



AGENDA FOR THE AUDIT COMMITTEE AND AUDIT COMMITTEE (ADVISORY)

Members of the Audit Committee and Audit Committee (Advisory) are summoned to a meeting, which will be held in Committee Room 4, Town Hall, Upper Street, N1 2UD on, **29 September 2014 at 7.30 pm.**

John Lynch
Head of Democratic Services

Enquiries to : Jackie Tunstall
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Despatched : 19 September 2014

Membership

Councillor Richard Greening (Chair)
Councillor Olly Parker (Vice-Chair)
Councillor Raphael Andrews
Councillor Dave Poyser

Substitute Members

Councillor Clare Jeapes
Councillor Paul Smith
Councillor Jilani Chowdhury
Councillor Claudia Webbe

Independent Member: David Bennett

Quorum: is 3 Councillors



A. Formal Matters	Page
1. Apologies for Absence	
2. Declaration of substitute members	
3. Declarations of interest	

If you have a **Disclosable Pecuniary Interest*** in an item of business:

- if it is not yet on the council's register, you **must** declare both the existence and details of it at the start of the meeting or when it becomes apparent;
- you may **choose** to declare a Disclosable Pecuniary Interest that is already in the register in the interests of openness and transparency.

In both the above cases, you **must** leave the room without participating in discussion of the item.

If you have a **personal** interest in an item of business **and** you intend to speak or vote on the item you **must** declare both the existence and details of it at the start of the meeting or when it becomes apparent but you **may** participate in the discussion and vote on the item.

***(a)Employment, etc** - Any employment, office, trade, profession or vocation carried on for profit or gain.

(b) Sponsorship - Any payment or other financial benefit in respect of your expenses in carrying out duties as a member, or of your election; including from a trade union.

(c) Contracts - Any current contract for goods, services or works, between you or your partner (or a body in which one of you has a beneficial interest) and the council.

(d) Land - Any beneficial interest in land which is within the council's area.

(e) Licences- Any licence to occupy land in the council's area for a month or longer.

(f) Corporate tenancies - Any tenancy between the council and a body in which you or your partner have a beneficial interest.

(g) Securities - Any beneficial interest in securities of a body which has a place of business or land in the council's area, if the total nominal value of the securities exceeds £25,000 or one hundredth of the total issued share capital of that body or of any one class of its issued share capital.

This applies to **all** members present at the meeting.

4. Minutes of previous meeting	1 - 4
B. Items for Decision - Audit Committee	Page
1. Statement of Accounts 2013/14 and Annual Governance Reports	5 - 208
2. Local Government Pensions Scheme 2014 - Discretionary Policy	209 - 224
3. Elected Member Pensions	225 - 230

C.	Items for Decision - Audit (Advisory) Committee	Page
1.	The Council's Use of Surveillance under the Regulation of Investigatory Powers Act 2000	231 - 234
2.	Internal Audit Charter	235 - 248

D. Urgent non-exempt items

Any non-exempt items which the Chair agrees should be considered urgently by reason of special circumstances. The reasons for urgency will be agreed by the Chair and recorded in the minutes.

E. Exclusion of press and public

To consider whether, in view of the nature of the remaining item on the agenda, it is likely to involve the disclosure of exempt or confidential information within the terms of the Access to Information procedure rules in the Constitution and, if so, whether to exclude the press and public during discussion thereof.

F.	Confidential/exempt items	Page
1.	The Council's Use of Surveillance under the Regulation of Investigatory Powers Act 2000 - Exempt Appendix	249 - 264

G. Urgent exempt items (if any)

Any exempt items which the Chair agrees should be considered urgently by reason of special circumstances. The reasons for urgency will be agreed by the Chair and recorded in the minutes.

The next meeting of the Audit Committee and Audit Committee (Advisory) will be on 29 January 2015

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Agenda Item 4

London Borough of Islington

Audit Committee and Audit Committee (Advisory) - 19 June 2014

Minutes of the meeting of the Audit Committee and Audit Committee (Advisory) held at Committee Room 4, Town Hall, Upper Street, N1 2UD on 19 June 2014 at 7.30 pm.

Present: **Councillors:** Richard Greening (Chair), Olly Parker (Vice-Chair),
Raphael Andrews and David Poyser

Also Present: **Independent Member** David Bennett.

Councillor Richard Greening in the Chair

1 **APOLOGIES FOR ABSENCE (Item 1)**

None received.

2 **DECLARATION OF SUBSTITUTE MEMBERS (Item 2)**

None.

3 **DECLARATIONS OF INTEREST (Item 3)**

Councillor Richard Greening declared a personal interest in Item 8, Internal Audit Report for 2013/14 as a Council representative on the North London Waste Authority and as a volunteer at the Islington Law Centre.

4 **MINUTES OF PREVIOUS MEETING (Item 4)**

RESOLVED:

That the minutes of the meeting of the Audit Committee held on the 3 April 2014 be confirmed as an accurate record of proceedings and the Chair be authorised to sign them.

5 **TERMS OF REFERENCE OF AUDIT AND AUDIT (ADVISORY) COMMITTEE (Item 5)**

RESOLVED:

That the membership appointed at Annual Council on the 12 June 2014, the Terms of Reference and the dates of meetings of the Audit Committee and the Audit (Advisory) Committee for the municipal year 2014/15, as set out in Appendix A, with the addition of Councillor Paul Smith as a substitute, be noted.

6 **APPOINTMENT OF PENSIONS AND PERSONNEL SUB-COMMITTEES 2014/15 (Item 6)**

A. Pensions Sub-Committee

RESOLVED:

a) That the following members be appointed to the Pensions Sub-Committee for the municipal year 2014/15 or until successors are appointed.

Members	Substitute members
Councillor Richard Greening	Councillor David Poyser
Councillor Andy Hull	Councillor Paul Convery
Councillor Mick O'Sullivan	Councillor Mouna Hamitouche
Councillor Jean-Roger Kaseki	Councillor Satnam Gill

- b) That Councillor Greening be appointed the Chair for the municipal year 2014/15 or until a successor is appointed.

B. Personnel Sub-Committee

RESOLVED:

- a) That the following members be appointed to the Personnel Sub-Committee for the municipal year 2014/15 or until successors are appointed.

Members	Substitute members
Councillor Richard Greening	Councillor Janet Burgess
Councillor Richard Watts	Councillor Joe Caluori
Councillor Andy Hull	Councillor Claudia Webbe
Councillor Troy Gallagher	Councillor James Murray

- b) That Councillor Greening be appointed the Chair of the Personnel Sub-Committee for the municipal year 2014/15 or until successors are appointed.

7 **EXTERNAL AUDIT PROGRESS REPORT (Item 7)**

The external auditor reported on their progress report and technical update.

The Committee noted that there was one elector issue unresolved, reduced from four previously.

The Committee were interested in considering various income generation streams as a means of providing funding for services, particularly in relation to business rates and it was noted that there may be opportunities to reduce expenditure on waste collection.

RESOLVED that

- a) the report be noted
- b) further information be obtained regarding income generation;
- c) waste collection value for money data and recycling be progressed through discussions with the Chair of the Environment and Regeneration Scrutiny Committee.

8 **ANNUAL INTERNAL AUDIT REPORT FOR 2013/14 (Item 8)**

The Committee considered that it would be useful to receive information on the key areas of risk management.

Concern was expressed regarding the delay in the implementing of audit recommendations for parking e-permits and further information was requested regarding Individual Electoral Registration.

RESOLVED that:

- a) there be a regular risk management report to the Audit Committee;
- b) the Head of Internal Audit raise the concern expressed by the Audit Committee regarding the delay in implementing the audit recommendations in relation to parking e-permits, with the Director of Environmental Services and the Executive Member for Environment;
- c) there be a update report on Individual Electoral Registration to a future meeting of the Audit Committee.

9 DRAFT ANNUAL AUDIT PLAN 2014/15 (Item 9)

The Committee considered that the cross cutting audits on data protection, leaseholder service and major works charges and the joint review on public health should be priorities and additional days spent on them where possible.

The Committee noted that internal audit would look at the policy regarding bailiff action.

RESOLVED that:

- a) The report be noted;
- b) The Health and Care Scrutiny Committee Chair be made aware of the public health audit cross cutting review.

The meeting ended at 7.55 pm

CHAIR

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Report of: Corporate Director of Finance

Meeting of	Date	Agenda Item	Ward(s)
Audit Committee	29 September 2014		ALL

STATEMENT OF ACCOUNTS 2013-14 (INCLUDING PENSION FUND ACCOUNTS) AND ANNUAL GOVERNANCE REPORTS

1. SYNOPSIS

- 1.1 Islington is determined to achieve its vision of a “Fairer Islington”. Significant amongst these is the achievement of sound financial management and confidence in this Council’s financial future. This report sets out the Statement of Accounts for 2013/14. It demonstrates sound financial management and provides evidence to stakeholders that they should have confidence in the Council’s financial future.

2. RECOMMENDATIONS

- 2.1 To approve the 2013/14 Statement of Accounts and the accompanying Annual Governance Statement.
- 2.2 To note the auditor’s Annual Governance Reports and value for money conclusion.
- 2.3 To agree the action plan in Appendix 1 of the Annual Governance Report.
- 2.4 To approve the letter of representation set out in Appendix B.

3. BACKGROUND

- 3.1 The purpose of this report is to report the outcome of the audit of the draft accounts that were presented to the Auditors at the end of June 2014 and the details of the Auditor’s Annual Governance Report.

- 2.5 The Committee is required to approve the audited Statement of Accounts by 30 September 2014, including the accompanying Annual Governance Statement.
- 3.2 There is also the requirement that a general letter of representation on behalf of the Council's management is provided to the Auditor.

4. STATEMENT OF ACCOUNTS 2013/14

- 4.1 The Council is required to prepare financial accounts covering the period from 1st April to 31st March, each year. These statements have to be presented in the required statutory format, following the *CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 (the Code)*, which means that the financial information contained in the Statement of Accounts will be presented in a different way to how it is normally reported in financial monitoring reports.
- 4.2 Between Thursday 21st August and Thursday 18th September, the accounts and supporting documentation were made available for public inspection. From Friday 19th September, up until the conclusion of the audit, the Auditors have and will consider any questions or objections relating to the accounts. The relevant statutory public notice was published on 17th July in the 'Islington Gazette' and 25th July in the 'Islington Tribune'. The notice was also published on the Council's website.
- 4.3 After several years of continuous major changes there were no significant changes in accounting requirements or policies since the previous year. This allowed the Council to consolidate and strengthen its financial reporting procedures.

Quality Assurance

- 4.5 As in previous years, the closing of accounts timetable had a process of quality assurance.
- 4.6 In line with the council's policy to reduce agency staff, the corporate accountancy team has not engaged any specialist agency staff to support its work this year.

Highlights

- 4.7 The statement of accounts is a very complex document. In order to aid understanding, a presentation will be made setting out the key elements and highlights from the accounts.
- 4.8 The statement of accounts (including Pension Fund) are expected to receive a clean audit opinion from the Council's auditors. The Auditor has found the draft accounts submitted to audit to be on time, complete and at this stage only minor adjustments have been made to them. No adjustments are proposed to the Accounts save minor presentational issues. In addition the Auditors are reporting that supporting working papers supplied during the audit were of a high quality and Council officers dealt efficiently with audit queries and the audit process has been completed within the planned timescales.

The Statement of Accounts will be formally published with the audit opinion at the end of September.

5. ANNUAL GOVERNANCE REPORT

- 5.1.1 The auditor's Annual Governance Reports for the year ended 31 March 2014 are attached at Appendix A. They summarise the findings of the 2013/14 audit which is substantially complete although a few queries remain at the time of writing this report.
- 5.1.2 The Auditor will attend the meeting of the Committee to present his findings and update the Committee on any matters that may have arisen since the publication of his report. The key elements of the report are summarised below.

Value for Money Conclusion

- 5.2 The District Auditor intends to issue an unqualified conclusion that the Council has adequate arrangements to secure economy, efficiency and effectiveness in the use of resources.

Management Representation Letter

- 5.3 It is a requirement of the International Auditing Standards for the Auditors to request a letter from the Council that sets out various representations. Appendix 3 sets out a draft of the letter that will be signed by the Director of Finance on behalf of the council's management. If there is any material change to the letter prior to its signing and communication to the auditor, this will then need to be reported to the Committee.

Adjusted Amendments

- 5.4 The Council's main Statements of Accounts were free from material error. The Annual Governance Reports confirms that no adjustments or corrections were made to the statements.

Recommendations

- 5.5 The auditor based upon the findings from their audit work has made one recommendation. The recommendation is for the Council's Property team to provide a more complete documented rationale for its valuations to both the Corporate Accountancy team and the Auditors. The Property team agrees to this recommendation and, as this was their first year of preparing such valuations, are now confident that they now have a better appreciation of the Auditor's requirements and will be able to meet them. Appendix 1 of the Annual Governance Report contains a completed action plan in response to the recommendation.

6. IMPLICATIONS

Financial Implications

- 6.1 These are contained within the body of the report.

Legal Implications

6.2 Regulation 7 of the Accounts and Audit Regulations 2011 requires a local authority to prepare an annual statement of accounts. Regulation 8 requires that the responsible officer (the Corporate Director of Finance) certifies the statement no later than 30th June following the end of the financial year. The statement must be recertified, considered, approved by the Council or an appropriate committee and published (along with the auditor's opinion) no later than 30th September. As the approval of accounts is a non-executive function, the appropriate committee is the Audit Committee. Regulation 8(3) requires the approved accounts to be signed by the person presiding over the meeting that approved them, in other words, by the chair. . Following approval by the committee and signature by the Chair, the accounts will then be formally posted onto the Council's website and copies will be distributed as appropriate.

Resident Impact Assessment

6.3 There are no direct equality implications.

7. CONCLUSION

7.1 The significant effort of all concerned in producing the statement of accounts and supporting the audit has been rewarded with a clean audit sign-off and an encouraging Annual Governance Report. The Audit Committee can be confident that the Council is well positioned to continue to report its financial activities and address the recommendations made by the auditors.

Appendices

- A Annual Governance Report 2013/14
- B Letter of Representation
- C Statement of Accounts 2013/14
- D Annual Governance Statement 2013/14

Background papers:

None



Signed by
	Corporate Director of Finance	Date
Received by
	Head of Democratic Services	Date

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cutting through complexity™

Report to those charged with governance (ISA 260) 2013/14

London Borough of Islington

September 2014

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This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. The Audit Commission has issued a document entitled *Statement of Responsibilities of Auditors and Audited Bodies*. This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. We draw your attention to this document which is available on the Audit Commission's website at www.auditcommission.gov.uk.

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Phil Johnstone the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees on 0161 246 4000, or by email to trevor.rees@kpmg.co.uk, who is the national contact partner for all of KPMG's work with the Audit Commission. After this, if you are still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. Put your complaint in writing to the Complaints Unit Manager, Audit Commission, 3rd Floor, Fry Building, 2 Marsham Street, London, SW1P 4DF or by email to complaints@audit-commission.gsi.gov.uk. Their telephone number is 0303 4448 330.

This document summarises:

- the key issues identified during our audit of the financial statements for the year ended 31 March 2014 for both the Authority and its pension fund; and
- our assessment of the Authority's arrangements to secure value for money.

Scope of this report

This report summarises the key findings arising from:

- our audit work at the London Borough of Islington ('the Authority') in relation to the Authority's 2013/14 financial statements and those of the Local Government Pension Scheme it administers ('the Fund'); and
- the work to support our 2013/14 conclusion on the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources ('VFM conclusion').

Financial statements

Our *External Audit Plan 2013/14*, presented to you in March 2014, set out the four stages of our financial statements audit process.



This report focuses on the second and third stages of the process: control evaluation and substantive procedures. Our on site work for these took place during March and April 2014 (interim audit) and August 2014 (year end audit).

We are now in the final phase of the audit, the completion stage. Some aspects of this stage are also discharged through this report.

VFM conclusion

Our *External Audit Plan 2013/14* explained our risk-based approach to VFM work, which follows guidance provided by the Audit Commission. We have now completed our work to support our 2013/14 VFM conclusion. This included:

- assessing the potential VFM risks and identifying the residual audit risks for our VFM conclusion; and
- considering the results of any relevant work by the Authority and other inspectorates and review agencies in relation to these risk areas.

Structure of this report

This report is structured as follows:

- Section 2 summarises the headline messages.
- Section 3 sets out our key findings from our audit work in relation to the 2013/14 financial statements of the Authority and the Fund.
- Section 4 outlines our key findings from our work on the VFM conclusion.

Acknowledgements

We would like to take this opportunity to thank officers and Members for their continuing help and co-operation throughout our audit work.

This table summarises the headline messages for the Authority and the Fund. Sections three and four of this report provide further details on each area.

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Proposed audit opinion	<p>We anticipate issuing an unqualified audit opinion on the Authority's financial statements by 30 September 2014. We will also report that the wording of your Annual Governance Statement accords with our understanding.</p> <p>We also anticipate issuing an unqualified audit opinion in relation to the Fund's financial statements, as contained both in the Authority's Statement of Accounts and the Pension Fund Annual Report by 30 September 2014.</p>
Audit adjustments	<p>We are pleased to report that our audit of your financial statements did not identify any adjustments.</p>
Key financial statements audit risks	<p>We have worked with officers throughout the year to discuss specific risk areas. The Authority addressed the issues appropriately.</p>
Accounts production and audit process	<p>The Authority produces high quality draft financial statements and supporting working papers. Officers dealt efficiently with audit queries and the audit process has been completed within the planned timescales.</p>
Control environment	<p>The Authority's organisational and control environment is effective overall and we have not identified any significant weaknesses in controls over key financial systems.</p>
Completion	<p>At the date of this report our audit of the financial statements is substantially complete with the exception of our final review procedures and closing procedures.</p> <p>Before we can issue our opinion we require a signed management representation letter, which covers the financial statements of both the Authority and the Fund. We will also need to complete our post balance sheet review procedures, covering the period up until the financial statements are signed.</p> <p>We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's and the Fund's financial statements.</p>
VFM conclusion and risk areas	<p>We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.</p> <p>We therefore anticipate issuing an unqualified VFM conclusion by 30 September 2014.</p>
Recommendations	<p>We have made one recommendation in regards to the audit of the financial statements. We have included further details at Appendix 1.</p> <p>In Appendix 2 we provide an update on the progress of clearing prior year recommendations.</p>

We anticipate issuing an unqualified audit opinion in relation to the Authority's financial statements by 30 September 2014.

Proposed audit opinion

We anticipate issuing an unqualified audit opinion on the Authority's financial statements following approval of the Statement of Accounts by the Audit Committee on the 29 September 2014.

Audit differences

In accordance with ISA 260 we are required to report uncorrected audit differences to you. We also report any material misstatements which have been corrected and which we believe should be communicated to you to help you meet your governance responsibilities.

The final materiality level for this year's audit of the Authority's financial statements was set at £20 million. Audit differences below £1 million are not considered significant. Appendix 3 details the change in materiality from that reported in our External Audit Plan 2013/14, presented to you in March 2014.

We did not identify any misstatements and only identified minor presentational amendments.

Pension fund audit

We anticipate issuing an unqualified audit opinion on the Authority's financial statements following approval of the Statement of Accounts by the Audit Committee on the 29 September 2014. Our audit of the Fund did not identify any significant audit differences.

Annual Governance Statement

We have reviewed the Annual Governance Statement and confirmed that:

- it complies with Delivering Good Governance in Local Government: A Framework published by CIPFA/SOLACE; and
- it is not misleading or inconsistent with other information we are aware of from our audit of the financial statements.

Pension Fund Annual Report

We are currently reviewing the Pension Fund Annual Report to confirm that:



- it complies with the requirements of the Local Government Pension Scheme (Administration) Regulations 2008; and
- the financial and non-financial information it contains is not inconsistent with the financial information contained in the audited financial statements.



We anticipate issuing an unqualified opinion on the financial statements within the Pension Fund Annual Report at the same time as our opinion on the Statement of Accounts.


We have worked with officers throughout the year to discuss specific risk areas. The Authority addressed the issues appropriately.

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In our *External Audit Plan 2013/14*, presented to you in March 2014, we identified the key areas of audit focus for the Authority's and the Fund's 2013/14 financial statements. Professional standards require us to consider two standard risks for all organisations. We identified one significant risk relating to the audit of the Fund's financial statements in regards to the LGPS triennial revaluation due to its and its impact on Authorities financial statement. Since our *External Audit Plan 2013/14* we classified the transfer of public health services from demised PCTs and new NNDR arrangements following Business Rate localisation as significant risks. We set our findings against each risk below.

Significant audit risk to financial statements and the Fund	Findings
 <p>Management override of controls</p>	<ul style="list-style-type: none"> Professional standards require us to communicate the fraud risk from management override of controls as significant. Management is typically in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Our Audit Plan, confirmed that we had not identified any specific additional risks of management override of controls at the Authority. Our audit methodology incorporates the risk of management override of controls as a default significant risk. During the audit we have considered significant judgements and estimates affecting the Authority to test management override of controls, namely: accruals, provisions and provision for the impairment of receivables. Our work identified that there was no instances of management override of controls in the above areas.
 <p>Fraud Risk of Revenue Recognition</p>	<ul style="list-style-type: none"> Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk. However, for LG bodies, we do not consider this to be a significant risk as there is unlikely to be an incentive to fraudulently recognise revenue. We do not consider this to be a significant risk for pension funds as there are limited incentives and opportunities to manipulate the way income is recognised. We therefore rebut this risk and do not incorporate specific work into our audit plan in this area over and above our standard fraud procedures. Since we rebutted this presumed risk in our Audit Plan, there is no impact on our audit work.

Financial statement risk	Findings
	<p>Under the 2012 Health and Social Care Act, on 1st April 2013 the responsibility for public health services which were previously provided by Primary Care Trusts (PCTs) transferred to Local Authorities. The Authority therefore incurred and records public health income and expenditure in its accounts for the first time in 2013/14. A risk existed over the transfer of this function and the disclosure within the financial statements.</p> <p>We completed substantive testing of expenditure incurred in relation to public health, agreed income to the Department of Health Grant and reviewed the other disclosures made within the financial statements to ensure they complied with the Code.</p> <p>We did not identify any issues to report.</p>
	<p>With the introduction of Business Rate Localisation, which took effect from 1 April 2013, there were significant changes in the requirements for the disclosure of National Non Domestic Rate balances and transactions, as per the CIPFA Code.</p> <p>This meant there were significant variances in the Collection Fund, Balance Sheet and the Comprehensive Income and Expenditure Statement as a result of the change of accounting treatment. In addition, the requirement ceased for an audited National Non Domestic Rate Return where auditors had completed additional work in this area under directions of the Audit Commission.</p> <p>We did not identify any issues to report.</p>

Fund risk	Findings
	<p>During the year, the Pension Fund underwent a triennial valuation with an effective date of 31 March 2013 in line with the Local Government Pension Scheme (Administration) Regulations 2008. The share of pensions assets and liabilities for each admitted body was determined in detail, and a large volume of data was provided to the actuary to support this triennial valuation.</p> <p>The IAS 19 numbers included in the financial statements for 2013/14 are based on the output of the triennial valuation rolled forward to 31 March 2014. For 2014/15 and 2015/16 the actuary will then roll forward the valuation for accounting purposes based on more limited data.</p> <p>There was a risk that the data provided to the actuary for the valuation exercise was inaccurate and that these inaccuracies affected the actuarial figures in the accounts.</p> <p>We reviewed the data provided to the actuary and confirmed that it was consistent with underlying records.</p> <p>We did not identify any issues to report.</p>

The Authority has strong processes in place for the production of the accounts and excellent quality supporting working papers.

Officers dealt efficiently with audit queries and the audit process could be completed within the planned timescales.

Accounts production and audit process

ISA 260 requires us to communicate to you our views about the significant qualitative aspects of the Authority's accounting practices and financial reporting. We also assessed the Authority's process for preparing the accounts and its support for an efficient audit. We considered the following criteria:

Element	Commentary
Accounting practices and financial reporting	The Authority has good financial reporting arrangement in place. We note that the Authority has consistently provided detailed working papers and liaised with us on technical issues at an early date to consider the implications for financial reporting. We consider that accounting practices are appropriate.
Completeness of draft accounts	We received a complete set of draft accounts on 30 June 2014.
Quality of supporting working papers	The quality of working papers provided met the standards specified in our <i>Prepared by Client</i> document. We have raised one recommendation relating to the evidence to support the valuation of Council dwellings.
Response to audit queries	Officers resolved audit queries promptly. The quality and timeliness of officers' responses were of a high standard.
Pension fund audit	The audit of the Fund was completed following the main audit.

Your organisational control environment is effective overall.

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Work completed

Controls operated at an organisational level often have an impact on controls at an operational level and if there were weaknesses this would have implications for our audit.

We obtain an understanding of the Authority’s overall control environment and determine if appropriate controls have been implemented. We do not complete detailed testing of these controls.

We review the outcome of internal audit’s work to influence our assessment of the overall control environment, which is a key factor when determining the external audit strategy.

Key findings

We consider that your organisational controls are effective overall.

