,874 | 36,874 | - | - |
| Loans and receivables | 36,710 | 36,710 | - | - |
| Available for Sale | 5,228 | - | 249 | 4,979 |
| **Reclassified amounts at 1 April 2018** | 78,812 | 73,584 | 249 | 4,979 |
| | | | | |
| Remeasurements at 1 April 2018 | | - | - | - |
| **Remeasured carrying amounts at 1 April 2018** | 78,812 | 73,584 | 249 | 4,979 |
| | | | | |
| Impact of General Fund Balance | | - | - | - |
| Impact on Financial Instruments Revaluation Reserve | | - | - | - |

# Note 17 Financial Instruments (continued)

**Effect of Asset Reclassification and Remeasurement on the Balance Sheet**

This note shows how the new balances at 1 April 2018 for financial assets are incorporated into the Balance Sheet.

| | New Classifications at 1 April 2018 | | | | |
|---|---|---|---|---|---|
| | Amortised Cost | Fair Value through Other Comprehensive Income | Fair value through profit and Loss | Non-financial instrument balances | Total Balance Sheet carrying amount |
| | £'000 | £'000 | £'000 | £'000 | £'000 |
| **Remeasured carrying amounts at 1 April 2018** | 73,584 | 249 | 4,979 | | 78,812 |
| | | | | | |
| Non-current investments | | 249 | 4,979 | | 5,228 |
| Long-term debtors | 7,570 | | | | 7,570 |
| Current investments | 36,874 | | | | 36,874 |
| Current debtors | 29,140 | | | 13,941 | 43,081 |

**New Classifications at 1 April 2018**

**Application of classification requirements at 1 April 2018**

The following judgements were made in reclassifying financial instruments at 1 April 2018:

- All financial instruments are deemed to be at amortised cost unless there is clear evidence to support an alternative classification of Fair Value through either Other Comprehensive Income or Profit and Loss
- The Council has shareholdings in the UK Municipal Bond Agency and Kingston Theatre LLP previously classified as available for sale. As the purpose is to support a service objective these shares have been elected as Fair Value through Other Comprehensive Income.
- The Council has holdings in two cash funds managed by Royal London which are now classified as Fair Value through Profit and Loss from the previous category of available for sale.

# Note 17 Financial Instruments (continued)

**Reclassification and remeasurement of impairment losses at 1 April 2018**

No impairment losses were reclassified or remeasured.

**Soft Loans**

The Council is in receipt of an interest-free loan from the Greater London Authority for the purpose of regenerating the Cambridge Road Estate. There were 2 tranches of £10m each in 2017/18 and a further tranche of £6.625m in 2018/19. The Council is required to carry these liabilities in its accounts at the net present value of the loan discounted at a comparable rate offered by the Public Works Loan Board. The difference between the nominal principal of £26.625m and the net present value is taken to reserve and written down over the life of the loan so that the 2 values are equal on maturity

| Greater London Authority | 2017/18 | 2018/19 |
|---|---|---|
| | £'000 | £'000 |
| Opening Balance | - | 16,407 |
| Nominal value of new loans granted in year | 20,000 | 6,625 |
| Fair value adjustment on initial recognition | (3,753) | (1,600) |
| Loans repaid | - | - |
| Increase in the discounted amount | 160 | 498 |
| **Closing balance at end of year** | 16,407 | 21,930 |
| | | |
| **Nominal value at 31 March** | 20,000 | 26,625 |

# Note 17 Financial Instruments (continued)

**Investments in equity instruments designated at fair value through other comprehensive income**

| Description | Nominal | Fair Value | Change in fair value during 2018/19 | Dividends |
|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 |
| Kingston Theatre LLP | 5,083 | 224 | 1 | 36 |
| UK Municipal Bond Agency PLC | 100 | 11 | (15) | - |

Kingston Theatre LLP is a Limited Liability Partnership (LLP) between the Council (95% stake) and Kingston University (5% stake), whose principal activity is to own and manage the property in High Street, Kingston upon Thames known as the Rose Theatre.

The UK Municipal Bonds Agency Plc was established in June 2014, with the primary purpose of reducing local authority financing costs by issuing bonds in the capital markets and on-lending to councils, lending between councils and sourcing funding from 3rd party sources, to on-lend to councils.

**Reclassification**
Reclassification of a financial instrument can only occur if it is allowed through the definitions of the Code, and as a consequence should be relatively rare.
In the case of financial liabilities an authority cannot reclassify. No financial instruments have been reclassified.

# Note 17 Financial Instruments (continued)

## b) Comprehensive Income and Expenditure Statement disclosures

**Items of income, expense, gains or losses**

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

| | 2017/18 | | | 2018/19 |
|---|---|---|---|---|
| **Surplus or Deficit on the Provision of Services** | **Other Comprehensive Income and Expenditure** | | **Surplus or Deficit on the Provision of Services** | **Other Comprehensive Income and Expenditure** |
| **£'000** | **£'000** | | **£'000** | **£'000** |
| | | **Net gains/losses on:** | | |
| 21 | - | Financial assets measured at fair value through profit or loss | 256 | |
| 314 | - | Financial assets measured at amortised cost | 634 | |
| - | 216 | Investments in equity instruments designated at fair value through other comprehensive income | | 14 |
| 335 | 216 | **Total net gains/losses** | 890 | 14 |
| | | Interest revenue: | | |
| (868) | - | Financial assets measured at amortised cost | (941) | |
| - | - | Other financial assets measured at fair value through other comprehensive income | | (36) |
| (868) | - | **Total interest revenue** | (941) | (36) |
| | | | | |
| | | **Interest expense** | | |
| 10,599 | - | Financial assets or financial liabilities that are not at fair value through profit or loss | 10,892 | - |
| 10,599 | - | | 10,892 | - |

# Note 17 Financial Instruments (continued)

**Basis for recurring fair value measurements:**
Level 1 Inputs – quoted prices (unadjusted) in active markets for identical assets or liabilities that the authority can access at the measurement date.

Level 2 Inputs – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
Level 3 Inputs – unobservable inputs for the asset or liability.

**Fair Value of Financial Assets**
Some of the authority's financial assets are measured at fair value on a recurring basis and are described in the following table, including the valuation techniques used to measure them.

| Recurring fair value measurements | Input level in fair value hierarchy | Valuation technique used to measure fair value | As at 31 March 2019 | As at 31 March 2018 |
|---|---|---|---|---|
| | | | **£'000** | **£'000** |
| **Fair Value through Profit and Loss** | | | | |
| Other financial instruments classified as fair value through profit and loss | Level 1 | Unadjusted quoted prices in active markets for identical shares | 4,973 | 4,979 |
| **Total** | | | **4,973** | **4,979** |
| Fair Value through Other Comprehensive Income | | | | |
| Equity shareholding in Kingston Theatre LLP | Level 3 | Equity share attributable to shareholders | 224 | 223 |
| Equity shareholding in UK Municipal Bond Agency PLC | Level 3 | Equity share attributable to shareholders | 11 | 26 |
| **Total** | | | **235** | **249** |

## Note 17 Financial Instruments (continued)

**Equity Investments**
Kingston Theatre LLP - the shares in this company are not traded in an active market and fair value of £224k has been based on valuation techniques that are not based on observable current market transactions or available market data. The valuation is based on the equity shown in Kingston Theatre LLP's latest accounts, shared proportionately between Partnership members.

The UK Municipal Bond Agency– the shares in this company are not traded in an active market and fair value of £11k has been based on valuation techniques that are not based on observable current market transactions or available market data. The valuation has been made based on an analysis of the assets and liabilities in the company's latest audited accounts.

**Other financial instruments Classified as Fair value through Profit and Loss**
The Council has investments in two bond funds managed by Royal London: Cash Plus Fund and Enhanced Cash Plus Fund. Both funds are valued on a mid-price basis.

**Transfers between Levels of the Fair Value Hierarchy**
There were no transfers between input levels 1 and 2 during the year.

**Changes in the Valuation Technique**
There has been no change in the valuation technique used during the year for the financial instruments

**The Fair Values of Financial Assets and Financial Liabilities that are not measured at Fair Value (but for which Fair Value Disclosures are required)**
Except for the financial assets carried at fair value (described in the table above), all other financial liabilities and financial assets represented by amortised cost and long-term debtors and creditors are carried on the balance sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that take place over the remaining life of the instruments, using the following assumptions:

For loans from the PWLB payable, new loan rates from the PWLB have been applied to provide the fair value under PWLB debt redemption procedures. An additional note to the tables sets out the alternative fair value measurement applying the premature repayment, highlighting the impact of the alternative valuation;
For non-PWLB loans payable, prevailing market rates have been applied to provide the fair value.
No early repayment or impairment is recognised;
Where an instrument has a maturity of less than 12 months or is a trade or other receivable the fair value is taken to be the carrying amount or the billed amount;
The fair value of trade and other receivables is taken to be the invoiced or billed amount.

## Note 17 Financial Instruments (continued)

The calculated fair value of each class of financial asset and liability which are carried in the balance sheet are shown in the tables below. The prior year fair values as at 31 March 2018 are also provided for comparison.

### Fair Value of Liabilities Carried at Amortised Cost

| 31 March 2018 | | | 31 March 2019 | |
|---|---|---|---|---|
| Carrying amount | Fair Value | | Carrying amount | Fair Value |
| £'000 | £'000 | | £'000 | £'000 |
| (211,687) | (271,625) | PWLB debt | (211,752) | (276,872) |
| (61,988) | (96,205) | Non-PWLB debt | (61,936) | (97,864) |
| (16,407) | (16,407) | GLA Soft Loan | (21,930) | (21,930) |
| (5,774) | (5,774) | Short term Borrowing | (2,274) | (2,274) |
| (36,102) | (36,102) | Short term creditors | (25,561) | (25,561) |
| (62) | (62) | Short term finance lease liability | (11) | (11) |
| (6) | (6) | Long term finance lease liability | - | - |
| **(332,026)** | **(426,181)** | Total financial liabilities | **(323,464)** | **(424,512)** |

The fair value is higher than the carrying amount because the Authority's portfolio of loans includes fixed rate loans, where the interest rate payable is higher than the prevailing rates at the balance sheet date. This shows a notional future loss (based on economic conditions at 31 March 2019) arising from a commitment to pay interest to lenders above current market rates.

The authority has a continuing ability to borrow at concessionary rates from the PWLB, rather than from the markets. A supplementary measure of the additional interest that the authority will pay as a result of its PWLB commitments for fixed rate loans is to compare the terms of these loans with the new borrowing rates available from the PWLB. If a value is calculated on this basis, the carrying amount of £211.8m would be valued at £276.9m.

But, if the authority were to seek to avoid the projected loss by repaying the loans to the PWLB, the PWLB would raise a penalty charge for early redemption in addition to charging a premium for the additional interest that would have been paid. The exit price for the PWLB loans including the penalty charge would be £327.2m.

## Note 17 Financial Instruments (continued)

### Fair Value of Assets Carried at Amortised Cost

| 31 March 2018 | | | 31 March 2019 | |
|---|---|---|---|---|
| Carrying amount | Fair Value | | Carrying amount | Fair Value |
| £'000 | £'000 | | £'000 | £'000 |
| 9,801 | 9,801 | Money market loans < 1 year | 4,989 | 4,989 |
| 34,643 | 34,643 | Short term investments | 30,607 | 30,607 |
| 29,140 | 29,140 | Short term debtors | 39,502 | 39,502 |
| **73,584** | **73,584** | Total financial assets | **75,098** | **75,098** |

Where the fair values of financial assets are the same as carrying values, this is because the investments held are short term and their interest rates are equal to the rates available for similar loans at the balance sheet date. The carrying amount and fair value of long term investments are carried at fair value according to accounting practices.

## Note 17 Financial Instruments (continued)

**Fair value hierarchy for financial assets and financial liabilities that are not measured at fair value**

| **31 March 2019** | Quoted prices in active markets for identical assets (Level 1) | Other significant observable inputs level 2) | Significant observable inputs (Level 3) | Total |
|---|---|---|---|---|
| ***Recurring fair value measurements using:*** | **£'000** | **£'000** | **£'000** | **£'000** |
| | | | | |
| **Financial liabilities** | | | | |
| Financial liabilities held at amortised cost: | | | | |
| PWLB | | (276,872) | | (276,872) |
| Non-PWLB | | (97,864) | | (97,864) |
| GLA Soft Loan | | (21,930) | | (21,930) |
| Short term debt | | (2,274) | | (2,274) |
| short term creditors | | (25,561) | | (25,561) |
| Finance lease liability | | (11) | | (11) |
| **Total** | **-** | **(424,512)** | **-** | **(424,512)** |
| | | | | |
| **Financial assets** | | | | |
| Financial assets held at amortised cost: | | 69,891 | | 69,891 |
| **Total** | **-** | **69,891** | **-** | **69,891** |

## Note 17 Financial Instruments (continued)

| 31 March 2018 comparative | Quoted prices in active markets for identical assets (Level 1) | Other significant observable inputs level 2) | Significant observable inputs (Level 3) | Total |
|---|---|---|---|---|
| ***Recurring fair value measurements using:*** | **£'000** | **£'000** | **£'000** | **£'000** |
| | | | | |
| **Financial liabilities** | | | | |
| PWLB | | (271,625) | | (271,625) |
| Non-PWLB | | (96,205) | | (96,205) |
| GLA Soft Loan | | (16,407) | | (16,407) |
| Short term debt | | (5,774) | | (5,774) |
| Long term creditors | | (54,530) | | (54,530) |
| Finance lease liability | | (68) | | (68) |
| **Total** | **-** | **(444,609)** | **-** | **(444,609)** |
| | | | | |
| Financial assets | | | | |
| Financial assets held at amortised Cost | | 68,356 | | 68,356 |
| **Total** | **-** | **68,356** | **-** | **68,356** |

The fair value for financial liabilities and financial assets that are not measured at fair value included in Level 2 in the table above have been arrived at using a discounted cash flow analysis with the most significant inputs being the discount rate detailed above.

The fair value for financial liabilities and financial assets that are not measured at fair value can be assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments, using the assumptions detailed above, primarily for financial liabilities the fair value is arrived at by applying the discounted cash flow calculations based on the PWLB premium/discount calculations.

## c) Nature and Extent of Risks Arising from Financial Instruments

The Council’s management of treasury risks actively works to minimise exposure to the unpredictability of financial markets and to protect the financial 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 associated regulations. These require the Council to comply with the CIPFA Prudential Code, the CIPFA Code on Treasury Management in the Public Services and investment guidance issued through the Act.

The Council has written principles for overall risk management as well as written policies and procedures (Treasury Management Practices - TMPs) covering specific areas such as interest rate risk, credit risk and the investment of surplus cash which are reviewed periodically.

The latest Annual Treasury Management Strategy which incorporates the prudential indicators was approved by the Council in February 2019 and is available on the Council's website.  Actual performance is reported on a quarterly basis to the Audit, Governance and Standards Committee.

### Credit Risk

Credit risk arises from the lending of surplus cash funds to banks, building societies and other local authorities as well as credit exposures to the Council's customers. It is the policy of the Council to place deposits only with a limited number of high quality banks and building societies whose credit rating is independently assessed as sufficiently secure by the Council's treasury advisers and to restrict lending to a prudent maximum amount for each institution. The Council is currently using highly rated institutions and high security money market funds. The Council has a policy of limiting deposits with individual institutions to a maximum of £20 million.

### Amounts Arising from Expected Credit Losses

The Council's maximum exposure to credit risk on its money market investments has been deemed to be immaterial. This has been determined by reference to the historic default rates provided by credit rating agencies that show a risk of default of 0.05% or less for the rated financial institutions on the Council’s approved counterparty list. Note that in the event of any default the Council would be entitled to a share of the assets in the financial institution so that any potential loss would be less than the default rate quoted.

The Council has made a credit loss allowance on its trade receivables in accordance with proper practices.

### Liquidity Risk

The Council has access to borrowing from the money markets to cover day to day cash flow needs and to the Public Works Loans Board (PWLB) and money markets for access to longer term funds. As a result there is no significant risk that the Council will be unable to raise finance to meet its commitments under financial instruments. The Council has safeguards in place to ensure that a significant proportion of its borrowing does not mature for repayment at any one time to reduce the financial impact of re-borrowing at a time of unfavourable interest rates. The maturity structure of financial liabilities is as follows (at nominal rate):

## Note 17 Financial Instruments (continued)

| 31 March 2018 | | 31 March 2019 |
|---:|---|---:|
| **£'000** | | **£'000** |
| 211,687 | Public Works Loans Board | 210,913 |
| 61,000 | Market debt | 61,000 |
| 20,000 | GLA | 26,625 |
| 5,000 | Temporary loans | 1,500 |
| **297,687** | Total | **300,038** |
| | | |
| 5,774 | Less than 1 year | 2,274 |
| 774 | Between 1 and 2 years | 775 |
| 4,824 | Between 2 and 5 years | 4,825 |
| 15,872 | Between 5 and 10 years | 40,025 |
| 270,443 | More than 10 years | 252,139 |
| **297,687** | Total | **300,038** |

# Note 17 Financial Instruments (continued)

## Market Risk

### Interest rate risk

The Council is exposed to interest rate movements on its borrowings and investments.  Movements in interest rates have a complex impact on the Council depending on how variable and fixed interest rates move across differing financial instrument periods.

Borrowings are not carried at fair value, so nominal gains and losses on fixed rate borrowings would not impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure.  However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Surplus or Deficit on the Provision of Services and affect the General Fund Balance.

The Council has a number of strategies for managing interest rate risk, for example variable rate loans are limited to a maximum of 20% of overall borrowing. The Council continually tracks interest rates and uses its treasury management advisers, Link, to identify opportunities for restructuring debt. In doing so, any premiums or discounts applicable are taken into consideration when assessing whether this may be beneficial to the Council. There is an active strategy for assessing interest rate exposure that feeds into the setting of the annual budget and which is used to update the budget quarterly during the year. This allows any adverse changes to be accommodated. The analysis will also advise whether new borrowing taken out is fixed or variable. According to this assessment strategy, at 31 March 2019, if interest rates had been 1% higher with all other variables held constant, the financial effect would be:

| | **31 March 2019** |
|---|---|
| | £'000 |
| Increase in interest receivable on variable rate investments | (451) |
| **Impact Surplus or Deficit on the Provision of Services** | **(451)** |
| Share of overall impact credited to the HRA | (157) |
| | |
| Decrease in fair value of fixed rate borrowing liabilities (no impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure) | (58,346) |

# Note 18 Short term Debtors

These are short-term debts consisting of amounts due from Government, other local authorities and amounts due for goods and services provided as at 31 March

| 2017/18 | | 2018/19 |
|---|---|---|
| £'000 | | £'000 |
| 10,366 | Central Government Bodies | 7,293 |
| 3,969 | Other Local Authorities | 4,621 |
| 4,478 | NHS Bodies | 3,304 |
| 1,745 | Public Corporations & Trading Funds | 927 |
| 22,523 | Other Entities & Individuals | 30,372 |
| **43,081** | **Total** | **46,517** |

| 2017/18 | | 2018/19 |
|---|---|---|
| £'000 | | £'000 |
| 55,707 | Debtors | 62,669 |
| 3,253 | Payments in advance | 3,177 |
| (15,879) | Less Provision for impairment of bad debts | (19,329) |
| **43,081** | **Total** | **46,517** |

# Note 19 Short term Creditors

These consist of amounts owed to Government and other public bodies and all unpaid sums for goods and services provided as at 31 March.

| 2017/18 | | 2018/19 |
|---|---|---|
| £'000 | | £'000 |
| (11,337) | Central Government Bodies | (8,562) |
| (6,949) | Other Local Authorities | (16,635) |
| (2,153) | NHS Bodies | (1,602) |
| (218) | Public Corporations & Trading Funds | (267) |
| (33,873) | Other Entities & Individuals | (28,360) |
| **(54,530)** | **Total** | **(55,425)** |

| 2017/18 | | 2018/19 |
|---|---|---|
| £'000 | | £'000 |
| (52,076) | Creditors | (52,174) |
| (2,454) | Receipts in Advance | (3,252) |
| **(54,530)** | **Total** | **(55,425)** |

# Note 20 Cash and cash equivalents

The balance of cash and cash equivalents is made up as follows:

| 2017/18 | | 2018/19 |
|---|---|---|
| **£'000** | | **£'000** |
| 6,574 | Cash held by the Authority | 8,332 |
| (4,891) | Cash at Bank | (3,680) |
| 19,481 | Short-term liquid deposits | - |
| **21,164** | **Total** | **4,651** |

# Note 21 Provisions

| | Balance b/fwd 1 April 2018 | Additional provisions made in 2018/19 | Amounts used in 2018/19 | Unused amounts reversed in 2018/19 | Balance c/fwd 31 March 2019 |
|---|---|---|---|---|---|
| | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** |
| **Non Current Provisions:** | | | | | |
| a) Long Term Insurance Provision | (1,279) | (614) | 527 | 163 | (1,203) |
| Total Non Current Provisions | (1,279) | (614) | 527 | 163 | (1,203) |
| **Current Provisions:** | | | | | |
| b) Short Term Insurance Provision | (1,283) | | | 64 | (1,219) |
| c) NNDR Appeals | (498) | (300) | (732) | - | (1,530) |
| d) Other | (852) | (5) | 812 | 20 | (25) |
| Total Current Provisions | (2,633) | (305) | 80 | 84 | (2,773) |
| **Total** | **(3,912)** | **(919)** | **607** | **247** | **(3,976)** |

## Note 21 Provisions (continued)

a) Long Term Insurance Provision - The Council's long term liability insurance provision £1.203m is to meet the cost of that part of any liability claim that falls below the insurance deductible and is, therefore, not funded by the Council's insurance policy. As at 31 March 2019, to our knowledge, there are no material unfunded risks. The estimated fund surplus is included under earmarked reserves, see Note 9. There is also an insurance provision to meet potential liabilities expected within one year in current liabilities.

b) Short term Insurance Provision - The Council's short term liability insurance provision £1.219m is made to meet the cost of that part of any liability claim that falls below the insurance deductible and is, therefore, not funded by the Council's insurance policy. As at 31 March 2019, to our knowledge, there are no material unfunded risks. There is also an insurance provision to meet potential liabilities expected in more than one year in long term liabilities.

c) A provision of £1.530m for outstanding appeals against valuations for Business Rates currently being assessed by the Valuation Office Agency (£0.498m in 2017/18).

d) Other provisions: There is a provision of £0.02m that relate to the balance of the Meyer Home Planning Appeal Provision. There is a new provision of £0.005m made for Legal costs.