Aspect	Assessment
<i>Organisational controls:</i>	
Management’s philosophy and operating style	3
Culture of honesty and ethical behaviour	3
Oversight by those charged with governance	3
Risk assessment process	3
Communications	3
Monitoring of controls	3

- Key:
- 1 Significant gaps in the control environment.
 - 2 Deficiencies in respect of individual controls.
 - 3 Generally sound control environment.

The controls over the majority of the key financial systems are sound.

Work completed

Where we have determined that this is the most efficient audit approach to take, we test selected controls that address key risks within these systems. The strength of the control framework informs the substantive testing we complete during our final accounts visit.

Our assessment of a system will not always be in line with your internal auditors' opinion on that system. This is because we are solely interested in whether our audit risks are mitigated through effective controls, i.e. whether the system is likely to produce materially reliable figures for inclusion in the financial statements.

Key findings

The controls over the majority of the key financial systems are sound.

We did not note any weaknesses in respect of individual financial systems that impacted on our audit.

Financial system	Controls Assessment
Cash	3
Pensions	3
Journals	3

- Key:
- 1 Significant gaps in the control environment.
 - 2 Deficiencies in respect of individual controls.
 - 3 Generally sound control environment.

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's and the Fund's financial statements.

Before we can issue our opinion we require a signed management representation letter.

Once we have finalised our opinions and conclusions we will prepare our Annual Audit Letter and close our audit.

Declaration of independence and objectivity

As part of the finalisation process we are required to provide you with representations concerning our independence.

In relation to the audit of the financial statements of the London Borough of Islington and the Pension Fund for the year ending 31 March 2014, we confirm that there were no relationships between KPMG LLP and the London Borough of Islington and the Pension Fund, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Audit Commission's requirements in relation to independence and objectivity.

We have provided a detailed declaration in Appendix four in accordance with ISA 260.

Management representations

You are required to provide us with representations on specific matters such as your financial standing and whether the transactions within the accounts are legal and unaffected by fraud. We have provided a template to management for presentation to the Audit Committee. We require a signed copy of your management representations before we issue our audit opinion.

Other matters

ISA 260 requires us to communicate to you by exception 'audit matters of governance interest that arise from the audit of the financial statements' which include:

- significant difficulties encountered during the audit;
- significant matters arising from the audit that were discussed, or subject to correspondence with management;
- other matters, if arising from the audit that, in the auditor's professional judgment, are significant to the oversight of the financial reporting process; and

- matters specifically required by other auditing standards to be communicated to those charged with governance (e.g. significant deficiencies in internal control; issues relating to fraud, compliance with laws and regulations, subsequent events, non disclosure, related party, public interest reporting, questions/objections, opening balances etc).

There are no others matters which we wish to draw to your attention in addition to those highlighted in this report relating to the audit of the Authority's 2013/14 financial statements.

VFM conclusion

Our VFM conclusion considers how the Authority secures financial resilience and challenges how it secures economy, efficiency and effectiveness.

We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

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Background

Auditors are required to give their statutory VFM conclusion based on two criteria specified by the Audit Commission. These consider whether the Authority has proper arrangements in place for:

- securing financial resilience: looking at the Authority’s financial governance, financial planning and financial control processes; and
- challenging how it secures economy, efficiency and effectiveness: looking at how the Authority is prioritising resources and improving efficiency and productivity.

We follow a risk based approach to target audit effort on the areas of greatest audit risk. We consider the arrangements put in place by the Authority to mitigate these risks and plan our work accordingly.

The key elements of the VFM audit approach are summarised in the diagram below.



Work completed

We performed a risk assessment earlier in the year and have reviewed this throughout the year.

We have not identified any significant risks to our VFM conclusion and therefore have not completed any additional work.

Conclusion

We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

VFM criterion	Met
Securing financial resilience	✓
Securing economy, efficiency and effectiveness	✓

Section four – VFM conclusion

Specific VFM risks and areas of audit focus

We identified one specific VFM risk.

We have worked with officers throughout the year to discuss specific areas of audit focus. The Authority addressed the issues appropriately.

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Work completed


In line with the risk-based approach set out on the previous page, and in our *External Audit Plan 2013/14* we have:

- assessed the Authority's key business risks which are relevant to our VFM conclusion; and
- identified the residual audit risks for our VFM conclusion, taking account of work undertaken in previous years or as part of our financial statements audit.

Key findings

Our initial risk assessment did not identify any residual risks for our VFM conclusion.

In our *External Audit Plan 2013/14*, presented to you in March 2014, we identified a specific area of focus for our VFM conclusion. The table below sets out our findings.

Area of audit focus	Findings
	<p>As part of our audit we confirmed that the Authority delivered against the savings plan set out in the 2013/14 budget and was able to deliver additional savings of just over £9.5m.</p> <p>As part of our Value for Money work we have reviewed the Authority's processes for delivery of its savings plans and consider that robust, achievable plans are in place. The Authority has a current medium term financial plan and detailed annual budget proposals which give due consideration to potential funding reductions.</p> <p>Assumptions in the plan and budget proposals are based on a prudent consideration of the economic climate and the impact on the Authority's funding sources.</p>

Appendix 1: Key issues and recommendations

We have given the recommendation a risk rating and agreed what action management will need to take.

We will formally follow up these recommendations next year.

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Priority rating for recommendations		
<p>1 Priority one: issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.</p>	<p>2 Priority two: issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.</p>	<p>3 Priority three: issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.</p>

No.	Risk	Issue and recommendation	Management response / responsible officer / due date
1	2	<p>Supporting the valuation of Council Dwellings</p> <p>The Authority carries out a rolling programme that ensures that all Property, Plant and Equipment is revalued at least every five years. In accordance with accounting standards and sector guidance, the Authority also reviews each class of asset as at 1st April 2014 to identify whether there are any conditions arising during the financial year that would materially impact on the valuation.</p> <p>The Authority's internal valuer assessed that an uplift of 15% should be applied to Council Dwellings to reflect the performance of the housing market during the financial year. The valuer did not initially provide the Authority's finance team preparing the draft financial statements and us with appropriate evidence to support the percentage uplift. This information was provided later, during the audit, and we are satisfied that the assumptions made to support the uplift are reasonable and the uplift is in line with relevant indexes.</p> <p>We recommend that in future years the Authority's valuer produces a fully documented rationale to support their valuation of Property, Plant and Equipment. This will provide an appropriate level of assurance to management prior to the preparation of the financial statements and support the audit process.</p>	<p>Management Response</p> <p>It is acknowledged the appropriate evidence supporting the percentage uplift should have been delivered earlier in the process bearing in mind its relevance to the overall valuation exercise. Moving forward, we are now fully familiar with the evidence and reporting required and the timeline to deliver. This will be implemented in future years.</p> <p>Responsible Officer</p> <p>Property Disposals & Development Manager</p> <p>Due Date</p> <p>June 2015</p>

Appendix 2: Follow up of prior year recommendations

The Fund has implemented the recommendation raised in our ISA 260 Report 2012/13.

This appendix summarises the progress made to implement the recommendation identified in our ISA 260 Report 2012/13 for the Pension Fund. There were no recommendations raised in our 2012/13 ISA 260 report for the Authority.

Number of recommendations that were:	
Included in original Pension Fund ISA 260 report	1
Implemented in year or superseded	1
Remain outstanding (re-iterated below)	0

No.	Risk	Issue and recommendation	Officer responsible and due date	Status as at September 2014
1	2	<p>Financial instruments disclosures</p> <p>In 2012/13 the Fund did not make full financial instruments disclosures in line with the Code of Practice on Local Authority Accounting 2012/13. For example, it did not include a disclosure of the Fair Value of investment assets, or disclosures around the market, credit and liquidity risk that the fund was exposed to. It was recommended that the Fund review the required disclosures ahead of the 2013/14 accounts closedown, and incorporate these into the 2013/14 financial statements.</p>	Pensions Manager, June 2014	Implemented

For 2013/14 our materiality is £20 million for the Authority's accounts. For the Pension Fund it is £19 million.

We have reported all audit differences over £1 million for the Authority's accounts and £900k for the Pension Fund to the Audit Committee.

Materiality

The assessment of what is material is a matter of professional judgment and includes consideration of three aspects: materiality by value, nature and context.

- Material errors by value are those which are simply of significant numerical size to distort the reader's perception of the financial statements. Our assessment of the threshold for this depends upon the size of key figures in the financial statements, as well as other factors such as the level of public interest in the financial statements.
- Errors which are material by nature may not be large in value, but may concern accounting disclosures of key importance and sensitivity, for example the salaries of senior staff.
- Errors that are material by context are those that would alter key figures in the financial statements from one result to another – for example, errors that change successful performance against a target to failure.

In the period leading up to the final accounts audit we reassessed our approach to materiality nationally due to higher risk in the sector as a whole and a number of accounting changes related to pensions and public health. As a result we reduced materiality for the Authority to £20 million. This equates to approximately 2 percent of gross revenue.

We design our procedures to detect errors in specific accounts at a lower level of precision, set at £15 million for 2013/14.

Reporting to the Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any misstatements of lesser amounts to the extent that these are identified by our audit work.

Under ISA 260, we are obliged to report omissions or misstatements other than those which are 'clearly trivial' to those charged with

governance. ISA 260 defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

ISA 450 requires us to request that uncorrected misstatements are corrected.

In the context of the Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £1m.

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit Committee to assist it in fulfilling its governance responsibilities.

Materiality – pension fund audit

The same principles apply in setting materiality for the Pension Fund audit. Materiality for the Pension Fund was set at £19 million which is approximately 2 percent of net assets.

We design our procedures to detect errors at a lower level of precision, set at £14.25 million for 2013/14.

The Code of Audit Practice requires us to exercise our professional judgement and act independently of both the Commission and the Authority.

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Requirements

Auditors appointed by the Audit Commission must comply with the Code of Audit Practice (the 'Code') which states that:

"Auditors and their staff should exercise their professional judgement and act independently of both the Commission and the audited body. Auditors, or any firm with which an auditor is associated, should not carry out work for an audited body that does not relate directly to the discharge of auditors' functions, if it would impair the auditors' independence or might give rise to a reasonable perception that their independence could be impaired."

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code, the detailed provisions of the Statement of Independence included within the Audit Commission's Standing Guidance for Local Government Auditors ('Audit Commission Guidance') and the requirements of APB Ethical Standard 1 *Integrity, Objectivity and Independence* ('Ethical Standards').

The Code states that, in carrying out their audit of the financial statements, auditors should comply with auditing standards currently in force, and as may be amended from time to time. Audit Commission Guidance requires appointed auditors to follow the provisions of ISA (UK & I) 260 Communication of *Audit Matters with Those Charged with Governance* that are applicable to the audit of listed companies. This means that the appointed auditor must disclose in writing:

- Details of all relationships between the auditor and the client, its directors and senior management and its affiliates, including all services provided by the audit firm and its network to the client, its directors and senior management and its affiliates, that the auditor considers may reasonably be thought to bear on the auditor's objectivity and independence.
- The related safeguards that are in place.

- The total amount of fees that the auditor and the auditor's network firms have charged to the client and its affiliates for the provision of services during the reporting period, analysed into appropriate categories, for example, statutory audit services, further audit services, tax advisory services and other non-audit services. For each category, the amounts of any future services which have been contracted or where a written proposal has been submitted are separately disclosed. We do this in our *Annual Audit Letter*.

Appointed auditors are also required to confirm in writing that they have complied with Ethical Standards and that, in the auditor's professional judgement, the auditor is independent and the auditor's objectivity is not compromised, or otherwise declare that the auditor has concerns that the auditor's objectivity and independence may be compromised and explaining the actions which necessarily follow from this. These matters should be discussed with the Audit Committee.

Ethical Standards require us to communicate to those charged with governance in writing at least annually all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place that, in our professional judgement, may reasonably be thought to bear on our independence and the objectivity of the Engagement Lead and the audit team.

General procedures to safeguard independence and objectivity

KPMG's reputation is built, in great part, upon the conduct of our professionals and their ability to deliver objective and independent advice and opinions. That integrity and objectivity underpins the work that KPMG performs and is important to the regulatory environments in which we operate. All partners and staff have an obligation to maintain the relevant level of required independence and to identify and evaluate circumstances and relationships that may impair that independence.

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.

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Acting as an auditor places specific obligations on the firm, partners and staff in order to demonstrate the firm's required independence. KPMG's policies and procedures regarding independence matters are detailed in the *Ethics and Independence Manual* ('the Manual'). The Manual sets out the overriding principles and summarises the policies and regulations which all partners and staff must adhere to in the area of professional conduct and in dealings with clients and others.

KPMG is committed to ensuring that all partners and staff are aware of these principles. To facilitate this, the Manual is provided to everyone annually. The Manual is divided into two parts. Part 1 sets out KPMG's ethics and independence policies which partners and staff must observe both in relation to their personal dealings and in relation to the professional services they provide. Part 2 of the Manual summarises the key risk management policies which partners and staff are required to follow when providing such services.

All partners and staff must understand the personal responsibilities they have towards complying with the policies outlined in the Manual and follow them at all times. To acknowledge understanding of and adherence to the policies set out in the Manual, all partners and staff are required to submit an annual ethics and independence confirmation. Failure to follow these policies can result in disciplinary action.

Auditor declaration

In relation to the audit of the financial statements of the London Borough of Islington and London Borough of Islington Pension Fund for the financial year ending 31 March 2014, we confirm that there were no relationships between KPMG LLP and the London Borough of Islington and London Borough of Islington Pension Fund, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Audit Commission's requirements in relation to independence and objectivity.



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Phil Johnstone, Director
Public Sector Audit and Assurance
KPMG LLP
15 Canada Square
London E14 5GL

Date: 29 September 2014

Dear Sirs,

This representation letter is provided in connection with your audit of the financial statements of the London Borough of Islington ("the Authority") for the year ended 31 March 2014, for the purpose of expressing an opinion:

- i. as to whether these financial statements give a true and fair view of the financial position of the Authority as at 31 March 2014 and of the Authority's expenditure and income for the year then ended;
- ii. whether the Pension Fund financial statements of the give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2014 and the amount and disposition of the Fund's assets and liabilities as at 31 March 2014, other than liabilities to pay pensions and other benefits after the end of the scheme year; and
- iii. whether the financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

These financial statements comprise the Authority Movement in Reserves Statement, the Authority Comprehensive Income and Expenditure Statement, the Authority Balance Sheet, the Authority Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and the Collection Fund and the related notes. The Pension Fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes.

The Authority confirms that the representations it makes in this letter are in accordance with the definitions set out in the Appendix to this letter.

The Authority confirms that, to the best of its knowledge and belief, having made such inquiries as it considered necessary for the purpose of appropriately informing itself:



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Financial statements

1. The Authority has fulfilled its responsibilities, as set out in regulation 8 of the Accounts and Audit (England) Regulations 2011, for the preparation of financial statements that:
 - i. give a true and fair view of the financial position of the Authority as at 31 March 2014 and of the Authority's expenditure and income for the year then ended;
 - ii. give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2014 and the amount and disposition of the Fund's assets and liabilities as at 31 March 2014, other than liabilities to pay pensions and other benefits after the end of the scheme year;
 - iii. have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

The financial statements have been prepared on a going concern basis.

2. Measurement methods and significant assumptions used by the Authority in making accounting estimates, including those measured at fair value, are reasonable.
3. All events subsequent to the date of the financial statements and for which IAS 10 Events after the reporting period requires adjustment or disclosure have been adjusted or disclosed.

Information provided

4. The Authority has provided you with:
 - access to all information of which it is aware, that is relevant to the preparation of the financial statements, such as records, documentation and other matters;
 - additional information that you have requested from the Authority for the purpose of the audit; and unrestricted access to persons within the Authority from whom you determined it necessary to obtain audit evidence.
5. All transactions have been recorded in the accounting records and are reflected in the financial statements.
6. The Authority confirms the following:
 - i) The Authority has disclosed to you the results of its assessment of the risk that the financial statements may be materially misstated as a result of fraud.
 - ii) The Authority has disclosed to you all information in relation to:
 - a) Fraud or suspected fraud that it is aware of and that affects the Authority and involves:
 - management;
 - employees who have significant roles in internal control; or
 - others where the fraud could have a material effect on the financial statements; and
 - b) allegations of fraud, or suspected fraud, affecting the Authority's financial statements communicated by employees, former employees, analysts, regulators or others.

In respect of the above, the Authority acknowledges its responsibility for such internal control as it determines necessary for the preparation of financial statements that are



material misstatement, whether due to fraud or error. In particular, the Authority acknowledges its responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

7. The Authority has disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.
8. The Authority has disclosed to you and has appropriately accounted for and/or disclosed in the financial statements, in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.
9. The Authority has disclosed to you the identity of the Authority's related parties and all the related party relationships and transactions of which it is aware. All related party relationships and transactions have been appropriately accounted for and disclosed in accordance with IAS 24 *Related Party Disclosures*.
10. The Authority confirms that there have been no material contractual changes to PFI (Private Finance Initiatives) during the 2013/14 financial year.
11. The Authority confirms that:

The financial statements disclose all of the uncertainties surrounding the Authority's ability to continue as a going concern as required to provide a true and fair view. Any uncertainties disclosed are not considered to be material and therefore do not cast significant doubt on the ability of the Authority to continue as a going concern.
12. On the basis of the process established by the Authority and having made appropriate enquiries, the Authority is satisfied that the actuarial assumptions underlying the valuation of defined benefit obligations are consistent with its knowledge of the business and are in accordance with the requirements of IAS 19 (revised) Employee Benefits.

The Authority further confirms that:

a) all significant retirement benefits, including any arrangements that are:

- statutory, contractual or implicit in the employer's actions;
- arise in the UK and the Republic of Ireland or overseas;
- funded or unfunded; and
- approved or unapproved,

have been identified and properly accounted for; and

b) all plan amendments, curtailments and settlements have been identified and properly accounted for.

This letter was tabled and agreed at the meeting of the Audit Committee on 29 September 2014.



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Yours faithfully

Councillor Richard Greening
Chair of the Audit Committee

Mike Curtis
Corporate Director of Finance and Resources



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Appendix to the Representation Letter of London Borough of Islington: Definitions

Financial Statements

A complete set of financial statements comprises:

- A Comprehensive Income and Expenditure Statement for the period
- A Balance Sheet as at the end of the period
- A Movement in Reserves Statement for the period
- A Cash Flow Statement for the period
- Notes, comprising a summary of significant accounting policies and other explanatory information.

A local authority is required to present group accounts in addition to its single entity accounts where required by chapter nine of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

A housing authority must present:

- a HRA Income and Expenditure Statement; and
- a Movement on the Housing Revenue Account Statement.

A billing authority must present a Collection Fund Statement for the period showing amounts required by statute to be debited and credited to the Collection Fund.

A pension fund administering authority must prepare Pension Fund accounts in accordance with Chapter 6.5 of the Code of Practice.

An entity may use titles for the statements other than those used in IAS 1. For example, an entity may use the title 'statement of comprehensive income' instead of 'statement of profit or loss and other comprehensive income'.

Material Matters

Certain representations in this letter are described as being limited to matters that are material.

IAS 1.7 and IAS 8.5 state that:

“Material omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions that users make on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor.”



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Fraud

Fraudulent financial reporting involves intentional misstatements including omissions of amounts or disclosures in financial statements to deceive financial statement users.

Misappropriation of assets involves the theft of an entity's assets. It is often accompanied by false or misleading records or documents in order to conceal the fact that the assets are missing or have been pledged without proper authorisation.

Error

An error is an unintentional misstatement in financial statements, including the omission of an amount or a disclosure.

Prior period errors are omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:

- a) was available when financial statements for those periods were authorised for issue; and
- b) could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.

Management

For the purposes of this letter, references to "management" should be read as "management and, where appropriate, those charged with governance".

Related parties

A related party is a person or entity that is related to the entity that is preparing its financial statements (referred to in IAS 24 *Related Party Disclosures* as the "reporting entity").

- a) A person or a close member of that person's family is related to a reporting entity if that person:
 - i. has control or joint control over the reporting entity;
 - ii. has significant influence over the reporting entity; or
 - iii. is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.
- b) An entity is related to a reporting entity if any of the following conditions applies:
 - i. The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - ii. One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - iii. Both entities are joint ventures of the same third party.
 - iv. One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - v. The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related



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to the reporting entity.

- vi. The entity is controlled, or jointly controlled by a person identified in (a).
- vii. A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Key management personnel in a local authority context are all chief officers (or equivalent), elected members, chief executive of the authority and other persons having the authority and responsibility for planning, directing and controlling the activities of the authority, including the oversight of these activities.

A reporting entity is exempt from the disclosure requirements of IAS 24.18 in relation to related party transactions and outstanding balances, including commitments, with:

- a) a government that has control, joint control or significant influence over the reporting entity; and
- b) another entity that is a related party because the same government has control, joint control or significant influence over both the reporting entity and the other entity.

Related party transaction

A transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged.



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Islington Council – Statement of Accounts 2013/14

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Introduction by the Corporate Director of Finance

I have great pleasure in presenting the Statement of Accounts for the year ended 31st March 2014. These accounts give a high level overview of the Council's finances.

Basis of these accounts

In compiling these Accounts the Council is required to follow a common format called the Code of Practice on Local Authority Accounting, otherwise known as the 'Code'. This enables readers across all local authorities to follow local differences in spending on a comparable basis. The 'Code' is based on International Financial Reporting Standards (IFRS).

Overview of the Council's finances

The Council's expenditure last year was just over £1bn. This is made up of the gross cost of the day to day services we provide, plus the investments made in your assets and in new facilities for the borough. In the Comprehensive Income and Expenditure Statement, on the line called 'Net Cost of Services', you will see that the gross cost of these services was £912m, and in the Note on Capital Expenditure and Financing, you will see that we spent £83m on your assets/facilities.

To pay for all this the Council received money from a variety of sources; the largest contribution came in the form of Central Government Grants, whilst locally for residents their contribution is in the form of Council Tax. In 2013/14 this contribution amounted to £68m. This income resulted in a contribution from reserves, of just over £4.3m (£0.5m of which was a contribution from schools) for the year. We financed our investments through borrowing of £8m, grants and other external contributions of £13m, contributions from the HRA of £33m, whilst £19m came from revenue sources and £10m from the sale of Council assets.

The 2013/14 figures include services that have transferred in as part of the transfer of the Public Health function to the Council.

Feedback and Public Inspection of the Accounts

We would welcome any feedback or comments you may have on the accounts or the presentation of them. As advertised, the annual public inspection of accounts this year runs from 21st August to 18th September.



Mike Curtis
Corporate Director of Finance
30th June 2014

Independent auditor's report to the members of the London Borough of Islington

Audit opinion to be inserted

Audit opinion to be inserted

Audit opinion to be inserted

Audit opinion to be inserted

Explanatory Foreword to the Statement of Accounts and Summary of the Council's Financial Performance in the Financial Year 2013/14

This foreword provides an explanation, in overall terms, of the Council's financial position and will assist in the interpretation of the accounting statements. It is not the purpose of this foreword to comment on the policies of the Council, rather to explain the financial facts. The Statement of Accounts has been prepared on the basis that the Council is a going concern.

Explanation of the format of the statements within these accounts

This Statement of Accounts comprises:

- a Statement of Responsibilities for the Statement of Accounts
- Accounting Statements
- Notes to the Accounts (including pension disclosures and Statement of Accounting Policies which sets out policies adopted for the preparation of the accounts).

The accounting statements contain the 'core' financial statements grouped together and the supplementary single entity financial statements relevant to this Council.

The Core Financial Statements comprise:

- Movement in Reserves Statement – shows the movement in the year on the different reserves held by the authority, analysed into 'usable reserves' (those that can be applied to fund expenditure or reduce taxation) and other reserves.
- Comprehensive Income and Expenditure Statement – a summary of the resources generated and consumed by the Council in the year
- Balance Sheet - highlights the Council's financial position as at 31st March 2014, in particular what we own versus what we owe
- Cash Flow Statement - illustrates the Council's total cash transactions in the financial year, split between revenue expenditure (day to day expenditure), capital expenditure (long term investment in assets) and financing transactions (how we pay for the expenditure).

The *Supplementary Financial Statements* applicable to Islington Council comprise:

- Housing Revenue Account Income and Expenditure Account and Statement of Movement on the Housing Revenue Account Balance – shows transactions relating to council dwellings
- Collection Fund – receipts and payments relating to council tax and business rates.

The Pension Funds Account and amounts attributable to Trust Funds are shown separately because they are not part of the entity accounts of the Council. For the Pension Fund administered by Islington Council, these include:

- Fund Account - a summary of the resources generated and consumed by the fund in the year; and
- Net Assets Statement - shows the fund's financial position as at 31st March 2014.

In common with most other local authorities the Pension Fund has a deficit. The authority asks an independent actuary to review the fund's position triennially and advise as to how the contributions to the Pension Fund must be adjusted to address the deficit. Such a review took place in 2013/14. More detailed information can be found in the Pension Fund Accounts.

Changes in terminology, presentation and accounting policies

This Statement of Accounts 2013/14 is the third Statement after the full transition to International Financial Reporting Standards in 2010/11. As a result there have been little changes that have affected the Statement of Accounts.