# Note 22 Cash Flows from Operating Activities

| 2017/18 | | 2018/19 |
|---|---|---|
| **£'000** | | **£'000** |
| (210) | Interest received | (390) |
| 9,586 | Interest paid | 8,283 |
| **9,376** | **Total** | **7,893** |
| | **Adjust net surplus or deficit on the provision of services for non-cash movements** | |
| (25,944) | Depreciation | (29,768) |
| 3,547 | Impairment and downward revaluations | 14,505 |
| (1,550) | Amortisation | (1,631) |
| (853) | Increase / (decrease) in impairment for bad debts | (3,450) |
| (6,448) | Increase / (decrease) in creditors | (1,167) |
| 34 | (Increase) / decrease in debtors | 6,737 |
| (1) | (Increase) / decrease in inventories | (5) |
| (10,853) | Movement in Pension Liability | 13,221 |
| (6,920) | Carrying amount of non-current assets and non-current assets held for sale, sold or derecognised | (6,828) |
| | **Other non-cash items charged to the net Surplus or Deficit on the Provision of Services** | |
| 596 | -Provisions | (65) |
| 3,974 | -Movement in the value of investment properties | 1,295 |
| **(44,418)** | **Total non-cash adjustments** | **(7,155)** |
| 13,003 | Capital Grants credited to surplus or deficit on the provision of services | 5,228 |
| 14,736 | Proceeds from the sale of property plant and equipment, investment property and intangible assets | 12,266 |
| **27,739** | **Total adjustments for investing or financing activities** | **17,494** |

# Note 23 Cash Flows from Investing Activities

| 2017/18 | | 2018/19 |
|---|---|---|
| **£'000** | | **£'000** |
| 45,725 | Purchase of property, plant and equipment, investment property and intangible assets | 38,901 |
| 6,041 | Purchase of short term and long term investments | 40,309 |
| 690 | Other payments for investing activities | 690 |
| (14,736) | Proceeds from the sale of property, plant and equipment, investment property and intangible assets | (5,228) |
| (11,593) | Proceeds from short and long term investments | (38,984) |
| (21,092) | Other receipts from investing activities | (30,790) |
| **5,034** | **Total cash inflow/(outflow) from investing activities** | **4,898** |

# Note 24 Cash Flows from Financing Activities

| 2017/18 | | 2018/19 |
|---|---|---|
| **£'000** | | **£'000** |
| - | Cash receipts of short and long term borrowing | |
| 6,005 | Repayment of short term and long term borrowing | 5,774 |
| 3 | Other receipts from financing activities | - |
| **6,008** | **Total cash inflow/(outflow) from financing activities** | **5,774** |

# Note 25 Officers Remuneration & Exit Packages

This table gives the number of employees whose remuneration, excluding pension contributions but including redundancy payments, was £50,000 or more in bands of £5,000. These figures exclude those senior officers who are individually disclosed over leaf.

| 2017/18 | | Remuneration Band | 2018/19 | |
|---|---|---|---|---|
| Schools Employees | Non-Schools Employees | £ | Schools Employees | Non-Schools Employees |
| 18 | 29 | 50,000 - 54,999 | 14 | 46 |
| 8 | 18 | 55,000 - 59,999 | 13 | 16 |
| 9 | 11 | 60,000 - 64,999 | 8 | 14 |
| 3 | 9 | 65,000 - 69,999 | 6 | 8 |
| 4 | 1 | 70,000 - 74,999 | 1 | 4 |
| 2 | 1 | 75,000 - 79,999 | 4 | 2 |
| 3 | - | 80,000 - 84,999 | 2 | 2 |
| 2 | 2 | 85,000 - 89,999 | 4 | 1 |
| - | 2 | 90,000 - 94,999 | - | 2 |
| - | 1 | 95,000 - 99,999 | - | 1 |
| - | - | 100,000 - 104,999 | - | 2 |
| - | 1 | 105,000 - 109,999 | - | 1 |
| - | 1 | 115,000 - 119,999 | - | - |
| - | - | 125,000 - 129,999 | - | - |
| - | - | 130,000 - 134,999 | - | 1 |
| - | - | 135,000 - 139,999 | - | - |
| - | - | 140,000 - 144,999 | - | - |
| - | - | 170,000 - 174,999 | - | - |
| - | - | 185,000 - 189,999 | - | - |
| - | - | 195,000 - 199,999 | - | 1 |
| - | - | 260,000 - 264,999 | - | 1 |
| **49** | **76** | **Total** | **52** | **102** |

## Note 25 Officers Remuneration and Exit Packages (continued)

| 2018/19 | Note | Salary, fees and allowances | Compensation for loss of office | Employers pension contributions | Total |
|---|---|---|---|---|---|
| | | £000's | £000's | £000's | £000's |
| Chief Executive - Ian Thomas | 1 | 37 | - | - | 37 |
| | | | | | |
| Chief Executive - Charlie Adan | 1 | 45 | 142 | 7 | 194 |
| Acting Chief Executive - Roy Thompson | | 118 | - | 19 | 137 |
| Deputy Chief Executive - Roy Thompson | 1 | 39 | 112 | 6 | 157 |
| Interim Chief Finance Officer | 2 | 59 | - | - | 59 |
| Director Corporate and Commercial | 2 | 139 | - | 22 | 161 |
| Director Communities | 3 | 141 | - | 20 | 161 |
| Interim Director Children's Services | 4 | 71 | - | - | 71 |
| Director Growth | 5 | 127 | - | 20 | 147 |
| Assistant Director Governance and Law | 6 | 39 | - | 6 | 45 |
| Interim Assistant Director Governance and Law | 6 | 95 | - | - | 95 |
| Senior Consultant - People Directorate | | 41 | - | - | 41 |
| Assistant Director Healthy and Safe Communities (Director of Public Health) | | 116 | - | 18 | 134 |
| Director of Adult Social Services | | 132 | - | 21 | 153 |

## Note 25 Officers Remuneration and Exit Packages (continued)

| 2017/18 Comparative figures | Note | Salary, fees and allowances | Compensation for loss of office | Employers pension contributions | Total |
|---|---|---|---|---|---|
| | | £000's | £000's | £000's | £000's |
| Chief Executive - Charlie Adan | 1 | 173 | - | 28 | 201 |
| | | | | | |
| Deputy Chief Executive | 1 | 99 | - | 16 | 114 |
| Director of Place | | 49 | - | 8 | 57 |
| Director of Finance | 2 | 29 | 138 | 5 | 171 |
| Interim S151 Officer & Head of Finance - Strategy and Accounting | 2 | 62 | 57 | 11 | 130 |
| Interim Chief Finance Officer | 2 | 64 | - | - | 64 |
| Head of Legal Services | 6 | 24 | 45 | 4 | 72 |
| Interim Assistant Director of Governance & Law | 6 | 33 | - | - | 33 |
| Head of Corporate Governance | 6 | 74 | - | 12 | 85 |
| Director of Communities | 3 | 2 | - | - | 3 |
| Interim Director of Communities | 3 | 16 | - | - | 16 |
| Interim Director of Growth | 5 | 85 | - | - | 85 |
| Interim Director Corporate & Commercial | 2 | 30 | - | - | 30 |
| Interim Director of Public Health | | 114 | - | 16 | 130 |
| Senior Consultant - People Directorate | | 198 | - | - | 198 |
| Director of Adult Social Services | | 123 | - | 19 | 142 |

# Note 25 Officers Remuneration and Exit Packages (continued)

1. The Chief Executive Ian Thomas joined the Council on 28 January 2019. He replaced Charlie Adan who left on the 30 June 2018. Deputy Chief Executive Roy Thompson was the Acting Chief Executive up until 8 March 2019.

2. The Director of Finance was also the Council's Section 151 Officer up until 16th June 2017 when he left. The Head of Finance – Strategy and Accounting acted as interim S151 Officer until he retired in October 2017. An Interim Chief Finance Officer joined the council in November 2017 for the remainder of 2017/18. The Interim Director of Corporate and Commercial officer joined the council in October 2017 and left in November 2017, he was replaced by Interim Chief Finance officer who started in November 2017 and left in June 2018. These responsibilities were transferred to the current Director Corporate and Commercial who started on 4 April 2018.

3. The responsibilities of the Council's Interim Director of Communities were transferred to a permanent recruitment who joined the council on 26 March 2018.

4. This position was shared with the London Borough of Richmond until December 2018 and not employed by RBK. There is currently an interim Director of Children's Services employed solely by Kingston Council.

5. The responsibilities of the Interim Director of Growth was transferred to a permanent recruit who joined the council on 2 April 2018.

6. The Head of Legal Services who was also the Council's Monitoring Officer, left the council on 5th July 2017. The Council's Monitoring Officer's position was subsequently covered by the Head of Corporate Governance, and latterly the Interim Assistant Director, Governance and Law. There were two Assistant Director Governance and Law during the financial year 2018-19. The interim director started on 12 February 2018 and left on 14 September 2018 and the permanent director started 12 November 2018 and left on 6 May 2019.

## Officers Remuneration & Exit Packages (continued)

### Exit Packages

The cost of exit packages (excluding Voluntary Aided and Foundation schools) are as follows:

| Exit package cost band | Number of compulsory redundancies | | Number of other departures agreed | | Total number of exit packages by cost band | | Total cost of exit packages in each band | |
|---|---|---|---|---|---|---|---|---|
| **£** | **2017/18** | **2018/19** | **2017/18** | **2018/19** | **2017/18** | **2018/19** | **2017/18** | **2018/19** |
| 0 - 20,000 | 17 | 56 | 2 | - | 19 | 56 | 135 | 458 |
| 20.001 - 40,000 | 3 | 9 | - | - | 3 | 9 | 71 | 255 |
| 40,001 - 60,000 | 2 | 5 | - | - | 2 | 5 | 113 | 251 |
| 60,001 - 80,000 | 1 | 4 | - | - | 1 | 4 | 70 | 359 |
| 80,001 - 100,000 | - | 1 | - | - | - | 1 | - | 83 |
| 100,001 - 150,000 | 1 | 4 | 1 | - | 2 | 4 | 250 | 529 |
| 150,001 - 200,000 | - | 1 | - | - | - | 1 | - | 160 |
| 200,001 - 250,000 | 1 | - | - | - | 1 | - | 248 | - |
| 250,001 - 300,000 | - | - | - | | - | - | - | - |
| 300,001 - 350,000 | - | 1 | - | | - | 1 | - | 316 |
| **Total** | 25 | 81 | 3 | - | 28 | 81 | 887 | 2,411 |

The total cost of £2.411m (£0.886m in 2017/18) in the table above includes exit packages that have been agreed, accrued for and charged to the Authority's Comprehensive Income and Expenditure Statement in the current year. The balance of £0.479m (£0.117m in 2017/18) of committed cost have not been charged to the Authority's Comprehensive Income and Expenditure Statement in the current year as the agreed cost is spread over 3 years in accordance with statutory rules .There are no costs to the Comprehensive Income and Expenditure Statement in respect of schools where schools are the decision making body. Foundation and Voluntary Aided schools have been excluded from this not as the Authority is not the direct employer.

# Note 26 Members Allowances

| 2017/18 | | 2018/19 |
|---|---|---|
| £'000 | | £'000 |
| 705 | Allowances | 688 |
| - | Expenses | - |
| **705** | | **688** |

# Note 27 Dedicated Schools Grant

The Council's expenditure on schools is funded primarily by grant monies provided by the Department for Education, the Dedicated Schools Grant (DSG). DSG is ring-fenced and can only be applied to meet expenditure properly included in the Schools Budget, as defined in the School Finance (England) Regulations 2016. The Schools Budget includes elements for a range of educational services provided on an authority-wide basis and for the Individual Schools Budget, which is divided into a budget share for each maintained school.

Details of the deployment of DSG receivable for 2017/18 are as follows:

| | Central Expenditure | Individual Schools Budget (ISB) | Total |
|---|---|---|---|
| | **£'000** | **£'000** | **£'000** |
| Final DSG for 2018/19 before Academy recoupment | | | (135,707) |
| Less Academy figure recouped for 2018/19 | | | 54,610 |
| Total DSG after Academy recoupment for 2018/19 | | | (81,097) |
| Brought forward from 2017/18 | | | 10,690 |
| Agreed initial budgeted distribution in 2018/19 | | | |
| In-year adjustments | (9,009) | (61,398) | (70,407) |
| Final budget distribution for 2018/19 | (9,009) | (61,398) | (70,407) |
| Less actual central expenditure | 23,604 | | |
| Less actual ISB deployed to schools | | 60,874 | |
| **Carry forward to 2018/19 (deficit)** | 14,595 | (524) | 14,071 |

The Council received an additional advance of Dedicated Schools Grant in 2018-19, of £3m, to support the short-term costs and cash position which is not included in the note above and is included in long term creditors on the Balance Sheet.

# Note 28 Better Care Fund (Pooled Budgets with Kingston Clinical Commissioning Group)

2018/19 is the fourth year of the Council's aligned budget arrangement (Pooled Fund) with Kingston Clinical Commissioning Group (CCG). This agreement came into force on 1 April 2015. The Council continues to be the host of the Pooled Fund for the purpose of the regulations and is responsible for the Pooled Manager. The Director of Adult Social Care is the Pooled Manager and is accountable directly to the Chief Executive.

2018/19 was the second year that the government provided additional funding for Social Care through the "Improved Better Care Fund" and this funding went to Local authorities.
The elements that Kingston provided funding for were as follows:

- Disabled Facilities Grant £1.242m.
- Improved Better Care Fund contribution (iBCF): £1.278M.

Kingston is also the "lead provider of care", but the funding source is routed through CCG.The funds amounted to £3.187m for the following service areas:

- Social Care Services £2.772m.
- Care Act £0.415m.

CCG also provided funding for the provision of 3 Schemes that were provided by either the NHS or the Voluntary Sector. These amounted to £7.282m on the following areas:

- Integrated Community Service £6.942m.
- Extension to rapid response service £0.200m
- Carers Support £0.140m

| 31 March 2018 | | 31 March 2019 |
|---|---|---|
| **£'000** | | **£'000** |
| | **Funding:** | |
| 2,315 | Royal Borough of Kingston | 2,520 |
| 10,274 | Kingston CCG | 10,469 |
| 12,589 | Total Funding | 12,989 |
| | | |
| | **Expenditure:** | |
| 2,189 | Royal Borough of Kingston | 2,511 |
| 10,274 | Kingston CCG | 10,469 |
| 12,463 | Total Expenditure | 12,980 |
| (126) | Net (Surplus)/Deficit on the pooled budget during the year | (9) |
| (126) | Council share of net (surplus)/deficit arising on the pooled budget* | (9) |

* The surplus on the pooled budget relates to capital grants unspent

# Note 29 Related Parties

The Council is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the Council or to be controlled or influenced by the Council. Disclosure of these transactions allows readers to assess the extent to which the Council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Council.

**Central Government** Central government has significant control over the general operations of the Council – it is responsible for providing the statutory framework within which the Council operates, provides the majority of grant funding that the council receives and prescribes the terms of many of the transactions that the Council has with other parties (e.g. Council Tax bills, housing benefits). Grant receipts are shown in Note 9.

**Members** Members of the Council have direct control over the Council's financial and operating policies. The total of Members' allowances paid in 2018/19 is shown in Note 26. During 2018/19 members of the Council (or members of their immediate family or household) undertook related party transactions with the following organisations to the value of £0.755m (£3.122m 2017/18). The amounts disclosed below are those considered to be material to either of the related party transactions (i.e. either the Royal Borough of Kingston upon Thames or the other entity). Due to a significant change in council members, as a result of the 2018 local election, there is a considerable difference in the value of related party transactions and the organisations that these have occurred between.

| Organisation | Nature of Transactions | 2017/18 | 2018/19 |
|---|---|---|---|
| | | **£'000** | **£'000** |
| Kingston Carers Network | Grants and special project payments from RBK | 239 | 243 |
| Coombe Hill Investments | Payments from RBK | 102 | 110 |
| Groundwork ltd | Grants to voluntary organisations | N/A | 92 |
| Kaleidoscope Ltd | Payments from both RBK and Kaleidoscope | N/A | 310 |
| Kingston Voluntary Action | Grants and Other Payments from RBK | 483 | N/A |
| Sir Francis Barker Recreational Ground | Grants and Other Payments from RBK | 20 | N/A |
| Your Health Care CIC | Payments from RBK & Your Healthcare | 3,875 | N/A |
| Surbiton Festival | Grants and Other Payments from RBK | 2 | N/A |
| Kingston Race & Equalities Council | Grants and Other Payments from RBK | 50 | N/A |
| King's College London | Payment from RBK | 32 | N/A |
| John Lewis Partnership | Payments from John Lewis PLC | (957) | N/A |
| Vodafone | Payments from both RBK and Vodafone | 202 | N/A |
| Saipem Ltd | Payments from Saipem Ltd | (1,662) | N/A |

## Note 29 Related Parties (continued)

The disclosure has been prepared using the Council's Register of Members' Interest in addition to a specific declaration obtained in respect of related party transactions from Members. The Council issued 48 electronic forms to be completed, 47 specific declarations of interest forms from Members were received (47 in 2017/18).

Details of all Members' interests are recorded in the Register of Members' Interests, open to public inspection on the Council's website www.kingston.gov.uk .

The Council makes a number of appointments each year to various local and regional bodies to represent the interests of the community. All of these appointments are approved by Council and details can be found within Committee minutes on the Council's website.

There were no other material related transactions between related parties and Members of the Council.

**Voluntary Organisations**

The Council made grants and other payments totalling £0.429m (£1.012m in 2017/18) to voluntary and other organisations.

**Officers**

The Head of RBK Financial Strategy & Reporting is the Council's nominated Director of Kingston Theatre LLP. The Council's interest in Kingston Theatre LLP is disclosed below under Interests in Companies. There were no other material transactions between related parties and senior officers within the Council

**Other Public Bodies**

The Council has a pooled budget arrangement with Kingston NHS Foundation Trust for the provision of Moor Lane Children's and Young People's services.

The Council works in partnership with the Kingston Clinical Commissioning Group to continually improve integration of the NHS function with the Council's health-related functions.

**South London Waste Partnership (SLWP)**

The South London Waste Partnership is a Joint Committee, established in September 2007, to secure waste treatment and disposal services for the London Boroughs of Croydon, Merton, Sutton and the Royal Borough of Kingston upon Thames. The Royal Borough of Kingston upon Thames is the lead Borough for procurement and has awarded the contracts on behalf of the Partnership. The management group and the joint waste committee is made up of an equal number of representatives from across all four boroughs.

**Other London Boroughs – Shared Service Arrangements**

As part of the Council's response to the changing financial environment in which Local Authorities operate, a number of shared service arrangements with other Local Authorities are in operation or are about to go into operation.

- **Human Resources –** from 1 May 2016 the Council's Human Resource (HR) services commenced a shared service arrangement between The Royal Borough of Kingston upon Thames and The London Borough of Sutton. The service hosted by RBK, includes recruitment, employment contracts, advice on terms and conditions, payroll, employee relations, advice, provision of learning and development as well as Occupational Health and Health and Safety.

- **Internal Audit Shared Service –** Internal Audit and Investigations work is provided via a shared service with the London Boroughs of Richmond, Wandsworth, Merton and Sutton. The employing authority for the service is Richmond. This service is providing a shared expertise and a wider resilience for the boroughs.

- **ICT –** Royal Borough of Kingston entered into a joint service for ICT with London Borough of Sutton on 1 May 2013. The joint service is providing greater ICT infrastructure resilience as well as shared expertise to drive out further savings and provide a better quality service.

- **Legal –** Royal Borough of Kingston, along with London Borough of Sutton, joined the existing shared legal service between London Borough of Richmond and London Borough of Merton on 1 October 2013.

- **Environmental Services** – In 2016 the Royal Borough of Kingston and the London Borough of Sutton set up a Shared Environment Service (SES), which includes Environmental Health, Trading Standards, Sustainable Transport and Highways & Transport.

- **Pensions Administration Service** – On the 1st April 2016 The Royal Borough of Kingston entered into a shared service for its Pension Administration service with the London Borough of Sutton.

- **Finance –** The Royal Borough of Kingston entered into a joint service for Finance with London Borough of Sutton on 1 April 2017.

- **Customer Contact Centre** – The Royal Borough of Kingston entered into a joint service for its customer contact centre with The London Borough of Sutton on 1 April 2017.

**Interest in Companies – Entities Controlled or Significantly Influenced by the Authority**

**Achieving for Children CIC**

Achieving for Children (AfC) started trading on 1 April 2014. The company is jointly owned with the London Borough of Richmond and the Royal Borough of Windsor & Maidenhead. The Royal Borough of Kingston and the London Borough of Richmond each hold a 40% stake with the Royal Borough of Windsor & Maidenhead holding the remaining 20%. The two controlling councils are the subscribing guarantors and first members. The company is a Community Interest Company (CIC) limited by guarantee which delivers Children's Services to the three boroughs.

There are three specific ways in which the three Councils' control of AfC is exercised:

- Ownership - as the owners and members of the Company the Councils have a number of matters reserved to them, including the appointment and dismissal of the Non-Executive Independent Directors, who are responsible to them.

- Contractual - the Councils commission AfC and have a contractual relationship with the Company that provides them with rights and powers that can be enforced if not complied with
- Director of Children's Services - the appointed Director for Children's Services (DCS) is part of the Leadership team of AfC, the council is able to direct the actions of the DCS

The Statement of Accounts for 2018/19 includes consolidated Group Accounts which include the activities of the Council and its ownership share of the profit realised by AfC for 2018/19 because of the size of the company in terms of turnover and the parent relationship that RBK has with AfC.

The Community Interest Company model means that the assets of the company (including any profits or surplus generated) are locked into the company and there are restrictions on what they can be used for. They must either be retained within the CIC to be used for the community purposes for which it was formed or can (in limited circumstances and only in agreement with the owners) be transferred out of the company. These circumstances include transferring assets to another CIC or for the benefit of the community.