Budget 2013/14

On 28th February 2013, the Council agreed its budget for 2013/14 and set a budget requirement of £255.5m. This resulted in the basic amount of band D Council Tax of £961.87 (representing a council tax freeze) and a total amount of band D Council Tax (including GLA precept) of £1,264.87.

General Fund Outturn 2013/14

Overall, there was a gross General Fund underspend (including schools) of £10.9m. This was made up of an in-year underspend of £8.0m, plus a budgeted use of general fund balances of £2.9m. After proposed transfers to the capital programme and corporate reserves, there were net unbudgeted drawdowns from General Fund balances (excluding schools) of £0.9m and £0.5m from schools balances. The capital programme delivered 90.3% of the annual programme.

The table below shows the revenue outturn position by department.

Departmental income and expenditure (excluding HRA)	Gross Expenditure £'000	Gross Income £'000	Net Outturn £'000	Net Budget £'000	Over / (Under-spend) £'000
Frontline Services					
Children's Services (including schools)	469,937	(369,248)	100,689	100,930	(241)
Environment and Regeneration	120,754	(69,913)	50,841	50,289	552
Housing & Adult Social Services	157,854	(65,892)	91,962	95,271	(3,309)
Public Health	27,486	(26,410)	1,076	144	932
Central Services					
Chief Executive	29,945	(21,218)	8,727	9,491	(764)
Finance & Resources	275,828	(282,807)	(6,979)	(6,782)	(197)
Corporate Items					
Corporate Items	37,885	(292,109)	(254,224)	(249,343)	(4,881)
Gross General Fund Variance	1,119,689	(1,127,597)	(7,908)	0	(7,908)
Approved outturn transfers to earmarked reserves	12,183		12,183		12,183
Net General Fund Variance	1,131,872	(1,127,597)	4,275	0	4,275
Budgeted drawdown from General Fund Balances					2,882
Unbudgeted drawdown from General Fund Balances (excluding schools)					939
Unbudgeted drawdown from Schools Balances					454
Total					4,275

Departmental income and expenditure (including HRA)	Over / (Under-spend) £'000
General Fund over/(under) spend for the year (including schools)	4,275
Housing Revenue Account over/(under) spend for the year	(1,291)
*Net expenditure	2,984

*Net expenditure is as reported in note 45 Amounts Reported for Resource Allocation

Explanation of Variances to Budget 2013/14

Finance and Resources Department (-£0.2m)

The variance was due to an underspend on staffing and external fees, partly offset by an overspend of (+£0.3m) due to reduced demand for the enhanced telecare package in Contact Islington.

Chief Executive's Department (-£0.8m)

The variance for the Chief Executive's Department was mainly as a result of early delivery of 2014/15 savings (-£0.2m), delayed recruitment and project delays within Community Safety (-£0.4m). and overachievement of income targets within Legal (-£0.2m) and Registrars (-£0.2m).

Children's Services (General Fund -£0.8m, Schools +£0.5m)

The variance for Children's Services was a General Fund underspend of (-£0.8m) consisting of the outcome of a review of all non-pay budgets, an underspend against staffing budgets and (-£0.3m) following a review of placements commissioning, transformation of Children Looked After teams and a reduction in costs against the asylum grant.

In addition there was an underspend within Early Years as a result of an underspend in Children's Centres in relation to increased income, participation funding adjustments following the January census, staffing vacancies, reduced spend against the repairs and maintenance budget, meeting the costs of 2-year old Children in Need placements from the Dedicated Schools Grant and a reduced number of Children in Need placements with childminders and in the voluntary sector.

These underspends were partly offset by pressures against Special Educational Needs transport due to underlying demographic pressures and reduced income following the completion of a number of Building Schools for the Future schools, an overspend against the universal free schools meals budget as a result of increased take-up of school meals, an additional four school days falling in the 2013/14 financial year and the extension of the scheme to all academies in the borough. An overspend on legal costs in Targeted and Specialist Children and Families due to a national increase in the cost of court fees, and an increase in the legal costs associated with undertaking care proceedings as result of the new public law outline procedure.

In addition to Schools £0.5m was also required to cover part of the 2012-13 Local Authority Central Spend Equivalent Grant (LACSEG) refund that is being invested in the capital programme for the provision of new pupil places in the light of the priority to secure additional educational provision. Rather than draw on this funding corporately, this expenditure is met from the net in-year departmental underspend.

Environment and Regeneration (+£0.5m)

The Environment and Regeneration Department overspend was made up of declining Planning Development and Building Control Fees due to the economic climate (+£0.6m) partially offset by a saving from the implementation of a new service structure within Building Control. There were also savings on fleet lease payments as a result of a policy change to purchasing vehicles.

Housing and Adult Social Services (-£3.3m)

Adult Social Care (-£4.4m)

Adult Social Services underspent by £4.4m. This is after allocation of £1.5m corporate demographic contingency for the full-year effect of 2012-13 new placements and £0.8m corporate demographic contingency for the part-year effect of the 2013/14 new placements. The main reason for the outturn variance was 2014/15 budget savings achieved early (-£2.9m). These came from increased integration with Health (-£1.7m), staffing vacancy factor (-£0.5m), Supporting People contract efficiencies (-£0.5m), non-pay efficiencies (-£0.1m) and partnership working with Housing (-£0.1m).

There was also a one-off saving arising from joint work between Adult Social Services and Public Health on Substance Misuse contracts (-£0.4m).

Housing General Fund (+£1.1m)

The Housing General Fund overspend resulted from increased expenditure on the direct cost of temporary accommodation (+£1.8m), partly offset by the early implementation of the HRA compensation for commercial properties income (-£0.5m), underspends on the bad debt provision (-£0.1m) and an additional grant received in respect of the Rent Deposit Scheme (-£0.1m).

Public Health (+£0.9m)

Public Health was funded via a ring-fenced grant of £24.7m for 2013/14. The service is provided by a single Public Health team, under a single Director of Public Health, created from the merger of two teams from Camden and Islington Primary Care Trusts (PCT).

For 2013/14, the public health grant is committed against existing public health services and programmes, continuing from the previous year and transferred to the Council via a transfer scheme, and public health services and programmes included in larger NHS contracts ("block contracts"). The overspend (+£0.9m) was directly attributable to outstanding balances transferred to the Council from the PCT legacy team. At the end of 2012-13 the PCTs ceased to exist and had their accounts closed by a legacy team. As part of this process outstanding balances were transferred to various public bodies in line with Department of Health guidance and the PCT Transfer Order scheme.

Corporate Items (-£4.9m)

Corporate Items (-£6.7m)

The Council's Treasury Management Strategy of shorter-term borrowing at low interest rates saved the Council (-£3.0m) in interest charges over the financial year. In addition, one-off grant income (-£2.5m) was returned from the Government, in the main relating to amounts that were previously 'top-sliced' from our core funding. Further, there were savings delivered ahead of time (-£1.0m); the delayed impact of budgeted cost pressures (-£1.0m); and a reduction in the sundry bad debt provision due to increased collection of sundry debts (-£0.2m).

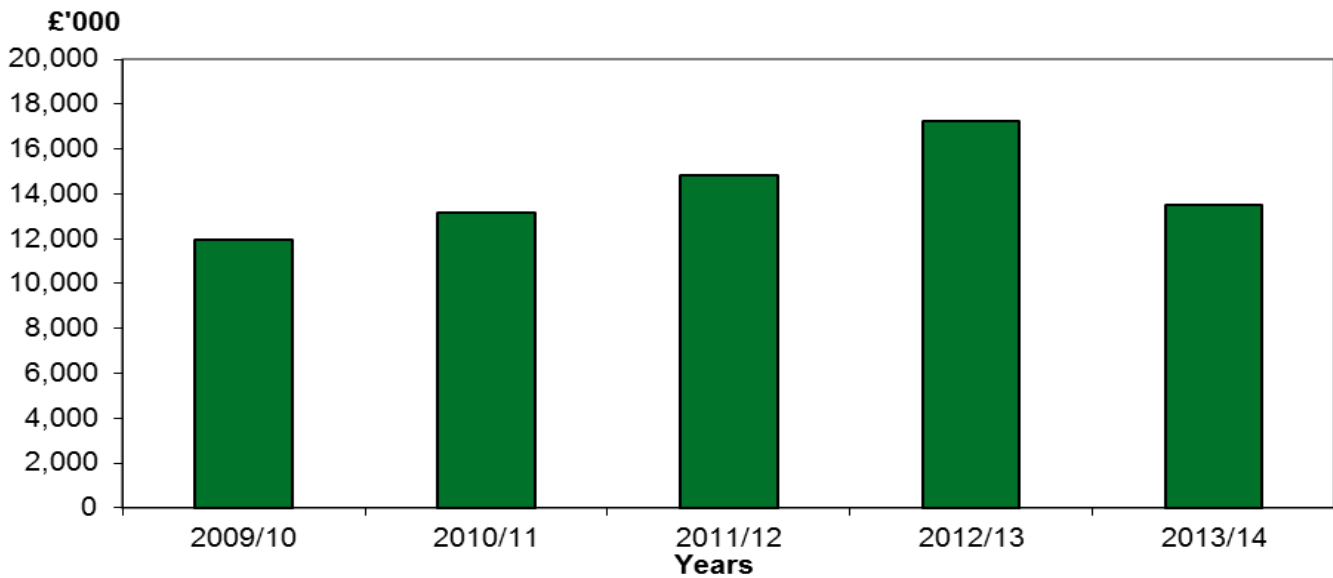
Offsetting this was uncontrollable expenditure (+£1.0m) due to the Council's statutory duty to provide assistance to all destitute clients who are Non-European Union nationals and can demonstrate need under Section 21 of the National Assistance Act 1948 (commonly referred to as No Recourse to Public Funds).

Contingencies (-£1.0m)

At the year end (-£0.925m) remained unallocated within general contingency and (-£0.049m) unallocated within the demographic contingency budget.

General Fund Balances

To maintain its financial strength, the Council aims to maintain the General Fund balance (excluding schools) at a level where it is the equivalent of 5% of the Council's net budget requirement over the medium term. At 31st March 2014 the General Fund balance (excluding schools) totalled £13.4m (£17.2m at 31st March 2013) and the schools balance totalled £10.9m (£11.3m at 31st March 2013)



Housing Revenue Account 2013/14

The Housing Revenue Account (HRA) is a separate account for all the expenses and income relating to council housing. The 2013/14 outturn was a surplus of £1.3m. At 31st March 2014 the HRA balance (excluding schools) totalled £14.1m (£12.5m at 31st March 2013).

The main variances were increased income from rents and service alongside expenditure efficiencies. These were partly offset by an inflationary increase in the cost of Private Finance Initiative (PFI) payments (+£0.2m) and one-off budget pressures (+£0.3m) linked in the main to welfare reforms and improvements to open spaces on estates.

Capital Expenditure and Funding 2013/14

The Council delivered £83.4m of capital expenditure in 2013/14, representing 90.4% of the annual programme. The table below sets out this expenditure by department.

	Annual Programme	Capital Expenditure	Slippage to 2014/15
	£m	£m	£m
Adult Social Services	3.2	2.7	(0.5)
Housing	51.6	48.6	(3.0)
Children's Services	16.4	14.3	(2.1)
Environment & Regeneration	17.0	15.9	(1.1)
Finance and Resources	2.0	0.3	(1.7)
Corporate Projects	2.1	1.6	(0.5)
Total Capital Programme	92.3	83.4	(8.9)

The funding of the 2013/14 capital programme is shown in the table below.

Funding Sources	2013/14 £m
Capital Receipts	10.2
Borrowing	8.3
Government Grants and Other External Contributions	12.6
Major Repairs Reserve	32.9
Capital Reserve and Revenue Contributions	19.4
Total Funding	83.4

Borrowing and Investments 2013/14

The Council's average rate of interest on its debt fell from 5.82% in 2012-13 to 5.30% in 2013/14. As at 31st March 2014, the Council had £10m of temporary borrowing and total long term debt of £288m (of which £261m is Public Works Loan Board loans and £26.5m loans from other local authorities) and held £22m of investments.

Significant changes since last year's accounts

On 1 April 2013 Public Health staff and services were transferred from primary care trusts (PCTs) to local authorities. To discharge their new public health responsibilities, local authorities were provided with a ring-fenced public health grant. The Council in the Statement of Accounts has shown Public Health as an acquired operation, with Gross Expenditure and Income of £27m and £26m respectively.

Material Assets and Liabilities incurred in year

None in 2013/14.

Material or Unusual charge or credit to the accounts

None in the current year.

Significant provisions and contingencies and material write offs

The most significant provision currently maintained by the Council is the Insurance Provision (£11.4m at 31st March 2014) The Council self-funds many of its insurable risks. Since 1992/93 the Council has had self-insurance and a large part of the provision relates to claims that have been submitted against the Council since then and are open i.e. not yet paid and fall within the excess limits of current policies. Any claims prior to 1992/93 are handled by its then insurer, MMI. There is a possibility MMI may cease trading and the Council has set aside a sum in the above provision for this possibility.

Material Events after the reporting date

There are no material events after the reporting date not disclosed elsewhere.

Significance of the Pensions Liability

The estimated pensions liability facing the Council is £460.7m at the end of the financial year (£551.5m 2012/13). This liability shows the underlying commitments that the Council has in the long run to pay retirement benefits. The total net liability of £460.7m has a substantial impact on the net worth of the Council as recorded in the balance sheet. However, statutory arrangements for funding the deficit mean that the financial position of the council remains healthy:

- The deficit on the local government scheme will be made good by increased contributions over the remaining working life of employees, as assessed by the scheme actuary;
- Finance is only required to be raised to cover teachers' pensions when the pensions are actually paid.

The total contributions expected to be made to the Local Government Pension Scheme by the Council in the year to 31st March 2015 is £29.9m.

Revenue and Capital Expenditure 2014/15 onwards

On 27th February 2014, the Council agreed its budget for 2014/15 and set a budget requirement of £234.1m. This resulted in a basic amount of band D Council Tax of £961.87 (representing a council tax freeze) and a total amount of band D Council Tax (including GLA precept) of £1,260.87.

Planned Revenue Expenditure	2014/15 £m
Net General Fund	
Finance	7.7
Chief Executive	7.3
Environment and Regeneration	36.2
Children's Services	77
Housing & Adult Social Services	83.7
Central Items	16.6
Other Operating Costs	5.6
Total Net General Fund	234.1
Gross Housing Revenue Account Expenditure	199.5

The Council also agreed a capital programme of £293m over the three years from 2014/15 to 2016/17 as shown by department below. This includes the continuation of existing programmes of investment in new homes (£95m), housing major works and improvements (£120m), school buildings (£16m) and Phase 2 of the Bunhill heat and power network (£3.8m).

Capital Programme 2014/15 to 2016/17	2014/15 £'000k	2015/16 £'000k	2016/17 £'000k	Total £'000k
Housing & Adult Social Services	66,564	74,732	83,623	224,919
Children's Services	6,777	6,300	4,000	17,077
Environment and Regeneration	27,276	9,701	9,351	46,328
Finance & Resources	1,500	1,500	1,500	4,500
Total Capital Programme	102,117	92,233	98,474	292,824

Statement of Responsibilities for the Statement of Accounts

The Statement of Responsibilities for the Statement of Accounts is prepared in accordance with the requirements of the *CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 (the Code)*. The Council's designated Chief Finance Officer (as defined by Section 151 of the Local Government Act 1972 and Section 112 of the Local Government Finance Act 1988) is the person responsible for the proper administration of the Council's financial affairs.

A) The Council's Responsibilities

The Council is required to:

- Make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In Islington Council, that Officer is the Corporate Director of Finance
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets
- Approve the Statement of Accounts once the Audit has been completed.

B) The Corporate Director of Finance's Responsibilities

The Corporate Director of Finance is responsible for the preparation of the Council's Statement of Accounts in accordance with proper practices as set out in the *CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code)*.

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

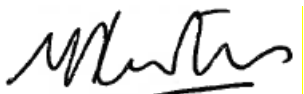
- Selected suitable accounting policies and then applied them consistently;
- Made judgements and estimates that were reasonable and prudent;
- Complied with the local authority Code.

The Corporate Director of Finance has also:

- Kept proper accounting records which were up to date;
- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

C) Certificate

I certify that this Statement of Accounts present a True and Fair view of the financial position of Islington Council as at 31st March 2014 and income and expenditure for the year ending on that date.



Mike Curtis, Corporate Director of Finance
30th June 2014

Approval of the accounts

The Accounts will be approved by resolution of the Audit Committee of the London Borough of Islington in accordance with the Accounts and Audit Regulations 2011, at the conclusion of the Audit, expected September 2014.

Movement in Reserves Statement

This statement shows the movement in the year on the different reserves held by the authority, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The Surplus or (Deficit) on the Provision of Services line shows the true economic cost of providing the authority's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance and the Housing Revenue Account for council tax setting and dwellings rent setting purposes. The Net Income/ Decrease before Transfers to Earmarked Reserves line shows the statutory General Fund Balance and the Housing Revenue Account Balance before any discretionary transfers to or from earmarked reserves undertaken by the Council.

Movement in Reserves 2013/2014	General Fund	Earmarked General Fund Reserves	Housing Revenue Account	Earmarked HRA Reserve	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied	Total Useable Reserves	Unusable Reserves	Total Authority Reserves
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 31 March 2013	28,558	60,062	12,790	8,577	12,549	38,579	6,267	167,382	1,422,545	1,589,927
Movement in reserves during 2013/14										
Surplus or (deficit) on the provision of services	(29,465)	-	422,198	-	-	-	-	392,733	-	392,733
Other Comprehensive Income and Expenditure	-	-	-	-	-	-	-	0	249,917	249,917
Total Comprehensive Income and Expenditure	(29,465)	0	422,198	0	0	0	0	392,733	249,917	642,650
Adjustments between accounting basis & funding basis under regulations (Note 17)	29,453	-	(420,701)	-	20,227	15,377	885	(354,759)	354,759	0
Net Increase/Decrease before Transfers to Earmarked Reserves	(12)	0	1,497	0	20,227	15,377	885	37,974	604,676	642,650
Transfers to/(from) Earmarked Reserves (Note 38)	(4,260)	4,260	(210)	210	-	-	-	0	-	0
Increase/ (Decrease) in 2013/14	(4,272)	4,260	1,287	210	20,227	15,377	885	37,974	604,676	642,650
Balance at 31 March 2014 carried forward	24,286	64,322	14,077	8,787	32,776	53,956	7,152	205,356	2,027,221	2,232,577

Movement in Reserves 2012/2013	General Fund £'000	Earmarked General Fund Reserves £'000	Housing Revenue Account £'000	Earmarked HRA Reserve £'000	Capital Receipts Reserve £'000	Major Repairs Reserve £'000	Capital Grants Unapplied £'000	Total Useable Reserves £'000	Unusable Reserves £'000	Total Authority Reserves £'000
Balance at 31 March 2012	22,962	70,855	11,703	5,388	445	27,126	1,824	140,303	1,471,697	1,612,000
Movement in reserves during 2012/13										
Surplus or (deficit) on the provision of services	(68,459)	-	164,747	-	-	-	-	96,288	-	96,288
Other Comprehensive Income and Expenditure	-	-	246	-	-	-	-	246	(118,607)	(118,361)
Total Comprehensive Income and Expenditure	(68,459)	0	164,993	0	0	0	0	96,534	(118,607)	(22,073)
Adjustments between accounting basis & funding basis under regulations (Note 17)	63,262	-	(160,717)	-	12,104	11,453	4,443	(69,455)	69,455	0
Net Increase/Decrease before Transfers to Earmarked Reserves	(5,197)	0	4,276	0	12,104	11,453	4,443	27,079	(49,152)	(22,073)
Transfers to/(from) Earmarked Reserves (Note 38)	10,793	(10,793)	(3,189)	3,189	-	-	-	0	-	0
Increase/ (Decrease) in 2012/13	5,596	(10,793)	1,087	3,189	12,104	11,453	4,443	27,079	(49,152)	(22,073)
Balance at 31 March 2013 carried forward	28,558	60,062	12,790	8,577	12,549	38,579	6,267	167,382	1,422,545	1,589,927

Comprehensive Income and Expenditure Statement

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

2012/13 Gross Expenditure £'000	2012/13 Gross Income £'000	2012/13 Net Expenditure £'000	Comprehensive Income and Expenditure Statement	2013/14 Gross Expenditure £'000	2013/14 Gross Income £'000	2013/14 Net Expenditure £'000
Acquired Operations						
-	-	-	Public Health	27,510	(26,497)	1,013
Continuing Operations						
35,068	(32,416)	2,652	Central Services to the Public	7,031	(3,626)	3,405
22,553	(818)	21,735	Cultural and Related Services	20,502	(958)	19,544
17,682	(4,167)	13,515	Planning Services	15,188	(4,267)	10,921
40,134	(8,618)	31,516	Environmental & Regulatory Services	38,892	(7,610)	31,282
46,240	(34,351)	11,889	Highways, Roads and Transport Services	43,950	(31,043)	12,907
243,918	(217,937)	25,981	Housing Services	251,238	(225,645)	25,593
120,279	(303,618)	(183,339)	Housing Revenue Account (HRA)	129,692	(561,366)	(431,674)
89,905	(20,031)	69,874	Adult Social Care	88,344	(17,982)	70,362
297,117	(190,012)	107,105	Children & Education	286,364	(194,914)	91,450
6,111	-	6,111	Corporate and Democratic Core	4,928	-	4,928
2,568	-	2,568	Non Distributed Costs	(1,297)	-	(1,297)
921,575	(811,968)	109,607	Net Cost of Services	884,832	(1,047,411)	(162,579)
921,575	(811,968)	109,607	Net Cost of Services (incl Acquired Operations)	912,342	(1,073,908)	(161,566)
42,939	(11,692)	31,247	Other Operating expenditure	24,965	(33,617)	(8,652)
67,232	(10,101)	57,131	Financing and investment income and expenditure	69,624	(9,785)	59,839
-	(294,273)	(294,273)	Taxation and non-specific grant income	-	(282,354)	(282,354)
		(96,288)	(Surplus) or Deficit on Provision of Services			(392,733)
		4,541	(Surplus) or deficit on revaluation of Property, Plant and Equipment assets			(138,006)
		-	(Surplus) or deficit on revaluation of available for sale financial assets			-
		84,106	Actuarial (gains) or losses on pension assets / liabilities			(121,553)
		29,714	Balances transferred from Homes for Islington & Cambridge Education			9,642
		118,361	Other Comprehensive Income and Expenditure			(249,917)
		22,073	Total Comprehensive income and Expenditure			(642,650)

2012/13 £'000	Reconciliation of the General Fund Balance and Comprehensive Income and Expenditure	2013/14 £'000
(96,288)	Surplus or Deficit on Provision of Services (as reported above)	(392,733)
97,455	<i>Adjustments between Accounting Basis and Funding Basis Under Regulations (Note 17)</i>	391,247
4,030	<i>less HRA Balance</i>	1,501
(10,793)	<i>Transfer to/from Earmarked Reserves</i>	4,260
(5,596)	Movement on General Fund balance	4,275
(22,962)	General Fund balance brought forward (as per MiRs)	(28,558)
(28,558)	General Fund balance carried forward	(24,283)
(17,219)	- which relates to General Fund	(13,398)
(11,339)	- which relates to Schools	(10,885)

Balance Sheet

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the authority. The net assets of the authority (assets less liabilities) are matched by the reserves held by the authority. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those reserves that the authority may use to provide, services subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve that may only be used to fund capital expenditure or repay debt). The second category of reserves is those that the authority is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (e.g. the Revaluation Reserves), 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 2013 £'000	Balance Sheet	31 March 2014 £'000	Notes
2,717,427	Property, Plant & Equipment	3,224,720	21
493	Heritage Assets	487	25
8,047	Investment Property	8,125	22
1,494	Intangible Assets	513	23
-	Long Term Assets Held for Sale	-	24
373	Long Term Investments	691	32
272	Long Term Debtors & Prepayments	17	32
2,728,106	Total Long-Term Assets	3,234,553	
5,024	Short Term Investments	5,032	32
354	Short Term Assets Held for Sale	456	24
633	Inventories	716	36
52,549	Short Term Debtors	54,342	35
5,329	Cash and Cash Equivalents	17,504	41
63,889	Total Current Assets	78,050	
(82,726)	Short Term Creditors	(84,557)	34
(79,726)	Short Term Borrowing	(45,900)	32
(15,883)	Cash and Bank Overdrawn	(24,898)	41
(6,402)	Short Term Provisions	(7,948)	37
(9,100)	Short Term Grants Receipts in Advance	(11,718)	51
(193,837)	Total Current Liabilities	(175,021)	
(9,051)	Long Term Provisions	(9,168)	37
(260,800)	Long Term Borrowing	(255,365)	32
(551,542)	Liability Related to Defined Benefit Pensions Scheme	(460,677)	48
(171,883)	Other Long Term Liabilities	(163,104)	32
(14,955)	Long Term Grants Receipts in Advance	(16,691)	51
(1,008,231)	Total Long Term Liabilities	(905,005)	
1,589,927	Net Assets	2,232,577	
167,382	Usable Reserves	205,356	39
1,422,545	Unusable Reserves	2,027,221	40
1,589,927	Total Reserves	2,232,577	

Cash Flow Statement

The Cash Flow Statement shows the changes in cash and cash equivalents of the authority during the reporting period. The statement shows how the authority 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 authority are funded by way of taxation and grant income or from the recipients of services provided by the authority. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the authority'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 authority.