The Board of AfC is made up of:
1 x Managing Director
4 x Council Appointed Directors (Maximum 2 x per member)
6 x Non-Executive Independent Directors

AfC's audited statement of accounts for 2018/19 will be available on their website:
https://www.achievingforchildren.org.uk/

**Kingston Theatre LLP**

A Limited Liability Partnership (LLP) exists between the Council (95% stake) and Kingston University (5% stake), the principal activity, of which, is to own and manage the property in High Street, Kingston upon Thames known as the Rose Theatre. The LLP consider the Council to be the ultimate parent undertaking. The LLP is structured in such a way that future investors can purchase a stake in the partnership, but that the combined stake holding of the Council and University will not fall below 51%.

**Kingston Theatre Trust (KTT)**

The Kingston Theatre Trust is the tenant of the Rose Theatre. From 1 April 2015 until March 2020 there is an agreement between the Council and KTT. The financial support to KTT is currently £0.265m per annum and will guarantee the purchase of a range of educational and community benefits which will support the Council's policy programme.

# Note 30 External Audit Costs

The Authority has incurred the following costs in relation to the audit of the Statement of Accounts, certification of grant claims and statutory inspections and to non-audit services provided by the Councils external auditors.  Public Sector Audit Appointments has appointed Grant Thornton UK LLP as the external auditor for 2018/19.

| 2017/18 | | 2018/19 |
|---|---|---|
| **£'000** | | **£'000** |
| 110 | Fees payable to the Grant Thornton with regard to external audit services carried out by the appointed auditor for the year | 85 |
| 29 | Fees payable to Grant Thornton for the certification of grant claims and returns for the year | 35 |
| - | Fees payable in respect of other services provided by Grant Thornton | - |
| **139** | **Total** | **120** |

# Note 31 Defined Benefit Pension Schemes

Teachers employed by the Authority are eligible to be members of the Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education. The Scheme provides teachers with specified benefits upon their retirement, and the Authority contributes towards the costs by making contributions based on a percentage of members' pensionable salaries.

The Scheme is technically a defined benefit scheme. However, the Scheme is unfunded and the Department for Education uses a notional fund as the basis for calculating the employers' contribution rate paid by local authorities. The Authority is not able to identify its share of underlying financial position and performance of the scheme with sufficient reliability for accounting purposes. For the purposes of this Statement of Accounts, it is therefore accounted for on the same basis as a defined contribution scheme. In 2018/19, the Council paid £4.068m to Teachers Pensions in respect of retirement benefits. The employer contributions percentage has not changed and remains 16.48% of pensionable pay in respect of teachers' retirement benefits. There were no contributions remaining payable at the year-end. The amount paid in 2017/18 was £3.954m.

The Authority is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the teachers' scheme. These costs are accounted for on a defined benefit basis.

The Authority also employs staff who are part of the NHS Pensions Scheme, administered by NHS Pensions. This is largely due to the transfer, in 2013/14, of Public Health responsibilities from the NHS to the Council. In 2018/19, the Council paid £0.093m in respect of NHS pensions retirement benefits, representing 14.3% of pensionable pay. The amount paid in 2017/18 was £0.115m which was also 14.3% of pensionable pay. There were no contributions remaining payable at the year end.

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

The Authority participates in two post-employment schemes:

- The Local Government Pension Scheme, administered locally by the Royal Borough of Kingston upon Thames – this is a funded defined benefit scheme, meaning that the Authority and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets.
- Arrangements for the award of discretionary post-retirement benefits upon early retirement – this is an unfunded defined benefit arrangement, under which liabilities are recognised when awards are made. However, there are no investment assets built up to meet these pension liabilities, and cash has to be generated to meet actual pension payments as they eventually fall due.

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

## Note 31 Defined Benefit Pension Scheme (continued)

| 2017/18 £000's | Comprehensive Income and Expenditure Statement | 2018/19 £000's |
|---|---|---|
| | **Service cost comprising:** | |
| 18,003 | - Current service cost | 20,838 |
| 148 | - Past service cost | 308 |
| - | - Settlements | (10,223) |
| | **Financing and Investment Income & Expenditure** | |
| (11,449) | - Interest income on plan assets | (12,157) |
| 17,080 | - Interest cost on defined benefit obligation | 17,930 |
| | - Effect of Business combination | 10,045 |
| **23,782** | **Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services** | **26,741** |
| | **Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement** | |
| (3,949) | - Return on plan assets (excluding the amount included in the net interest expense | (25,950) |
| - | - Actuarial (gains) and losses arising on changes in demographic assumptions | - |
| (11,670) | - Actuarial (gains) and losses arising on changes in financial assumptions | 38,669 |
| - | - Other actuarial (gains)/losses on assets | - |
| (35) | - Experience gain on defined benefit obligation | (285) |
| **8,128** | **Total Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement** | **39,175** |
| | **Movement in Reserves Statement** | |
| (23,782) | Reversal of net charges made to the (Surplus) or Deficit on the provision of Service for Post Employment Benefits in accordance with the Code | (26,741) |
| 12,929 | Actual amount charged against the General Fund balance for pensions in year - Employers' contributions payable to scheme | 13,520 |

The re-measurement of the net defined liability in the Comprehensive Income and Expenditure Statement 2018/19 is a loss of £12.43m (2017/18 £15.65 gain). This relatively modest gain reflects the limited changes in financial assumptions between the two years.

# Note 31 Defined Benefit Pension Scheme (continued)

**Assets and Liabilities in Relation to Post-employment Benefits**

Pension assets and liabilities recognised on the balance sheet

| 2017/18 | | 2018/19 |
|---|---|---|
| **£'000** | | **£'000** |
| 470,219 | Fair value of plan assets | 511,292 |
| (670,955) | Present value of funded liabilities | (738,753) |
| (17,764) | Present value of unfunded liabilities | (16,694) |
| **(218,500)** | **Net Liability arising from defined benefit obligation** | **(244,155)** |

Reconciliation of Fair Value of scheme assets:

| 2017/18 | | 2018/19 |
|---|---|---|
| **£'000** | | **£'000** |
| **460,707** | **Balance at 1 April** | **470,219** |
| 11,449 | Interest income | 12,157 |
| - | Effect of business combinations and settlements | 8,572 |
| 3,949 | Remeasurement gain/loss: | 25,950 |
| 12,929 | Contributions from employer | 13,520 |
| 2,922 | Contributions from employees into the scheme | 2,968 |
| (21,737) | Benefits Paid | (22,094) |
| **470,219** | **Balance at 31 March** | **511,292** |

The expected return on scheme assets is calculated using the discount rate used in calculating future liabilities within the scheme. This method is used for accounting purposes and will be different to the actual return on assets within the scheme.

## Note 31 Defined Benefit Pension Scheme (continued)

The schemes assets measured at fair value were invested in the asset categories detailed below:

| Asset Category | Quoted Prices in Active Markets at 31-Mar-19 | Quoted Prices in not Active Markets at 31-Mar-19 | Total | Percentage of Total Assets |
|---|---|---|---|---|
| | 31-Mar-19 £000's | 31-Mar-19 £000's | 31-Mar-19 £000's | 31-Mar-19 % |
| **Equity Security:** | | | | |
| - Consumer | 19,560 | - | 19,560 | 4% |
| - Manufacturing | 10,218 | - | 10,218 | 2% |
| - Energy & Utilities | 9,097 | - | 9,097 | 2% |
| - Financial Institutions | 17,701 | - | 17,701 | 3% |
| - Health and Care | 15,331 | - | 15,331 | 3% |
| - Information Technology | 19,465 | - | 19,465 | 4% |
| - Other | 16,369 | - | 16,369 | 3% |
| **Debt Securities** | - | - | - | 0% |
| **Private Equity** | - | - | - | 0% |
| **Real Estate** | | | | |
| - UK Property | 28,715 | - | 28,715 | 6% |
| - Overseas Property | - | - | - | 0% |

## Note 31 Defined Benefit Pension Scheme (continued)

| Asset Category | Quoted Prices in Active Markets at 31-Mar-19 | Quoted Prices in not Active Markets at 31-Mar-19 | Total | Percentage of Total Assets |
|---|---|---|---|---|
| **Investment Funds and Unit Trusts:** | | | | |
| - Equities | 192,385 | - | 192,385 | 38% |
| - Bonds | 62,805 | - | 62,805 | 12% |
| - Hedge Funds | - | - | - | 0% |
| - Commodities | - | - | - | 0% |
| - Infrastructure | - | - | - | 0% |
| - Other | 112,447 | - | 112,447 | 22% |
| **Derivatives:** | | | | |
| - Inflation | - | - | - | 0% |
| - Interest rates | - | - | - | 0% |
| - Foreign Exchange | - | - | - | 0% |
| - Other | - | - | - | 0% |
| **Cash and Cash equivalents** | | | | |
| - All | 7,550 | - | 7,550 | 1% |
| **Total** | 511,643 | - | 511,643 | 100% |

## Note 31 Defined Benefit Pension Scheme (continued)

Reconciliation of fair value of scheme liabilities:

| 2017/18 | | 2018/19 |
|---|---|---|
| **£'000** | | **£'000** |
| **684,008** | **Balance at 1 April** | **688,719** |
| 18,003 | Current Service Cost | 20,838 |
| 17,080 | Interest Cost | 17,930 |
| 2,922 | Contributions by Members | 2,968 |
| - | Actuarial (gains)/losses arising from changes in demographic assumptions | - |
| (11,670) | Actuarial (gains)/losses arising from changes in financial assumptions | 38,669 |
| (35) | Other | 8,109 |
| 148 | Past Service Cost | 308 |
| (21,737) | Benefits Paid | (22,094) |
| **688,719** | **Balance at 31 March** | **755,447** |

The liabilities show the underlying commitments that the Authority has in the long run to pay post-employment (retirement) benefits. The total liability of £755.4m has a substantial impact on the net worth of the Authority as recorded in the Balance Sheet. However, statutory arrangements for funding the deficit mean that the financial position of the Authority remains healthy:

- The deficit on the local government scheme will be made good by increased contributions over the remaining working life of employees (i.e. before payments fall due), as assessed by the scheme actuary.
- Finance is only required to be raised to cover discretionary benefits when the pensions are actually paid.

## Note 31 Defined Benefit Pension Scheme (continued)

Basis for Estimating Assets and Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. Both the Local Government Pension Scheme and Discretionary Benefits liabilities have been assessed by Hyman Robertson LLP, an independent firm of actuaries, estimates for the Council Fund being based on the latest full valuation of the Scheme as at 31 March 2016. The Scheme will have a full valuation again at 31 March 2019 which will affect the 2020/21 Statement of Accounts. The principal assumptions used by the actuary have been:

| 2017/18 | | 2018/19 |
|---|---|---|
| **%** | | **%** |
| 2.4 | Rate of Inflation | 2.5 |
| 2.8 | Rate of Increase in Salaries | 2.9 |
| 2.4 | Rate of Increase in Pensions | 2.5 |
| 2.6 | Rate of Return on Assets | 2.4 |
| 2.6 | Rate for Discounting Scheme Liabilities | 2.4 |
| | | |
| 50% pre-2008 service | Take-Up of Option to Convert Annual Pension into Retirement Lump Sum | 50% pre-2008 service |
| 75% post-2008 service | | 75% post-2008 service |
| **Years** | | **Years** |
| 22.5 | Longevity at 65 for Current Pensioners - Men | 22.5 |
| 24.8 | Longevity at 65 for Current Pensioners - Women | 24.8 |
| 24.2 | Longevity at 65 for Future Pensioners - Men | 24.2 |
| 26.7 | Longevity at 65 for Future Pensioners - Women | 26.7 |

## Note 31 Defined Benefit Pension Scheme (continued)

Sensitivity analysis:

| Change In Assumptions at 31st March | Approximate % increase to Defined Benefit Obligation | Approximate monetary amount (£000) |
|---|---|---|
| 0.5% decrease in Real Discount Rate | 9% | 70,222 |
| 0.5% increase in the Salary Increase Rate | 1% | 6,311 |
| 0.5% increase in the Pension Increase Rate | 8% | 63,018 |

The impact of a change in the financial assumptions used has been estimated and compared with the value of the scheme liabilities as at 31 March 2018 on varying bases. The approach taken is consistent with that adopted to derive the IAS 19 figure.

The principal demographic assumption is the longevity assumption (i.e. member life expectancy). For sensitivity purposes it is estimated that a one year increase in life expectancy would approximately increase the Employer's Defined Benefit Obligation by around 3-5%. In practice the actual cost of a one year increase in life expectancy will depend on the structure of the revised assumption (i.e. if improvements to survival rates predominantly apply at younger or older ages).

The figures have been derived based on the membership profile of the Employer as at the date of the most recent actuarial valuation. The approach taken in preparing the sensitivity analysis shown is consistent with that adopted in the previous year.

The Discretionary Benefits arrangements have no assets to cover its liabilities. The Local Government Pension Scheme's assets consist of the following categories, by proportion of the total assets held:

| 2017/18 | | 2018/19 |
|---|---|---|
| £000's | | £000's |
| 61% | Equity investments | 59% |
| 5% | Property | 6% |
| 12% | Bonds | 12% |
| 22% | Other Investment Funds and Unit Trusts | 22% |
| 0% | Cash | 1% |
| 100% | | 100% |

# Note 32 Contingent Liabilities

**Achieving for Children CIC**

This company is jointly owned by the Council, the London Borough of Richmond and the Royal Borough of Windsor and Maidenhead and has a pension deficit of £53.105m as at 31 March 2019. A portion of this deficit equal to the Council's 40% ownership share represents a contingent liability to the Council because in the event of failure of the company, RBK would be required to take back its share of the pensions' deficit as joint owner of the company. This event would not impact on the Council's budget position but would be factored into existing pension fund deficit reduction strategies. The Council have made the judgement that this situation is not probable.

**Tenant payments of water charges on HRA dwellings**

The Council has for many years' collected water and sewerage charges in respect of council flats on behalf of Thames Water, for which it receives a commission which covers the cost of collection plus an allowance for possible bad debts. The High Court has ruled that, under a similar arrangement, the London Borough of Southwark has for some years been overcharging its tenants for water and sewage services. The High Court's decision opens up the possibility of claims being brought by tenants for recovery of overpaid service charges against any Authority with similar arrangement to Southwark. The Royal Borough of Kingston is part of a collective agreement through the Local Government Association in preparation against any claim.

# Note 33 Events after the Balance Sheet date

There were no material events after the end of the financial year which need to be reported.

# Note 34 Leases

**Authority as Lessor**

**Finance Leases**
The Council has granted a number of property leases which have been accounted for as a finance lease. The following tables detail the gross investment and the minimum lease payments receivable under these finance leases.

**Gross Investment:**

| 31 Mar 2018 | | 31 Mar 2019 |
|---|---|---|
| £'000 | | £'000 |
| | Finance lease debtor (net present value of minimum lease payments) | |
| 30 | - current | 23 |
| 7,494 | - non-current | 7,420 |
| 19,069 | Unearned finance income | 19,027 |
| 126 | Unguaranteed residual value of property | 126 |
| **26,720** | **Gross investment in the lease** | **26,596** |

**Reconciliation between gross investment in the lease and minimum lease payment:**

| 31 Mar 2018 | | 31 Mar 2019 |
|---|---|---|
| £'000 | | £'000 |
| 26,720 | Gross investment in the lease | 26,596 |
| (126) | less unguaranteed residual value of property | (126) |
| **26,594** | | **26,470** |

## Note 34 Leases (continued)

**Minimum Lease Receipts (Operating Leases):**

| 31 Mar 2018 | | 31 Mar 2019 |
|---|---|---|
| **£'000** | | **£'000** |
| (459) | Not later than one year | (881) |
| (1,837) | Later than one year and not later than five years | (2,886) |
| (18,017) | Later than five years | (16,308) |
| **(20,313)** | **Gross investment in the lease** | **(20,075)** |

# 6. Housing Revenue Account

**Income and Expenditure Statement** - this shows the economic cost in the year of providing housing services in accordance with generally accepted accounting practices, rather than the amount to be funded from rents and government grants. Authorities charge rents to cover expenditure in accordance with regulations; this may be different from the accounting cost.

**Statement of Movement on the Housing Revenue Account Balance** - this shows the increase or decrease in the year, on the basis of which rents are raised

THE ROYAL BOROUGH OF KINGSTON UPON THAMES

# Housing Revenue Account (HRA) Income and Expenditure Statement

| 2017/18 | HRA Income and Expenditure Statement | Notes | 2018/19 |
|---|---|---|---|
| **£'000** | | | **£'000** |
| | **Expenditure** | | |
| 4,757 | Repairs and maintenance | | 4,736 |
| 11,846 | Supervision and management | | 11,143 |
| 75 | Rents, rates, taxes and other charges | | 74 |
| 482 | Special Services | | 570 |
| 9,029 | Depreciation and impairment of non-current assets | | 9,332 |
| (11,935) | HRA Property Revaluations | | (2,462) |
| 15 | Debt management costs | | 15 |
| (19) | Movement in the allowance for bad debts | | 131 |
| 50 | Other revenue expenditure funded from capital under statute | | 732 |
| **14,300** | **Total Expenditure** | | **24,271** |
| | **Income** | | |
| (27,324) | Gross rent from Council dwellings | | (27,017) |
| (488) | Gross non dwellings rent | | (499) |
| (2,431) | Charges for services and facilities | | (5,024) |
| (689) | Contributions towards expenditure | | (1,042) |
| (1,221) | Leaseholders charges for services and facilities | | (1,552) |
| **(32,153)** | **Total Income** | | **(35,135)** |
| (17,853) | Net Cost of HRA Services as included in the Comprehensive Income and Expenditure Statement | | (10,864) |
| 189 | Add HRA services share of Corporate and Democratic Core | | 189 |
| **(17,664)** | **Net Cost of HRA Services** | | **(10,674)** |

# Housing Revenue Account (HRA) Income and Expenditure Statement (continued)

| 2017/18 | HRA Income and Expenditure Statement | Notes | 2018/19 |
|---|---|---|---|
| **£'000** | | | **£'000** |
| | **HRA share of the operating income and expenditure included in the Comprehensive Income and Expenditure Statement:** | | |
| (3,080) | Gain or (loss) on sale of HRA non-current assets | | (3,050) |
| 385 | Net interest on the net defined benefit liability | | 328 |
| 4,607 | Interest payable and similar charges | | 4,612 |
| (70) | Interest and investment income | | (130) |
| (159) | Income, expenditure and changes in the fair values of investment properties | | 20 |
| **(15,980)** | **(Surplus)/Deficit for the Year on HRA Services** | | **(8,895)** |

# Statement of Movement on the Housing Revenue Account Balance

| 2017/18 | Statement of Movement on the Housing Revenue Account Balance | 2018/19 |
|---|---|---|
| **£'000** | | **£'000** |
| **(5,417)** | **Balance on the HRA at the end of the previous year** | **(6,184)** |
| (15,980) | Surplus/(Deficit) on the HRA Income and Expenditure Statement (MIRS) | (8,895) |
| 15,213 | Adjustments between accounting basis and funding basis under statute (see Note 9 - Notes to the Financial Statements) | 7,244 |
| **(767)** | **Net increase before transfers to or from reserve** | **(1,650)** |
| - | Transfers (to)/from reserves | 350 |
| **(767)** | **(Increase) or decrease in year on the HRA (MIRS)** | **350** |
| **(6,184)** | **Balance on the HRA at the end of the current year** | **(7,484)** |

# Notes to the Housing Revenue Account

## HRA 1. Housing Stock

The Council has overall responsibility for managing the housing stock. The stock movement during the year was as shown in the table below. The figure for hostels is based on dwelling equivalents; for this purpose three bed spaces equals one dwelling.

| Total 2017/18 | | Total 2018/19 |
|---|---|---|
| | Flats | |
| 893 | - low rise (up to 2 storeys) | 894 |
| 2,018 | - medium rise (3-5 storeys) | 2,004 |
| 427 | - high rise (6+ storeys) | 420 |
| **3,338** | **Total Flats** | **3,318** |
| | | |
| 1,226 | Houses and Bungalows | 1,233 |
| 31 | Equivalent number of dwellings for multi-occupied premises (hostels) | 31 |
| 20 | Shared Ownership | 20 |
| **4,615** | **Total Stock** | **4,602** |

# HRA 2. Stock Valuation

The net Balance Sheet value of the land, houses and other assets within the HRA is as follows:

| At 31 March 2018 | | At 31 March 2019 |
|---|---|---|
| £'000 | | £'000 |
| | Operational Assets: | |
| 370,858 | Council Dwellings | 376,324 |
| 17,496 | Other Land and Buildings | 12,483 |
| 801 | Investment Properties | 782 |
| **389,155** | **Total** | **389,589** |
| 1,445,988 | Vacant possession value of dwellings within the authority's HRA as at 31 March in the financial year | 1,466,517 |

The valuation of stock is in accordance with the Department for Communities and Local Government (DCLG) guidance entitled Guidance on Stock Valuation for Resource Accounting. The basis for valuation for operational property is Existing Use Value for non-housing property and Existing Use Value for Social Housing for housing property. The DCLG prescribes that the Existing Use Value for Social Housing should be 25% of the Existing Use Value. The variance between the Balance Sheet Value and the Vacant Possession value of the dwellings shows the economic cost to Government of providing council housing at less than open market rents.