2012/13 £'000	Cash Flow Statement	2013/14 £'000
96,288	Net surplus or (deficit) on the provision of services	392,733
(752)	Adjustments to the net surplus or deficit on the provision of services for non-cash movements	(263,207)
(785)	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	(48,448)
94,751	Net cash flows from Operating Activities (Note 42)	81,078
(51,433)	Investing Activities (Note 43)	(28,857)
(46,917)	Financing Activities (Note 44)	(49,061)
(3,599)	Net increase or (decrease) in cash and cash equivalents	3,160
(6,955)	Cash and Cash equivalents at the beginning of the reporting period	(10,554)
(10,554)	Cash and cash equivalents at the end of the reporting period (Note 41)	(7,394)

Notes to the Accounts (including pension disclosures)

1. Accounting Policies

i. General Principles

The Statement of Accounts summarises the Council's transactions for the 2013/14 financial year and its financial position at the year-end of 31st March 2014. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2011 which require it 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 2013/14 (the Code) and the Service Reporting Code of Practice 2013/14, supported by International Financial Reporting Standards (IFRS).

The accounting convention adopted in the Statement of Accounts is principally a historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

ii. Accruals of Income and Expenditure

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

- Revenue from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- Revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between date the 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.
- 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 balance of debtors is written down and a charge made to revenue for the income that might not be collected.

Exceptionally, treatment of the following is not in accordance with the Code:

- Utility, and similar, accounts are recognised when payment is due and no adjustment is made to reflect the applicable financial year.
- Accruals are generally not raised where amounts are below a threshold, although managers' discretion may be used. For revenue, the general threshold is £10,000 and for capital £50,000.

Neither of these exceptions has a material effect on the financial statements.

iii. Estimation Techniques

Estimation techniques are methods adopted by the Council, when required, to arrive at estimated monetary amounts, corresponding to the measurement bases selected, for assets, liabilities, gains, losses and changes to reserves. Individual accounting policies indicate any estimation techniques used by the Council, further information is also provided in note 8.

iv. 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 investments and deposits held for returns that mature in no more than three months from the date of acquisition and that are convertible to known amounts of cash with insignificant risk of change in value within 24 hours.

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.

v. Exceptional Items

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

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

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

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

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

vii. Charges to Revenue for Non-Current Assets

Service revenue accounts, support services and trading accounts are debited with the following amounts to record the real 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
- Amortisation of intangible fixed assets attributable to the service.

The Council is not required to raise Council Tax to cover depreciation, impairment losses or amortisations. However, it is required to make an annual provision from revenue to contribute towards the reduction in its overall borrowing requirement (equal to at least 4% of the underlying amount measured by the adjusted Capital Financing Requirements, excluding amounts attributable to Housing Revenue Account activity). Depreciation, revaluation and impairment losses and amortisations are therefore replaced by the contribution in the General Fund Balance (MRP), by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

viii. Employee Benefits

Benefits Payable during Employment

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees and are recognised as an expense for services in the year in which employees render service to the Council. An accrual is made for the cost of holiday entitlements (or any form of leave, e.g. time off in lieu) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy and are charged on an accruals basis to the relevant service line in the Comprehensive Income and Expenditure Statement when the Council is demonstrably committed to the termination of the employment of an officer or group of officers or making an offer to encourage voluntary redundancy.

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

Post-Employment Benefits

Employees of the Council are members of one of three separate pension schemes:

- The Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education (DfE).
- The Local Government Pension Scheme, administered by Islington Council and by the London Pensions Fund Authority (LPFA) for former employees of the Greater London Council and the Inner London Education Authority.
- The NHS Pension Scheme, administered by NHS Pensions.

All schemes provide defined benefits to members (retirement lump sums and pensions) earned as employees worked for the Council. However, the arrangements for the Teachers' scheme and NHS scheme mean that liabilities for these benefits cannot ordinarily be identified to the Council. These schemes are therefore accounted for as if it were a defined contributions scheme and no liability for future payments of benefits, other than those relating to discretionary pension benefits, is recognised in the balance sheet. Within the Comprehensive Income and Expenditure Statement, the Children's and Education services lines and Public Health lines respectively are charged with the employer's contributions payable to the schemes in the year.

The Local Government Pension Scheme

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

- The liabilities attributable to the areas of both Islington Council and LPFA pension funds 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 earnings for current employees.

- Liabilities are discounted to their value at current prices, using a discount rate of 5.5% (based on the indicative rate of return on high quality corporate bonds [Sterling Corporate Index, AA over 15 years]).

The assets of both pension funds attributable to the Council are included in the balance sheet at their fair value:

- Quoted Securities – Current bid price
- Unquoted Securities – Professional estimate
- Unlisted Securities – Current bid price
- Property – Market value.

The change in the net pension's 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 Comprehensive Income and Expenditure Statement to the revenue accounts of 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 Net Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs.
- Net interest on the net defined benefit liability (i.e. net interest expense for the authority) – the change during the period in the net defined benefit liability that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement – 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 at the beginning of the period – taking into account any changes in the net defined benefit liability during the period as a result of contribution and benefit payments
- Remeasurements comprising
 - The return on plan assets – excluding amounts included in net interest on the net defined benefit liability – 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 Islington Council and LPFA pensions 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 Council to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, 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 Council has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to a 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.

ix. Events after the Balance Sheet Date

This refers to events after the Balance Sheet date, both favourable and unfavourable, that occur between the Balance Sheet date and the date when the Council's 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 (Balance Sheet date) – 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.

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

x. Financial Instruments

Financial Liabilities

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

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

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

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

Financial Assets

Financial assets are classified into three types:

- Loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market.
- Available-for-sale assets – assets that have a quoted market price and/or do not have fixed or determinable payments.
- Fair value through profit and loss – assets that are held for the purposes of trading.

Loans and Receivables

Loans and receivables are initially measured at fair value and carried at their amortised cost. Annual credits to the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the Council has made, this means that the amount presented in the balance sheet is the outstanding principal receivable and accrued interest, and the interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

However, the Council has made a number of loans at less than market rates (“soft loans”), e.g. to employees, voluntary organisations or other entities. When soft loans are made, and if material, a loss is recorded in the Comprehensive Income and Expenditure Statement 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 Comprehensive Income and Expenditure Statement at a marginally higher effective rate of interest than the rate receivable from the soft loan debtor with the difference increasing the amortised cost of the loan in the balance sheet.

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 Comprehensive Income and Expenditure Statement to the net gain required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account (which forms part of Unusable Reserves) in the Movement in Reserves Statement.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the Income and Expenditure Account. The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset’s original effective interest rate.

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

Available-for-Sale Assets

Available-for-sale assets are initially measured and carried at fair value. Where the asset has fixed or determinable payments, annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument. Where there are no fixed or determinable payments, income (e.g. dividends) is credited to the Comprehensive Income and Expenditure Statement when it becomes receivable by the Council.

Assets are maintained in the balance sheet at fair value. Values are based on the following principles:

- Instruments with quoted market prices – The market price.
- Other instruments with fixed and determinable payments – Discounted cash flow analysis.
- Equity shares with no quoted market prices – Independent appraisal of company valuations.

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

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made or the fair value falls below cost, the asset is written down and a charge made to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

If the asset has fixed or determinable payments, the impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate. Otherwise, the impairment loss is measured as any shortfall of fair value against the acquisition cost of the instrument (net of any principal repayment and amortisation).

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

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

Fair Value through Profit and Loss

The Council has determined, after professional advice, that it holds 'fair value through profit and loss' assets. These are assets that it, or its representatives, holds for the purpose of trading. These assets are measured on the balance sheet at fair value and any realised or unrealised gains or losses are recognised in the Comprehensive Income and Expenditure Statement.

Instruments Entered Into Before 1 April 2006

The Council entered into a number of financial guarantees that are not required to be accounted for as financial instruments. These guarantees are reflected in the Statement of Accounts to the extent that provisions might be required or a contingent liability note is needed under the policies set out in xxiii below.

xi. Foreign Currency Translation

Where the Council has entered into a transaction denominated in a foreign currency, the transaction is converted into sterling at the exchange rate applicable on the date the transaction was effective. Where amounts in foreign currency are outstanding at the year-end, they are reconverted at the spot exchange rate at 31st March. Resulting gains or losses are recognised in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

xii. Government Grants and Contributions

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

- the Council will comply with the conditions attached to the payments.
- the grants or contributions will be received.

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

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

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement.

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

xiii. Business Improvement District (BID) Schemes

BID projects are schemes for the benefit of a particular area and financed (in whole or in part) by a BID levy paid by the non-domestic ratepayers, or a class of such ratepayers, in that BID area. There is one BID in operation in 2013/14 for which the Council acts as an agent. As the billing Council, the only amounts recognised in the Comprehensive Income and Expenditure Statement are:

- any contribution made by the Council to the BID project (i.e. grant-in-aid), which is shown as service expenditure under the relevant service in Comprehensive Income and Expenditure Statement and BID levy collection costs and
- associated (reimbursement) income, which are shown under the relevant service in the Comprehensive Income and Expenditure Statement.

xiv. Heritage Assets

The majority of the Council's Heritage Assets are held at the Local History Centre (ILHC) and Museum, located in Finsbury Library. Islington Museum holds a collection of about 1,500 objects and documents of significance to the history of the borough of Islington; ILHC houses approximately 100,000 items on the history of the borough. Heritage Assets are recognised and measured (including the treatment of revaluation gains and losses) in accordance with the Council's accounting policies on property, plant and equipment. However, some of the measurement rules are relaxed in relation to heritage assets as detailed below. The accounting policies in relation to heritage assets that are deemed to include elements of intangible heritage assets are also presented below. The Council's collections of heritage assets are accounted for as follows.

Civic Regalia

The Authority's collection of civic regalia is reported in the balance sheet at valuation, based on current production prices, as provided by Furnells Limited.

Museum Exhibits

The objects in the collection have been donated to the Museum by local people. The exhibits range from Victorian irons to World War 2 gas masks. None of the objects are of great monetary value and as such are not recognised in the balance sheet; but they are important in telling the story of the Borough and its inhabitants. The objects are listed in an Acquisitions Register which can be viewed at the museum.

Art Collection

The art collection includes paintings, sketches, photographs and letters. The most significant collections, by Walter Sickert and Geoffrey S Fletcher, are reported in the balance sheet at market value, as determined by an external valuer (Christie, Manson and Woods Ltd).

Artefacts of Joe Orton

The collection of book covers defaced by writer Joe Orton and his partner are recognised at valuation which has been provided by external valuers (Christie, Manson and Woods Ltd).

Other ILHC collections

The Council has a large collection of books, maps, local newspapers, cuttings, pamphlets and ephemera all relating to the Borough of Islington. It also has electoral and parish registers, local authority records, trade directories, workhouse records and census returns. These are not recognised in the balance sheet as the Authority considers that obtaining valuations would involve a disproportionate cost in comparison to the

benefits to the users of the Authority's financial statements. This is because of the diverse nature of the assets held and the lack of comparable values.

Statues and Monuments

The Council does not consider that reliable cost or valuation information can be obtained for its statues, monuments and other historic artefacts. This is because of the diverse nature of the assets held and lack of comparable market values. Consequently, the Council does not recognise these assets on the balance sheet.

Heritage Assets – General

Assets which cost or are valued at less than £10,000 are normally treated as de minimis, in accordance with the policy for recognising Property, Plant and Equipment, and are not recognised in the balance sheet. However due to the subjective valuation of Heritage Assets and the number of small items this de minimis has not been applied to Heritage Assets. The Council considers that the heritage assets it holds are deemed to have indeterminate lives and a high residual value; hence the Council does not consider it appropriate to charge depreciation. The carrying amounts of heritage assets are reviewed where there is evidence of impairment for heritage assets, e.g where an item has suffered physical deterioration or breakage or where doubts arise as to its authenticity. Any impairment is recognised and measured in accordance with the Council's general policies on impairment – see note xxi in this summary of significant accounting policies. The proceeds of any disposals are accounted for in accordance with the Authority's general provisions relating to the disposal of property, plant and equipment. Disposal proceeds are disclosed separately in the notes to the financial statements and are accounted for in accordance with statutory accounting requirements relating to capital expenditure and capital receipts (again see notes xxi and xxv in this summary of significant accounting policies).

Preservation Costs

Expenditure which is required to preserve or clearly prevent further deterioration of individual collection items is recognised in the Income and Expenditure account when it is incurred. Further information is given in Note 25 to the accounts.

xv. Intangible Assets

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

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 Council 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 is not 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 Comprehensive Income and Expenditure Statement.

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 Comprehensive Income and Expenditure Statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

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

xvi. Interests in Companies and Other Entities

The Council has material interests in companies and other entities that have the nature of subsidiaries, associates and joint ventures and require it to prepare group accounts. In the Council's own single-entity accounts, the interests in companies and other entities are recorded as financial assets at cost, less any provision for losses.

xvii. Inventories and Long Term Contracts

Inventories are included in the Balance Sheet at the lower of cost and net realisable value. The cost of inventories is assigned using the First-In-First-Out (FIFO) costing formula. Long term contracts are accounted for on the basis of charging the Surplus or Deficit on the Provision of Services with the value of works and services received under the contract during the financial year.

xviii. Investment Property

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.

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

Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for 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 Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

xix. Jointly Controlled Operations and Jointly Controlled Assets

Jointly controlled operations are activities undertaken by the Council in conjunction with other ventures that involve the use of the assets and resources of the ventures rather than the establishment of a separate entity. The Council recognises on its Balance Sheet the assets that it controls and the liabilities that it incurs and debits and credits the Comprehensive Income and Expenditure Statement with the expenditure it incurs and the share of income it earns from the activity of the operation. Jointly controlled assets are items of property, plant or equipment that are jointly controlled by the Council and other ventures, with the assets being used to obtain benefits for the ventures. The joint venture does not involve the establishment of a separate entity. The Council accounts for only its share of the jointly controlled assets, the liabilities and expenses that it incurs on its own behalf or jointly with others in respect of its interest in the joint venture and income that it earns from the venture.

xx. 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 or equipment from the lessor to the lessee. All other

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

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

The Council as Lessee

Finance Leases

Property, plant and equipment held under 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 writing 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.
- A finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

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

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

Operating Leases

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

The Council as Lessor

Finance Leases

Where the Council grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. A gain, representing the Council's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement 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 the interest in the property – applied to write down the lease debtor (together with any premiums received).
- Finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

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

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

Operating Leases

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

xxi. 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 yields benefits to the Council and the services that it provides for more than one financial year. Expenditure that secures but does not extend the previously assessed standards of performance of an asset (e.g. repairs and maintenance) is charged to revenue as it is incurred. Expenditure below £10,000 is treated as de minimis and charged to revenue unless it is on existing assets when it is assumed to increase the value of the asset by the cost or as part of a group of similar assets.

Measurement

Assets are initially measured at cost, comprising:

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

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

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

case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the Council.

Donated assets are measured initially at fair value. The difference between fair value and any consideration paid is credited to the Taxation and Non-Specific Grant Income line of the Comprehensive Income and Expenditure Statement, 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 Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance to the Capital Adjustment Account in the Movement in Reserves Statement.

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

- Dwellings – Fair value, determined using the basis of existing use value for social housing (EUV-SH), based on the Beacon Valuation method.
- Infrastructure, Community Assets and Assets under Construction – Depreciated historical cost.
- Vehicles, Plant and Equipment (VPE) – depreciated historic cost is used as a proxy for fair value
- All other assets – fair value, determined as the amount that would be paid for the asset in its existing use (existing use value or EUV).

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

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 Comprehensive Income and Expenditure Statement.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal creation. 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 Comprehensive Income and Expenditure Statement.

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

Depreciation

Depreciation is 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 bases:

- Dwellings – Straight-line allocation over the useful life of the property as estimated by the valuer.
- Other buildings – Straight-line allocation over the useful life of the property as estimated by the valuer.
- Vehicles, plant, furniture and equipment – Straight-line allocation over the useful life of the asset as advised by a suitably qualified officer
- Infrastructure – Straight-line allocation over 25 years.

Where an item of Property, Plant and Equipment asset 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.

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 Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previously losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale. If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable amount at the date of the decision not to sell.

Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale. When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account. Amounts received for a disposal in excess of £10,000 are categorised as Capital Receipts. A proportion of receipts relating to housing disposals (75% for dwellings, 50% for land and other assets, net of statutory deductions and allowances) is payable to the Government. The balance of receipts is required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment [or set aside to reduce the Council's underlying need to borrow (the capital financing requirement)]. Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

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 Movement in Reserves Statement.

Assets under Construction

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

xxii. Private Finance Initiative

PFI / Service Concession Agreements

PFI and similar contracts are agreements to receive services, where the responsibility for making available the Property, Plant and Equipment needed to provide the services passes to the PFI contractor.

Where the council is deemed to control the services that are provided under its PFI schemes and other arrangements, and where ownership of the Property, Plant and Equipment will pass to the council at the end of the contracts for no additional charge, the council carries such assets on the Balance Sheet during the length of such contracts as part of Property, Plant and Equipment.

The original recognition of these fixed assets at fair value is balanced by the recognition of a liability for amounts due to the scheme operator to pay for the assets. Where the Council agrees to make up front capital contributions (to reduce the annual payment over the duration of the agreement), they are used to reduce the liability.

Property, Plant and Equipment recognised on the Balance Sheet is revalued and depreciated in the same way as other fixed assets owned by the Council.

The annual amounts payable to the PFI operators each year are analysed into five elements:

- Fair value of the services received during the year – Debited to the relevant service in the Comprehensive Income and Expenditure Statement
- Finance cost – An interest charge on the outstanding Balance Sheet liability, debited to Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
- Contingent rent – Increases in the amount to be paid for the property arising during the contract, debited to Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
- Payment towards liability – Applied to write down the Balance Sheet liability towards the PFI operator
- Lifecycle replacement costs – Debited to the relevant service in the Comprehensive Income and Expenditure Statement.

xxiii. 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 Comprehensive Income and Expenditure Statement 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 payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the Council settles the obligation.

Contingent Liabilities

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

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

Contingent Assets

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

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

xxiv. Reserves

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund 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 Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure.

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

xxv. Revenue Expenditure Funded from Capital under Statute

Expenditure incurred during the year that may be capitalised under statutory provisions but does not result in the creation of non-current assets has been charged as expenditure to the relevant service in the comprehensive income and expenditure statement 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 Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of council tax.

xxvi. Value Added Tax (VAT)

Income and expenditure excludes any amounts related to VAT, where VAT collected is payable to HM Revenue and Customs and VAT paid is recoverable from them.

xxvii. Overheads and Support Services

The costs of overheads and support services are charged to those services that benefit from the full supply or service in accordance with the costing principles of the CIPFA Service Reporting *Code of Practice 2013/14*

(SeRCOP). The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core – Costs relating to the Council’s status as a multi-functional, democratic organisation;
- Non Distributed Costs – Costs of discretionary benefits awarded to employees retiring early and impairment losses chargeable on Assets held for Sale.

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

xxviii. Carbon Reduction Commitment

The Council is required to participate in the Carbon Reduction Commitment (CRC) Energy Efficiency Scheme. This scheme is currently in its introductory phase which will last until 31 March 2014. The Council is required to purchase and surrender allowances, currently retrospectively, on the basis of emissions i.e. carbon dioxide produced as energy is used. As carbon dioxide is emitted (i.e. as energy is used), a liability and an expense are recognised. The liability will be discharged by surrendering allowances. The liability is measured at the best estimate of the expenditure required to meet the obligation, normally at the current market price of the number of allowances required to meet the liability at the reporting date. The cost to the Council is recognised and reported in the costs of the authority’s services and is apportioned to services on the basis of energy consumption.

2. Prior Period Adjustments

There have been no material prior year adjustments to the Statement of Accounts as a result of changes in accounting policies.

3. Correction of Errors

No material corrections of errors from the 2012/13 Statement of Accounts were identified.

4. Accounting Standards Issued, Not Adopted

The Code of Practice on Local Council Accounting in the United Kingdom 2014/15 (the Code) has introduced several changes in accounting policies which will be required from 1 April 2014. If these had been adopted for the financial year 2013/14 there would be no material changes as detailed below. A number of new and revised standards have been issued addressing the accounting for consolidation, involvements in joint arrangements and disclosure of involvements in other entities. These include:

IFRS 10 Consolidated Financial Statements – This standard introduces a new definition of control, which is used to determine which entities are consolidated for the purposes of group accounts. The Council does not have subsidiaries and has not produced consolidated accounts for this financial year. A brief analysis of associated entities shows that this accounting standard is unlikely to have an impact on the Council's statement. If it did the Council would be required to produce Group accounts where material.

IFRS 11 Joint Arrangements – This standard addresses the accounting for a 'joint arrangement', which is defined as a contractual arrangement over which two or more parties have joint control. These are classified as either a joint venture or a joint operation. In addition proportionate consolidation can no longer be used for jointly controlled entities. The Council has no material joint venture arrangements.

IFRS 12 Disclosures of Involvement with Other Entities – This is a consolidated disclosure standard requiring a range of disclosures about an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated 'structured entities'. The Council does not have any such material arrangements that would require consolidation or material disclosures. The Council has equity and voting rights in a number of companies, mainly related to the BSF programme, however these do not give the Council significant influence over the organisation (more than 20% of voting rights) and these are being accounted for accordingly and there is no change envisaged.

IAS 27 Separate Financial Statements and IAS 28 Investments in Associates and Joint Ventures – These statements have been amended to conform to the changes in IFRS 10, IFRS 11 and IFRS 12. Given that there would be no changes in the financial statements, arising from changes to IFRS 10, IFRS 11 and IFRS 12, there is therefore also no impact as a result of changes in IAS 27 and IAS 28.

IAS 32 Financial Instruments Presentation – The Code references to amended application guidance when offsetting a financial asset and a financial liability. The gains and losses are separately identified on the Comprehensive Income and Expenditure Statement and therefore no further disclosure is required.

IAS 1 Presentation of the Financial Statements – The changes clarifies the disclosure requirements in respect of comparative information of the preceding period. The Statement of Accounts fully discloses comparative information for the preceding period therefore these changes will not have a material impact on the Statement of Accounts.

5. Critical Judgements in Applying Accounting Policies

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

- There is a high degree of uncertainty about future levels of funding for local government. However, the Council has determined that this uncertainty is not yet sufficient to provide an indication that the assets of

the Council might be materially impaired as a result of a need to close facilities and reduce levels of service provision.

6. Assumptions Made about the Future and Other Major Sources of Estimation Uncertainty

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

The items in the Council's Balance Sheet at 31st March 2014 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Pensions Liability

The value of the Pensions Liability is calculated by a qualified Actuary in accordance with current accounting requirements and based on the information provided by the Pension Fund.

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. Any variation in these assumptions will affect the recognised liability, for example, if the assumed discount rate increased by 1% the net liabilities would decrease by £24.3m.

Asset Valuations

The Council's Property Plant and Equipment are held on a long term basis and require regular valuation to ensure the Council's financial statement accurately reflect the true worth of its assets. Valuations are undertaken by qualified professionals to provide up to date assessments using accepted valuation bases and methods.

The largest item of PPE held by the Council is Council Dwellings. The Housing Revenue Account (Accounting Practices) Direction 2007 requires authorities to use the specific bases and methods of valuation set out in the *Guidance on Stock Valuation for Resource Accounting* (updated guidance published by the Department for Communities and Local Government (DCLG) in January 2011). EUV-SH is to be arrived at using beacon properties to assess the vacant possession value for properties, adjusted to reflect their occupation by a secure tenant. The adjustment is considered to reflect the additional risk and liability the public sector landlords undertake when compared with private sector investors. The adjustment factor is applied to the total vacant possession valuation based on the beacon valuation.

A 10 percentage point change in the Adjustment factor would change the valuation of Housing Stock, by £961.0m

Depreciation and amortisation

These have been calculated using the estimated useful lives (EUL) of the relevant assets. For Property assets these are provided by a qualified valuer, for other assets by an appropriate officer. The EUL's are also reviewed each year by the Council in light of any new information since the last valuation. There is a level of uncertainty around estimating the EUL's of assets but it is anticipated the rolling programme of revaluation and annual review minimises the uncertainty.

Estimated Useful Lives are based on an assumption of future maintenance of the assets. If future spending on maintenance was to change the useful lives assigned to each asset may also change.

If the useful life of assets reduces depreciation increases and the carrying amount of each asset falls. It is estimated that the annual depreciation charge for non-current assets would increase by £4.1m for a 10% reduction in useful lives.

The Council has analysed its property portfolio and identified a number of assets as investment properties since their sole purpose is to earn rental income and/or capital appreciation. As a result these properties are not depreciated and held at market value.

Community and Voluntary Controlled schools are recognised on the Council's Balance Sheet as the Council manages these schools, employs the staff and sets the admissions policy. The Council does not include Foundation, Voluntary Aided schools or Academies within its asset register because it is the Governing Body that is responsible for running the school and setting the admissions policy rather than the Council.

Leases / Service Concessions

The Council has 38 leases for Property, Plant & Equipment and classified them as either Finance or Operating leases. The impact of deeming 20 of these as Finance Leases is that £14.0m of assets have been included in the Balance Sheet. A further 18 assets have been deemed to be operating leases and not recognised in the Asset register.

The Council has recognised 6 public/ private partnerships, as service concessions under IFRIC12. The value of assets and liabilities recognised as Service Concessions are shown in Note 30.

One contractual arrangement, leisure management, has been deemed to have the substance of a lease. The Balance Sheet includes assets of £0.29m and a corresponding liability from such contractual arrangements

Outstanding Debtors

These are calculated using actual data where available, such as value of outstanding invoice, rent account etc. For other instances where such 'actual' data does not exist an estimate of the outstanding liability is made by an appropriate officer using the best information available

Bad Debt Provisions

An estimate of the likely uncollectability of outstanding debtors is made each year and a charge made to the Income and Expenditure account. Debtors are then carried on the Balance Sheet net of this provision.

If collection rates were to deteriorate a doubling of the amount of the bad debt provision would require an additional £44.0m to be set aside.

Creditors

These are calculated using actual data where available, such as value of outstanding invoices, rent demands etc. For other instances where such 'actual' data does not exist an estimate of the outstanding liability is made by an appropriate officer using the best information available.

Insurance Provision

This estimate of the potential liability is provided by a qualified professional actuary based on outstanding claims already submitted and an estimate of potential claims that have yet to be made.

An increase over the forthcoming year of 10% in either the total number of claims or the estimated average settlement would each have the effect of adding £1.2m to the provision needed.

7. Material Items of Income and Expenditure

In 2013/14 a revaluation gain of £368m was credited to the HRA to reflect the increase in value of Council dwellings. In 2012/13 a revaluation gain of £117m was credited to the HRA to reflect the increase in value of Council dwellings.

8. Acquired and Discontinued Operations

On 1 April 2013 public health staff and services were transferred from primary care trusts (PCTs) to local authorities. To discharge their new public health responsibilities, local authorities were provided with a ring-fenced public health grant. The Council in the Statement of Accounts has shown Public Health as an acquired operation, with Gross Expenditure and Income of £27m and £26m respectively (none in 2012/13).

9. Profits and losses for significant trading operations

The Council operates commercial investment properties, comprising of a mixture of retail, offices and workspaces situated across the Borough. There are also three Council managed street markets within the Borough – at Chapel Street, Whitecross Street and Exmouth Market.

2012/13		Significant Trading Operations	2013/14	
(Surplus) / Deficit	Turnover		(Surplus) / Deficit	Turnover
£'000	£'000		£'000	£'000
(9)	(224)	Industrial Estates / Commercial Properties	(78)	(427)
(3)	(677)	Street Markets	(9)	(715)
(152)	(8,842)	Other (mainly central support costs)	635	(8,152)
(164)	(9,743)	Total	548	(9,294)

10. Significant Agency Income and Expenditure

The Council has an agency agreement with Thames Water for collecting water bills from tenants. The Council received income of £1.049m for this arrangement.

11. Schemes under the Transport Act 2000

This note covers the responsibility that authorities have, under Schedule 12 of the Transport Act 2000, to include, in the Statement of Accounts, details of income and expenditure in relation to road charging schemes and workplace charging levies. It does not cover any other expenditure under the Act, such as that relating to bus schemes. There was no such expenditure in 2013/14 or 2012/13.

12. Pooled Budgets

The Council is involved in a partnership with Islington CCG and other health providers, which derives from Section 75 of the National Health Service Act 2006.

Section 75 of the National Health Service Act 2006 (formerly Section 31 of the Health Act 1999) and the NHS Bodies and Local Authorities Partnership Arrangements Regulations 2000 enable the establishment of joint working arrangements between NHS bodies and local authorities. Pooled funds enable health bodies and local authorities to work collaboratively to address specific local health issues. A key feature of the pool is that the use of resources contributed to the pool should be dictated by the needs of clients who meet the criteria established for the pool, rather than the respective contributions of the partners. Thus, it is to be expected that health service resources could be used to deliver local authority services and vice versa. This is intended to ensure client focused care packages are developed and delivered to individuals, which meet their needs in a more seamless and efficient manner.

Pooled funds are not legal entities. The partners in the pool will nominate one partner to be the 'host' to the pool. That 'host' has responsibility for the administration of the pool. The host partner is required to produce a memorandum account of the financial activity of the pool, which used to be subject to external audit certification until the requirement was discontinued. During 2013/14, seven pooled funds were in operation and their purpose is explained below.

- 1) Learning Disability Services Pooled Fund: to improve the services received by vulnerable people in the community by integrating the service delivery and commissioning arrangements between health and social care.
- 2) Intermediate Care Pooled Fund: to reduce delayed transfers of care at the Whittington Hospital through the development and improvement of Intermediate Care Services, better acute hospital processes and joint monitoring of progress.
- 3) Integrated Community Equipment Services Pooled Fund: to integrate community equipment stock with no distinction between NHS and Social Services equipment; provide access to the stock by many more Assessors, appropriately trained, leading to one stop provision; and establish a purchasing regime that makes full use of technology, purchasing power and efficiency.
- 4) Mental Health Commissioning Adult Mental Health Care Pooled Fund: to improve the services received by people with mental health care needs in the community by integrating the service delivery and commissioning arrangements between health and social care.
- 5) Carers Pooled Fund: to improve the services and increase support given to people who act as independent carers by integrating the service delivery between Health and social care. This is intended to improve the access to information and advice for carers, develop and train carers in their caring role to better meet their individual needs, as well as the people for whom they care for.
- 6) MHCOP Pooled Fund: to improve the services received by older people with mental health care needs who require residential services by integrating the service delivery and commissioning arrangements between health and social care.
- 7) Mental Health Care Trust Pooled Fund: to integrate the provision of health and social services for people with mental health needs in the London Borough of Islington. The fund will cover the provision of services for the following Client Groups: Adult MH Services Client group, Mental Healthcare of Older People Client group and Substance Misuse Services Client group.

London Borough of Islington is the host party for arrangements 1) – 6) and Camden & Islington NHS Foundation Trust is the host party for arrangement 7).

Gross income and expenditure is analysed in the table below and Islington Council's share of the income and expenditure has been included in its Comprehensive Income & Expenditure Statement.

Pooled Budgets 2013/14	Gross Expenditure £'000	Islington Council Contribution £'000	Islington CCG Contribution £'000	Camden & Islington NHS Foundation Trust	Whittington Hospital NHS Trust	Total Contributions £'000
				Contribution £'000	Contribution £'000	
Learning Disabilities Pooled Fund	29,016	(25,457)	(3,559)	-	-	(29,016)
Intermediate Care Pooled Fund	6,230	(1,784)	(4,421)	-	(25)	(6,230)
Integrated Community Equipment Services Pooled Fund	1,094	(547)	-	(547)	-	(1,094)
Mental Health Commissioning Adult Mental Health Care	4,828	(2,764)	(2,064)	-	-	(4,828)
Carers Pooled Fund	947	(862)	(85)	-	-	(947)
MHCOP Pooled Fund	5,184	(2,931)	(2,253)	-	-	(5,184)
Mental Health Care Trust Pooled Fund	22,164	(3,031)	-	(19,133)	-	(22,164)
Totals	69,463	(37,376)	(12,382)	(19,680)	(25)	(69,463)

Pooled Budgets 2012/13	Gross Expenditure £'000	Camden & Islington NHS Whittington Hospital NHS				Total Contributions £'000
		Islington Council Contribution £'000	Islington PCT Contribution £'000	Foundation Trust Contribution £'000	Trust Contribution £'000	
Learning Disabilities Pooled Fund	28,256	(24,853)	(3,403)	-	-	(28,256)
Intermediate Care Pooled Fund	1,287	(874)	(374)	-	(39)	(1,287)
Integrated Community Equipment Services Pooled Fund	908	(443)	(465)	-	-	(908)
Mental Health Commissioning Adult Mental Health	4,367	(2,405)	(1,962)	-	-	(4,367)
Carers Pooled Fund	1,066	(971)	(95)	-	-	(1,066)
MHCOP Pooled Fund	5,184	(2,956)	(2,228)	-	-	(5,184)
Mental Health Commissioning Substance Misuse	13,004	(378)	(12,626)	-	-	(13,004)
Mental Health Care Trust Pooled Fund	20,456	(3,172)	-	(17,284)	-	(20,456)
Totals	74,528	(36,052)	(21,153)	(17,284)	(39)	(74,528)

13. Members' Allowances

The Council paid the following amounts to members of the Council during the year.

2012/13 £'000	Members' Allowances	2013/14 £'000
507	Basic Allowance	506
367	Special Responsibility Allowance	359
4	Other Allowances	3
878	Total	868

Details of the amounts paid to individual Councillors are published on the Council's website.

14. Officers' Remuneration

Senior Officers' Remuneration

The tables below show Senior Officers' remuneration for 2013/14 and 2012/13.

Senior officers remuneration for 2013/14	Salary (Including fees & allowances)	Compensation for loss of employment	Total Remuneration excluding pension contributions	Employers Pension contributions	Total Remuneration including pension contributions
Post	£	£	£	£	£
Chief Executive - Lesley Seary	160,000	-	160,000	17,440	177,440
Assistant Chief Executive - Governance & HR	115,451	-	115,451	12,584	128,035
Assistant Chief Executive - Strategy & Community Partnerships	110,451	-	110,451	12,039	122,490
Corporate Director of Children's Services	134,237	-	134,237	11,854	146,091
Corporate Director of Environment & Regeneration	134,480	-	134,480	14,658	149,138
Corporate Director of Housing & Adult Social Services	129,741	-	129,741	14,142	143,883
Corporate Director of Finance	134,463	-	134,463	14,656	149,119
Corporate Director of Public Health*	112,730	-	112,730	15,779	128,509
Total	1,031,553	0	1,031,553	113,152	1,144,705

* In April 2013, the Council acquired a new Public Health operation from the NHS. This included the post of Corporate Director of Public Health, a role which is shared with London Borough of Camden and 52% of the costs of which are recharged to Camden.

Senior officers remuneration for 2012/13	Salary (Including fees & allowances)	Compensation for loss of employment	Total Remuneration excluding pension contributions	Employers Pension contributions	Total Remuneration including pension contributions
Post	£	£	£	£	£
Chief Executive - Lesley Seary	160,000	-	160,000	17,440	177,440
Assistant Chief Executive - Governance & HR*	111,701	-	111,701	12,175	123,876
Assistant Chief Executive - Strategy & Community Partnerships*	107,970	-	107,970	11,769	119,739
Corporate Director of Children's Services	145,000	-	145,000	15,805	160,805
Corporate Director of Environment & Regeneration	134,480	-	134,480	14,658	149,138
Corporate Director of Housing & Adult Social Services	129,741	-	129,741	14,142	143,883
Corporate Director of Resources**	101,207	46,366	147,573	11,032	158,605
Corporate Director of Finance	134,463	-	134,463	14,656	149,119
Total	1,024,562	46,366	1,070,928	111,677	1,182,605

* The two Assistant Chief Executive posts were formalised and began reporting to the Chief Executive following the reorganisation of the then Corporate Resources directorate in January 2013. The remuneration shown in the table includes amounts the incumbents also received prior to reporting directly to the Chief Executive

** The post of Corporate Director of Resources was deleted in January 2013 following the reorganisation of this directorate.

The Council does not operate a bonus scheme for Senior Officers, nor does it offer expense allowances.

In 2012/13 there were three local by-elections for which the Chief Executive received payments for work as the returning officer. These are not shown in the figures above. The GLA elections in May 2012 led to a number of senior officers receiving payments for work on behalf of the constituency returning officer. As payments for work on behalf of the constituency returning officer are not made by the Council itself these payments are not part of the Council's remuneration payments to senior officers

Remuneration Bands above £50k

The Council's other employees receiving more than £50,000 remuneration for the year (excluding employers' pension contributions but including redundancy payments) were paid the following amounts:

Remuneration Band	2012/13		2013/14		2013/14
	Schools	Other	Schools	Acquired/ Insourced Operations*	Other
	No of employees	No of employees	No of employees	No of employees	No of employees
£50,000 - £54,999	116	80	134	14	83
£55,000 - £59,999	77	46	73	10	51
£60,000 - £64,999	34	23	32	6	27
£65,000 - £69,999	16	19	20	2	15
£70,000 - £74,999	17	7	21	-	2
£75,000 - £79,999	12	4	13	2	6
£80,000 - £84,999	15	16	13	3	15
£85,000 - £89,999	9	2	9	3	4
£90,000 - £94,999	2	1	3	1	1
£95,000 - £99,999	5	3	6	1	3
£100,000 - £104,999	2	2	2	1	1
£105,000 - £109,999	1	7	1	-	2
£110,000 - £114,999	1	4	-	1	6
£115,000 - £119,999	-	-	1	1	-
£120,000 - £124,999	-	-	-	-	-
£125,000 - £129,999	1	-	-	-	-
£130,000 - £134,999	1	-	1	-	-
£135,000 - £139,999	-	-	1	-	-
£140,000 - £144,999	-	-	-	-	-
£145,000 - £149,999	-	-	-	-	-
over £150,000	-	-	-	-	2
TOTAL	309	214	330	45	218

*In April 2013, the Council acquired a Public Health operation from the NHS, and brought their education services operation back in-house.

The above table does not include remuneration of senior officers, whose information is disclosed in more detail in the senior officers' remuneration tables above.

Termination Benefits

The Code requires the disclosure of the number and cost of exit packages agreed by the Council. The numbers of exit packages with total cost per band and total cost of compulsory and other redundancies are set out in the table below:

Exit Package cost band (including special payments)	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	
	2012/13	2013/14	2012/13	2013/14	2012/13	2013/14	2012/13 £'000	2013/14 £'000
£0 - £20,000	32	31	122	96	154	127	1,285	869
£20,001 - £40,000	11	4	33	19	44	23	1,191	601
£40,001 - £60,000	1	1	10	8	11	9	547	414
£60,001 - £80,000	1	2	4	8	5	10	346	673
Over £80,000	1	2	2	3	3	5	311	609
Total	46	40	171	134	217	174	3,680	3,166
Other costs associated with Termination Benefits							141	524
Total Termination Benefits							3,821	3,690

Exit packages comprise both payments made to employees and amounts paid to the Pension Fund as a result of terminating the employee's contract. The majority of payments to the Pension Fund relate to capital costs of early retirements (pension strain). Exit packages relating to ill health retirements are excluded from the table as they are post-employment benefits arising from membership of the scheme and not termination benefits. The table includes exit packages relating to schools employees.

The 2013/14 cost of termination benefits of £3.691m includes £0.449m for exit packages that have been agreed, accrued for and charged to the Council's Comprehensive Income and Expenditure Statement in the current year. The £0.524m other costs associated with termination benefits in 2013/14 relate to additional costs incurred relating to 2012/13 accruals estimates and costs relating to flexible retirement.

15. Material transactions with related parties

The Council is required to disclose material transactions with related parties - bodies or individuals that have the potential to control or influence. 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.

UK Central Government

The UK Government has significant influence over the general operations of the Council – it is responsible for providing the statutory framework within which the Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (e.g. Council tax bills, housing benefit).

Grants received from Government Departments are set out in the subjective analysis in Note 45 on reporting for resources allocation decisions. Grant receipts outstanding as at 31 March 2014 are shown in Note 51.

Members / Officers

Members of the Council have direct control over the Council's financial and operating policies and they are required to act in accordance with the Council's procedures for preventing undue influence.

This disclosure note has been prepared using the Council's Register of Member's Declarations of Interest in respect of related party transactions from Members and Chief Officers. Details of each councillor's declarations

can be seen during normal office hours at Islington Town Hall, Upper Street, London, N1 2UD. Please call to make an appointment to view them on 020 7527 3012 or E-mail: patricia.niclas@islington.gov.uk

The totals of Members allowances paid in 2013/14 are disclosed in note 13.

Significant Related Party transactions are detailed in the following table:

Related Parties		Income Received 2013/14	Payments Made 2013/14	Balance out- standing @ 31/03/14
Organisation	Nature of Relationship	£'000	£'000	£'000
Members/Chief Officers				
Voluntary Organisations	17 members, 1 chief officer and 1 close relative of a member's family are involved in management of voluntary organisations.	338	1,410	-
Community Groups	20 Members, 1 Chief Officer and 4 close members of members' families are involved in management of community groups.	60	1,576	(32)
Private Companies	1 Member and 1 close relative of a member's family is involved in the management of private companies with which we have transactions.	-	-	-
Housing Associations	2 members of chief officers' families are board members of a housing association.	391	1,248	5
Universities & Colleges	1 member and 1 chief officer are involved in the management of a college.	95	497	(43)
North London Waste Authority	2 Members are board members of this organisation.	3	6,923	166
Other Public Bodies				
Local NHS Bodies	Transactions and balances shown here include those relating to partnerships with Local NHS bodies derived from Section 75 of the National Health Service Act 2006 (Pooled Budgets). Further details of the pooled funding arrangements are disclosed in note 14 of the accounts. 5 Members are appointed to NHS trusts.	16,287	19,034	(836)
Local authority - Camden	The Council transacts with other local authorities - Camden is the main authority that LBI transacts with.	3,566	2,195	(206)
Entities Controlled or Influenced by the Authority				
Aquaterra	Aquaterra has been in a service contract with LBI since 2006. LBI has influence over the setting of fees/charges. LBI form an important proportion of Aquaterra's work and they work closely together on various projects.	701	1,330	43
Enterprise Islington	LBI holds a special share which affords it the right to appoint a Director to the Board of Enterprise Islington.	1,308	5,521	-
Transform Islington	Transform Islington has a number of design, build, finance and operate contracts with LBI lasting 25 years. LBI holds a 10% shareholder rights in Transform Islington.	5	22,543	(112)
Angel Town Centre Ltd (ATC)	LBI is a member of ATC and has the right to appoint a director. LBI facilitates the collection of the BID levy annually on behalf of the ATC.	300	227	163
Other Related Parties				
Pension Fund	As administrator of the pension fund, the administering authority has direct control of the fund. The related party figures differ from those reported in the Pension Fund due to timing differences.	1,006	39,795	1,401
London Capital Credit Union	Member owned not for profit savings and loans co-operative. The previous soft loan made to this organisation was transferred during the financial year into a grant.	-	275	-

16. Fees payable to the Appointed Auditor

In 2013/14, Islington Council incurred the following fees relating to external audit:

2012/13 £'000	Audit Costs	2013/14 £'000
268	Fees payable to the appointed auditor with regard to external audit services carried out by the appointed auditor for the year	268
53	Fees payable to the appointed auditor for the certification of grant claims and returns for the year	34
-	Fees payable in respect of other services provided by the appointed auditor during the year	29
321	Total Audit Cost	331

17. 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 the resources that are specified by statutory provisions as being available to the Council to meet future capital and revenue expenditure.

2013/14	Usable Reserves					Movement in
Adjustments between Account Basis and Funding Basis under Regulations	General Fund	Housing Revenue Account	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied	Unusable Reserves
	£'000	£'000	£'000	£'000	£'000	£'000
Adjustments primarily involving the Capital Adjustment Account						
Charges for depreciation and impairment of non current assets	(40,062)	(17,251)	-	-	-	57,313
Revaluation losses on Property Plant and Equipment	-	367,814	-	-	-	(367,814)
Movement in the fair value of Investment Properties	609	-	-	-	-	(609)
Amortisation of intangible assets	(889)	(92)	-	-	-	981
Capital grants and contributions applied	9,476	1,018	-	-	-	(10,494)
Income in relation to donated assets	-	-	-	-	-	0
Revenue expenditure funded from capital under statute	(6,676)	(1,345)	-	-	-	8,021
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	(3,596)	(11,930)	-	-	-	15,526
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement						
Statutory provision for financing of capital investment	9,281	6,231	-	-	-	(15,512)
Capital expenditure charged against the General Fund and HRA	17,340	2,079	-	-	-	(19,419)
Adjustments primarily involving the Capital Grants Unapplied Account						
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	1,438	-	-	-	(1,438)	0
Application of grants to capital financing transferred to the Capital Adjustment Account	-	-	-	-	553	(553)
Adjustments primarily involving the Capital Receipts Reserve						
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	5,993	27,912	(33,905)	-	-	0
Use of the Capital Receipts Reserve to finance new capital expenditure	-	-	10,211	-	-	(10,211)
Use of capital receipts to fund disposal costs	-	(388)	388	-	-	0
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool	(3,079)	-	3,079	-	-	0
Transfer from Deferred Capital Receipts Reserve upon receipt of cash	-	-	-	-	-	0

2013/14	Usable Reserves					
Adjustments between Account Basis and Funding Basis under Regulations	General Fund £'000	Housing Revenue Account £'000	Capital Receipts Reserve £'000	Major Repairs Reserve £'000	Capital Grants Unapplied £'000	Movement in Unusable Reserves £'000
Adjustments primarily involving the Deferred Capital Receipts Reserve						
Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	-	-	-	-	-	0
Adjustment primarily involving the Major Repairs Reserve						
Reversal of Notional Major Repairs Allowance credited to the HRA	-	17,344	-	(17,344)	-	0
Additional Contributions from the HRA	-	30,936	-	(30,936)	-	0
Use of the Major Repairs Reserve to finance new capital expenditure	-	-	-	32,903	-	(32,903)
Adjustment primarily involving the Financial Instruments Adjustment Account						
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	-	(116)	-	-	-	116
Adjustments primarily involving the Pensions Reserve						
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see Note 50)	(47,537)	(3,820)	-	-	-	51,357
Employer's pensions contributions and direct payments to pensioners payable in the year	27,965	2,345	-	-	-	(30,310)
Adjustments primarily involving the Collection Fund Adjustment Account						
Amount by which council tax and non-domestic rating income credited to the Comprehensive Income and Expenditure Statement is different from council tax and non-domestic rating income calculated for the year in accordance with statutory requirements	423	-	-	-	-	(423)
Adjustment primarily involving the Unequal Pay Back Pay Adjustment Account						
Amount by which amounts charged for Equal Pay claims to the Comprehensive Income and Expenditure Statement are different from the cost of settlements chargeable in the year in accordance with statutory requirements	-	-	-	-	-	0
Adjustment primarily involving the Accumulated Absences Account						
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(139)	(36)	-	-	-	175
Total Adjustments	(29,453)	420,701	(20,227)	(15,377)	(885)	(354,759)

2012/13	Usable Reserves					
Adjustments between Account Basis and Funding Basis under Regulations	General Fund £'000	Housing Revenue Account £'000	Capital Receipts Reserve £'000	Major Repairs Reserve £'000	Capital Grants Unapplied £'000	Movement in Unusable Reserves £'000
Adjustments primarily involving the Capital Adjustment Account						
Charges for depreciation and impairment of non current assets	(49,783)	(15,134)	-	-	-	64,917
Revaluation losses on Property Plant and Equipment	-	116,098	-	-	-	(116,098)
Movement in the market value Investment Properties	(2)	-	-	-	-	2
Amortisation of intangible assets	(1,252)	(93)	-	-	-	1,345
Capital grants and contributions applied	-	-	-	-	-	0
- <i>Self-financing debt settlement</i>	-	-	-	-	-	0
- <i>Other</i>	19,840	1,031	-	-	-	(20,871)
Movement in the Donated Assets Account	8	-	-	-	-	(8)
Revenue expenditure funded from capital under statute	(14,830)	-	-	-	-	14,830
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	(29,681)	(3,494)	-	-	-	33,175
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement						
Statutory provision for financing of capital investment	4,286	6,526	-	-	-	(10,812)
Capital expenditure charged against the General Fund and HRA	26,364	2,232	-	-	-	(28,596)
Adjustments primarily involving the Capital Grants Unapplied Account						
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	-	-	-	-	(6,206)	6,206
Application of grants to capital financing transferred to the Capital Adjustment Account	-	-	-	-	1,763	(1,763)
Adjustments primarily involving the Capital Receipts Reserve						
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	2,327	9,397	(11,724)	-	-	0
Use of the Capital Receipts Reserve to finance new capital expenditure	-	-	(293)	-	-	293
Capital receipt applied to repayment of debt under Self-financing settlement	-	-	-	-	-	0
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool	(2,703)	-	2,703	-	-	0
Transfer from Deferred Capital Receipts Reserve upon receipt of cash	-	-	(2,790)	-	-	2,790

Adjustments between Account Basis and Funding Basis under Regulations (contd)	Usable Reserves					Movement in Unusable Reserves £'000
	General Fund	Housing Revenue Account	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied	
	£'000	£'000	£'000	£'000	£'000	
Adjustments primarily involving the Deferred Capital Receipts Reserve (England and Wales):						
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	-	-	-	-	-	0
Adjustment primarily involving the Major Repairs Reserve						
HRA depreciation/amortisation credited to MRR	-	15,226	-	(15,226)	-	0
Additional Contributions from the HRA	-	29,175	-	(29,175)	-	0
Use of the Major Repairs Reserve to finance new capital expenditure	-	-	-	32,948	-	(32,948)
Adjustment primarily involving the Financial Instruments Adjustment Account:						
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	-	(116)	-	-	-	116
Adjustments primarily involving the Pensions Reserve:						
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see Note 50)	(43,262)	(3,086)	-	-	-	46,348
Employer's pensions contributions and direct payments to pensioners payable in the year	25,611	2,848	-	-	-	(28,459)
Adjustments primarily involving the Collection Fund Adjustment Account:						
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	(6)	-	-	-	-	6
Adjustment primarily involving the Unequal Pay Back Pay Adjustment Account:						
Amount by which amounts charged for Equal Pay claims to the Comprehensive Income and Expenditure Statement are different from the cost of settlements chargeable in the year in accordance with statutory requirements	-	-	-	-	-	0
Adjustment primarily involving the Accumulated Absences Account:						
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(179)	107	-	-	-	72
Total Adjustments	(63,262)	160,717	(12,104)	(11,453)	(4,443)	(69,455)

18. Other Operating Expenditure

A breakdown of 'Other Operating Expenditure' included in the Comprehensive Income and Expenditure Statement is shown below:

2012/13 Gross Expenditure £'000	2012/13 Gross Income £'000	2012/13 Net Expenditure £'000	Other Operating Expenditure	2013/14 Gross Expenditure £'000	2013/14 Gross Income £'000	2013/14 Net Expenditure £'000
7,061	-	7,061	Levies	6,840	-	6,840
2,703	-	2,703	Payments to the Government Housing Capital Receipts Pool	3,079	-	3,079
33,175	(11,692)	21,483	Gains/Loss on the disposal of non-current assets	15,045	(33,616)	(18,571)
42,939	(11,692)	31,247	Total	24,964	(33,616)	(8,652)

19. Financing and Investment Income and Expenditure

A breakdown of 'Financing and Investment Income and Expenditure' included in the Comprehensive Income and Expenditure Statement is shown below:

2012/13 Gross Expenditure £'000	2012/13 Gross Income £'000	2012/13 Net Expenditure £'000	Financing and Investment Income and Expenditure	2013/14 Gross Expenditure £'000	2013/14 Gross Income £'000	2013/14 Net Expenditure £'000
38,685	-	38,685	Interest payable and similar charges	37,389	-	37,389
21,280	-	21,280	Net interest on the net defined benefit liability	22,650	-	22,650
-	(326)	(326)	Interest Receivable and similar Income	-	(203)	(203)
(2,312)	-	(2,312)	Income and expenditure in relation to investment properties and changes in the fair value	(737)	-	(737)
-	(32)	(32)	Gains/Loss on the disposal of investment properties	480	(288)	192
9,579	(9,743)	(164)	Trading operations	9,842	(9,294)	548
67,232	(10,101)	57,131	Total	69,624	(9,785)	59,839

20. Taxation and Non Specific Grant Incomes

A breakdown of 'Taxation and Non Specific Grant Incomes' included in the Comprehensive Income and Expenditure Statement is shown below:

2012/13 Gross Income £'000	Taxation and Non Specific Grant Income	2013/14 Gross Income £'000
(86,354)	Council Tax Income	(68,119)
(151,318)	Contribution from National Non-Domestic Rates Pool	-
(2,933)	Revenue Support Grant	(111,949)
-	Business Rates Retained	(53,362)
-	Top-up Grant	(19,616)
(32,789)	Non-ringfenced government grants	(17,376)
(20,879)	Capital grants and contributions	(11,932)
(294,273)	Total	(282,354)

Council Tax income has reduced as a result of the localisation of Council Tax, with Council Tax benefits being replaced by Council Tax Support a grant within the Revenue Support Grant. Please refer to the Collection fund accounts later in this document for more details.