## HRA 3. Major Repairs Reserve

This reserve is credited with the depreciation charged to the HRA each year plus an adjustment to ensure the net credit in the year equals the Major Repairs. The reserve is only available for financing major repairs carried out to the housing stock.  Any sums unspent are carried forward for use in future years.

| 2017/18 | | 2018/19 |
|---|---|---|
| **£'000** | | **£'000** |
| - | Balance brought forward | - |
| | **Transactions with HRA Income & Expenditure Statement** | |
| - | Depreciation of HRA assets | - |
| (8,930) | Contribution to Major Repairs Reserve | (9,332) |
| | **Adjustments between accounting and funding basis** | |
| 8,930 | Capital expenditure charged against HRA balances | 8,305 |
| **-** | **Balance carried forward at 31 March** | **(1,026)** |

## HRA 4. Capital Expenditure Financing

Capital expenditure amounted to £14.52m (£17.54m in 2017/18). The following summary shows how this was funded:

| 2017/18 | | 2018/19 |
|---|---|---|
| **£'000** | | **£'000** |
| **17,535** | **HRA Capital Expenditure** | **14,524** |
| | **Financed by:** | |
| (1,324) | Borrowing | - |
| (83) | Government Grants | - |
| (6,113) | Capital Receipts Reserve | (2,869) |
| (1,084) | Revenue Contributions | (3,349) |
| (8,930) | Major Repairs Reserve | (8,305) |
| **(17,535)** | **Total financing** | **(14,524)** |

## HRA 5. Capital Receipts

During the year the following movements took place on the Authority's HRA capital receipts reserve:

| 2017/18 | | 2018/19 |
|---|---|---|
| **£'000** | | **£'000** |
| (10,404) | Balance brought forward | (8,535) |
| | **Transactions with Comprehensive Income & Expenditure Statement Adjustments between Accounting Basis and Funding Basis** | |
| (5,000) | Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement | (5,142) |
| - | Transfer from Deferred Capital Receipts Reserve upon receipt of cash | - |
| 6,113 | Use of capital receipts to finance capital expenditure | 2,869 |
| 66 | Contribution towards administrative cost of non-current asset disposals | 71 |
| 690 | Financing of payment to Government Capital Receipts Pool | 690 |
| **(8,535)** | **Total** | **(10,047)** |

## HRA 6. Depreciation

The total charge for depreciation within the Authority's HRA is shown below:

| 2017/18 | Depreciation | 2018/19 |
|---|---|---|
| £'000 | | £'000 |
| 8,375 | Council Dwellings | 8,667 |
| 509 | Other Land and Buildings | 604 |
| 46 | Vehicles, plant, furniture and equipment | 46 |
| **8,930** | **Total** | **9,316** |

The HRA split of assets between operational and non-operational is detailed in the Accounting Policies.

## HRA 7. Rent Arrears and Bad Debt Provisions

Accumulated arrears for rents due to the Council from tenants in respect of dwellings and other property managed within the housing revenue account. (It excludes rents collectable in respect of non HRA properties accounted for the General Fund).

| At 31 March 2018 | Tenant Rent and Service Charge Arrears | At 31 March 2019 |
|---|---|---|
| £'000 | | £'000 |
| 3,240 | Gross rent arrears | 2,999 |
| (1,881) | Provision for bad & doubtful debts | (1,820) |
| **1,359** | **Total** | **1,178** |

## HRA 8. IAS 19 Retirement Benefits

The Authority considers it to be proper accounting practice to allow the HRA to be charged with an attributable share of current and past service costs, interest costs and expected return on assets. To ensure that there is no net effect on the HRA, these entries are reversed out and replaced by employers' contributions payable by means of an appropriation to the Pensions Reserve in the Movement on the Housing Revenue Account Statement. HRA share of contributions to/from the Pension Reserve has been calculated at 5.7% of the Authority's total contribution – being the proportion of total employees pay met from the Housing Revenue Account. Note 31 to the Main Financial Statements provides further details.

| 2017/18 | | 2018/19 |
|---|---|---|
| **£'000** | | **£'000** |
| | **Transactions with Comprehensive Income & Expenditure Statement Adjustments between Accounting Basis and Funding Basis** | |
| (1,617) | Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see Note 9) | (1,513) |
| 790 | Employers' pensions contributions and direct payments to pensioners payable in the year | 677 |
| **(827)** | | **(836)** |
| | Other income & expenditure | |
| 385 | Pensions interest cost and expected return on pension assets | 328 |
| **(442)** | | **(508)** |

# 7. Collection Fund

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

THE ROYAL BOROUGH OF KINGSTON UPON THAMES

# Collection Fund Income and Expenditure Account 2018/19

| 2017/18 | | | | Note | 2018/19 | | |
|---|---|---|---|---|---|---|---|
| Business Rates | Council Tax | Total | | | Business Rates | Council Tax | Total |
| £'000 | £'000 | £'000 | | | £'000 | £'000 | £'000 |
| | | | **Income** | | | | |
| - | (108,303) | (108,303) | Council Tax collectable | | | (110,573) | (110,573) |
| (85,478) | - | (85,478) | Income Collectable from Business Ratepayers | | (87,169) | | (87,169) |
| (2,422) | | (2,422) | Income Collectable in respect of Business Rate Supplement | | (2,635) | | (2,635) |
| **(87,900)** | **(108,303)** | **(196,203)** | | | **(89,804)** | **(110,573)** | **(200,377)** |
| | | | **Expenditure** | | | | |
| | | | **Precepts & Demands** | CF3&4 | | | |
| 28,110 | - | 28,110 | Central Government | | | | - |
| 31,517 | 17,138 | 48,655 | Greater London Authority | | 31,067 | 18,338 | 49,405 |
| 25,554 | 90,425 | 115,979 | Royal Borough of Kingston | | 55,231 | 92,086 | 147,317 |
| 243 | - | 243 | Costs of Collection | | 242 | | 242 |
| **85,424** | **107,563** | **192,987** | | | **86,540** | **110,424** | **196,964** |
| | | | **Business Rate Supplement** | | | | |
| 2,415 | - | 2,415 | Payment to levying authority | | 2,629 | | 2,629 |
| 7 | - | 7 | Administrative costs | | 6 | | 6 |
| **2,422** | **-** | **2,422** | | | **2,635** | **-** | **2,635** |

## Collection Fund Income and Expenditure Account 2018/19 (continued)

| | | 2017/18 | | Note | | | 2018/19 |
|---|---|---|---|---|---|---|---|
| Business Rates | Council Tax | Total | | | Business Rates | Council Tax | Total |
| £'000 | £'000 | £'000 | | | £'000 | £'000 | £'000 |
| | | | **Impairment of Debts/Appeals** | | | | |
| 13 | 40 | 53 | Write-offs of uncollectible amounts | | (22) | 135 | 113 |
| (1,236) | - | (1,236) | Appeals provision | | 3,013 | | 3,013 |
| (3,088) | - | (3,088) | Refunds to successful Appeals | | (2,281) | | (2,281) |
| (655) | - | (655) | Transitional Relief | | 323 | | 323 |
| 33 | 275 | 308 | Allowance for impairment | | 1,095 | 243 | 1,338 |
| **(4,933)** | **315** | **(4,618)** | | | **2,128** | **378** | **2,506** |
| | | | **Contributions towards previous year's estimated Collection Fund Surplus** | | | | |
| (1,628) | 1,175 | (453) | RBK | | 787 | 74 | 861 |
| (1,085) | 230 | (855) | GLA | | 533 | 14 | 547 |
| (2,714) | - | (2,714) | Government | | 1,304 | | 1,304 |
| **(5,427)** | **1,405** | **(4,022)** | | | **2,624** | **88** | **2,712** |
| **(10,414)** | **980** | **(9,434)** | **Movement on Fund Balance** | **CF5** | **4,123** | **317** | **4,440** |

# Notes to the Collection Fund

## CF 1. General

This account reflects the statutory requirement for billing authorities to maintain a separate Collection Fund, in this case for the Royal Borough of Kingston upon Thames. The revenue account shows the transactions into the Fund by way of Council Tax and National Non-Domestic Rates (NNDR) and how the amount collected has been distributed to preceptors and the General Fund.

Collection Fund surpluses declared by the billing authority in relation to Council Tax are apportioned to the relevant precepting bodies in the subsequent years. Deficits likewise are proportionately charged to the relevant precepting bodies in the following years.

## CF 2. Council Tax

Council Tax income is the amount payable by Council Tax payers, inclusive of changes arising during the year for successful appeals against valuation banding, new properties, disabled relief and exempt properties. The Council's tax base is based on the number of chargeable dwellings in each valuation band, adjusted for dwellings where discounts apply, converted to an equivalent number of Band D dwellings. For 2018/19 it was calculated as follows:

| Valuation Office estimated market value as at April 1991 | **Band** | **Actual Number** | **Adjusted Number** | **Ratio** | **Band D Equivalent Dwellings** |
|---|---|---|---|---|---|
| Less Than £40,000 | A | 589 | 265 | 6/9 | 176 |
| £40,001 - £52,000 | B | 3,190 | 2,073 | 7/9 | 1,612 |
| £52,001 - £68,000 | C | 15,057 | 10,692 | 8/9 | 9,504 |
| £68,001 - £88,000 | D | 20,090 | 16,406 | 9/9 | 16,406 |
| £88,001 - £120,000 | E | 14,548 | 12,895 | 11/9 | 15,760 |
| £120,001 - £160,000 | F | 8,274 | 7,573 | 13/9 | 10,938 |
| £160,001 - £320,000 | G | 4,106 | 3,878 | 15/9 | 6,463 |
| £320,001 or more | H | 969 | 891 | 18/9 | 1,782 |
| | | 66,823 | 54,673 | | 62,641 |
| Estimated collection rate for 2018/19 | 99.20% | | | | 62,141 |
| Contributions in lieu (MoD properties) | | | | | 186 |
| **Tax Base for 2018/19** | | | | | **62,327** |

## CF 3. Council Tax Income

The Greater London Authority (GLA) levies a precept upon the Council's Collection Fund based upon the Council's tax base for the year. In addition, the Council's own requirement is charged to the Collection Fund and credited to the General Fund. The GLA precept includes elements for the Metropolitan Police Authority, the London Fire and Emergency Planning Authority, Transport for London, the London Legacy Development Company (Queen Elizabeth Olympic Park), the Old Oak Common, Park Royal Development Corporation and the core GLA functions.

## CF 4. Non-Domestic Rates

The Council collects Non-Domestic Rates (NDR) for its area based on local rateable values provided by the Valuation Office Agency (VOA) multiplied by a uniform basis set nationally by Central Government. Under the business rates retention scheme, local authorities retain a proportion of the total collectable rates due with the rest distributed to preceptors. The distribution rates have changed in 2018/19 and are shown below, along with the 2017-18 rates for comparison;

| | **2017-18** | **2018-19** |
|---|---|---|
| RBK | 30% | 64% |
| Greater London Authority | 37% | 36% |
| Central Government | 33% | 0% |
| Total | **100%** | **100%** |

The total non-domestic rateable value at year-end was:

| **31 Mar 2018 £'000** | | **31 Mar 2019 £'000** |
|---|---|---|
| 213,993 | Total non-domestic rateable value at year-end | 211,486 |
| **2017-18 p** | | **2018-19 p** |
| 47.9 | NNDR Multiplier for year | 49.3 |
| 46.6 | NNDR Multiplier for small businesses for year | 48.0 |

In addition to the local management of business rates, authorities are expected to finance appeals made in respect of rateable values as defined by the VOA. Appeals are charged and provided for in proportion to the precepting shares. The total provision charged to the collection fund for 2018/19 has been calculated at £2.390m (£1.659m in 2017/18) with RBK's share totalling £1.530m (£0.498m in 2017/18).

## CF 5. Collection Fund Balance

A proportion of the Collection Fund balance above is properly attributable to the Greater London Authority and Central Government and thus should not be wholly taken to the net worth component of the Council's Balance Sheet. Only an element calculated pro rata to the precepts above therefore appears as a balance in the net worth section of the Balance Sheet with the remainder treated as a debtor.

| 2017/18 £'000 CTax | 2017/18 £'000 NNDR | 2017/18 £'000 Total | | 2018/19 £'000 CTax | 2018/19 £'000 NNDR | 2018/19 £'000 Total |
|---|---|---|---|---|---|---|
| (1,372) | 2,851 | 1,479 | **Balance brought forward** | (392) | (7,563) | (7,955) |
| | | | **Adjustment to balance brought forward** | | 8 | 8 |
| 980 | (10,414) | (9,434) | **Movement in year** | 317 | 4,123 | 4,440 |
| (392) | (7,563) | (7,955) | **Balance carried forward** | (75) | (3,432) | (3,507) |

The surplus on the Collection Fund Balance relates to:

| | |
|---|---|
| RBK | - (£0.583m): Council tax – (£0.062m); NNDR – (£0.521m) |
| Greater London Authority | - (£1.298m): Council tax – (£0.012m); NNDR – (£1.286m) |
| Central Government | - (£1.627m): (NNDR - £1.627m) |

# 8. Group Accounts

# Group Comprehensive Income and Expenditure Statement for the Year Ended 31 March 2019

| Gross Expenditure 2017/18 | Gross Income 2017/18 | Net Expenditure 2017/18 | | Notes | Gross Expenditure 2018/19 | Gross Income 2018/19 | Net Expenditure 2018/19 |
|---|---|---|---|---|---|---|---|
| £'000 | £'000 | £'000 | | | £'000 | £'000 | £'000 |
| 75,685 | (23,175) | 52,510 | Adult Social Care | | 81,601 | (24,454) | 57,147 |
| 1,560 | (35) | 1,525 | Chief Executive's | | 1,826 | (129) | 1,697 |
| 54,263 | (34,145) | 20,117 | Communities | | 54,626 | (34,627) | 19,999 |
| 128,330 | (106,335) | 21,994 | Corporate and Commercial | | 118,861 | (101,860) | 17,001 |
| 9,690 | (5,027) | 4,663 | Growth | | 11,756 | (4,520) | 7,236 |
| 69,919 | (25,969) | 43,951 | Children's Services | | 47,409 | (27,134) | 20,275 |
| 62,978 | (57,479) | 5,498 | Children's Services (schools) | | 65,301 | (62,075) | 3,226 |
| 14,622 | (32,286) | (17,664) | Housing Revenue Account | | 24,760 | (35,435) | (10,674) |
| **417,046** | **(284,451)** | **132,594** | **Cost of Services** | | **406,141** | **(290,234)** | **115,907** |

# Group Comprehensive Income and Expenditure Statement for the Year Ended 31 March 2019 (continued)

| 2017/18 | 2017/18 | 2017/18 | | | 2018/19 | 2018/19 | 2018/19 |
|---|---|---|---|---|---|---|---|
| **£000** | **£000** | **£000** | | | **£000** | **£000** | **£000** |
| (6,379) | 389 | (5,990) | Other operating expenditure | 6 | 2,850 | - | 2,850 |
| 17,762 | (7,247) | 10,515 | Financing and investment income and expenditure | 7 | 30,766 | (9,240) | 21,526 |
| - | (140,671) | (140,671) | Taxation and non-specific grant income | 8 | - | (144,780) | (144,780) |
| **428,429** | **(431,980)** | **(3,551)** | **(Surplus) or deficit on the provision of services** | | **439,757** | **(444,254)** | **(4,498)** |
| | | 1,045 | Surplus or deficit on Achieving for Children (AfC) based on equity share | | | | 6,165 |
| | | (2,506) | **Group (surplus) or deficit** | | | | 1,668 |
| | | | **Items that will not be reclassified to the (Surplus) or Deficit on the Provision of Services** | | | | |
| - | - | (435) | Surplus or deficit on revaluation of non-current assets | 12a | | | (33,921) |
| - | - | (15,654) | Actuarial gains or losses on pension assets and liabilities | 12c | | | 12,434 |
| - | - | 2,555 | AfC other comprehensive income and expenditure | | | | |
| | | (13,534) | | | | | (21,486) |
| | | | **Items that may be reclassified to the (Surplus) or Deficit on the Provision of Services** | | | | |
| - | - | 176 | Surplus or deficit on revaluation of available-for-sale financial assets | | | | |
| | | (13,358) | **Other comprehensive income and expenditure** | | | | (21,486) |
| | | (15,865) | **Total comprehensive income and expenditure (surplus)/deficit** | | | | (19,818) |

# Group Movement in Reserves Statement

| 2018/19 | Memorandum General Fund Balance* | Memorandum Earmarked General Fund Reserves | Usable Reserves: Total General Fund Balance & Earmarked Reserves | Usable Reserves: Housing Revenue Account (HRA) | Usable Reserves: Capital Grants & Contributions Unapplied | Usable Reserves: Major Repairs Reserve | Usable Reserves: Capital Receipts Reserve | Usable Reserves: Total Usable Reserves | Non-usable Reserves | Total Authority Reserves | Council's Share of AfC Reserves | Total Reserves |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| **Balance at 31 March 2018** | (11,619) | (17,454) | (29,073) | (6,184) | (4,831) | - | (17,878) | **(57,966)** | **(378,249)** | **(436,215)** | 18,694 | **(417,521)** |
| Movement during 2018/19: | | | | | | | | | | | | |
| Total Comprehensive Expenditure and Income | 4,397 | - | 4,397 | (8,895) | - | - | - | **(4,498)** | (21,487) | **(25,983)** | **6,165** | **(19,818)** |
| Adjustments between accounting basis and funding basis under regulations (Note 10) | (3,793) | - | (3,793) | 7,244 | (8,820) | (1,026) | 1,323 | **(5,071)** | **5,071** | **-** | **-** | **-** |
| **Net Increase/(Decrease) before transfers to Earmarked Reserves** | **604** | **-** | **604** | **(1,650)** | **(8,820)** | **(1,026)** | **1,323** | **(9,569)** | **(16,415)** | **(25,983)** | 6,165 | **(19,818)** |
| Transfers to / (from) Earmarked Reserves | (1,617) | 1,267 | (350) | 350 | - | - | - | **-** | **-** | **-** | **-** | **-** |
| **Increase / (Decrease) in Year** | (1,013) | 1,267 | **254** | **(1,300)** | **(8,820)** | **(1,026)** | **1,323** | **(9,569)** | **(16,415)** | **(25,983)** | **6,165** | **(19,818)** |
| **Balance at 31 March 2019** | **(12,632)** | **(16,187)** | **(28,819)** | **(7,484)** | **(13,651)** | **(1,026)** | **(16,555)** | **(67,535)** | **(394,664)** | **(462,198)** | **24,859** | **(437,339)** |

## Group Movement in Reserves Statement (continued)

| 2017/18 Comparative | Memorandum General Fund Balance* | Memorandum Earmarked General Fund Reserves | Usable Reserves: Total General Fund Balance & Earmarked Reserves | Housing Revenue Account (HRA) | Capital Grants & Contributions Unapplied | Major Repairs Reserve | Capital Receipts Reserve | Total Usable Reserves | Non-usable Reserves | Total Authority Reserves | Council's Share of AfC Reserves | Total Reserves |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| **Balance at 31 March 2017** | (8,018) | (25,862) | (33,880) | (5,417) | (4,909) | - | (10,410) | **(54,615)** | **(362,133)** | **(416,750)** | 15,094 | **(401,656)** |
| Movement during 2017/18: | | | | | | | | | | | | |
| Total Comprehensive Expenditure and Income | 12,429 | - | 12,429 | (15,980) | - | - | - | **(3,551)** | **(15,913)** | **(19,465)** | 3,600 | **(15,865)** |
| Adjustments between accounting basis and funding basis under regulations (Note 10) | (7,623) | - | (7,623) | 15,213 | 78 | - | (7,467) | **201** | **(201)** | **-** | - | **-** |
| **Net Increase/(Decrease) before transfers to Earmarked Reserves** | **4,807** | **-** | **4,807** | **(767)** | **78** | **-** | **(7,467)** | **(3,350)** | **(16,115)** | **(19,465)** | 3,600 | **(15,865)** |
| Transfers to / (from) Earmarked Reserves | (8,408) | 8,408 | - | - | - | - | - | **-** | **-** | **-** | - | **-** |
| **Increase / (Decrease) in Year** | (3,601) | 8,408 | **4,807** | **(767)** | **78** | **-** | **(7,468)** | **(3,350)** | **(16,115)** | **(19,465)** | **3,600** | **(15,865)** |
| **Balance at 31 March 2018** | **(11,619)** | **(17,454)** | **(29,073)** | **(6,184)** | **(4,831)** | **-** | **(17,878)** | **(57,966)** | **(378,249)** | **(436,215)** | **18,694** | **(417,521)** |

The Council's share of the loss generated by AfC in 2017/18 is accounted against Usable Reserves in the Group's Movement in Reserves Statement.

# Group Balance Sheet

| 31 March 2018 | | Notes | 31 March 2019 |
|---|---|---|---|
| **£'000** | | | **£'000** |
| | **Long Term Assets** | | |
| 828,104 | Property, plant and equipment | 13a | 879,849 |
| 1,209 | Heritage assets | 13b | 1,209 |
| 84,530 | Investment property | 14 | 85,080 |
| 5,139 | Intangible assets | 13c | 4,960 |
| 5,229 | Long term investments | 17 | 5,207 |
| 7,570 | Long term debtors | 17 | 7,421 |
| **931,781** | **Total Long Term Assets** | | **983,726** |
| | **Current assets** | | |
| 5,908 | Asset held for sale | 15 | 337 |
| 9,803 | Short term investments | 17 | 30,609 |
| 46 | Inventories | | 41 |
| 43,081 | Short term debtors | 18 | 46,517 |
| 21,164 | Cash and cash equivalents | 20 | 4,651 |
| **80,001** | **Total Current Assets** | | **82,155** |

# Group Balance Sheet (continued)

| 31 March 2018 | | Notes | |
|---|---|---|---|
| **£'000** | | | |
| | **Current Liabilities** | | |
| (5,774) | Short term borrowing | 17 | (2,274) |
| (54,530) | Short term creditors | 19 | (55,425) |
| (2,633) | Provisions | 21 | (2,773) |
| (3,537) | Grants receipts in advance | | (815) |
| **(66,474)** | **Total Current Liabilities** | | **(61,287)** |
| | **Long Term Liabilities** | | |
| (6) | Long term creditors | | (3,000) |
| (289,308) | Long term borrowing | 17 | (294,038) |
| (218,500) | Other long term liabilities | | (244,155) |
| (1,278) | Provisions | 21 | (1,203) |
| (18,694) | RBK share of AfC liability | | (24,859) |
| **(527,787)** | Total Long Term Liabilities | | **(567,255)** |
| **417,521** | Net Assets | | **437,339** |

| | | | |
|---|---|---|---|
| | **Reserves** | | |
| (57,966) | Usable reserves | | (67,535) |
| (378,249) | Unusable reserves | 12 | (394,664) |
| 18,694 | RBK share of AfC reserves | | 24,859 |
| **(417,521)** | Total Reserves | | **(437,339)** |

# Group Cash Flow Statement

| 2017/18 | | | 2018/19 |
|---|---|---|---|
| **£000** | | Notes | **£000** |
| (2,506) | Net (surplus) or deficit on the provision of services | | 1,668 |
| (45,463) | Adjustment to the net surplus or deficit on the provision of services for non-cash movements | | (13,320) |
| 27,739 | Adjustment for items in the net surplus or deficit on the provision of services that are investing or financing activities | | 17,494 |
| (20,230) | Net cash flows from operating activities | | 5,841 |
| | | | |
| 5,034 | **Net cash flows from investing activities** | | 4,898 |
| 6,008 | **Net cash flows from financing activities** | | 5,774 |
| | | | |
| **(9,188)** | **Net increase/(decrease) in cash and cash equivalents** | | **16,513** |
| | | | |
| | **Represented by:** | | |
| 11,976 | Cash and cash equivalents at the beginning of the reporting period | 20 | 21,164 |
| 9,188 | Net increase/(decrease) in cash and cash equivalents | 20 | (16,513) |
| **21,164** | **Cash and cash equivalents at the end of the reporting period** | | **4,651** |

# Notes to the Group Accounts

## G1. Introduction

Notes to the Group Accounts are presented where it is deemed that extra disclosure supporting the Council's notes to the single entity accounts is appropriate. Where notes have not been replicated in the Group Accounts, it is because it is deemed that there is no material change between the Council's single entity notes and the Group Accounts. The accounting policies of the subsidiary are in line with the Council's accounting policies.