The Business Rate Retention Scheme has replaced the national Non-Domestic Rates Pool and instead allows the Council to retain a proportion of Business Rates. In addition the Council received a Top-up grant. Please refer to the Collection fund accounts later in this document for more details.

Non ring fenced grants have fallen as a result of grants such as Learning Disability and Health Reform / Early Intervention being received through the Revenue Support Grant

21. Property, Plant and Equipment

Movement in Property, Plant and Equipment - 2013/14	Council Dwellings	Other Land and Buildings	Vehicles, Plant, Furniture & Equipment	Infrastructure Assets	Community Assets	Surplus Assets	Assets Under Construction	Total Property, Plant and Equipment	PFI Assets Included in Property, Plant and Equipment
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cost or Valuation									
At 1 April 2013	1,884,768	616,533	23,789	218,723	27,165	7,272	9,220	2,787,470	189,791
Additions	35,120	14,324	4,564	11,733	866	(6)	7,125	73,726	512
Donations	-	-	-	-	-	-	-	0	-
Revaluation increases/(decreases) recognised in the Revaluation Reserve	129,556	296	-	-	-	107	-	129,959	11,752
Revaluation Increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	359,805	(18,247)	-	-	-	(6)	-	341,552	26,360
Derecognition - Disposals	(11,402)	(3,465)	-	-	-	-	-	(14,867)	(570)
Derecognition - Other	-	(380)	(3,397)	-	-	-	-	(3,777)	-
Assets reclassified (to)/from Held for Sale and Investment Properties	(15)	(65)	-	-	-	-	-	(80)	-
Other movements in Cost or Valuation	4,766	(9,976)	-	-	263	9,713	(4,766)	0	-
At 31 March 2014	2,402,598	599,020	24,956	230,456	28,294	17,080	11,579	3,313,983	227,845
Accumulated Depreciation and Impairment									
At 1 April 2013	0	(16,793)	(12,056)	(37,871)	(2,890)	(433)	0	(70,043)	(4,668)
Depreciation charge	(15,238)	(10,895)	(4,648)	(8,219)	(337)	(259)	-	(39,596)	(5,896)
Depreciation written out on revaluations recognised in the Revaluation Reserve	7,152	895	-	-	-	-	-	8,047	1,305
Depreciation written out on revaluations recognised in the Surplus/Deficit on the Provision of Services	8,009	516	-	-	-	42	-	8,567	1,461
Impairment losses/(reversals) recognised in the Revaluation Reserve	-	-	-	-	-	-	-	0	-
Impairment losses/(reversals) recognised in the Surplus/Deficit on the Provision of Services	-	-	-	-	-	-	-	0	-
Derecognition - Disposals	77	207	-	-	-	-	-	284	11
Derecognition - Other	-	51	3,397	-	-	-	-	3,448	-
Assets reclassified (to)/from Held for Sale and Investment Properties	-	30	-	-	-	-	-	30	-
Other movements in Depreciation and Impairment	-	276	-	-	-	(276)	-	0	-
At 31 March 2014	0	(25,713)	(13,307)	(46,090)	(3,227)	(926)	0	(89,263)	(7,787)
Net Book Value At 31 March 2014	2,402,598	573,307	11,649	184,366	25,067	16,154	11,579	3,224,720	220,058

Movement in Property, Plant and Equipment - 2012/13	Council Dwellings	Other Land and Buildings	Vehicles, Plant, Furniture & Equipment	Infrastructure Assets	Community Assets	Surplus Assets	Assets Under Construction	Total Property, Plant and Equipment	PFI Assets Included in Property, Plant and Equipment
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cost or Valuation									
At 1 April 2012	1,748,670	609,844	17,308	209,327	25,173	5,057	33,667	2,649,046	152,782
Additions	33,417	53,147	5,332	9,361	1,659	165	5,263	108,344	28,688
Donations	-	-	-	-	-	-	-	0	-
Revaluation increases/(decreases) recognised in the Revaluation Reserve	-	(8,096)	-	-	-	1,179	-	(6,917)	167
Revaluation Increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	102,962	(34,793)	-	-	-	871	-	69,040	8,325
Derecognition - Disposals	(2,720)	-	-	-	-	-	-	(2,720)	(171)
Derecognition - Other	-	(30,073)	(31)	-	(66)	-	-	(30,170)	-
Assets reclassified (to)/from Held for Sale	(208)	-	-	-	-	-	-	(208)	-
Other movements in Cost or Valuation	2,647	26,504	1,180	35	399	-	(29,710)	1,055	-
At 31 March 2013	1,884,768	616,533	23,789	218,723	27,165	7,272	9,220	2,787,470	189,791
Accumulated Depreciation and Impairment									
At 1 April 2012	0	(16,373)	(6,410)	(30,045)	(2,556)	(374)	0	(55,758)	(5,009)
Depreciation charge	(13,156)	(8,972)	(5,583)	(7,826)	(337)	(160)	-	(36,034)	(3,712)
Depreciation written out on revaluations recognised in the Revaluation Reserve	-	2,339	-	-	-	29	-	2,368	37
Depreciation written out on revaluations recognised in the Surplus/Deficit on the Provision of Services	13,136	5,549	-	-	-	72	-	18,757	4,013
Impairment losses/(reversals) recognised in the Revaluation Reserve	-	8	-	-	-	-	-	8	-
Impairment losses/(reversals) recognised in the Surplus/Deficit on the Provision of Services	-	232	-	-	-	-	-	232	-
Derecognition - Disposals	19	-	-	-	-	-	-	19	3
Derecognition - Other	-	475	10	-	3	-	-	488	-
Other movements in Depreciation and Impairment	1	(51)	(73)	-	-	-	-	(123)	-
At 31 March 2013	0	(16,793)	(12,056)	(37,871)	(2,890)	(433)	0	(70,043)	(4,668)
Net Book Value At 31 March 2013	1,884,768	599,740	11,733	180,852	24,275	6,839	9,220	2,717,427	185,123

Depreciation

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

- Council Dwellings – Useful Economic Lives (typically 30–70 years for buildings)
- Other Land and Buildings: Useful Economic lives (typically 30–50 years for buildings)
- Vehicles, Plant, Furniture & Equipment – Useful Economic lives (typically under 10 years)
- Infrastructure – 25 years

Revaluations

The Council carries out a rolling programme that ensures that all Property, Plant and Equipment required to be measured at fair value is revalued at least every five years. All valuations were carried out internally by Mr Peter Holmes MRICS and Mr Andrew Jeffery MRICS as at 1st April, with a review at the end of the year to identify any significant changes. Valuations 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.

Revaluations	Council Dwellings	Other Land and Buildings	Vehicles, Plant, Furniture and Equipment	Infrastructure	Community Assets	Surplus Assets	Assets Under Construction	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Carried at historical cost	0	0	11,649	184,366	25,067	0	11,579	232,661
Valued at fair value as at:								
31 March 2014	2,402,598	34,699	-	-	-	992	-	2,438,289
31 March 2013	-	237,716	-	-	-	3,880	-	241,596
31 March 2012	-	195,467	-	-	-	360	-	195,827
31 March 2011	-	102,122	-	-	-	10,775	-	112,897
31 March 2010	-	3,303	-	-	-	147	-	3,450
Total Cost or Valuation	2,402,598	573,307	11,649	184,366	25,067	16,154	11,579	3,224,720

Capital Commitments

At 31st March 2014, the Council had entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in future years, budgeted to cost £15.5m. Similar commitments at 31st March 2013 were £21.8m. The commitments are:

Capital Commitments	31st Mar 2014 £'000
<i>Housing Commitments:</i>	
Treaty Street (Externals)	1,667
Canonbury Court	684
New North Road Estate	929
Percival Estate	823
Weston Rise Estate	805
St Lukes pipework (Ph2)	696
47-53 Leigh Road	1,052
Parkhurst Road Garages	2,518
1 Lyon Street	2,792
<i>Other Commitments:</i>	
Newington Green Refurbishment	3,519
Total	15,485

22. Investment Properties

The following items of income and expenditure are accounted for in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement where material:

2012/13 £'000	Investment Properties	2013/14 £'000
(575)	Rental income from investment property	(460)
252	Direct operating expenses arising from investment property	159
(323)	Net (gain)/loss	(301)

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 or repairs, maintenance or enhancement.

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

2012/13 £'000	Movement in fair value of Investment Properties	2013/14 £'000
5,892	Balance at start of the year	8,047
	<i>Additions:</i>	
-	Purchases	-
-	Construction	-
-	Subsequent expenditure	-
-	Disposals	(480)
2,312	Net gains/(losses) from fair value adjustments	737
	<i>Transfers:</i>	
-	to/from Inventories	-
(157)	to/from Property, Plant and Equipment	(179)
-	Other changes	-
8,047	Balance at end of the year	8,125

23. Intangible Assets

The Council accounts for its software as intangible assets, to the extent that the software is not an integral part of a particular IT system and accounted for as part of the hardware item of Property, Plant and Equipment. Intangible assets include both purchased licenses and internally generated software. All software is given a finite useful life, based on assessments of the period that the software is expected to be of use to the Council. At 31st March 2014 there were no individual material intangible assets.

The carrying amount of intangible assets is amortised on a straight-line basis over four years. The amortisation of £981k charged to revenue in 2013/14 was ultimately charged to the service headings in the Net Cost of Services. The movement on Intangible Asset balances during the year is as follows:

2012/13			Intangible Assets	2013/14		
Internally Generated Assets £'000	Other Assets £'000	Total £'000		Internally Generated Assets £'000	Other Assets £'000	Total £'000
			Balance at start of year:			
-	8,939	8,939	Gross carrying amounts	-	9,254	9,254
-	(6,415)	(6,415)	Accumulated amortisation	-	(7,760)	(7,760)
0	2,524	2,524	Net carrying amount at start of year	0	1,494	1,494
			<i>Additions</i>			
-	-	-	Internal development	-	-	-
-	-	-	Purchases	-	-	-
-	300	300	Acquired through business combinations	-	-	-
-	-	-	Assets reclassified as held for sale	-	-	-
-	-	-	Other disposals	-	-	-
-	-	-	Revaluations increases or decreases	-	-	-
-	-	-	Impairment losses recognised or reversed directly in the Revaluation Reserve	-	-	-
-	-	-	Impairment losses recognised in the Surplus/Deficit on the Provision of Services	-	-	-
-	-	-	Reversals of past impairment losses written back to the Surplus/Deficit on the Provision of Services	-	-	-
-	(1,345)	(1,345)	Amortisation for the period	-	(981)	(981)
-	15	15	Other changes	-	-	-
0	1,494	1,494	Net carrying amount at end of year	0	513	513
			Comprising:			
-	9,254	9,254	Gross carrying amounts	-	9,254	9,254
-	(7,760)	(7,760)	Accumulated amortisation	-	(8,741)	(8,741)

24. Assets Held for Sale

2012/13		Assets Held for Sale	2013/14	
Non Current	Current		Non Current	Current
£'000	£'000		£'000	£'000
0	941	Balance outstanding at start of year	0	354
		Assets newly classified as held for sale:		
-	206	<i>Property, Plant and Equipment</i>	-	309
-	-	<i>Intangible Assets</i>	-	-
-	-	<i>Other assets/liabilities in disposal groups</i>	-	-
-	-	Revaluation losses	-	-
-	-	Revaluation gains	-	-
-	-	Impairment losses	-	-
		Assets declassified as held for sale:		
-	-	<i>Property, Plant and Equipment</i>	-	(80)
-	-	<i>Intangible Assets</i>	-	-
-	-	<i>Other assets/liabilities in disposal groups</i>	-	-
-	(793)	Assets sold	-	(127)
-	-	Transfers from non current to current	-	-
-	-	[Other movements]	-	-
0	354	Balance outstanding at year-end	0	456

25. Heritage Assets

All the Heritage Assets that the Council has recognised in its Balance Sheet are carried at valuation. There has been no significant movement in valuation in the last five years nor have there been any significant acquisitions or disposals.

The following table shows a breakdown of the valuation of the Council's heritage assets:

31 March 2013	Heritage Assets	31 March 2014
£'000		£'000
99	Civic Regalia	93
207	Orton Collection	207
175	Sickert Collection	175
12	Fletcher Collection	12
493	Total	487

Civic Regalia

The collection consists of several items including the mayoral chains and silverware; the most significant item being the Mace which is a symbol of the Queen's authority and precedes the Mayor on civic occasions. The Mace was presented to the Council in June 1901 by Sir Albert Kaye Rollit, Member of Parliament for South Islington.

A chain and a badge from the Civic Regalia collection was lost in the 2013/14 year. The estimated value of both the badge and the chain was £3,000 each.

Museum Exhibits

The museum holds about 1,500 exhibits which are primarily of local significance and range from Victorian irons to World War 2 gas masks. It also holds a small collection of archaeological material. The initial core of the collection came from donations made to Islington Libraries from the 1930s onwards and further donations have been made since the museum opened in 1988. None of the objects are of great monetary value, but they are important in telling the story of the borough and its inhabitants. The most valuable object in the museum is a silver cup bought by public subscription and grant aid, which is worth circa £4,000. The objects are listed in an acquisitions register which can be viewed at the museum.

Art Collection

The collection consists of photographs, paintings, drawings and engravings of local scenes, places, people and events. There are two collections of particular significance; those of Geoffrey Scowcroft Fletcher, a renowned artist, author and connoisseur of 'off-beat' London, and the family collection of painter Walter Sickert. The Fletcher collection primarily contains sketchbooks and materials related to his publications. The sketchbooks cover the period 1943 - 1972 and contain mostly pen and ink drawings. The majority of the works and personal ephemera were donated to the Islington Library Service by the artist himself in the 1970s. The Walter Sickert Family Collection includes paintings, sketches, photographs and letters by and relating to artists Walter Sickert and his wife Thérèse Lessore and the Sickert family. For the most part, these artworks are not finished works but they show how Sickert recorded his visual impressions in preparatory sketches that were the very source and foundation of his art. Most of this material was deposited with Islington Libraries by the Sickert Trust (1947-1950) in recognition of the significance of Islington in the artist's life. The collection reflects Sickert's enduring reputation as an artist, writer, teacher and eccentric.

Joe Orton Artefacts

The collection consists of books, cuttings and reproductions of the Islington Library Service book covers infamously defaced and doctored by writer Joe Orton and his partner Kenneth Halliwell during the early 1960s.

Sadler's Wells Theatre Collection

The Sadler's Wells Theatre archive is one of the most important special collections held by Islington Local History Centre. In 2010, the centre was awarded almost £33,000 by the National Cataloguing Grants Programme for Archives to fund new work to catalogue and preserve this material. The Sadler's Wells collection contains materials dating from the early 1700s onwards, representing all six theatres that have occupied the site since 1683. These range from 18th century playbills and Victorian pantomime scripts to modern administrative files and photographs. Together, these records document how the theatre survived across five centuries and the significance of Sadler's Wells to the history of performing arts locally and nationally. The archive holds programmes dating from the 1930's through to 2011, with the earliest being Old Vic Shakespeare Company's production of Twelfth Night on 6th January 1931; this date was the opening night of the newly built Sadler's Wells Theatre.

Local History Collections

Islington Local History Centre holds approximately 100,000 items reflecting Islington life past and present. The Centre has local maps dating from the 1700s onwards; local newspapers, magazines, pamphlets and ephemera, including the Islington Gazette which is available on microfilm from 1856 to date. It also houses poor law and workhouse records from the 18th and 19th centuries for the Clerkenwell Workhouse. The electoral registers cover what is now the London Borough of Islington from 1873 to date while the microfilmed parish registers for St Mary's Islington have details of baptism, marriage and burials from the 16th to late 19th centuries. The Centre also holds printed copies of St James Clerkenwell parish registers from 1551 to 1754. There are local authority records of the vestries of St James Clerkenwell, St Luke Old Street and St Mary Islington and of the metropolitan boroughs of Finsbury and Islington, including council and committee minutes.

Statues and Monuments

The Council has a number of statues and monuments situated around the borough. The principal ones are:

- The Neighbours Sculpture at Highbury Quadrant Estate
- War Memorial at St Aloysius School
- Grade II listed grave of Joseph Grimaldi, Grimaldi Park
- The Clock Tower, Caledonian Park.
- Boer War Memorial and Flanking Cannon, Highbury Fields.
- Clock Tower on the corner of Highbury Hill and Church Path.
- Whittington Stone, Highgate Hill south of the junction with Magdala Avenue
- Statue of Sir Hugh Myddelton, Islington Green
- Clerks Well and Chamber/Enclosure in basement of 16 Farringdon Lane
- Drinking Fountain at Finsbury Square.
- War Memorial, Rosebery Avenue.
- Islington War Memorial, Manor Gardens
- Mural at City of London Academy, Packington Street
- Cattle Trough, Ray Street Bridge.
- Watch House, Canonbury Grove

As set out the summary of significant accounting policies, the Authority does not consider that reliable cost or valuation information can be obtained for its statues and monuments. This is because of the diverse nature of the assets held and lack of comparable market values.

Preservation and Management

Islington Local History Centre (ILHC) is committed to the preservation and conservation needs of its collections. The Centre adapts preservation and conservation guidelines advocated by The National Archives and the National Preservation Office. Conservation work is undertaken externally, usually by the conservation unit at London Metropolitan Archives. Risk assessments are undertaken on a regular basis to prevent disasters. Preservation and conservation costs are charged to the Comprehensive Income and Expenditure Statement. Material can be loaned to external organisations and bodies for exhibition providing that the correct procedures are followed.

Islington Museum aims to fully document its collection in a way that will allow maximum access for researchers, educators, general visitors and staff, and to comply with accreditation and SPECTRUM standards. Islington Museum keeps a manually written Accession Register and catalogues all objects on the digital Adlib system. The Islington Museum Trust, which is a registered charity, was set up in 1989 with the main purpose of fund raising for the museum. There is also a Museum Friends organisation, which supports the Museum by providing volunteers.

The memorials are cleaned annually in preparation for the Remembrance Day events and any remedial work required is carried out at this time. Any repairs to other statues or monuments are carried out as required following any necessary surveys.

26. Construction Contracts

As of 31st March 2014 the Council was not undertaking any construction contracts on behalf of third parties, nor were any such construction contracts undertaken as of 31st March 2013.

27. Impairment Losses

No significant impairment losses were charged either in 2012/13 or in 2013/14.

28. Capitalisation of Borrowing Costs

The Council did not capitalise any borrowing costs either in 2012/13 or in 2013/14.

29. Leases

Council as Lessee

The Council has 20 assets acquired under such leases carried as Property, Plant and Equipment in the Balance Sheet at the following net amounts:

31 March 2013 £'000	Leased Assets	31 March 2014 £'000
13,457	Other Land and Buildings	13,553
566	Vehicles, Plant, Furniture and Equipment	442
14,023	Total	13,995

The above also includes an arrangement containing an embedded lease, for the provision of fitness equipment within the leisure management contract.

The Council is committed to making minimum payments under these leases comprising settlement of the long-term liability for the interest in the property acquired by the Council and finance costs that will be payable by the Council in future years while the liability remains outstanding. The minimum lease payments are made up of the following amounts:

31 March 2013 £'000	Finance lease liabilities (net present value of minimum lease payments):	31 March 2014 £'000
238	Repayment of liability due within one year	226
1,792	Repayment of liability due after one year	847
3,191	Finance costs payable in future years	1,859
5,221	Total	2,932

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

Minimum Lease Payments	Finance Lease Liabilities		Minimum Lease Payments	
	31 March 2013 £'000	31 March 2014 £'000	31 March 2013 £'000	31 March 2014 £'000
Not later than one year	238	226	344	278
Later than one year and not later than five years	414	270	694	438
Later than five years	1,379	577	4,183	2,216
Total	2,031	1,073	5,221	2,932

The minimum lease payments do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews.

In 2013/14 contingent rents payable by the Council in respect of finance leases totalled £0.46m.

Operating Leases

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

31 March 2013 £'000	Operating Leases (Lessee)	31 March 2014 £'000
760	Not later than one year	188
1,817	Later than one year and not later than five years	649
762	Later than five years	763
3,339	Total	1,600

Council as Lessor

Finance Leases

The Council has leased out a number of assets on a finance lease basis. In most cases, the Council received a lease premium upon inception such that the gross investment in the lease has been settled in full. The minimum lease payments are negligible.

Operating Leases

The Council leases out property and equipment under operating leases for the following purposes:

- for the provision of community services, such as sports facilities, tourism services and community centres
- for economic development purposes to provide suitable affordable accommodation for local businesses

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

31 March 2013 £'000	Operating Leases (Lessor)	31 March 2014 £'000
702	Not later than one year	989
2,488	Later than one year and not later than five years	3,285
2,932	Later than five years	3,753
6,122	Total	8,027

The minimum lease payments receivable do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews.

30. Private Finance Initiative and Similar Contracts

Such arrangements typically involve a private sector entity (the operator) constructing or enhancing property used in the provision of a public service, and operating and maintaining that property for a specified period of time, in return for a series of payments over the period of the arrangement.

A contract is determined to meet the definition of a service concession arrangement where the following two tests are met:

- (a) The local authority controls or regulates what services the operator must provide with the property, to whom it must provide them, and at what price;
- (b) The local authority controls any significant residual interest in the property at the end of the term of the arrangement (typically through ownership or beneficial entitlement).

If the property is used for its entire life, and there is little or no residual interest, the arrangement falls within this scope where the first condition is met. Where the above tests are met, property used shall be recognised as an asset or assets of the local authority. Assets shall be recognised and accounted for in accordance with the Code. This is balanced by the recognition of a finance lease liability measured at the value of the related asset, and subsequently calculated using the actuarial method prescribed for finance leases.

The amounts payable to the PFI operators each year are analysed into five elements:

- (i) Fair value of the services received during the year – debited to the relevant service in the Comprehensive Income and Expenditure Statement,
- (ii) Finance cost – an interest charge on the outstanding Balance Sheet liability, debited to Interest Payable and Similar Charges in the Comprehensive Income and Expenditure Statement,
- (iii) Contingent rent – increases in the amount to be paid for the property arising during the contract, debited to Interest Payable and Similar Charges in the Comprehensive Income and Expenditure Statement,
- (iv) Payment towards liability – applied to write down the Balance Sheet liability towards the PFI operator, and
- (v) Lifecycle replacement costs – debited to the relevant service in the Comprehensive Income and Expenditure Statement.

The Council has identified six schemes to be accounted for as service concession arrangements.

1. Housing PFI 1; a 30 year agreement covering 2,348 dwellings, whereby the operator is required to achieve and subsequently maintain decent homes standard for the duration of the agreement,
2. Housing PFI 2; a 16 year agreement covering 4,124 dwellings, with similar conditions as above,
3. Street Lighting; an agreement for the design, build, maintenance and financing of new, refurbished and existing public lighting, associated equipment and apparatus over 25 years,
4. BSF Phase 1; design, build and facilities management of two schools over a 25 year term, and
5. Care Homes; 30 year agreement for the design, build, maintenance, operation and financing of residential care homes.
6. BSF Phase 2; design, build and facilities management of two schools over a 25 year term

Details of the current schemes are as follows:

Service Concession Arrangements	Start Date	End Date	Total Value £ million
Street Lighting	June 2003	June 2028	48
Housing (1)	March 2003	March 2033	247
Housing (2)	Sept 2006	Sept 2022	380
Care Homes	April 2003	March 2030	133
Schools (1)	July 2008	Jan 2040	123
Schools (2)	August 2012	March 2038	102

The following has been recognised in the balance sheet in respect of PFI (or similar) arrangements:

	Council Dwellings £ '000	Other Land and Buildings ¹ £ '000	Infra- structure £ '000	Total £ '000
Net Book Value at 1 April 2012	108,919	26,583	12,271	147,773
Additions	178	28,510	-	28,688
Depreciation & Impairment	(2,324)	(854)	(534)	(3,712)
Revaluation	14,442	(1,900)	-	12,542
Disposal	(168)	-	-	(168)
Other				-
Net Book Value at 31 March 2013	121,047	52,339	11,737	185,123
Net Book Value at 1 April 2013	121,047	52,339	11,737	185,123
Additions	432	80		512
Depreciation & Impairment	(2,777)	(2,609)	(510)	(5,896)
Revaluation	40,878			40,878
Disposal	(559)			(559)
Other				-
Net Book Value at 31 March 2014	159,021	49,810	11,227	220,058

¹ Value includes equipment associated with Care Homes arrangement

Movement in liabilities resulting from PFI or similar contracts:				
Value at 1 April 2012	(94,036)	(50,701)	(10,704)	(155,441)
New liability incurred	-	(29,961)	-	(29,961)
Repayments made in year	6,522	1,145	350	8,017
Value at 31 March 2013	(87,514)	(79,517)	(10,354)	(177,385)
Value at 1 April 2013	(87,514)	(79,517)	(10,354)	(177,385)
New liability incurred	-	-	-	0
Repayments made in year	5,365	1,592	367	7,324
Value at 31 March 2014	(82,149)	(77,925)	(9,987)	(170,061)

The projected payments under the agreements are as follows:

Contracted payments due within:	1 year £ '000	2-5 years £ '000	5-10 years £ '000	10-15 years £ '000	15-20 years £ '000	Over 20 years £ '000
Care Homes						
Liability	208	589	1,774	2,251	1,475	
Interest	566	2,074	2,095	1,185	72	
Service Charges	3,694	15,724	21,969	24,856	10,834	
Street Lighting						
Liability	398	1,899	3,519	4,170		
Interest	954	3,412	3,066	1,063		
Service Charges	1,232	5,343	7,433	6,965		
Housing (1)						
Liability	566	3,103	3,533	4,338	11,197	
Interest	2,930	10,777	11,330	9,282	3,953	
Service Charges	7,429	33,100	54,370	69,049	55,005	
Housing (2)						
Liability	5,009	25,549	28,855			
Interest	7,773	24,016	7,567			
Service Charges	17,555	80,891	62,302			
BSF Phase 1						
Liability	1,171	5,643	8,539	11,512	14,222	1,390
Interest	2,660	9,828	10,171	7,113	3,242	87
Service Charges	1,495	6,172	9,569	10,999	14,679	1,282
BSF Phase 2						
Liability	472	2,169	3,757	5,658	8,328	8,769
Interest	2,741	10,502	11,783	9,731	6,549	2,088
Service Charges	902	4,039	6,033	7,026	8,801	7,878

31. 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 and PFI/PP contracts), 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.

2012/13 £'000	Capital Expenditure and Sources of Capital Financing	2013/14 £'000
710,736	Opening Capital Financing Requirement	745,418
<i>Capital Investment</i>		
108,344	Property, Plant & Equipment	73,726
20,066	Intangibles / REFCUS / Other	9,604
<i>Sources of Finance</i>		
293	Usable Capital Receipts	(10,211)
(21,665)	Capital Grants	(12,630)
(32,948)	Major Repairs Reserve	(32,903)
-	Other Contributions	-
(28,596)	Capital Expenditure charged in-year to Revenue Accounts	(19,419)
<i>Debt Repayment</i>		
(4,114)	Statutory provision for the repayment of debt	(7,058)
-	Repayment Housing Debt	-
(6,698)	Repayment of PFI / Lease liabilities	(8,454)
745,418	Closing Capital Financing Requirement	738,073
<i>Explanation of Movements in Year</i>		
(5,976)	(Increase)/ decrease in underlying need to borrow (supported by government financial assistance)	7,568
(28,476)	Increase in Obligation arising from PFI contracts	-
(231)	Assets acquired under finance leases	(223)
-	Debt repayment	-
(34,683)	(Increase)/ decrease in Capital Financing Requirement	7,345

32. Financial Instruments

Financial Instruments - Classifications

The definition of 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 entity'.

The term 'financial instrument' covers both financial assets and financial liabilities. These range from straightforward trade receivables and trade payables to more complex transactions such as financial guarantees, derivatives and embedded derivatives. The Council's borrowing, service concession arrangements (PFI and finance leases), and investment transactions are classified as financial instruments.

Financial Liabilities

A Financial Liability is an obligation to transfer economic benefits controlled by the Council and can be represented by a contractual obligation to deliver cash or financial assets or an obligation to exchange financial assets and liabilities with another entity that are potentially unfavourable to the Council.

The Council's loan portfolio at year end consisted of Public Works Loan Board (PWLB) loans, Stock Issue and temporary borrowing from local and police authorities. Under the 2013/14 Code of Practice these forms of borrowing are measured at amortised cost. This form of measurement does not change the amount of cash paid under the terms of the loan but can impact on the charge made to the Comprehensive Income and Expenditure Statement.

Financial Assets

A Financial Asset is a right to future economic benefits controlled by the Council that is represented by cash or other instruments or a contractual right to receive cash or another financial asset.

The three classifications for financial assets under the Code of Practice are:

- Loans and Receivables;
- Available for Sale; and
- Fair Value through Profit and Loss.

The Council's portfolio of investments consists of fixed term deposits and money market funds. Term deposits are classed as 'Loans and Receivables' and are measured at amortised cost. This form of measurement does not change the amount of cash received under the terms of the investment. Trade Receivables (Debtors) are classified as Loans and Receivables. As these are considered immaterial they have been measured at cost on the Balance Sheet. Money Market Funds are classified as Available for Sale.

Balances in money market funds and term deposits (overnight) at 31st March 2014 are shown under 'cash and cash equivalents' in the Balance Sheet, as they represent highly liquid investments that are readily convertible to known amounts of cash, with an insignificant risk of changes in value. These form part of the Council's portfolio of investments disclosed below.

The Council does not have any investments required to be measured at Fair Value through Profit and Loss.

Transaction costs

Measurement at amortised cost permits transactions costs related to financial instruments to be attached to the loan or investment and charged to the Comprehensive Income and Expenditure Statement over the life of the instrument. Where these are considered to be immaterial they can be charged in full to the Comprehensive Income and Expenditure Statement in the financial year in which they are incurred. The Council has adopted this latter approach in 2013/14.

No financial assets have been reclassified between the headings of amortised cost and fair value.

Financial Instruments - Balances

The Financial Assets & Financial Liabilities disclosed in the Balance Sheet are made up of the following categories of financial instrument:

Categories of Financial Instruments	Long-term		Current	
	31 March 2013	31 March 2014	31 March 2013	31 March 2014
	£'000	£'000	£'000	£'000
Investments				
Loans and receivables	373	691	-	-
- short term investments*	-	-	5,024	5,032
- cash equivalents	-	-	5,000	17,100
Available for sale financial instruments	-	-	-	-
Unquoted equity investments at cost	-	-	-	-
Financial assets at fair value through profit and loss	-	-	-	-
Total investments	373	691	10,024	22,132
Debtors				
Loans and receivables	272	17	-	-
Financial assets carried at contract amounts	-	-	16,110	16,083
Total Debtors	272	17	16,110	16,083
Borrowings				
Financial liabilities at amortised cost**	260,800	255,365	-	-
- cash and bank overdrawn	-	-	15,883	24,898
- short term borrowing***	-	-	79,726	45,900
Financial liabilities at fair value through profit and loss	-	-	-	-
Total borrowings	260,800	255,365	95,609	70,798
Other Long Term Liabilities				
PFI and finance lease liabilities	171,883	163,087	7,562	8,060
Other	-	17	-	-
Total other long term liabilities	171,883	163,104	7,562	8,060
Creditors				
Financial liabilities at amortised cost	-	-	-	-
Financial liabilities carried at contract amount	-	-	29,673	21,192
Total creditors	0	0	29,673	21,192

*Although short term investments at 31st March 2014 amount to £5m, the Council is committed to incur additional investments of £30m by 22nd April 2014

**Although long term borrowing at 31st March 2014 amount to £255m, the Council is committed to incur additional borrowing of £20m by 27th August 2014

***Although short term borrowing at 31st March 2014 amount to £46m, the Council is committed to incur additional borrowing of £5m on 21st July 2014

The portion of long-term liabilities and investments due to be settled within 12 months of the Balance Sheet date are presented in the Balance Sheet under 'current liabilities' or 'current investments'. This would include accrued interest on long term liabilities and investments that is payable/receivable in 2014/15.

Soft Loan

Where loans are advanced at below market rates they are classed as 'Soft Loans'. The 2013/14 Code of Practice sets out specific accounting requirements for soft loans. Season ticket loans amounting to £300k and

Home computer scheme loans amounting to £493k are carried at nominal value in the Balance Sheet as they are due within 10 months and 2 years respectively thus the effect on the accounts is deemed to be immaterial.

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 as follows:

Income, Expense, Gains and Losses 2013/14	Financial Liabilities	Financial Assets			Total
	Liabilities measured at amortised cost	Loans & Receivables	Available-for-sale assets	Fair Value through P&L	
	£'000	£'000	£'000	£'000	
Interest expense	(34,533)	-	-	-	(34,533)
Losses on derecognition	-	-	-	-	0
Reductions in fair value	-	-	-	-	0
Impairment losses	-	-	-	-	0
Fee expense	-	-	-	-	0
Total expense in Surplus or Deficit on the Provision of Services	(34,533)	0	0	0	(34,533)
Interest income	-	195	-	-	195
Interest income accrued on impaired financial assets	-	-	-	-	0
Increases in fair value	-	-	-	-	0
Gains on derecognition	-	-	-	-	0
Fee income	-	-	5	-	5
Total income in Surplus or Deficit on the Provision of Services	0	195	5	0	200
Gains on revaluation	-	-	-	-	0
Losses on revaluation	-	-	-	-	0
Amounts recycled to the Surplus or Deficit on the Provision of Services after impairment	-	-	-	-	0
Account after impairment	-	-	-	-	0
Surplus arising on revaluation of financial assets in Other Comprehensive Income and Expenditure	0	0	0	0	0
Net gain/(loss) for the year	(34,533)	195	5	0	(34,333)

Income, Expense, Gains and Losses 2012/13	Financial Liabilities	Financial Assets			Total
	Liabilities measured at amortised cost	Loans & Receivables	Available-for-sale assets	Fair Value through P&L	
	£'000	£'000	£'000	£'000	
Interest expense	(35,598)	-	-	-	(35,598)
Losses on derecognition	-	-	-	-	0
Reductions in fair value	-	-	-	-	0
Impairment losses	-	-	-	-	0
Fee expense	-	-	-	-	0
Total expense in Surplus or Deficit on the Provision of Services	(35,598)	0	0	0	(35,598)
Interest income	-	326	-	-	326
Interest income accrued on impaired financial assets	-	-	-	-	0
Increases in fair value	-	-	-	-	0
Gains on derecognition	-	-	-	-	0
Fee income	-	-	-	-	0
Total income in Surplus or Deficit on the Provision of Services	0	326	0	0	326
Gains on revaluation	-	-	-	-	0
Losses on revaluation	-	-	-	-	0
Amounts recycled to the Surplus or Deficit on the Provision of Services after impairment	-	-	-	-	0
Account after impairment	-	-	-	-	0
Surplus arising on revaluation of financial assets in Other Comprehensive Income and Expenditure	0	0	0	0	0
Net gain/(loss) for the year	(35,598)	326	0	0	(35,272)

Fair Values of Assets and Liabilities

Financial liabilities and financial assets represented by loans and receivables and long-term debtors and creditors are carried in the Balance Sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments, using the following assumptions:

- estimated ranges of interest rates at 31st March 2014 of 0.34% to 3.41% for loans from the PWLB and 0.75% to 7.38% for other loans receivable and payable, based on premature redemption rates for equivalent loans at that date.
- no early repayment or impairment is recognised
- where an instrument will mature in the next 12 months, carrying amount is assumed to approximate to fair value. The fair value of trade and other receivables is taken to be the invoiced or billed amount.

The fair values calculated are as follows:

Fair value comparison of financial assets and liabilities	31 March 2013		31 March 2014	
	Carrying amount	Fair value	Carrying amount	Fair value
	£'000	£'000	£'000	£'000
Financial Liabilities				
Short Term Borrowing	95,609	-	71,047	-
Long Term Borrowing	260,800	-	255,365	-
Total Borrowing	356,409	430,409	326,412	375,374
Creditors	29,673	29,673	21,192	21,192
Total Financial Liabilities	386,082	460,082	347,604	396,566
Financial Assets				
Long term investments	373	566	691	1,075
Short Term Investments	10,024	10,024	22,132	22,132
Debtors	16,382	16,338	16,100	16,100
Total Financial Assets	26,779	26,928	38,923	39,307

Available for sale assets and assets and liabilities at fair value through profit or loss are carried in the Balance Sheet at their fair value. These fair values are based on public price quotations where there is an active market for the instrument. PFI and finance lease liabilities are also carried in the Balance Sheet at their fair value.

Financial Liabilities

The fair value of financial liabilities is higher than the carrying amount because the Council's portfolio of loans includes a number of loans where the interest rate payable is higher than the rates available for similar loans at the Balance Sheet date.

Financial Assets

The fair value for long term investments at the Balance Sheet date is higher than the carrying amount because the interest rate on similar investments is now lower than that obtained when the investment was originally made.

33. Nature and Extent of Risks Arising from Financial Instruments

As part of the adoption of the Treasury Management Code, the Council approves a Treasury Management Strategy before the commencement of each financial year. The Strategy sets out the parameters for the management of risks associated with Financial Instruments. The Council also produces Treasury Management Practices specifying the practical arrangements to be followed to manage these risks.

The Treasury Management Strategy includes an Annual Investment Strategy in compliance with the CLG Investment Guidance for local authorities. This Guidance emphasises that priority is to be given to security and liquidity, rather than yield. The Council's Treasury Strategy, together with its Treasury Management Practices are based on seeking the highest rate of return consistent with the proper levels of security and liquidity.

The main risks covered are:

- **Credit Risk:** The possibility that one party to a financial instrument will fail to meet their contractual obligations, causing a loss for the other party.
- **Liquidity Risk:** The possibility that a party will be unable to raise funds to meet the commitments associated with Financial Instruments.

- Market Risk: The possibility that the value of an instrument will fluctuate because of changes in interest rates, market prices etc.

Credit Risk

Loans and Receivables

The Council manages credit risk by ensuring that investments are placed with the Debt Management Office, other local authorities, AAA-rated money market funds or Banks and Building Societies having sufficiently high credit worthiness as set out in the Treasury Management Strategy. A limit of £50m is placed on the amount of money that can be invested with a single counterparty. The Council also sets a total group investment limit for institutions that are part of the same banking group. No more than £100m in total can be invested for a period longer than one year. The Council has no historical experience of counterparty default.

It must also be noted that although credit ratings remain a key source of information, the Council recognises that they have limitations and investment decisions are based on a range of market intelligence. All investments have been made in line with the Council's Treasury Management Strategy Statement for 2013/14 approved by Full Council on 28/02/2013. The 2013/14 Treasury Strategy can be found via the following web link:

[http://democracy.islington.gov.uk/Data/Audit%20Committee%20and%20Audit%20Committee%20\(Advisory\)/201301291930/Agenda/Annual%20Treasury%20Management%20and%20Investment%20Strategy.pdf](http://democracy.islington.gov.uk/Data/Audit%20Committee%20and%20Audit%20Committee%20(Advisory)/201301291930/Agenda/Annual%20Treasury%20Management%20and%20Investment%20Strategy.pdf)

As conditions in the financial sector had begun to show signs of improvement, albeit with substantial intervention by government authorities, the Council decided it would be appropriate to diversify the counterparty list in 2010/11, through the inclusion of comparable non-UK banks for investments. The sovereign states whose banks were included were Australia, Canada, Finland, France, Denmark, Germany, Netherlands, Switzerland and the US. These countries, and the banks within them, were selected after analysis and careful monitoring of:

- Credit Ratings (minimum long-term A+, minimum short term F1)
- Credit Default Swaps
- GDP; Net Debt as a Percentage of GDP
- Sovereign Support Mechanisms / potential support from a well-resourced parent institution
- Share Price

Throughout 2013/14 the minimum criteria using Fitch rating for new investments has been a long term rating of A+ and a short term rating of F1.

The table below summarises the nominal value of the Council's investment portfolio at 31st March 2014, and confirms that all investments were made in line with the Council's approved credit rating criteria:

Credit Risk (Counterparties)	Credit Rating Criteria Met When Investment Placed?	Credit Rating Criteria Met on 31 March 2014	Balance Invested as at 31 March 2014					Total
			Up to 1 month	Greater than 1 month and up to 3 months	Greater than 3 months and up to 6 months	Greater than 6 months and up to 9 months	Greater than 12 months and up to 24 months	
Counterparty	YES / NO	YES / NO	£'000	£'000	£'000	£'000	£'000	£'000
Banks-UK			-	-	-	-	-	0
Banks-Non-UK (split by country exposure)			-	-	-	-	-	0
Total Banks								0
Building Societies - UK			-	-	-	-	-	0
Money Market Funds			-	-	-	-	-	0
Police Commission	YES	YES	-	-	5,000	-	-	5,000
HM Treasury	YES	YES	17,100	-	-	-	-	17,100
Total			17,100	0	5,000	0	0	22,100

The above analysis shows that all deposits outstanding as at 31st March 2014 met the Council's credit rating criteria on the 31st March 2014.

Trade Receivables

The following analysis summarises the Council's potential maximum exposure credit risk, based on the experience gathered over the last five financial years on the level of default on debtors, adjusted for current market conditions.

Credit Risk (Debtors)	Gross Debtors	Average % Default based on Previous Experience 5 years to 2013/14	Average % Default based on Previous Experience for 2012/13	Average % Default based on Previous Experience for 2013/14	Bad Debt Provision for 2013/14
Sundry Debtors	6,907	0.23%	0.10%	0.08%	680

The authority does not generally allow credit for customers, such that £1.7m of the £6.6m balance is past 30 days from invoice date. The remaining £4.9m is deemed collectable and not impaired. Debtor balances which are likely to be impaired are provided for through the bad debt provision. The past due amount can be analysed by age as follows:

Trade Receivables	31 March 2013 £'000	31 March 2014 £'000
Less than three months	8,665	6,074
Three to six months	263	119
Six months to one year	206	134
More than one year	336	309
Total	9,470	6,636

Liquidity Risk

The Council has access to borrowing facilities via the Public Works Loan Board, commercial banks, bond issues, medium term notes, tax increment financing, the European Investment Bank, and other local authorities. There is no perceived risk that the Council will be unable to raise finance to meet its commitments.

The Council also has to manage the risk that it will not be exposed to replenishing a significant proportion of its borrowing at a time of unfavourable interest rates. The Council's strategy is to ensure that no more than 25% of loans are due to mature within any rolling three-year period through a period of careful planning of new loans taken out and making early repayments.

The Council would only borrow in advance of need where there is a clear business case for doing so and will only do so for the current capital programme or to finance future debt maturities.

The maturity analysis of the nominal value of the Council's debt at 31st March 2014 was as follows:

Liquidity Risk	PWLB		Loan Stock		Other		Total	
	31 March 2013	31 March 2014	31 March 2013	31 March 2014	31 March 2013	31 March 2014	31 March 2013	31 March 2014
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Less than one year	27,234	31,935	-	-	48,000	10,000	75,234	41,935
Between one and two years	31,935	6,478	-	-	-	-	31,935	6,478
Between two and five years	10,435	5,070	3,596	3,596	-	-	14,031	8,666
Between five and ten years	15,227	22,177	-	-	-	-	15,227	22,177
Between ten and twenty years	70,959	71,999	-	-	-	-	70,959	71,999
More than twenty years	128,648	119,545	-	-	-	-	128,648	119,545
Total	284,438	257,204	3,596	3,596	48,000	10,000	336,034	270,800
Accrued Interest *							4,492	3,965
Trade creditors *							29,673	21,192
Cash Overdrawn *							15,883	24,898
Total Carrying Amount							386,082	320,855

* The above three items fall due within 12 months of the balance sheet date

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

Market Risk

Interest Rate Risk

The Council is exposed to risks arising from movements in interest rates. The Treasury Management Strategy aims to mitigate these risks by setting an upper limit of £150m on external debt that can be subject to variable interest rates. At 31st March 2014, the debt portfolio was held in fixed rate instruments.

Investments are also subject to movements in interest rates. As investments are made at fixed rates, but for shorter periods of time, there is greater exposure to interest rate movements. This risk has to be balanced against actions taken to mitigate credit risk.

Price Risk

The Council does not invest in equity shares and therefore is not subject to any price risk (i.e. the risk that the Council will suffer loss as a result of adverse movements in the price of financial instruments).

Foreign Exchange Risk: The Council has no financial asset or liabilities denominated in a foreign currency. It therefore has no exposure to loss arising as a result of adverse movements in exchange rates.

If all interest rates had been 1% higher (with all other variables held constant) the financial effect would be:

Price Risk	£'000
Increase in interest payable on variable rate borrowings	n/a
Increase in interest receivable on variable rate investments	(171)
Increase in government grant receivable for financing costs	n/a
Impact on the Provision of Services (surplus/deficit)	(171)
Share of overall impact debited/credited to HRA	(257)
Decrease in fair value of fixed rate investments	97
Impact on Other Comprehensive Income and Expenditure	(171)
Decrease in fair value of fixed rate borrowings/liabilities*	35,955

*No impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure.

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

34. Short Term Creditors

31 March 2013 £'000	Short Term Creditors	31 March 2014 £'000
21,103	Central Government Bodies	15,688
2,610	Other Local Authorities	5,124
524	NHS Bodies	4,364
1,176	Public corporations and trading funds	1,629
57,313	Other Entities and Individuals	57,752
82,726	Total Creditors	84,557

35. Short Term Debtors

31 March 2013		Short Term Debtors	31 March 2014	
£'000	£'000		£'000	£'000
	12,479	Central Government Bodies	14,331	
	(8)	Less Impairment for Doubtful Debts	(7)	
12,471		Central Government Bodies		14,324
	5,468	Local Authorities	2,905	
	(98)	Less Impairment for Doubtful Debts	(77)	
5,370		Local Authorities		2,828
	3,119	NHS Bodies	3,335	
	(267)	Less Impairment for Doubtful Debts	(81)	
2,852		NHS Bodies		3,254
	854	Public Corporations and Trading Funds	1,161	
	(13)	Less Impairment for Doubtful Debts	(8)	
841		Other Public Sector		1,153
	70,486	Other entities and individuals	76,601	
	(39,471)	Less Impairment for Doubtful Debts	(43,818)	
31,015		Other entities and Individuals		32,783
52,549		Total Debtors		54,342

36. Inventories

Inventories are included in the Balance Sheet at the lower of cost and current replacement cost.