## G2. Group external audit costs

The Council's share in respect of audit fees payable to Grant Thornton amounts to £0.014 and £0.003k for other audit services. This reflects a 40% share of the Council's share of fees disclosed in AfC accounts.

## G3. Major sources of estimation uncertainty

### Going Concern

Based on AfC's own disclosure and the Council's assessment, the Council considers AfC and the Group to be a going concern

### Actuarial valuation of pension assets and liabilities

The total comprehensive income for the year contains accounting adjustments recognising the net liability from defined pensions plans. Pension assets and liabilities and associated costs are included in AfC's accounts based upon an actuarial estimate that has been calculated in line with methodologies prescribed in IAS19.

The actuarial assumptions are largely prescribed at any point and reflect the market conditions at the reporting date. Changes in market conditions that result in changes in the net discount rate (essentially the difference between the discount rate and the assumed rates of increase of salaries, deferred pension revaluation or pensions in payment); can have a significant effect on the value of the liabilities reported.

A reduction in the net discount rate will increase the assessed value of liabilities as a higher value is placed on benefits paid in the future. A rise in the net discount rate will have an opposite effect of similar magnitude.

There is also uncertainty around life expectancy of the UK population. The value of current and future pension benefits will depend on how long they are assumed to be in payment.

Sensitivity analysis on changes to actuarial assumptions in AfC's accounts is shown below.

| **Change assumptions at 31 March 2019** | Approx % increase to employer liability | Approx monetary increase |
|---|---|---|
| | % | £'000 |
| 0.5% decrease in real discount rate | 13 | 19,933 |
| 0.5% increase in the salary rate | 3 | 5,023 |
| 0.5% increase in the pension increase rate | 10 | 14,458 |

## G4. Group cash flows from operating activities

| 2017/18 | | 2018/19 |
|---|---|---|
| **£'000** | | **£'000** |
| (210) | Interest received | (390) |
| 9,586 | Interest paid | 8,283 |
| **9,376** | **Total** | **7,893** |
| | **Adjust net surplus or deficit on the provision of services for non-cash movements** | |
| (25,944) | Depreciation | (29,768) |
| 3,547 | Impairment and downward revaluations | 14,505 |
| (1,550) | Amortisation | (1,631) |
| (853) | Increase / (decrease) in impairment for bad debts | (3,450) |
| (6,448) | Increase / (decrease) in creditors | (1,167) |
| 34 | (Increase) / decrease in debtors | 6,737 |
| (1) | (Increase) / decrease in inventories | (5) |
| (10,853) | Movement in Pension Liability | 13,221 |
| (6,920) | Carrying amount of non-current assets and non-current assets held for sale, sold or derecognised | (6,828) |
| | **Other non-cash items charged to the net Surplus or Deficit on the Provision of Services** | |
| 596 | Provisions | (65) |
| 3,974 | Movement in the value of investment properties | 1,295 |
| (1,045) | Surplus or deficit on AfC based on Equity share | (6,165) |
| **(45,463)** | **Total non-cash adjustments** | **(13,320)** |
| 13,003 | Capital Grants credited to surplus or deficit on the provision of services | 5,228 |
| 14,736 | Proceeds from the sale of property plant and equipment, investment property and intangible assets | 12,266 |
| **27,739** | **Total adjustments for investing or financing activities** | **17,494** |

# 9. Pension Fund Accounts

**These show the income and expenditure of the Kingston Local Government Pension Fund in relation to current employees and pensioners, investment transactions and the position of the Fund at year end including future liabilities.**

THE ROYAL BOROUGH OF KINGSTON UPON THAMES

# Fund Account for the year ended 31 March 2019

| 2017/18 | | | 2018/19 |
|---|---|---|---|
| **£'000** | | **Note** | **£'000** |
| | Dealings with members, employers and others directly involved in the Fund | | |
| (35,188) | Contributions | 7 | (33,907) |
| (15,405) | Transfers in from other pensions funds | 8 | (20,438) |
| (50,593) | | | (54,345) |
| 29,786 | Benefits | 9 | 31,141 |
| 62,854 | Payments to and on account of leavers: | 10 | 5,445 |
| 92,640 | | | 36,586 |
| **42,047** | Net (additions) / withdrawals from dealings with members | | **(17,759)** |
| | | | |
| 4,855 | Management expenses | 11 | 7,584 |
| 46,902 | Net (additions)/withdrawals including fund management expenses | | (10,175) |
| | Returns on Investments | | |
| (14,681) | Investment income | 12 | (9,068) |
| 241 | Taxes on income | 13 | 80 |
| (10,987) | (Profit) loss on disposal of investments and changes in the market value of investments | 16b | (45,020) |
| **(25,427)** | Net Return on Investments | | **(54,008)** |
| 21,475 | Net (Increase)/Decrease in the Net Assets Available for Benefits During the Year | | (64,183) |
| **(791,753)** | Opening Net Assets of the Scheme | | **(770,278)** |
| **(770,278)** | Closing Net Assets of the Scheme | | **(834,461)** |

# Net Assets Statement for the year as at 31 March 2019

| 2017/18 | | Note | 2018/19 |
|---|---|---|---|
| **£'000** | | | **£'000** |
| - | Long term assets | | 150 |
| 818,110 | Investment Assets | 14 | 867,895 |
| **818,110** | Total Net Investments | | **868,045** |
| | | | |
| 13,959 | Current Assets | 20 | 13,462 |
| (61,791) | Current Liabilities | 21 | (47,046) |
| **770,278** | Net Assets of the Fund available to fund benefits at the end of the reporting period | | **834,461** |

# Notes to the Pension Fund Accounts

## PF Note 1 - Description of the Fund

**a). General**

The Royal Borough of Kingston upon Thames Pension Fund is part of the Local Government Pension Scheme (LGPS) and is administered by the Royal Borough of Kingston upon Thames

The Fund is governed by the Public Service Pensions Act 2013 and is administered under the following regulations:

- the LGPS Regulations 2014 (as amended)
- the LGPS (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended).
- the LGPS (Management and Investment of Funds) Regulations 2016
- the LGPS (Amendment) Regulations 2018

The Scheme is a contributory defined benefits scheme established in accordance with statute, which provides for the payment of benefits to employees and former employees of the Royal Borough of Kingston upon Thames and the admitted and scheduled bodies in the Pension Fund. These benefits include retirement pensions and early payment of benefits on medical grounds and payment of death benefits where death occurs either in service or in retirement.

**b). Pension Fund Panel**

The Council has delegated oversight of the Fund to the Pension Fund Panel who make recommendations on the investment policy most suitable to meet the liabilities of the Fund. The Panel is made up of five Members of the Council each of whom has voting rights.

The Panel considers the views of the Director of Corporate & Commercial (S151 Officer) and obtains, as necessary, advice from the Fund's appointed investment advisers, fund managers and actuary. The implementation of these decisions is delegated to the Director of Corporate & Commercial (S151 Officer)

**c). Membership**

Although Scheme employers are required to auto enrol employees into the LGPS, membership of the LGPS is voluntary and employees are free to choose whether to remain in the Scheme or to "opt out" and make their own personal arrangements outside the Scheme. Organisations participating in the Royal Borough of Kingston Pension Fund include:

- Scheduled bodies which are local authorities or other similar bodies whose staff are automatically entitled to be members of the Fund

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

Member bodies at 31 March 2019 were as follows:

| Scheduled bodies | | Admitted bodies |
|---|---|---|
| Royal Borough of Kingston upon Thames | Southborough High School | Balance CIC |
| Kingston University | St Agatha's School | London Grid for Learning |
| Castle Hill Primary School | Tiffin Girls School | Your Healthcare |
| Coombe Boys School | Tiffin School | Engie |
| Coombe Girls School | Tolworth Girls School | NSL |
| Hollyfield School | Kingston Academy | **Admitted bodies (Designated bodies)** |
| Holy Cross School | Kingston Community School | Achieving for Children CIC |
| Knollmead Primary School | Bedelsford School | |
| Latchmere School | Dysart School | |
| Richard Challoner School | St Philip's School | |
| Green Lane Primary School | | |

## PF Note 1 - Description of the Fund - Continued

The following table summarises the membership numbers of the scheme:

| 2017/18 | | 2018/19 |
|---|---|---|
| 26 | Number of Employers with active members | 27 |
| | **Active Members** | |
| 2,676 | Royal Borough of Kingston upon Thames | 2,551 |
| 2,230 | Scheduled bodies | 1,976 |
| 652 | Admitted bodies | 713 |
| 5,558 | | 5,240 |
| | **Deferred Members** | |
| 3,630 | Royal Borough of Kingston upon Thames | 3,514 |
| 1,667 | Scheduled bodies | 1,619 |
| 236 | Admitted bodies | 221 |
| 5,533 | | 5,354 |
| | **Pensioners (including Dependents)** | |
| 3,339 | Royal Borough of Kingston upon Thames | 3,607 |
| 928 | Scheduled bodies | 911 |
| 111 | Admitted bodies | 117 |
| 4,378 | | 4,635 |
| **15,469** | **Total** | **15,229** |

## PF Note 1 - Description of the Fund - Continued

**d). Benefits**

Prior to 1 April 2014, pension benefits under the LGPS were based on final pensionable pay and length of pensionable service. From 1 April 2014, the scheme became a career average scheme, whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49th. Key details of the scheme's variants are shown in the table below. Accrued pension is uprated annually in line with the Consumer Prices Index.

| | Service pre 1 April 2008 | Service 1 March 2008 to 31 March 2014 | Service post 31 March 2014 |
|---|---|---|---|
| **Pension** | Accrual rate per annum of 1/80th of final pensionable pay | Accrual rate per annum of 1/60th of final pensionable pay | Accrual rate per annum of 1/49th of current year's pensionable pay |
| **Lump sum** | Automatic lump sum of 3 x pension. Option to exchange annual pension for tax free lump sum at a rate of £1 pension for £12 lump sum up to a maximum of 25% of total pension pot. | No automatic lump sum. Option to exchange annual pension for tax free lump sum at a rate of £1 pension for £12 lump sum up to a maximum of 25% of total pension pot. | |

There are other benefits provided by the LGPS including early retirement, disability pensions and death benefits. Further information is available here https://www.kingston.gov.uk/info/200285/financial_information/748/pensions/6.

**e). Funding**

The Pension Fund is financed by contributions from employees, employers (including the Council, admitted and scheduled bodies) and from the Fund's investments. Contributions are made by active members of the Fund in accordance with the LGPS Regulations 2013 and range from 5.5% to 12.5% of pensionable pay for the financial year ended 31 March 2019. Under the current scheme members can opt for the 50:50 option where they pay half their contributions for half the benefits.

In 2018/19, employer contribution rates ranged from 15.0% to 26.2% of pensionable pay. Employer contribution rates payable from 1 April 2018 were set by the triennial valuation as at 31 March 2016, the results of which were published on 31 March 2017. The Fund excludes teachers, who have a separate Teachers Pensions Scheme managed by the Teachers Pensions Agency. The Fund also excludes those contributing to the NHS Pensions Scheme.

# PF Note 2 - Basis Of Preparation

The Statement of Accounts summarises the Fund's transactions for the 2018/19 financial year and its position as at 31 March 2019 .The Accounts have been prepared in accordance with the 'Code of Practice on Local Authority Accounting in the United Kingdom 2018/19' (the Code) issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) which is based upon International Financial Reporting Standards (IFRS) as amended for the UK public sector. The Accounts have been prepared on a going concern basis.

The Accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits. The Accounts do not provide for obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial present value of promised retirement benefits, valued on an International Accounting Standard (IAS) 19 basis, is disclosed at Note 19 of these Accounts.

**Accruals Concept**

Income and expenditure has been included in the Accounts on an accruals basis. The Fund's financial statements do not take account of liabilities to pay pensions and other benefits after the period end. The adequacy of the Fund to pay future pensions and other benefits is reported upon separately in these accounts.

**Valuation of Investments**

Investments are stated at their market values as at 31 March 2019 and are determined as follows:

- All investments priced within the Stock Exchange Electronic Trading Service (SETS), a Recognised or Designated Investment Exchange or Over-The-Counter market, are valued at the bid-market prices at close of business on the exchange or market on which the investment trades, or at the last trading price recorded.

- Securities which are not covered by the above are valued at their estimated realisable value. Suspended securities are valued initially at the suspended price but are subject to constant review.

- Investments held in foreign currency have been valued on the relevant basis and translated into Sterling at the rate ruling at the balance sheet date.

- Transactions in foreign currency are translated into Sterling at the exchange rate ruling at the time of transaction.

# PF Note 3 - Summary of Significant Accounting Policies

**Fund account – revenue recognition**

**a) Contribution Income**

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

Employer's augmentation contributions and pension strain contributions are accounted for in the period in which the liability arises. Any amount due in year but unpaid will be classed as a current financial asset. Augmentation is the cost of additional membership awarded by an employer. This was applied only by Kingston University who awarded up to two additional years membership to employees who leave under their early retirement scheme (£0 in 2018/19, £248,850 in 2017/18).

**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 Local Government Pension Scheme Regulations.

Individual transfers in or out are accounted for when received or paid which is normally when the member liability is accepted or discharged except when they are significant and material. 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**

• Interest income

Interest income is recognised in the Fund as it accrues, using the effective interest rate of the financial instrument as at the date of the financial instrument and its amount as at the date of acquisition or origination.

Income includes the amortisation of any discount or premium, transaction costs or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis.

• Dividend income

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

• Distributions from pooled funds

Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the financial year is disclosed in the Net Assets Statement as a current financial asset.

• Movement in the net market value of investments

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

**Fund account – expense items**

**d) Benefits payable**

Pensions and lump sum benefits include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed in the Net Assets Statement as current liabilities.

**e) Taxation**

The Fund is a registered public service scheme under section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Interest 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.

Investment income, Note 12, is shown gross of irrecoverable taxes deducted, which in 2018/19 totalled £79,750. The Fund is reimbursed VAT by HM Revenue and Customs, and the accounts are shown exclusive of VAT.

**f) Management Expenses**

Pension Fund management expenses are accounted for in accordance with the CIPFA guidance *Accounting for Local Government Pension Scheme Management Expenses (2016).*

• Administrative Expenses

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 Costs

All 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 and accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund.

• Investment Management Expenses

All investment management expenses are accounted for on an accruals basis. Fees of the external investment managers and custodian are agreed in the respective mandates governing their appointments. Broadly, these are based on the market value of the investments under their management and therefore increase or decrease as the value of these investments change. The cost of obtaining investment advice from external consultants is included here.

**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 Assets 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 fair value of the asset are recognised by the Fund.

**h) Actuarial present value of promised retirement benefits**

The actuarial present value of promised retirement benefits should be disclosed and based on the requirements of IAS19 Post-Employment Benefits and relevant actuarial standards. As permitted under the Code, the financial statements include a note disclosing the actuarial present value of retirement benefits (Note 19).

**i) Additional Voluntary Contributions**

The Fund provides an additional voluntary contributions (AVC) scheme for its members, the assets of which are invested separately from the Pension Fund (see Note 22). AVCs are paid to the AVC providers by employers, specifically for providing additional benefits for individual contributors. Each AVC contributor receives an annual statement from the AVC provider company showing the amount held in their account and the movements in year.

## PF Note 4 - Critical Judgements in Applying Accounting Policies

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

**Pension Fund Liability**
The Pension Fund liability is calculated every three years by the appointed actuary, with annual updates in the intervening years**.** The methodology used is within accepted guidelines and in accordance with IAS 19. Assumptions underpinning the valuations are agreed with the actuary and are summarised at Note 18.

This estimate is subject to significant variances based on changes to the underlying assumptions.

# PF Note 5 - Assumptions Made About The Future And Other Major Sources Of Estimation Uncertainty

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

| Item | Uncertainties | Effect if Actual Results Differ from Assumptions |
|---|---|---|
| Pension Liability | Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets.<br>A firm of consulting actuaries is engaged to provide the Authority with expert advice about the assumptions to be applied. | The effects on the net pension fund liability for the Royal Borough of Kingston Pension Fund can be measured. For example a 0.5% decrease in the discount rate assumption would result in an approximate increase of £131m in the Fund's pension liability; a one year increase in member life expectancy would increase the liability by approximately £52m and a 0.5% increase in the salary increase rate would increase the liability by approximately £17m. |
| | There is further uncertainty arising from a legal challenge to the Government's transitional arrangements following the public sector pension reforms in 2015. The McCloud case was upheld by the Court of Appeal in December 2018 which found the transitional arrangements to be discriminatory on the grounds of age and gender. The Government was refused appeal to the Supreme Court in June 2019 and now it is for the Scheme Advisory Body to determine how this matter is to be resolved. | The potential impact of the McCloud case has been assessed by the Government Actuary Department (GAD) on a national LGPS-wide basis using a range of remedies and assumptions. The Council's actuaries have applied the same assumptions as used to prepare the IAS26 report to the remedies in the GAD review which indicate a potential increase in pension liabilities of 0.3%, or £3.6m. This figure is based on a worst case scenario and the impact will be reduced if the remedies proposed are not as extensive as in the original GAD report. |

# PF Note 6 - Events After The Reporting Period End

The Statement of Accounts was authorised for issue by the Director of Corporate & Commercial (S151 Officer) on 31 May 2019. At this date there was one non-adjusting event to report:

The latest value of the investments of the Fund show an increase from £868.0m to £895.6 (as valued at 30 April 2019). This is an increase of £27.6m or 3.17%.

# PF Note 7 - Contributions Receivable

Employees’ contributions are calculated on a sliding scale based on a percentage of their gross pay. The Council, scheduled and admitted bodies are required to make contributions determined by the Fund’s actuary to maintain solvency of the Fund.  The table below shows a breakdown of the total amount of employers’ and employees’ contributions

**Category**:

| 2017/18 | | 2018/19 |
|---|---|---|
| **£'000** | | **£'000** |
| (7,238) | Employees' contributions | (7,608) |
| | | |
| | Employers' contributions | |
| (22,831) | Normal Contributions | (21,623) |
| (4,871) | Deficit Recovery Contributions | (4,676) |
| (248) | Augmentation contributions | - |
| **(35,188)** | | **(33,907)** |

**Authority**:

| 2017/18 | | 2018/19 |
|---|---|---|
| **£'000** | | **£'000** |
| (13,793) | Royal Borough of Kingston upon thames | (15,177) |
| (17,228) | Scheduled bodies | (14,230) |
| (4,167) | Admitted bodies | (4,500) |
| **(35,188)** | | **(33,907)** |

# PF Note 8 - Transfers In From Other Pension Funds

The tables below show a breakdown of the total amount of benefits payable by category and by authority:

| 2017/18 | | 2018/19 |
|---|---|---|
| **£'000** | | **£'000** |
| (4,255) | Individual transfers | (7,913) |
| (11,150) | Group transfers | (12,525) |
| **(15,405)** | | **(20,438)** |

There is one transfer receivable from the Royal Borough of Windsor and Maidenhead in respect of their education service joining Achieving for Children. Transfers from the London Borough of Sutton for their Environment and Human Resource services exceeded the estimate last year by £6m.

# PF Note 9 - Benefits Payable

The tables below show a breakdown of the total amount of benefits payable by category and by authority:

**Category:**

| 2017/18 | | 2018/19 |
|---|---|---|
| **£'000** | | **£'000** |
| 24,518 | Pensions | 25,310 |
| 4,574 | Commutation and Lump sum retirement benefits | 4,804 |
| 694 | Lump sum death benefits | 1,027 |
| **29,786** | | **31,141** |

**Authority:**

| 2017/18 | | 2018/19 |
|---|---|---|
| **£'000** | | **£'000** |
| 19,947 | Royal Borough of Kingston upon Thames | 22,656 |
| 8,031 | Scheduled bodies | 7,454 |
| 1,808 | Admitted bodies | 1,031 |
| **29,786** | | **31,141** |

# PF Note 10 - Payments To And On Account Of Leavers

| 2017/18 | | 2018/19 |
|---|---|---|
| **£'000** | | **£'000** |
| 223 | Refunds to members leaving service | 198 |
| 57,000 | Group transfers | 877 |
| 5,631 | Individual transfers | 4,370 |
| **62,854** | | **5,445** |

The group transfer to London Borough of Croydon for £0.4m in respect of 28 staff of the Household Refuse and Recycling Centre service was settled in March 2019. This was a small group of low paid staff who joined the LGPS between July 2013 and November 2015 so had short periods of pension accrual.

The group transfers to the London Borough of Sutton in respect of the Shared Finance Service and the Customer Contact Centre was largely settled in March 2019 for £11.1m in total, less than the previous year's accrual by £3.4m

There are two group transfers payable provided for in the Accounts, as follows:

- To the London Pensions Fund Authority In respect of the transfer of Kingston College and the Kingston and Sutton Educational Partnership, estimated at £44.3m

## PF Note 11 - Management Expenses

| 2017/18 | | 2018/19 |
|---|---|---|
| **£'000** | | **£'000** |
| 305 | Administration Expenses | 638 |
| 4,061 | Investment Management Expenses | 6,626 |
| 489 | Oversight and Governance | 320 |
| **4,855** | | **7,584** |

The above table includes audit costs within Oversight and Governance which total £16k in 2018/19 (£21k in 2017/18).

## PF Note 11a - Investment Management Expenses

Investment Management Expenses are further analysed below in line with CIPFA Guidance on Accounting for Management Costs in the LGPS. Additional cost disclosures have been provided by fund managers following the publication of the LGPS cost transparency code in May 2017 by the Scheme Advisory Body. The use of a standardised cost template has enabled transaction costs and indirect management costs to be identified and accounted for. The Fund has always borne these costs but typically they were deducted either from the net asset value or from investment income so that they were hidden within the Fund.

| 2017/18 | | 2018/19 |
|---|---|---|
| **£'000** | | **£'000** |
| 3,617 | Management Fees | 4,008 |
| 32 | Performance Fees | 90 |
| 66 | Custody Fees | 64 |
| 346 | Transaction Costs | 2,464 |
| **4,061** | | **6,626** |

# PF Note 12 - Investment Income

| 2017/18 | | 2018/19 |
|---|---|---|
| **£'000** | | **£'000** |
| (4,185) | Equity Dividends | (3,542) |
| | Pooled Investments: | |
| (1,489) | - Fixed Income | (1,725) |
| (824) | - Property | (864) |
| (8,150) | - Multi-Asset | (2,774) |
| (4) | Interest on Cash Deposits | (20) |
| (29) | Other | (143) |
| **(14,681)** | | **(9,068)** |

# PF Note 13 - Taxes On Income

| 2017/18 | | 2018/19 |
|---|---|---|
| **£'000** | | **£'000** |
| 72 | Withholding tax - equities | 70 |
| 169 | Withholding tax - pooled | 10 |
| **241** | | **80** |

# PF Note 14 - Investments

| 2017/18 | Investment Assets | 2018/19 |
|---|---|---|
| **£'000** | | **£'000** |
| | Equities - quoted: | |
| 9,426 | UK | 11,667 |
| 166,363 | Overseas | 179,606 |
| | Pooled Investment Vehicles - UK: | |
| 36,943 | Equities | 43,967 |
| 84,554 | Fixed Income - Public Sector | 71,690 |
| 53,211 | Fixed Income - Corporate | 40,096 |
| 41,712 | Property | 42,785 |
| - | Credit | 7,460 |
| 4,395 | Other | 3,724 |
| | Pooled Investment Vehicles - Overseas: | |
| 331,207 | Equities | 347,755 |
| 11,171 | Fixed Income - Public Sector | 29,773 |
| 31,745 | Fixed Income - Corporate | 18,799 |
| 5,893 | Property | 4,548 |
| - | Credit | 24,666 |
| | Other Investment Balances | |
| 40,658 | Cash deposits | 40,582 |
| 977 | Accrued income and recoverable taxes | 988 |
| (146) | Amount payable for purchases of investments | (212) |
| **818,110** | Total Net Investment Assets | **867,895** |

# PF Note 14a - Analysis of Pooled Investment Vehicles

| **Pooled Investment Vehicles:** | | | Other managed funds: | | | |
|---|---|---|---|---|---|---|
| **2018/19** | Unit trusts | Unitised insurance policies | OEIC* | SICAV* | Insurance contract | Total |
| | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** |
| - Equities | 157,630 | 185,110 | 41,609 | | 7,374 | 391,723 |
| - Fixed Income | 69,068 | 988 | 46,689 | 34,126 | 9,488 | 160,358 |
| - Property | 43,876 | 3,458 | | | | 47,335 |
| - Infrastructure | | | | | | 0 |
| - Credit | | | 32,126 | | | 32,126 |
| - Other | 14,240 | 456 | 4,146 | 3,293 | 18,674 | 40,809 |
| | **284,814** | **190,012** | **124,570** | **37,419** | **35,536** | **672,351** |

*OEIC - "Open-ended Investment Company: an investment company that will issue (or redeem) shares on a regular basis in response to investor demand.
*SICAV - "Société d'investissement à capital variable", similar to an OEIC but used in Europe.

| **Pooled Investment Vehicles:** | | | Other managed funds: | | | |
|---|---|---|---|---|---|---|
| **2017/18** | Unit trusts | Unitised insurance policies | OEIC | SICAV | Insurance contract | Total |
| | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** |
| - Equities | 151,686 | 166,028 | 39,588 | | 10,849 | 368,151 |
| - Fixed Income | 65,576 | | 76,264 | 32,131 | 6,710 | 180,681 |
| - Property | 43,516 | 1,369 | | | 2,721 | 47,605 |
| - Infrastructure | | | | | | 0 |
| - Credit | | | | | | 0 |
| - Other | 13,412 | 1,554 | 6,503 | 5,361 | 15,336 | 42,167 |
| | **274,190** | **168,951** | **122,355** | **37,492** | **35,616** | **638,604** |

# PF Note 14b - Reconciliation of Movements In Investments

| 2018/19 | Value 31 March 2018 | Purchases at Cost | Sales Proceeds | Change in Market Value | Value 31 March 2019 |
|---|---|---|---|---|---|
| | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** |
| Equities | 175,789 | 107,202 | (105,746) | 14,028 | 191,273 |
| Pooled Investment Vehicles: | | | | | |
| - Equities | 309,464 | 1,522 | (970) | 27,535 | 337,551 |
| - Fixed Income | 101,542 | 1,917 | (32,367) | 108 | 71,200 |
| - Property | 40,497 | - | (278) | 809 | 41,027 |
| - Multi-Asset | 183,739 | 2,662 | (2,441) | 2,259 | 186,220 |
| - Credit | - | 32,000 | (28) | 154 | 32,126 |
| - Other | 150 | - | (150) | - | - |
| **Sub-total Investments** | **811,180** | **145,304** | **(141,981)** | **44,894** | **859,397** |
| Other Investment Balances: | | | | | |
| Cash deposits* | 6,099 | | | 107 | 7,723 |
| Trade receivables / payables | (146) | | | 19 | (213) |
| Accrued income and recoverable taxes | 976 | | | - | 988 |
| **Net Investment Assets** | **818,110** | | | **45,020** | **867,895** |

*Excludes cash held by Multi Asset Funds

# PF Note 14b - Reconciliation of Movements In Investments - Continued

| 2017/18 | Value 31 March 2017 | Purchases at Cost | Sales Proceeds | Change in Market Value | Value 31 March 2018 |
|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 |
| Equities | 202,070 | 122,174 | (152,383) | 3,928 | 175,789 |
| Pooled Investment Vehicles: | | | | | - |
| - Equities | 302,900 | - | (5,739) | 12,303 | 309,464 |
| - Fixed Income | 99,279 | 53,757 | (51,604) | 110 | 101,542 |
| - Property | 29,901 | 7,985 | | 2,610 | 40,497 |
| - Multi-Asset | 149,502 | 77,982 | (34,068) | (9,677) | 183,739 |
| - Other | 150 | - | | | 150 |
| **Sub-total Investments** | **783,802** | **261,899** | **(243,794)** | **9,274** | **811,180** |
| Other Investment Balances: | | | | | |
| Cash deposits* | 10,529 | | | 895 | 6,099 |
| Trade receivables / payables | (513) | | | 367 | (146) |
| Accrued income and recoverable taxes | 1,201 | | | 451 | 976 |
| **Net Investment Assets** | **795,019** | | | **10,987** | **818,110** |
| *Excludes cash held by Multi Asset Funds | | | | | |

# PF Note 14c - Investments Analysed By Fund Manager

| 31 March 2018 | | | 31 March 2019 | |
|---|---|---|---|---|
| Market Value | % of total | Fund Manager | Market Value | % of total |
| £'000 | % | | £'000 | % |
| | | **Investments managed by London Collective Investment Vehicle** | | |
| 77,694 | 9.5% | Pyrford International - Global Total Return Fund | 80,347 | 9.3% |
| 35,639 | 4.4% | Baillie Gifford - Diversified Growth Fund | 35,738 | 4.1% |
| 34,790 | 4.3% | Ruffer - Absolute Return Fund | 34,599 | 4.0% |
| - | 0.0% | CQS - Multi Asset Credit Fund | 32,126 | 3.7% |
| 148,123 | 18.1% | | 182,810 | 21.1% |
| | | **Investments managed outside of London Collective Investment Vehicle** | | |
| 43,860 | 5.4% | UBS Global Asset Management | 45,254 | 5.2% |
| 202,871 | 24.8% | Fidelity Pensions Management | 219,609 | 25.3% |
| 168,951 | 20.7% | Threadneedle Asset Management - Global Equity Fund | 190,012 | 21.9% |
| 116,997 | 14.3% | Schroder Investment Management - Global Active Value Fund | 123,475 | 14.2% |
| 37,492 | 4.6% | Janus Henderson Investors - Total Return Bond Fund | 37,419 | 4.3% |
| 35,616 | 4.4% | Aberdeen Standard Investments | 35,536 | 4.1% |
| 64,050 | 7.8% | Janus Henderson Investors - All Stocks Credit Fund | 33,781 | 3.9% |
| 669,837 | 81.9% | | 685,085 | 78.9% |
| **817,960** | **100.0%** | **Total** | **867,895** | **100.0%** |

# PF Note 15 - Fair value – basis of valuation

The basis of the valuation of each class of investment asset is in accordance with the guidance contained in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code). Asset and liability valuations are classified into three levels, according to the quality and reliability of information used to determine fair values. The investment assets of the Pension Fund are classed, as set out in the table below.

| | | | 31 March 2018 | | | | | 31 March 2019 |
|---|---|---|---|---|---|---|---|---|
| Quoted Market Price | Using Observable Inputs | With Significant Unobservable Inputs | Total | | Quoted Market Price | Using Observable Inputs | With Significant Unobservable Inputs | Total |
| Level 1 | Level 2 | Level 3 | | | Level 1 | Level 2 | Level 3 | |
| £'000 | £'000 | £'000 | £'000 | | £'000 | £'000 | £'000 | £'000 |
| 175,789 | - | - | 175,789 | Equities | 191,273 | - | - | 191,273 |
| | | | | Pooled Investment Vehicles: | | | | |
| - | 368,151 | - | 368,151 | Equities | - | 391,723 | - | 391,723 |
| 15,088 | 165,593 | - | 180,681 | Fixed Income | 16,075 | 144,283 | - | 160,358 |
| - | 47,605 | - | 47,605 | Property | - | 47,335 | - | 47,335 |
| - | - | - | - | Credit | - | 32,126 | - | 32,126 |
| 7,034 | 38,700 | | 45,734 | Other | 4,565 | 40,515 | - | 45,080 |
| **197,911** | **620,049** | **-** | **817,960** | **Financial Assets at fair value through profit and loss** | **211,913** | **655,982** | **-** | **867,895** |

# PF Note 16a - Classification of financial instruments

| 2017/18 | | | | 2018/19 | | |
|---|---|---|---|---|---|---|
| **Fair value through profit and loss** | **Financial assets at amortised cost** | **Financial liabilities at amortised cost** | | **Fair value through profit and loss** | **Financial assets at amortised cost** | **Financial liabilities at amortised cost** |
| **£'000** | **£'000** | **£'000** | | **£'000** | **£'000** | **£'000** |
| | | | **Financial Assets** | | | |
| 175,789 | | | Equities | 191,273 | | |
| | | | Pooled Investment Vehicles: | | | |
| 368,151 | | | Equities | 391,723 | | |
| 180,681 | | | Fixed income | 160,358 | | |
| 47,605 | | | Property | 47,335 | | |
| | | | Infrastructure | | | |
| | | | Credit | 32,126 | | |
| | 4,395 | | Other* | | 3,724 | |
| | 41,975 | | Cash deposits | | 46,675 | |
| - | 13,473 | - | Sundry debtors | | 8,293 | |
| **772,226** | **59,843** | **-** | | **822,815** | **58,692** | **-** |
| | | | **Financial Liabilities** | | | |
| - | - | (61,791) | Creditors | | | (42,698) |
| **-** | **-** | **(61,791)** | | **-** | **-** | **(42,698)** |
| **772,226** | **59,843** | **(61,791)** | **Total** | **822,815** | **58,692** | **(42,698)** |

*Other includes absolute return, commodities, insurance linked securities and investment in the London CIV

# PF Note 16b - Net gains and losses on financial instruments

| 2017/18 | | 2018/19 |
|---|---|---|
| £'000 | | £'000 |
| | Financial Assets | |
| 10,092 | Designated at fair value through profit and loss | 44,912 |
| 895 | Financial assets at amortised cost | 107 |
| **10,987** | | **45,020** |

# PF Note 17 - Nature and extent of risks arising from financial instruments

**Key risks**

The Pension Fund's activities expose it to a variety of financial risks:

- Market risk – the possibility that financial loss might arise for the Pension Fund as a result of changes in such measures as interest rates and stock market movements.
- Credit risk – the possibility that other parties might fail to pay amounts due to the Pension Fund.
- Liquidity risk – the possibility that the Pension Fund might not have funds available to meet its commitments to make payments.

**Overall Procedures for Managing Risk**

The Pension Fund's overall risk management procedures focus on the unpredictability of financial markets, and are structured to implement suitable controls to minimise these risks. The procedures for risk management are set out through a legal framework in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2013 and the associated regulations. These regulations set out permissible financial instruments, require the Administering Authority to maintain and invest on behalf of the Pension Fund in accordance with its investment principles, to take professional advice, to review investment performance and to operate a separate Pension Fund bank account. Overall these procedures require the Administering Authority to manage Pension Fund risk by maintaining and investing in accordance with a:

- Investment Strategy Statement;
- Funding Strategy Statement;
- Statement of Governance Policy;
- Governance Compliance Statement.

The Pension Fund Investment Strategy is reviewed at least triennially following actuarial valuation by the Pension Fund Panel who monitor investment performance and compliance quarterly, including the internal control arrangements of external fund managers and the custodian.

a) Market risk

Market risk is the risk of loss from fluctuations in equity, bond and commodity prices, interest and foreign exchange rates and credit spreads. The Fund is exposed to market risk from its investment activities, particularly through its equity holdings. 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.

In general, excessive volatility in market risk is managed through diversification of the portfolio in terms of asset classes, geographical and industry sectors and individual securities. To mitigate market risk, the Council and its investment advisors undertake appropriate monitoring of market conditions and benchmark analysis.

Other price risk

Other price risk represents the risk that the value of a financial instrument will 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 share and derivative price risk. This arises from investments held by the Fund for which the future price is uncertain. All securities investments present a risk of loss of capital. Except for shares sold short, the maximum risk resulting from financial instruments is determined by the fair value of the financial instruments. Possible losses from shares sold short, is unlimited.

The Fund's investment managers mitigate this price risk through diversification and the selection of securities and other financial instruments is monitored by the Council to ensure it is within limits specified in the Fund investment strategy.

Other price risk – sensitivity analysis

Potential price changes are determined based on the observed historical volatility of asset class returns. 'Riskier' assets such as equities will display greater potential volatility than bonds as an example. The potential volatilities are consistent with a one standard deviation movement in the change in value of the assets over the last three years. Had the market price of the Fund investments increased/decreased in line with the above, the change in the net assets available to pay benefits in the market price would have been as follows:

| Value as at 31/03/2018 | Change +/- | Value on increase | Value on decrease | Asset Type | Value as at 31/03/2019 | Change +/- | Value on increase | Value on decrease |
|---|---|---|---|---|---|---|---|---|
| £'000 | % | £'000 | £'000 | | £'000 | % | £'000 | £'000 |
| 543,940 | 17.9 | 641,305 | 446,575 | Equities | 582,996 | 16.9 | 681,522 | 484,470 |
| 180,681 | 9.9 | 198,478 | 162,884 | Fixed income | 160,358 | 10.1 | 176,554 | 144,162 |
| 47,605 | 14.3 | 54,413 | 40,797 | Property | 47,335 | 14.3 | 54,104 | 40,566 |
| - | | - | - | Credit | 32,126 | 0.5 | 32,287 | 31,965 |
| 40,658 | 0.5 | 40,862 | 40,455 | Cash | 40,582 | 0.5 | 40,784 | 40,379 |
| 5,226 | 9.0 | 5,696 | 4,756 | Other | 4,500 | 9.1 | 4,909 | 4,090 |
| **818,110** | | **940,754** | **695,467** | **Total** | **867,896** | | **990,160** | **745,632** |

Interest rate risk

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments 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 Fund's interest rate risk is routinely monitored by the Council and its investment advisors in accordance with the Fund's risk management strategy, including monitoring the exposure to interest rates and assessment of actual interest rates against the relevant benchmarks.

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 the functional currency of the Fund (GBP). The Fund holds both monetary and non-monetary assets denominated in currencies other than GBP.

The Fund's currency rate risk is routinely monitored by the Council and its investment advisers in accordance with the Fund's risk management strategy, including monitoring the range of exposure to currency fluctuations.

Currency risk – sensitivity analysis

Following analysis of historical data, the council considers the likely volatility associated with foreign exchange rate movements to be 10.0%.

This analysis assumes that all other variables, in particular interest rates, remain constant.

The following table summarises the Fund's currency exposure as at 31 March 2019 along with the impact that a 10.0% strengthening / weakening of the pound against the various currencies in which the Fund holds investments would have on the values.

| Value as at 31/03/2018 | Value on 10% price increase | Value on 10% price decrease | Currency Exposure - Asset Type | Value as at 31/03/2019 | Value on 10% price increase | Value on 10% price decrease |
|---|---|---|---|---|---|---|
| **£'000** | **£'000** | **£'000** | | **£'000** | **£'000** | **£'000** |
| 497,570 | 547,328 | 447,813 | Overseas Equities | 527,361 | 580,097 | 474,625 |
| 42,916 | 47,207 | 38,624 | Overseas Fixed Income | 48,572 | 53,429 | 43,715 |
| 5,893 | 6,482 | 5,304 | Overseas Property | 4,548 | 5,003 | 4,093 |
| | | | Overseas Credit | 24,666 | 27,133 | 22,200 |
| **546,379** | **601,017** | **491,741** | **Total assets available to pay benefits** | **605,148** | **665,662** | **544,633** |

The value on increase and value on decrease for an individual currency exposure is calculated with reference to that currency's volatility, relative to GBP, over the three years to March 2019. Because currency changes are not necessarily correlated it is not appropriate to sum the outputs from each currency. In calculating the increase and decrease at a total fund level, it is necessary to establish the change in value of the aggregate of currencies held. It is this change that is applied to the overall currency exposure.

a) Credit risk

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

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

The Pension Fund has selected bond managers who have an investment strategy which requires investment only in high investment grade and collateralised products and who use research and market knowledge to minimise exposure to credit risk. The Pension Fund uses a custodian to ensure that all money due is paid in full and on time. Internally invested cash is placed in a special interest bearing account with the Council's bankers.

b) Liquidity risk

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The Council therefore takes steps to ensure that the Pension Fund has adequate cash resources to meet its commitments. This will particularly be the case to meet the pensioner payroll costs; and also cash to meet investment commitments. The Pension Fund currently remains cash flow positive with contributions exceeding payable pensions, though this is regularly monitored.

The Council has immediate access to a proportion of its Pension Fund cash holdings, as these are held in an instant access special interest bearing account maintained by Council officers. The remainder is invested in fixed term deposits taking into account likely future cash flows. Surplus funds are invested externally with fund managers. In the event of a funding shortfall the LGPS regulations permit the administering authority to borrow on behalf of the Pension Fund for up to 90 days. If required, funds can also be called back from investment managers to meet liabilities.

## PF Note 18 - Funding arrangements

**Actuarial Position**
Rates of contributions paid by the participating Employers during 2018/19 were based on the actuarial valuation carried out as at 31 March 2016 by the Fund's actuary, Hymans Robertson.

The following table shows a summary of the results of the valuation:

| **Past Service Position** | | **31/03/2016** |
|---|---|---|
| | | **£m** |
| Past Service Liabilities | | (794) |
| Market Value of Assets | | 649 |
| Surplus (Deficit) | | (145) |
| | | |
| Funding Level | | 81.7% |

| **Financial Assumptions** | | **31/03/2016** |
|---|---|---|
| | **Nominal** | **Real** |
| Discount Rate | 4.0% | 1.9% |
| Salary Increases* | 2.6% | 0.5% |
| Pension Increases | 2.1% | - |

| **Contribution Rates** | |
|---|---|
| Employer Future Service Rate * | 20.5% |
| Past service adjustment (21 year spread) ** | 10.9% |
| **Total Employer Contribution Rate** | **31.4%** |

The majority of employers participating in the Fund pay different rates of contributions depending on their past experience, their current staff profile, and the recovery period agreed with the Administering Authority. Their contribution rates are calculated taking account of the Fund's funding strategy as described in the Funding Strategy Statement, and for the majority of employers using the projected unit actuarial method.

The rates of contributions payable by each participating employer over the period 1 April 2017 to 31 March 2020 are set out in a certificate dated 31 March 2017 which is appended to the actuary's report on the actuarial valuation. For those bodies which have become separate employers within the Fund since the valuation date, their contributions rates have been calculated individually and certified by the Fund's actuary.

## PF Note 19 - Actuarial present value of promised retirement benefits

CIPFA's Code of Practice requires the disclosure for the year ending 31 March 2019, of the actuarial valuation of promised retirement benefits as set out in IAS26, and that the actuarial present value should be calculated on an IAS 19 basis.

IAS26 is the accounting standard that sets out the requirements for accounting and reporting in respect of retirement and the requirements for accounting and reporting of promised retirement benefit plans following the move to financial reporting of the Pension Fund Accounts under the International Financial Reporting Standards (IFRS).

| 31 March 2018 | | 31 March 2019 |
|---:|---|---:|
| **£m** | | **£m** |
| (1,173) | Actuarial Fair Value of Promised retirement benefits | (1,294) |
| 770 | Net Fund Assets available to fund benefits | 834 |
| **(403)** | Net Liability | **(460)** |

## PF Note 20 - Current assets

| 31 March 2018 | | 31 March 2019 |
|---:|---|---:|
| **£'000** | | **£'000** |
| 1,121 | Contributions | 1,247 |
| 12,352 | Other debtors | 7,046 |
| 486 | Cash at Bank | 5,169 |
| **13,959** | Total Current Assets | **13,462** |

## PF Note 21 - Current liabilities

| 31 March 2018 | | 31 March 2019 |
|---|---|---|
| **£'000** | | **£'000** |
| (663) | Benefits Payable | (325) |
| (57,790) | Transfer Values | (44,357) |
| (3,338) | Other Creditors | (2,364) |
| **(61,791)** | Total Current Liabilities | **(47,046)** |

## PF Note 22 - Additional voluntary contributions

A number of active Fund members have elected to pay additional voluntary contributions to increase their personal benefits. Regulation 4(1) (b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 require that these are not paid into the Pension Fund.

The total AVCs paid by members in 2018/19 were £89,419 (£79,104 in 2017/18), as below:

| 31 March 2018 | | 31 March 2019 |
|---|---|---|
| **£'000** | | **£'000** |
| 0.1 | Equitable Life | 0.1 |
| 79.0 | Aviva | 89.3 |
| **79.1** | | **89.4** |

These are invested with the Council's approved AVC providers and are a money purchase arrangement. At 31 March 2019, the total value of the AVC fund with Aviva was £857,852 (£953,410 at 31 March 2018) and with Equitable Life was £116,723 (£123,552 at 31 March 2018).

## PF Note 23 - Related party transactions

The Council is a related party to the Fund and in accordance with the regulations the Council's expenses in administering the Scheme are charged to the Fund. The amount charged by the Council for 2018/19 was £637,685 (£727,846 in 2017/18)

None of the Councillors voting on the Pension Fund Panel are members of the Pension Fund.

The key management personnel for the Pension Fund are the same as for the Council as a whole. Their costs have been reasonably apportioned between the Pension Fund Accounts and the Authority's Accounts, and are within scheme administration and investment management expenses as above. The costs of the Director of Corporate & Commercial (S151 Officer) cannot reasonably be apportioned in this way. Extra disclosure can be seen in the Authority's accounts under the notes related to Senior Officers remuneration and Related Party Transactions.

The Council has a significant interest in one designated body (Achieving for Children Ltd) which is within the Fund and received £2.446m in employer contributions, deficit and early retirement costs from this body in 2018/19 (£2.04m in 2017/18).

## PF Note 23a - Key Management Personnel Remuneration

The key management personnel for the Pension Fund are the Head of Investment, Risk and Commercial Finance and the Assistant Director, Resources Directorate (Shared Finance Service for the London Borough of Sutton and the Royal Borough of Kingston upon Thames). Their costs have been reasonably apportioned between the Pension Fund Accounts and the Authority's Accounts, and are within scheme administration expenses as above in Note 11.

## PF Note 24 - Contingent liabilities and contingent assets

The Fund has a contingent liability in respect of a guarantee provided to the City of London Pension Fund for the pension liabilities of the London CIV. There are no known material contingent assets as at 31 March 2019. There are no outstanding contractual commitments and no material items relating to non-adjusting events occurring subsequent to the period end.

# PF - Glossary of terms

***Accounting Period***
The timescale during which accounts are prepared. Local Authority accounts have an overall accounting period of one year from 1 April to 31 March.

***Accounting Policies***
Those principles, bases, conventions, rules and practices applied by an entity that specify how the effects of transactions and other events are to be reflected in its financial statements. Accounting policies define the process whereby transactions and other events are reflected in the financial statements.

***Accounting Standards***
A set of rules explaining how accounts are to be kept. By law, local authorities must follow 'proper accounting practices', which are set out in Acts of Parliament and in professional codes and statements of recommended practice.

***Accruals***
This is the concept that income and expenditure are recognised as they are earned or incurred and not as money is received or paid.

***Active Member***
A member of an occupational pension scheme who is building up pensions benefits, in either a defined benefit or a defined contribution scheme, from their current job.

***Actuarial Valuation***
Every three years the Actuary reviews the assets and liabilities of the Pension Fund and reports to the Council on the fund's financial position and recommended employers' contribution rates.

***Actuary***
An adviser on financial information and assumptions relating to the pension scheme.

***Admitted Body***
A body which can be admitted to the LGPS with the agreement of the Administering Authority, it must be non-profit-making and will normally be in receipt of a grant from either central or local government.

***Assets***
Any item of economic value owned by an individual or corporation, especially that which could be converted to cash

**Balance Sheet**
A Statement of the Council's assets and liabilities at 31 March (Balance Sheet date).

***Cash & Cash Equivalents***
Cash is represented by money held by the Council and deposits available on demand. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

***Chartered Institute of Public Finance and Accountancy (CIPFA)***
This is the accountancy body that produces standards and codes of practice for accounting and financial functions in the public sector. It is one of the bodies responsible for the two principal codes of practice that determine how the Council presents its accounts.

***The Code***
The Local Authority Accounting Code of Practice provides guidance to all Local Authorities on how applying accounting standards for the production of the Statement of Accounts and outlines information that must be included. The Code of Practice is based on International Financial Reporting Standards (IFRS), and has been developed by CIPFA/LASAAC Code Board under the oversight of the Financial Reporting Advisory Board.

***Contingent Assets***
A contingent asset is a possible asset arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future event not wholly within the Council's control

***Contingent Liabilities***
These are potential losses for which a future event will establish whether a liability exists. As it is not appropriate to establish provisions for such amounts, they are not accrued in the financial statements, but disclosed separately in a note to the Comprehensive Income and Expenditure Statement.

***Creditors***
These are amounts owed by the Council for goods and services supplied, but for which payment has not been made at the end of the financial year.

***Current Assets***
These are assets that will be consumed within the next accounting period (i.e. less than one year).

***Current Liabilities***
Those amounts which become payable or could be called upon in the next accounting period (i.e. less than one year).

***Current Service Cost (Pensions)***
The increase in the present value of the pension scheme's liabilities expected to arise from employee service in the current period.

***Debtors***
These are amounts owed  but not received at the end of the financial year.

***Deferred Member***
A member who is no longer active in the pension scheme but is not yet in receipt of a pension.

***Defined Benefits Pension Scheme***
Retirement benefits are determined independently of the investments of the scheme and employers have obligations to make contributions where assets are insufficient to meet employee benefits. The scheme may be funded or unfunded.

***Defined Contribution Scheme***
A retirement benefit scheme into which an employee pays regular fixed contributions as an amount or percentage of pay and has no legal or constructive obligation to pay further contributions if the scheme does not have sufficient assets to pay all employee benefits relating to the employee service in the current and prior periods.

***Equity***
The capital of a company belonging to the ordinary shareholders who have voting rights allowing them to influence the management of the company.

***Events after the Balance sheet date***
Events after the Balance Sheet date are those events, favourable or unfavourable, that occur between the Balance Sheet date and the date when the Statement of Accounts is authorised for issue.

***Fair Value***
Fair value is the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's-length transaction.

***Financial Instruments***
A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another.

***Fixed Interest Security***
A security which yields fixed and regular income (interest).

***General Fund***
The Council's main revenue account that covers the net cost of all services other than the provision of council housing for rent.

***Going Concern***
The Council's financial statements are prepared on a going concern basis; that is, the accounts are prepared on the assumption that the functions of the authority will continue in operational existence for the foreseeable future. Transfers of services under combinations of public sector bodies (such as local government reorganisation) do not negate the presumption of going concern.

***IAS19***
Accounting Standard requiring the recognition by an authority of the attributable share of the assets and liabilities of pension funds with which it is associated showing the employer's commitment to increase contributions to make up any shortfall in attributable net assets, or its ability to benefit (via reduced contributions) from a surplus in the scheme, even though the fund retains title to the assets and the responsibility to pay pensions.

***Impairment***
A reduction in the value of a fixed asset below its carrying amount on the Balance Sheet.

***International Financial Reporting Standards (IFRS)***
The accounting standards adopted by the International Accounting Standards Board (IASB).

***Intangible Assets***
These are assets of value that do not have physical substance, for example software licences, franchises and patents.  Expenditure incurred on these assets is capitalised at cost and charged to the Balance Sheet.

***Interest Cost (Pensions)***
For a defined benefit scheme, the expected increase during the period, in the present value of the scheme liabilities because the benefits are one period closer to settlement.

***Investment Properties***
Property that is held solely to earn rentals or for capital appreciation.

***Liability***
A financial obligation, debt, claim, or potential loss.

***Net Book Value (NBV)***
An asset or liability's original book value net of any accounting adjustments such as depreciation.

***Net Realisable Value***

The open market value of the asset less the expenses to be incurred in realising the asset.

***Past Service Costs (Pensions)***
For a defined benefit scheme, the increase in the present value of the scheme liabilities related to employee service in prior periods arising in the current period as a result of the introduction of, or improvement to, retirement benefits.

***Post Balance Sheet events***
Events arising after the balance sheet date should be reflected in the statement of accounts if they provide additional evidence of conditions that existed at the balance sheet date and materially affect the amounts to be included.

***Prior Year Adjustments***
These are material adjustments, which are applicable to prior years arising from the correction of fundamental errors or inaccuracies. They do not include normal recurring corrections or adjustments of accounting estimates made in prior years.

***Provision***
This is an amount, which is set aside for a liability or loss in respect of a past event, which is likely to be incurred, but where the exact amount and date on which it will arise is uncertain.

***Related Parties***
Two or more parties are defined to be related parties when at any time during the financial period concerned, one party has direct or indirect control or influence on the other party, for example;

The parties are subject to common control from the same source; or one party has influence over the financial and operational policies of the other party to an extent that the other party might be inhibited from pursuing at all times its own separate interests. Or the parties, in entering a transaction, are subject to influence from the same source to such an extent that one of the parties to the transaction has subordinated its own separate interest.

***Related Party Transaction***
A related party transaction is the transfer of assets or performance of services by to or for a related party irrespective of whether a charge is made.

***Scheduled Body***
There are a number of employers who are required to provide membership of the Local Government Pension Scheme to all their employees. These employers are listed in a schedule that appears at the back of the Local Government Pension Scheme Regulations. Unlike admitted bodies, scheduled bodies cannot refuse membership of the Scheme to their employees

***Section 151 Officer***
Section 151 of the Local Government Act 1972 requires each local authority to appoint a suitably qualified officer to be responsible for the proper administration of its financial affairs. This officer is sometimes referred to as the Section 151 Officer.

***Security***
Any kind of transferable certificate of ownership.

***Termination Benefits***
Amounts payable to employees as a result of a decision by the Council to terminate an officer’s employment prior to normal retirement age or an officer’s decision to accept voluntary redundancy.

***Unitised Fund***
An investment vehicle whereby the contributions of a number of unit-holders are pooled and the total amount is then used to purchase assets such as shares, bonds, property and cash.

# 10. Corporate Governance Statement

**This provides assurances on the Council's governance framework, that comprises the systems, processes, culture and values by which the Council is directed and controlled, and the activities through which it accounts to, engages with and leads the community.**

**The Corporate Governance Statement is published alongside but does not form part of the Accounts and so is not subject to the same inspection of accounts regime.**

THE ROYAL BOROUGH OF
KINGSTON
UPON THAMES

**ROYAL BOROUGH OF KINGSTON UPON THAMES ANNUAL GOVERNANCE ASSURANCE STATEMENT FOR 2018/19**

**THE COUNCIL'S RESPONSIBILITY**

The Royal Borough of Kingston upon Thames (RBK) is responsible for ensuring its business is conducted in accordance with the law and proper standards, that public money is safeguarded, properly accounted for and used economically, efficiently and effectively.

RBK has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging its responsibility, RBK is required to put in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, which include arrangements for the management of risk.

RBK has reviewed its Local Code of Corporate Governance to bring it in line with the principles of the CIPFA/SOLACE Framework *Delivering Good Governance in Local Government (2016)*. The Council's financial management arrangements conform with the governance requirements of the CIPFA statement on the Role of the Chief Financial Officer.

In line with the CIPFA/SOLACE framework, this statement is "an open and honest self-assessment" of the Council's performance across all its activities and:

- Describes the key elements of the Council's governance arrangements, covering all corporate systems and the range of activities for which the Council is responsible,
- Describes processes applied in reviewing their effectiveness, and
- Lists actions proposed to deal with significant governance issues identified.

This statement explains how the Council has complied with the code and also meets the requirements of regulation 4(2) of the Accounts and Audit Regulations 2015 in relation to the publication of a statement on internal control. The Code of Corporate Governance was reviewed and updated in March 2019 to reflect changes in governance arrangements across the Council and the revised Code will be reported to Audit, Governance and Standards Committee in July 2019.

**THE PURPOSE OF THE GOVERNANCE FRAMEWORK**

The governance framework comprises the systems and processes, culture and values, by which the Council is directed, controlled, accounts to, engages with and leads Kingston's communities. It enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost effective services.

The CIPFA/ SOLACE Framework for Delivering Good Governance in Local Government (2016) provides a core set of seven principles, listed below, to support good governance and the arrangements put in place to ensure that the intended outcomes for stakeholders are defined and achieved.

- **Principle 1** Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law.
- **Principle 2** Ensuring openness and comprehensive stakeholder engagement.
- **Principle 3** Defining outcomes in terms of sustainable economic, social, and environmental benefits.
- **Principle 4** Determining the interventions necessary to optimise the achievement of the intended outcomes.
- **Principle 5** Developing the entity's capacity, including the capability of its leadership and the individuals within it.
- **Principle 6** Managing risks and performance through robust internal control and strong public financial management.
- **Principle 7** Implementing good practices in transparency, reporting, and audit to deliver effective accountability.

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

**THE GOVERNANCE FRAMEWORK**

The Constitution sets out the processes by which the Council considers issues and makes decisions. Its key purpose is to enable good quality decision making. It is a living document which requires regular maintenance and development to reflect the ongoing changes in legislation and the we organise ourselves and do things. Over time, the Constitution has been developed in an ad hoc piecemeal way and a refresh was necessary to remove ambiguity, eliminate duplications, omissions and inconsistencies and ensure that it properly supports good quality decision making. A two stage review of the Constitution commenced in Autumn 2018. Phase 1 of the refresh has been completed to include the following:

- Re-balanced decision-making responsibilities between Officers and Members
- Streamlined and updated Scheme of Delegation to Officers
- Strengthened role and function of Neighbourhood Committees, including engagement
- Updated the governance of the Council's Commissioning arrangements
- Streamlined the Council's financial procedures contained in its Financial Regulations
- Updated the Member Code of Conduct

Phase 2 of the review will focus on:

- The procedural arrangements of the Council and its Committees including the way we manage meetings and make decisions
- Public participation in the decision making process in formal meetings and through mechanism such as Call-in and petitions
- How we manage our decision-making processes

A report on the proposed new arrangements is due to go to Full Council for consideration and approval in October 2019, for implementation from the 1st January 2019.

All core employee related HR policies have been reviewed and these will be implemented in Autumn 2019.

An LGA Corporate Peer Review took place in January 2019. The Peer Review was requested by the council as part of its plans for improvement. The review, led by senior officers and members from other councils, looked at the council's current performance against a set of core themes including our understanding of the local place and priority setting; leadership of place; financial planning and viability; organisational leadership and governance; and capacity to deliver. A final report was produced by the review team and published on the council's website on 14 March which included a number of observations and recommendations to help the council improve.

Overwhelmingly, the Review Team were struck by the potential and opportunity that exists for the council, both as an organisation and as a leader of place; *'The council has much to call upon to drive things forward, including a committed and talented workforce, a passionate elected membership and the goodwill of partners. The prospect of harnessing all of this and uniting it behind fulfilling the potential and the opportunity means that these are very exciting times for Kingston'.* Key recommendations for improvement were as follows:

- Capitalise upon the opportunity as an organisation and a leader of place, involving establishing a clear vision and sense of purpose.
- Seize the place leadership through building relationships with partners.
- Establish a single, shared understanding about the scale of the financial challenges being faced and mechanisms that provide real grip and rigour around the delivery of savings and budget spend.
- Bring about greatly improved communication across the council.
- Establish greater collective leadership of corporate and strategic issues.
- Determine what community engagement means in Kingston and the approaches to be adopted.
- Continue the review of the council's Constitution and governance arrangements.
- Conclude the organisational restructure in as timely a fashion as possible.
- Prioritise/sequence the corporate system and process changes that the council recognises are needed and then inject pace and rigour at each stage.

A detailed action plan has been developed and was presented to Full Council on 24 April 2019. These actions will be implemented over the next 12-18 months and will be added to Directorate Service Delivery Plans to ensure accountability is clear. In 18 -24 months time the LGA Peer Review Team will be invited back to look at how the council has made progress with the areas of improvement identified.

The Peer review, whilst recognising that there is still a lot to do to improve governance arrangements and corporate systems and processes, it did acknowledge the scale of work already undertaken.

A number of significant changes have been made to improve commissioning and procurement (C&P) governance and practice across the Council and more improvements are underway or are planned during 2019/20.

As part of the Council's reorganisation, an Assistant Director role was created with oversight of C&P and a new role was created as Corporate Head of Commissioning and Procurement with accountability for the service. Five new Commissioning Manager roles have also been created and whilst some newly created posts are currently filled by interim staff, these will be permanently recruited to in the coming months.

Processes to drive improved governance include a thorough review and implementation in March 2019 of revised Contract Standing Orders (CSOs) to give Members improved visibility and an enhanced role in shaping C&P strategies and overseeing the award of contracts. New templates, guidance and training have been created, supplemented by extensive support. New governance through a Commissioning Board went live in March 2019 for the review and approval of reports. To date this meets virtually.

Enhanced understanding of directorates projects and priorities has commenced. A draft commissioning pipeline has been jointly created with directorates which details all the planned C&P activity over the next 1-2 years, and a version that shows decisions over the next quarter. Similarly, a review of the contracts register is close to complete to ensure that it captures the main contracts. Directorate spend and compliance reporting has commenced showing the levels of on and off contract spend for services to take action. Finally, a review of adherence to GDPR requirements is substantially complete.

The next phase of improvements includes the following

- Recruitment to new posts in April/May to fill the remaining vacancies
- Development of Business Partner roles
- Process improvements will continue to embed with the new Commissioning Boards - Operational and Strategic - meeting in Q1 and supporting staff with the new processes. A comprehensive review of the implementation of the CSOs will provide learning for further improvements and training.
- During 19/20 the service will create a new overarching Commissioning framework which will encompass a social value policy, application of the London Living Wage in the supply chain, an ethical procurement policy and a contract management framework.
- Directorates engagement will continue with completion of an initial council wide Commissioning pipeline and contracts register plus improvements to the spend analytics to provide management information and inform priority areas of focus. The GDPR project will also transition to a business as usual process with directorate business owners once the current phase is complete.

Given issues identified by Internal audit around non compliance with procurement procedures together with the significant changes to structure and processes, ensuring that staff understand their roles and responsibilities, are adequately trained on procedures and new thresholds and are given sufficient procurement support, will be key going forward.

The Council has continued to build on the work undertaken in 2017/18 to improve Information Governance, Data Protection and Records Management in the Council in readiness for GDPR which came into effect on the 25th May 2018. Work has been coordinated through the Information Security Governance Board attended by all areas of the Council. The Council was compliant with the core areas of GDPR for the May 2018 deadline and since then, significant progress has been made in the creation and review of:

- all relevant policies;
- creation of an Information Asset Register;
- updated website to inform the public of their rights;
- Privacy notices updated and published online;
- review of when ‘consent’ is required, and recorded;
- Data Retention and Disposals;
- DPIA reviews - reviews are being undertaken as part of major changes and new systems;

- Staff Training and awareness - communications plan and Intranet pages;
- annual mandatory training for all staff;
- targeted training for specialised roles such as DPO and SAR training.
- training and support for Councillors;
- update of key contracts (further work progressing);
- engagement with business areas
- Cyber security accreditation
- PSN accreditation

This is the final year of the ‘4 Year Settlement Offer’ from central government which provided some certainty over the resources available to the Council.  Central government are proposing, and working with local government on a fair funding review and new approach to business rates retention which will fundamentally change local government finance. Within the Council, consistent with the national picture, there has continued to be a high level of demand for Adult Social Care. Work to manage this demand has reaped benefits - however there still remains increasing demand within this area.  The high levels of demand in Children’s Services continues to be a significant issue centred on children leaving care, Unaccompanied Asylum Seeking children (UASC) and Special Educational Needs (SEN) Transport.

The most critical  financial pressure is the structural overspend in the Dedicated Schools Grant (DSG) high needs block with an estimated cumulative DSG deficit of £14.071m that continues to be single biggest financial risk facing the Council.  The Council, working with the Schools forum, has developed a draft three-year transformation which is challenging and seeks to engage the whole system, everyone who delivers or receives SEND services, in resolving these issues. The plan provides a route map to bring spending within funding levels within the three years.

In respect of the Council’s Direction of Travel, leadership design and recruitment to these posts is now complete and the next phase of organisational design covering all operational management (DOT 4) and non management roles (DOT 5) is nearly complete.

A full review and refresh of the Directorate risk registers has taken place and a process established to ensure that significant risks are escalated to the Corporate Risk register which is reviewed by SLT and reported to the Audit, Governance and Standards Committee on a quarterly basis. A Risk Management strategy has been developed and this now needs to be formally agreed and rolled out to ensure that processes are properly embedded so that risks are managed consistently across the organisation.

The Council has set up a cross-departmental Task and Finish work group, chaired by an SLT lead to coordinate the impact of  Brexit. This group meets on a fortnightly basis to consider risks and impacts for major services. A Brexit risk register is kept updated and is regularly reported to SLT. As well as looking at external factors like supporting residents who are EU nationals, an assessment has been undertaken on the workforce and the group has been liaising with external partners like the police and major contractors including care providers.

New arrangements have been established to manage and report on performance across the Council. Key to this is the creation of a Corporate Performance and Risk Board to strengthen and manage the Councils corporate management of performance and risk . It’s first meeting was held on the 1st April 2019.

The Corporate Plan has been agreed with tier 1 corporate KPIs monitored by the Board and SLT. Tier 2 KPIs have still to be finalised and these will be monitored by DMTs. The new performance process is being tested during Quarter 1 of 19/20 and will be formally rolled out in Quarter 2. From July 2019 there will be combined performance and risk reports to SLT with 6 monthly reporting to strategic committees. Responsibility for managing risks sits with DMTs and Directors to sign off however these will be subject to scrutiny by SLT.

Following on from this, the management of performance needs to be set within a formal performance policy which includes the establishment of a clear link between the Corporate Plan, Service Plans and the corporate appraisal process.

The role of the Health and Wellbeing Board has been reviewed and a considerable amount of collaborative work has been undertaken with health and care commissioning. This includes the development of the Kingston Coordinated Care (KCC) programme which is a model of locality working for Kingston led by the Provider Alliance to establish locality teams across the borough. The Providers Alliance is a partnership with representatives from Kingston’s providers of health and care services – Staywell (Age Concern Kingston), home care, adult social care, Your Healthcare, general practice (represented by Kingston GP Chambers), Kingston Hospital, and the Mental Health Trust.

## EFFECTIVENESS OF GOVERNANCE ARRANGEMENTS

The Royal Borough of Kingston upon Thames has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control.

The review of effectiveness is informed by the work of managers within the authority who have responsibility for the development and maintenance of the governance environment, the work of the AD Governance and Law and Internal Audit and by comments made by external auditors and other review agencies and inspectorates.

Key elements of the governance framework operating during the year under review (2018/19) include the following bodies

| Name | Purpose |
|---|---|
| The Council | Sets the policy and budgetary framework and is responsible for the appointment of the Mayor; members of other bodies such as the Strategic, Regulatory and Neighbourhood Committees. It also adopts the Code of Conduct for Councillors, agrees any changes to the Council's Constitution and terms of reference for Committees, Panels and other Member bodies. |
| Strategic Committees | Responsible for making decisions on those powers, duties and functions of the Council that fall within their remit, within overall Council policy. |
| Scrutiny Panel | Established to consider Member and Community call-ins. |
| Health and Wellbeing Board | The Health and Wellbeing Board brings together the Council, NHS partners, including the Kingston Clinical Commissioning Group, and patient representatives to have oversight of the Council’s public health functions and ensure that health services within the borough are properly integrated between providers. |
| Neighbourhood Committees | There are four neighbourhood committees made up of the councillors representing the electoral wards in each neighbourhood, responsible for providing many of the services in their area.Each neighbourhood has access to grant funding and can make decisions on a range of services, including traffic management, planning applications, parks, libraries, housing management, youth service and any matters which fall solely within a single Neighbourhood area. |
| Regulatory Committees | The Development Control Committee is responsible for decisions on large planning applications and those which neighbourhood committees are unable to deal with. The Licensing Committee reviews policy on licensing matters and appoints sub-committees which consider individual applications for activities which require licences, such as the sale of alcohol. |
| Audit, Governance and Standards Committee | Reviews internal audit strategy, plans and performance; considers the most significant issues arising from internal and external audit work; and obtains assurance that appropriate action is being taken on those issues. It maintains an overview of the effectiveness of the Council’s corporate governance arrangements particularly those concerned with risk management, internal control, financial governance, anti-fraud and anti-corruption strategies; approves the Annual Governance Statement and receives and considers the Council’s Final Accounts and accompanying financial statements. Promotes and maintains high standards of conduct amongst elected, co-opted and advisory members and employees of the authority. Advises the Council on the adoption of the Code of Conduct for Councillors, including its monitoring and updating. |

| Name | Purpose |
|---|---|
| Health Overview Panel | Acts as a lever to improve the health of local people in the widest sense. It looks at the whole health system, not just services provided, commissioned or managed by the NHS. It scrutinises and make reports or recommendations to the Council, health bodies and other relevant agencies about possible improvements in service. |
| Strategic Leadership Team (SLT) | The CLG comprises senior managers (Assistant Directors and Heads of Service) directly led by SLT who are responsible for working with their teams to turn strategy into operational leadership and delivery and to ensure alignment and joined up activity across the Council. |
| Directorate Management Teams (DMTs) | The structure consists of five directorates: Adult Services, Children's Services (AfC), Growth, Communities and the Corporate & Commercial. DMT's are established for each Directorate consisting of Directors, Assistant Directors, and can also includeCorporate Heads of Service, who are collectively responsible for delivering strategies and outcomes. |
| Internal Audit (Shared Service) | Internal Audit is an assurance function that primarily provides an independent and objective opinion to the organisation on the control environment comprising risk management, control and governance by evaluating its effectiveness in achieving the organisation's objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources. |
| Statutory Officers | The statutory roles of the Head of Paid Service, Monitoring Officer, Chief Financial Officer, Director of Children's Services, Director of Adult Social Services, Director of Public Health, Scrutiny Officer and Data Protection Officer are set out within the Articles of the Council's Constitution |

The process for maintaining and reviewing the effectiveness of the governance framework in place in 2018/19 was led by the Head of Internal Audit and the Assistant Director of Governance and Law who carried out the following work:

- reviewing reports from Internal and External Audit, external inspectors and other independent review
- documenting and reviewing governance processes and practices and establishing an updated Code of Corporate Governance.
- holding discussions with key senior officers to assess the Council's corporate governance framework.
- Attending Departmental Management Team meetings to discuss governance issues.
- holding a discussion with the Strategic Leadership Team to assess the Council's corporate governance framework.

**Internal Audit Outcomes**

The Head of the South West London Audit Partnership is required to provide the Council with an opinion on the adequacy and effectiveness of the internal control environment. In her Annual Report on the work of Internal Audit during 2018/19 the Head of the South West London Audit Partnership has confirmed that she is satisfied that sufficient internal audit work has been undertaken to allow her to draw a reasonable conclusion as to the adequacy and effectiveness of the Council's control environment. This year she provided reasonable assurance that the Council has an adequate and effective control process to manage the achievement of its objectives. However, she does caveat this opinion in respect of the limited assurance reports issued during the year where Priority 1 recommendations were raised. One of the key themes identified from the audit work completed in 2018/19 was that whilst a significant amount of work has been undertaken to improve systems and processes across the Council, these are not yet fully embedded. Many of the audits found a lack of clarity around the allocation of roles and responsibilities and inconsistencies in practice. Given the level of change across the organisation, it is essential that policies and procedures are fit for purpose, properly communicated and understood.

**Role of the Chief Financial Officer**

In 2011/12 a requirement to report on Compliance with the CIPFA Statement on the Role of the Chief Financial Officer in Local Government was introduced. A self- assessment has been carried out against the 5 principles within this Code (which was amended in 2016) and all required standards have been assessed as being met.

**CIPFA Public Sector Internal Audit Standards (PSIAS)**

Since April 2013 the Annual Governance Statements has been required to confirm compliance with the CIPFA PSIAS. Following the peer review in June 2018, a self-assessment has been carried out against these standards which has demonstrated substantial compliance.

**CONCLUSION**

The review of effectiveness on the Council's governance arrangements found that for the majority of services the control environment was satisfactory. It is not possible to eliminate all risks of failure and there were some areas where the Council high expectations were not met and/or progress has been slower than originally expected. The control framework is an ongoing process and therefore where issues were identified action plans were agreed with the relevant Director with a view to progress being reviewed within 6 months of the report. The Council's review mechanisms are an effective framework for maintaining satisfactory governance arrangements including identifying any issues and for monitoring and securing their implementation.

There are some common control themes for improvement plus a diverse range of service issues to be addressed and the Annual Governance Statement identifies continuing actions on the significant governance issues.

**CERTIFICATE**

We have been advised on the implications of the result of the review of the effectiveness of the governance framework by the Audit, Governance and Standards Committee (the report providing the detailed assurance can be found using this link (*to be inserted following consideration by the Audit Committee*), and action plans to address weaknesses and ensure continuous improvement of the system in place.

**Significant governance issues**

The Audit, Governance and Standards Committee considered and approved the 2017/18 AGS at its meeting on the 31st July 2018. As part of this, a programme of work was drawn up to address areas of relative improvement and this was recorded in the Annual Governance Statement Action Plan (2018/19). Progress against this plan has been monitored regularly by SLT and reported to the Audit, Governance and Standards Committee. The areas already addressed and those to be specifically addressed with new actions planned are outlined below.

| 2018/19 Annual Governance Statement Action Plan – Follow Up | |
|---|---|
| **Issue/Risk** | **Action Taken** |
| **Financial Management** – Budget process needs to ensure that savings are achievable and service managers have signed them off | **Completed March 2019**<br>The final outturn for 2018/19 was £455k. The Strategic Leadership Team reviewed the budget position monthly. The Council has set a balanced budget for 2019/20 including ensuring it has adequate reserves and balances to manage the significant financial pressures. The Council introduced a budget readiness process from March 2019 to support officers in preparation for implementing the 2019/20 savings plans. |
| **Staff Declaration of Interests** – process needs to provide for sufficient oversight by senior officers to ensure that interest do not impact on decision making | **Ongoing**<br>The Council is introducing a mandatory process where all staff will be required to complete a declaration of interest return including confirming if the return is nil. |
| **Human Resources** – adequate capacity needed to support changes in business needs and the transformation programme | **Ongoing**<br>A more robust, centrally driven reporting process has been implemented, with requirements on HR Business Partners to ensure completion with each DMTs with support from the relevant Director |
| **Business Impact Assessments** – Business Impact Assessments are needed in relation to key services (e.g. accommodation) to facilitate the completion of the ICT Disaster Recovery Plan. | **Ongoing**<br>-Currently undertaking a review of the core infrastructure and looking at the requirements for the future. Initial options appraisal for moving the on premise data centre to the Cloud has been completed.<br>-Preparing business case and more detailed costs for the migration to the cloud.<br>-ICT Disaster Recovery Plan has been finalised and subsequently reviewed and links into the overall Business Continuity Plans.<br>-Digital & IT have completed table top exercises for cyber security.<br>-As part of Brexit preparations the Council is undertaking a complete refresh of Business Continuity arrangements starting with Critical Service assessments, Business impact analysis, individual service business continuity plans, departmental plans and a corporate plan and will feed into the ICT Disaster recovery plan to confirm critical applications and accommodation needs. |
| **Internal Audit Recommendations** – to ensure that all Priority 1 recommendations are dealt with expeditiously. | **Ongoing**<br>There were 10 Priority 1 recommendations outstanding and reported to the March Audit, Governance and Standards Committee. Priority 1 recommendations will continue to be subject to robust follow up and monitoring arrangements. |

| Issue/Risk | Action Taken |
|---|---|
| **Scheme of Delegation** – this is to be updated to reflect the new governance arrangements. | **Complete**<br>A new scheme of delegation was agreed by Council on 11th December to be implemented from 1st March 2019 |
| **Dedicated Schools Grant (DSG)** - A major issue going forward is the financial pressures on the Dedicated Schools Grant (DSG) and other demand led budgets. This is not uncommon to AfC but is a national issue although particularly acute in Kingston. This is against a national context of significant pressure on services for children. Whilst this does not directly affect AfC's internal control framework, it does demand a very high standard of budgetary control and AfC are having to develop new strategies in relation to managing demand.<br>In support of the Kingston schools budget for 2018/19 the Department for Education provided an additional £3m of Dedicated Schools Grant (DSG) in support of Special Education Needs (SEN). This is an advance of money provided on the basis that the Council will address the issues associated with the overspend on SEN which is outlined above. This is an advance on money but the Government have not stated when it will need to be returned. However, it is unlikely that this will be in the near future. This means that the High Needs block for Kingston will be £23.4m next year and increase of 23.7% and the DSG as a whole will be £ 137.7m, an increase of 7.7% | The Council has developed a SEND transformation plan which sets out how to meet the outcomes of the SEND Inspection and meet the financial challenges in terms of funding and resources. There is a governance framework supporting the delivery of the plan which includes a system wide SEND Partnership Board and a Council delivery group.The plan sets out a programme to bring expenditure in line with funding whilst ensuring effective outcomes for children and young people.<br><br>The structural overspend on the DSG remains a significant issue for the Council and is reflected in the issues identified for 2019/20. |

| Issue/Risk | Action |
|---|---|
| **Risk Management** - Whilst processes are in place to record and manage key risks, there is a need to review wider corporate risks and to better align these with the manifesto commitments of the new administration as well as key corporate objectives. | **Ongoing**<br>Quarter 3 risk reporting was undertaken, with each directorate DMT reviewing its risk register. Escalated risks to the corporate risk register were reviewed by SLT in February ahead of going to Audit, Governance & Standards Committee on 12 March, together with more detailed reports covering ICT cyber-security and legacy systems, Brexit and Emergency Planning preparations. |
| **GDPR** - The challenges of delivering effective data security management require constant review especially at a time when the key data protection legislation is changing with the need to ensure that systems and processes are compliant with GDPR. Whilst the Council has undertaken a major review of information governance, data protection and records management over the last 12 months in advance of GDPR requirements, further work is required to ensure full compliance. | **Majority completed but Ongoing**<br>The AD Digital & IT has coordinated the work across the Council in these areas through the work in the Information Security Governance Board attended by all areas of the Council. The Council was compliant with the core areas of GDPR for the May 2018 deadline. A significant amount of work has been undertaken to strengthen controls and processes and a recent Internal Audit has recognised this progress.<br><br>An area requiring further work is around the corporate ownership of data. Whilst Google allows for the management of some data records, there is a disparate line of business products used in different teams which increases risk due to the number of different records being held. These systems need to be ratonalised and Heads of Service given responsibility for reviewing data within their service areas to ensure compliance with GDPR. Further training and awareness will be completed for managers together with application reviews to ensure that Heads of Service are able to comply. |

<u>Improvement Plan 2019/20</u>

The improvement actions below have been identified as a result of the review carried out. Progress will be followed up during 2019/20 and reported to the Audit, Governance and Standards Committee.

| Issue/Risk | Action |
|---|---|
| **Performance Management**<br>A corporate service planning process has not been embedded across the Council with service areas establishing their own templates and processes. A corporate process has not been established to ensure that there is a clear link between the Corporate Plan, Service Plans and Appraisals.<br>An appropriate level of infrastructure is not bedded into services at a detailed level and there is no corporate performance framework or policy with guidance in place to support managers. | A corporate performance framework should be established with guidance in place to support managers. This should include establishing Service plans which provide a clear link between Corporate and individual objectives.<br><br>Recommendations from the recent Peer review should be fed into Service Plans and these should be closely monitored to ensure that they are delivered within agreed timeframes. |
| **Workforce planning**<br>There are gaps on organisational development including how we attract and retain staff. A competency framework needs to be developed and consideration given as to how HR policy supports and enables staff to do their jobs. It is acknowledged that work is already underway to develop an Organisational Development Strategy. Learning and development is being independently reviewed as part of the wider HR model. This will include how learning needs are identified. Performance management, including the appraisal project will be a priority project in 2019/20. | Workforce planning is a priority project in the OD strategy and a deliverable for year one. This will include the development of competencies and will link to the other year one deliverables of performance management and development. |
| **Project and Programme Management**<br>The Council needs to establish a more corporate approach to project and programme management. The lack of PMO resource and expertise has been a significant gap in the organisation. This requires improvement with more corporate rigor and infrastructure on project management for major site development projects. | The new Corporate Transformation structure, designed as part of DOT ⅘, includes dedicated PMO resource. The new structure should be fully staffed and operational by September 19. In the interim specialist PMO resource has been brought in on a temporary basis to develop the framework and infrastructure required to ensure effective management and delivery of corporate projects and programmes (including the proposed Cambridge Road Estate regeneration). An improvement plan is now in place which will deliver significant improvements and assurances in advance of the permanent team being in place.<br><br>Once the infrastructure is in place there will be a focus on supporting the development of the requisite skills and knowledge to effectively manage major projects/programmes across the organisation. |

| Issue/Risk | Action |
| --- | --- |
| **Roles and Responsibilities and ensuring Procedures are fit for purpose**<br>Work undertaken by internal audit during the year and discussions with DMT's as part of the AGS process has identified some concerns around a lack of clarity in how roles and responsibilities are defined in a number of key areas.<br><br>These include:<br>**-**Contracts and Procurement<br>**-**Health and Safety<br>**-**Information Governance (corporate ownership of data)<br>**-**Areas of Adult Social Care e.g. financial assessments and deprivation of assets<br>**-**Finance and HR where tasks are delegated through self service arrangements<br><br>With significant organisational change including new staffing structures, recruitment to new posts and changes to culture and operational procedures, there are risks of inconsistencies in practice and key tasks may fall between the gaps until the changes are properly embedded and understood | Roles and responsibilities should be reviewed in the key areas identified by Internal Audit and through the AGS process. This should include a review of policies and procedures to ensure that they are fit for purpose and are properly communicated and understood through the delivery of appropriate training to staff. |

| Issue/Risk | Action |
|---|---|
| **SEND -Dedicated Schools Grant (DSG)** The most critical financial pressure is the structural overspend in the Dedicated Schools Grant (DSG) high needs block with an estimated cumulative DSG deficit of £14.071m that continues to be single biggest financial risk facing the Council. In addition the Council SEND inspection required a written statement of action and the Council, with the CCG, are working to implement this improvement plan<br>The multi agency SEND Partnership Board is focused on the services which specifically relate to the SEND Transformation Plan. This leaves a gap in the overall multi agency leadership of children's services which in the past was covered by the Children's Trust. | The SEND transformation plan sets out of three years the improvements required to the service and actions to bring the DSG spending within the resources available. This is a challenging and aspirational plan which seeks to engage the whole system, everyone who delivers or receives SEND services, in resolving these issues.<br><br>A multi agency Children's Partnership is being considered for establishment by March 2020 which will address wider children's services issues and ensure the strategic coordination of work across Partnerships for children and young people aged 0-25 |

We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation.

The 2018/19 Annual Governance Statement is due to be approved by the Audit, Governance and Standards Committee on 31st July 2019.

**Signed**

*Liz Green*

**Name:** Councillor Liz Green

Leader of the Royal Borough of Kingston upon Thames

**Date: 31 July 2019**

**Signed:**

*Ian Thomas*

**Name** Ian Thomas

Chief Executive of the Royal Borough of Kingston upon Thames

**Date: 31 July 2019**

# 11. Glossary of Terms

**An explanation of financial terms and abbreviations used in the Statement of Accounts**

THE ROYAL BOROUGH OF KINGSTON UPON THAMES

# Glossary of Terms

**Accounting Policies**

The rules and practices adopted by the Council that determine how the transactions and events are reflected in the accounts.

**Accruals**

Amounts that are charged to the accounts for goods and services rendered/received during the year for which payments have not been received/made.

**Actuary**

An independent consultant who advises on the financial position of the pension fund.

**Amortisation**

A measure of the cost of economic benefits derived from intangible fixed assets that are consumed during the period.

**Appropriations**

The transfer of resources to and from various revenue reserves.

**Capital Expenditure**

Expenditure on the acquisition of a non-current asset or expenditure that adds value to an existing non-current asset. Expenditure can only be treated as ‘capital’ if it meets statutory definitions and is in accordance with accounting practice and regulations.

**Capital Receipts**

Income from the sale of capital assets such as council dwellings, land and buildings.

**Carrying Amount**

This is the nominal value of the loan / investment plus accrued interest due to the end of the financial year.

**Council Tax**

A tax on domestic properties, introduced 1 April 1993 as a replacement for the Community Charge (Poll Tax), based on their value.

**Creditors**

Amount of money owed by the Council for goods or services received.

**Debtors**

Amount of money owed to the Council for goods or services received.

**Depreciation**

A measure of the cost of the economic benefits of a non-current asset consumed during the period.

**Earmarked Reserves**

Amount set aside for a specific purpose to meet future commitments or potential liabilities, for which it is not appropriate to establish provisions.

**Effective Interest Rate**

This method calculates the rate of interest that is necessary to discount the estimated stream of principal and interest cash flows through the expected life of the financial instrument to equal the amount at initial recognition.

**General Fund**

The fund within which most transactions of a local authority take place. It includes the cost of all services provided (excluding the Housing Revenue Account) which are paid from government grants, generated income and the borough’s share of Council Tax and business rate income.

**Going Concern**

The concept that the authority will remain in operational existence for the foreseeable future; in particular, that the revenue accounts and balance sheet are not based on the assumption of an intention to curtail significantly the scale of operations.

**Housing Revenue Account (HRA)**

A local authority statutory account maintained separately from the General Fund for the recording of income and expenditure relating to the provision of council housing.

**Impairment**

A reduction in the value of a non-current asset below its carrying value (but not through economic consumption).

**Intangible Assets**

Assets that do not have physical substance, e.g. computer software licences.

**Levies**

Payments to London wide bodies such as the Lee Valley Regional Park Authority. The cost of these bodies is borne by local authorities in the area concerned based on their Council Tax base and is met from the General Fund.

**Minimum Revenue Provision**

The minimum amount that the Council must charge to the revenue account to provide for the repayment of debt.

**Non-Domestic Rates (NDR)**

Business rates, or non-domestic rates, collected by councils are the way that those who are responsible for non-domestic property contribute towards the cost of local services. Under the business rates retention arrangements introduced from 1 April 2013, authorities keep a proportion of the business rates paid locally.

**Precept**

The charge made by one authority (e.g. The Greater London Authority) on another authority to finance its net expenditure

**Property, plant and equipment**

Tangible assets (ie assets with physical substance) that are held for use in the production or supply of goods and services, for rental to others, or for administrative purposes, and expected to be used during more than one period.

**Provisions**

Amounts set aside for liabilities or losses which are certain or very likely to be incurred but where exact amounts and dates on which these will arise are uncertain.

**Reserves**

Amounts set aside in one financial year which can be carried forward to meet expenditure in future years. Earmarked reserves are allocated for specific purposes. Unallocated reserves are often described as balances.

**Revenue Expenditure**

The regular day-to-day running costs an authority incurs in providing services e.g. salaries and wages, premises costs and supplies and services.

**Support Services**

Services that are provided by the administrative and professional service groups that support all the Council's services. They include financial, legal, personnel, information technology, property and general administrative support.

## Abbreviations used in the accounts

**AFC -** Achieving for Children

**AVC -** Additional Voluntary Contribution

**CCG** - Clinical Commissioning Group

**CF** - Collection Fund

**CIES -** Consolidated Income and Expenditure Statement

**CIPFA** - Chartered Institute of Public Finance and Accountancy

**CT** - Council Tax

**DfE** - Department for Education

**DSG** - Dedicated Schools Grant

**HRA** - Housing Revenue Account

**IAS** - International Accounting Standard

**I&E** - Income and Expenditure

**IFRS** - International Financial Reporting Standard

**IT** - Information Technology

**LASAAC -** Local Authority (Scotland) Accounts Advisory Committee

**LATC -** Local Authority Trading Company

**LOBO -** "Lenders Option Borrowers Option" Loan

**MHCLG** - Ministry of Housing, Communities and Local Government

**MIRS** - Movement in Reserves statement

**MRA** - Major Repairs Allowance

**MRP** - Minimum Revenue Provision

**NDR** - Non Domestic Rates

**PWLB** - Public Works Loan Board

**REFCUS** - Revenue Expenditure Funded From Capital Under Statute

**RICS** - Royal Institution of Chartered Surveyors

**RCCO** - Revenue Contribution to Capital Outlay

**TFL** - Transport for London

**TPA** - Teachers' Pension Agency

**UCR** - Usable Capital Receipts