31 March 2013		Inventories & Long term Contracts	31 March 2014	
£'000				£'000
		Consumable Stores		
488		Balance outstanding at start of year		633
325		Purchases		229
(180)		Recognised as an expense in year		(147)
-		Written off balances		-
-		Reversal of write-offs in previous years		-
633		Balance outstanding at year-end		716
-		Maintenance Materials		-
-		Client Service Work in Progress		-
-		Property Acquired or Constructed for Sale		-
633		Total		716

37. Provisions

Provisions 2013/14	Insurance £'000	Business Rate Appeals* £'000	Social Services Charges £'000	Disrepair claims £'000	Other minor £'000	Total £'000
Balance at 1 April 2013	12,487	0	1,753	341	872	15,453
Additional provisions made in 2013/14	2,019	2,260	75	288	997	5,639
Amounts used in 2013/14	(3,076)		(44)	(205)	(421)	(3,746)
Unused amounts reversed in 2013/14	-		-	-	(230)	(230)
Unwinding of discounting in 2013/14	-		-	-	-	-
Balance at 31 March 2014	11,430	2,260	1,784	424	1,218	17,116

Analysis of Balance at 31 March 2014						
Settled within 12 months	3,075	1,447	1,784	424	1,218	7,948
More than 12 months	8,355	813	-	-	-	9,168

Provisions 2012/13	Insurance £'000	Business Rate Appeals £'000	Social Services Charges £'000	Disrepair claims £'000	Other minor £'000	Total £'000
Balance at 1 April 2012	13,319	0	984	0	1,207	15,510
Additional provisions made in 2012/13	2,199	-	965	341	-	3,505
Amounts used in 2012/13	(3,031)	-	(196)	-	(335)	(3,562)
Unused amounts reversed in 2012/13	-	-	-	-	-	-
Unwinding of discounting in 2012/13	-	-	-	-	-	-
Balance at 31 March 2013	12,487	0	1,753	341	872	15,453

Analysis of Balance at 31 March 2013						
Settled within 12 months	3,436	-	1,753	341	872	6,402
More than 12 months	9,051	-	-	-	-	9,051

Legal claims outstanding (Social Services Charges)

The Council is required to make repayment of charges made for care services provided under Section 117 of the Mental Health Act 1983, where, following a 2002 House of Lords Judgement, services were subsequently adjudged to be free. This provision represents the balance of charges not yet repaid. Repayment will be made when claimed.

Business Rate Appeals

The Council is required to make a provision for appeals against property valuations by business rate payers. The outcome of these appeals is determined by the Valuations Office and is out of the control of the Council.

Insurance Provision:

The Council self-funds many of its insurable risks. The provision covers the following risks:

- Errors and Omissions, Libel and Slander, Motor (Third Party), Employers' Liability, Public Liability, Fire and other property risks – up to a limit of £1,000,000 for any one claim.

External policies cover claims in excess of these limits. In 2013/14, £0.85m was paid in external premiums (£0.83m in 2012/13) for this cover.

Each year, the Council takes actuarial advice on the value of insurance claims which will be paid from the self – funding arrangements. There are three categories of claims making up the total exposure.

The following table summarises these with explanatory notes below.

Insurance Fund	£'000
Estimated claims incurred but not yet paid since 1992/93 (1)	8,800
Claims settled prior to 1992/93 (2)	1,700
Provision for claims incurred but yet to be settled prior to 1992/93 (3)	200
Provision for claims yet to be received for events prior to 1992/93 (4)	1,300
Total Insurance exposure at 31 March 2014	12,000

- 1) These are claims which have been submitted against the Council since 1992/93 and are open i.e. not yet paid. They are claims which fall within the excess limits listed in the first paragraph above. The figure of £8.8 million is the total of the individual estimates of the cost of claims which will be paid from the insurance provision when they are settled.
- 2) In 1992/93, the Council's insurer, Municipal Mutual Insurance, ceased taking new business and has since been managed under a "scheme of arrangement". Since the last statement, MMI has become insolvent and the scheme of arrangement has been "triggered". This means that the Council will have to repay a portion of previous settled claims and MMI will only contribute a reduced percentage towards future claims. Latest advice from the accountants that are administering the scheme is that the initial percentage claw-back will be 15%, however, actuarial advice is that the Council should hold provision for 75% as a reasonably prudent position, to allow for additional claw-backs in future years.
- 3) In addition, there are £0.3 million of incurred claims yet to be settled for pre- 1992/93 incidents. As in note 2, the Council is holding a provision of 75% of this amount, £0.2million, in the fund.
- 4) Again as in note 2, with the triggering of the MMI insolvency scheme, the Council will be left substantially uninsured for the years prior to 1992/93. There are types of claims that the Council could be exposed to that can date back to the 1950s and 1960s and whilst these are as yet unknown, when they occur they are complex and high in value. Actuarial advice is that whilst there are very large uncertainties involved, in approximate terms the exposure could amount to £1.75m over the next 10 to 20 years. Again, the Council on actuarial advice has provided for 75% of these potential claims.

The closing balance of the insurance claims provision at 31st March 2014 is £11.4m, plus £0.6m held in imprest account with insurers. Actuarial advice is that the fund is in a broadly neutral position.

Insurance London Consortium

The Council is a member of a consortium arrangement to purchase insurance cover along with eight other London boroughs. A new contract has been placed for the period until 31st March 2019, to cover the risks of Property and Liability.

38. Transfers to/from Earmarked 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 2013/14.

Transfers to/from Earmarked Reserves	Balance at 1 April 2013 £'000	Transfers Out 2013/14 £'000	Transfers In 2013/14 £'000	Balance at 31 March 2014 £'000
General Fund				
Invest to Save	(11,219)	3,191	(1,000)	(9,028)
PFI - ICSL Joint Venture	(977)	977	-	-
PFI - Street Lighting	(3,264)	3,264	-	-
Services Specific (Corporate)	(10,141)	6,431	(6,198)	(9,908)
Capital Reserve	(22,139)	19,064	(30,921)	(33,996)
Cemetery Trading Account	(38)	38	-	-
Building Schools for the Future	(468)	156	-	(312)
Levies Reserve	(1,543)	699	-	(844)
Housing Benefit Reserve	(6,374)	1,225	(3,269)	(8,418)
Equal Pay Reserve	(313)	313	-	-
BSF PFI 1 Reserve	1,606	1,276	(600)	2,282
Redundancy Reserve	(3,141)	2,633	(3,496)	(4,004)
Contingency Reserve	(2,000)	2,000	-	-
Total	(60,011)	41,267	(45,484)	(64,228)
Street Market Reserves	(51)	-	(43)	(94)
Grand Total	(60,062)	41,267	(45,527)	(64,322)
HRA				
PFI - Housing PFI I	(5,449)	-	(61)	(5,510)
Revaluations Smoothing Reserve	(3,128)	-	(149)	(3,277)

Invest to Save: earmarked to fund pump-priming investment that will generate ongoing revenue savings.

PFI Smoothing Reserves (ICSL, Street Lighting, BSF): the Government provided support for PFI schemes via up-front PFI credits. It is the Council's policy to appropriate the PFI credits to an earmarked PFI smoothing reserve and draw down to support the PFI contract for a particular year as per the relevant smoothing model.

Services Specific: earmarked to fund continuation of specific revenue projects that span more than one financial year.

Capital: earmarked as part of the funding of the approved capital programme and related property projects.

Cemetery: the Council has a contract with the London Borough of Camden for the supply of a cemetery management and burial service. The contract stipulates that any loss is to be shared and any surplus shall be carried forward for future investment, the mechanism for doing so being through this earmarked reserve.

Building Schools for the Future (BSF): earmarked to fund BSF programme management costs.

Levies: earmarked to help smooth expected increases in levies in future years.

Housing Benefit: earmarked to fund the significant transitional costs of implementing the Universal Credit and other related Government reforms.

Equal Pay: earmarked to cover potential tax liabilities relating to backdated 'Single Status' pay.

Redundancy: earmarked to cover the one-off redundancy costs of delivering savings required over the medium term.

Contingency: earmarked to cover contingency pressures over the medium-term in light of reduced ongoing contingency budget.

Street Markets: The Council operates three street markets at Chapel Market, Whitecross Street and Exmouth Market. Under laws governing the operation of these markets, income from fees and charges can only be applied to expenditure on the maintenance of the markets. Any surplus or deficit on the trading account in any given year is transferred to / from this reserve.

HRA Revaluation Smoothing: To mitigate the impact on HRA resources of fluctuations in the valuation of HRA assets.

39. Usable Reserves

31 Mar 2013 £'000	Usable Reserves	31 Mar 2014 £'000
28,558	General Fund	24,286
60,062	Earmarked Reserves - General Fund	64,322
8,577	Earmarked Reserves - HRA	8,787
12,790	Housing Revenue Account	14,077
12,549	Capital Receipts Reserve	32,776
38,579	Major Repairs Reserve	53,956
6,267	Capital Grants Unapplied	7,152
167,382	Total Usable Reserves	205,356

Movements in the Council's usable reserves are detailed in the Movements in Reserves Statement and note 17. Earmarked reserves movements are detailed above in note 38.

40. Unusable Reserves

31 March 2013 £'000	Unusable Reserves	31 March 2014 £'000
129,638	Revaluation Reserve	265,512
1,849,461	Capital Adjustment Account	2,227,268
322	Financial Instruments Adjustment Account	206
-	Deferred Capital Receipts Reserve	-
(551,542)	Pensions Reserve	(460,677)
14	Collection Fund Adjustment Account	437
-	Unequal Pay Back Pay Account	-
(5,348)	Accumulated Absences Account	(5,525)
1,422,545	Total Unusable Reserves	2,027,221

a) Revaluation Reserve

The Revaluation Reserve contains the gains made by the Council arising from increases in the value of its Property, Plant and Equipment (and Intangible Assets). 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.

2012/13 £'000	Store of unrealised gains on revaluation of non current assets - Revaluation Reserve	2013/14 £'000
(135,646)	Balance as at 1 April	(129,638)
(11,857)	Gains on Revaluations	(143,616)
1,414	Less Depreciation on Revalued Amounts	1,454
16,397	Less Impairments written off to previous gains	5,610
54	Less gains written out for disposed assets	678
-	Adjustments to Capital Adjustment Account	-
(129,638)	Balance as at 31 March	(265,512)

b) Capital Adjustment Account:

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements or accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The Account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluations 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 1st April 2007, the date that the Revaluation Reserve was created to hold such gains.

Note 17 provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

2012/13 £'000	Capital Adjustment Account	2013/14 £'000
(1,756,705)	Balance brought forward	(1,849,461)
293	Capital Expenditure Financed from Usable Capital Receipts	(10,211)
(32,948)	Capital Expenditure Financed from the Major Repairs Reserve	(32,903)
(28,596)	Capital Expenditure Financed from Revenue Resources	(19,419)
(16,429)	Capital Expenditure funded by Grant	(11,047)
(8)	Donated Assets	-
14,830	REFCUS funded by Capital Receipts	8,021
1,253	Amortisation of General Fund Intangible Assets	983
(87,214)	Impairment of Assets	(350,098)
20,900	Depreciation of PPE non-current Assets	22,252
-	Gain or Loss on Held for Sale Asset Reclassification/valuation	-
15,226	Transfer from Major Repairs Reserve Equivalent to HRA Depreciation	17,343
(4,114)	Minimum Revenue Provision	(7,058)
(6,697)	Repayment of Obligations arising from PFI Contracts/Lease liabilities	(8,454)
-	Repayment of Housing related Debt (HRA Self Financing Transition)	-
(54)	Write out of Gains relating to Revalued Disposed Assets	(678)
33,175	Current Value of Disposed Assets	15,525
(1,414)	Write out of depreciation on revalued amounts	(1,454)
1	Gains and losses on Fair Value of Investment Properties	(609)
-	Recognition of Lease Liability	-
(960)	Balance transferred from HFI	-
(92,756)	Total Increase / (Decrease) in Amounts Set Aside to Finance Capital	(377,807)
(1,849,461)	Balance as at 31 March	(2,227,268)

c) Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefitting from gains per statutory provisions.

The Authority uses the Account to manage premiums paid on the early redemption of loans. Premiums are debited to the Comprehensive Income and Expenditure Statement when they are incurred, but reversed out of the General Fund Balance to the Account in the Movement in Reserves Statement. Over time, the expense is posted back to the General Fund Balance in accordance with statutory arrangements for spreading the burden on Council Tax.

31 March 2013 £'000	Financial Instruments Adjustment Account	31 March 2014 £'000
438	Balance at 1 April	322
-	Premiums and discounts incurred in the year and charged to the Comprehensive Income and Expenditure Statement	-
(116)	Proportion of premiums and discounts incurred in previous financial years charged against the General Fund Balance in accordance with statutory requirements	(116)
322		206
-	Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	-
322	Balance at 31 March	206

The £0.206m balance (discounts) relates to loans which were repaid in 2006/07 and subsequently derecognised and transferred to FIAA. The statutory provisions allow the balance to be amortised through the Movement in Reserves Statement (MIRS) / Movement on Housing Revenue Account Statement (MHRAS). In 2013/14, £0.1m has been amortised through the MIRS/MHRAS.

d) Deferred Capital Receipts Reserve

The Deferred Capital Receipts Reserve holds the gains recognised on the disposal of non-current assets but for which cash settlement has yet to take place. Under statutory arrangements, the Authority does not treat these gains as usable for financing new capital expenditure until they are backed by cash receipts. When the deferred cash settlement eventually takes place, amounts are transferred to the Capital Receipts Reserve.

31 March 2013 £'000	Deferred Capital Receipts Reserve	31 March 2014 £'000
2,790	Balance brought forward	0
-	Transfer of deferred sale proceeds credited as part of the gains/loss on disposal to the Comprehensive Income and Expenditure Statement	-
(2,790)	Transfer to the Capital Receipts Reserve	-
0	Balance carried forward	0

e) Pensions Reserve

The Pension 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.

31 March 2013 £'000	Pensions Reserve	31 March 2014 £'000
(419,068)	Balance at 1 April	(551,542)
(84,106)	Actuarial gains or losses on pensions assets and liabilities	121,553
(46,349)	Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	(51,356)
(30,478)	Business combinations	(9,642)
28,459	Employer's pensions contributions and direct payments to pensioners payable in the year	30,310
(551,542)	Balance at 31 March	(460,677)

f) Collection Fund Adjustment Account

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

2012/13 £'000	Collection Fund Adjustment Account	2013/14 £'000
8	Balance at 1 April	14
6	Amount by which council tax and non-domestic rates income credited to the Comprehensive Income and Expenditure Statement is different from council tax and non-domestic rates income calculated for the year in accordance with statutory requirements	423
14	Balance at 31 March	437

g) 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, e.g. annual leave entitlement carried forward at 31st March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

2012/13		Accumulated Absences Account	2013/14	
£'000	£'000		£'000	£'000
	4,823	Balance at 1 April		5,348
	453	Business combinations		-
(5,067)		Settlement or cancellation of accrual made at the end of the preceding year	(5,348)	
5,139		Amounts accrued at the end of the current year	5,525	
	72	Amount by which officer remuneration charged to the Comprehensive income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements		177
	5,348	Balance at 31 March		5,525

41. Cash and Cash Equivalents

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

2012/13 £'000	Cash and Cash Equivalents	2013/14 £'000
(15,883)	Cash and Bank Overdrawn	(24,898)
	<i>Cash and Cash Equivalents</i>	
5,000	Liquid investments	17,100
50	Cash held by the Authority	63
279	Bank Accounts	341
(10,554)	Total Cash and Cash Equivalents	(7,394)

Further information regarding liquid investments is included in note 32.

42. Cash Flow Statement – Operating Activities

Breakdown of adjustments to the net surplus/(deficit) on the provision services.

2012/13 £'000	Operating Activities Adjustments	2013/14 £'000
103,797	Net Surplus or (Deficit) on the Provision of Services	392,733
	Adjust net surplus or deficit on the provision of services for non cash movements	
36,034	Depreciation & impairment	39,596
(87,214)	Impairment and downward valuations	(350,098)
1,345	Amortisation	983
-	Losses or Gains on derecognition of loans & advances in year charged or credited to surplus or deficit on the provision of services	250
115	Soft Loans - Interest adjustment credited to I+E Account during year	-
(477)	Increase/Decrease in Interest Creditors	(527)
(2,278)	Increase/Decrease in Creditors	10,801
40	Increase/Decrease in Interest and Dividend Debtors	1
4,029	Increase/Decrease in Debtors	(1,756)
(145)	Increase/Decrease in Inventories	(83)
17,889	Pension Liability	21,047
(899)	Contributions to/(from) Provisions	1,663
33,121	Carrying amount of non-current assets sold [property plant and equipment, investment property and intangible assets]	15,525
(2,312)	Movement in Investment Property Values	(609)
(752)	Total	(263,207)
	Adjust for items included in the net surplus or deficit on the provision of services that are investing or financing activities	
(20,880)	Capital Grants credited to surplus or deficit on the provision of services	(14,543)
31,819	Proceeds from the sale of short and long term investments	-
(11,724)	Proceeds from the sale of property plant and equipment, investment property and intangible assets	(33,905)
(785)	Total	(48,448)
94,751	Net Cash Flows from Operating Activities	81,078

The cash flows for operating activities include the following items:

2012/13 £'000	Operating Activities (Interest)	2013/14 £'000
306	Interest Received	204
39,162	Interest Paid	37,916
-	Dividends received	-

43. Cash Flow Statement – Investing Activities

2012/13 £'000	Investing Activities	2013/14 £'000
(83,112)	Purchase of property, plant and equipment, investment property and intangible assets	(77,029)
(5,000)	Purchase of short-term and long-term investments	(5,324)
-	Other payments for investing activities	(2,100)
16,025	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	33,836
-	Proceeds from short-term and long term investments	5,000
20,654	Other receipts from investing activities	16,761
(51,433)	Net cash flows from investing activities	(28,857)

44. Cash Flow Statement – Financing Activities

2012/13 £'000	Financing Activities	2013/14 £'000
48,000	Cash receipts of short- and long-term borrowing	10,000
(17,383)	Other receipts/ (payments) from financing activities	-
(6,668)	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	(8,500)
(70,860)	Repayments of short- and long- term borrowing	(48,734)
	Council Tax and NDR adjustments	(2,250)
(6)	Appropriation to/from Collection Fund Adjustment Account	423
(46,917)	Net cash flows from financing activities	(49,061)

45. Amounts Reported for Resource Allocation (Segmental Reporting)

The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement is that specified by the Service Reporting Code of Practice for Local Authorities. However, decisions about resource allocation are taken by the Council's Executive on the basis of budget reports analysed across service departments. These reports are prepared on a similar basis to the accounting policies used in the financial statements. It must be noted that the majority of charges made in relation to capital expenditure (such as depreciation and impairment losses), adjustments to the cost of retirement benefits to reflect current service cost of benefits rather than cash flows, and central recharge reallocations are only reported in the final outturn report of the year.

On 1st April 2013, the Corporate Resources directorate was re-organised between the Chief Executive directorate and the Finance & Resources directorate, and the Council acquired a new Public Health directorate. This new structure is reflected in the tables below, with 2012/13 restated on a comparative basis.

The income and expenditure of the Council's principal service departments recorded in the outturn report for the year is as follows:

Departmental Income and Expenditure 2013/14	Children's Services	Environment & Regeneration	Adults & Housing	Public Health	Chief Executive	Finance & Resources	Central Items	Housing Revenue Account Services	Subtotal Net Expenditure
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Fees, Charges & Other Service Income	(14,003)	(42,367)	(39,970)	(2,054)	(3,910)	(7,831)	(129,138)	(198,027)	(437,300)
Government Grants	(179,331)	(3,195)	(7,965)	(24,350)	(1,648)	(205,708)	(159,854)	(23,902)	(605,953)
Total Income	(193,334)	(45,562)	(47,935)	(26,404)	(5,558)	(213,539)	(288,992)	(221,929)	(1,043,253)
Employee expenses	162,800	45,786	31,004	3,363	15,930	36,250	(3,165)	26,938	318,906
Other Services Expenses	67,058	21,215	80,971	21,591	(7,177)	159,051	28,866	173,465	545,040
Support Service Recharges	64,166	29,402	27,921	2,526	5,532	11,259	21,249	20,235	182,290
Total Operating Expenses	294,024	96,403	139,896	27,480	14,285	206,560	46,950	220,638	1,046,236
Net Expenditure	100,690	50,841	91,961	1,076	8,727	(6,979)	(242,042)	(1,291)	2,983

Departmental Income and Expenditure 2012/13	Children's Services	Environment & Regeneration	Adults & Housing	Public Health	Chief Executive	Finance & Resources	Central Items	Housing Revenue Account Services	Subtotal Net Expenditure
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Fees, Charges & Other Service Income	(47,221)	(61,985)	(55,745)	-	(19,641)	(73,705)	(94,954)	(175,442)	(528,693)
Government Grants	(173,866)	(6,631)	(7,437)	-	(2,619)	(229,312)	(206,981)	(24,053)	(650,899)
Total Income	(221,087)	(68,616)	(63,182)	0	(22,260)	(303,017)	(301,935)	(199,495)	(1,179,592)
Employee expenses	151,367	31,314	30,395	-	15,156	33,314	14	27,416	288,976
Other Services Expenses	140,944	71,732	94,157	-	9,884	253,125	3,622	152,684	726,148
Support Service Recharges	46,082	24,324	29,702	-	6,633	10,979	21,756	18,556	158,032
Total Operating Expenses	338,393	127,370	154,254	0	31,673	297,418	25,392	198,656	1,173,156
Net Expenditure	117,306	58,754	91,072	0	9,413	(5,599)	(276,543)	(839)	(6,436)

Reconciliation of Departmental Income and Expenditure to Cost of Services in the Comprehensive Income and Expenditure Statement

This reconciliation shows how the figures in the analysis of departmental income and expenditure relate to the amounts include in the Comprehensive Income and Expenditure Statement

Reconciliation of Departmental Income and Expenditure to Cost of Services in the Comprehensive Income and Expenditure Statement	2012/13 £'000	2013/14 £'000
Net expenditure in the Departmental Analysis	(6,436)	2,983
Net expenditure of services and support services not included in the Analysis	-	-
Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the Analysis	-	-
Total	(6,436)	2,983
Amounts included in the Analysis not included in the Comprehensive Income and Expenditure Statement	116,043	(164,549)
Cost of Services in Comprehensive Income and Expenditure Statement	109,607	(161,566)

Reconciliation to Subjective Analysis

This reconciliation shows how the figures in the analysis of Departmental Income and Expenditure relate to a subjective analysis of the Surplus or Deficit on the Provision of Services included in the Comprehensive Income and Expenditure Statement.

Reconciliation to Subjective Analysis 2013/14	Departmental Analysis	Services and Support Services not in Analysis	Amounts not reported to management for decision making	Amounts not included in I&E	Allocation of Recharges	Cost of services	Corporate Amounts	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Fees, Charges & Other Service Income	(368,981)	-	-	62,656	-	(306,325)	(62,656)	(368,981)
Interest and Investment Income	(200)	-	-	200	-	0	(200)	(200)
Income from Council Tax	(68,119)	-	-	68,119	-	0	(68,119)	(68,119)
Government Grants and Contributions	(605,953)	-	-	160,872	-	(445,081)	(160,872)	(605,953)
Total Income	(1,043,253)	0	0	291,847	0	(751,406)	(291,847)	(1,043,253)
Employee Expenses	318,906	-	-	(41,672)	167,893	445,127	41,672	486,799
Other Services Expenses	803,007	-	-	(363,150)	140,164	580,021	(32,566)	547,455
Support Service Recharges	182,290	-	-	-	(308,057)	(125,767)	-	(125,767)
Depreciation, Amortisation and Impairment	(309,541)	-	-	-	-	(309,541)	-	(309,541)
Interest Payments	60,034	-	-	(60,034)	-	0	60,034	60,034
Precepts and Levies	6,840	-	-	(6,840)	-	0	6,840	6,840
Payments to Housing Capital Receipts Pool	3,079	-	-	(3,079)	-	0	3,079	3,079
Gain or Loss on Disposal of Fixed Assets	(18,379)	-	-	18,379	-	0	(18,379)	(18,379)
Total Operating Expenses	1,046,236	0	0	(456,396)	0	589,840	60,680	650,520
Surplus or Deficit on the Provision of Services	2,983	0	0	(164,549)	0	(161,566)	(231,167)	(392,733)

Reconciliation to Subjective Analysis 2012/13	Departmental Analysis	Services and Support Services not in Analysis	Amounts not reported to management for decision making	Amounts not included in I&E	Allocation of Recharges	Cost of services	Corporate Amounts	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Fees, Charges & Other Service Income	(399,825)	-	-	9,046	-	(390,779)	(9,301)	(400,080)
Interest and Investment Income	(42,515)	-	-	42,515	-	0	(42,191)	(42,191)
Income from Council Tax	(86,354)	-	-	86,354	-	0	(86,354)	(86,354)
Government Grants and Contributions	(650,899)	-	-	208,361	-	(442,538)	(208,361)	(650,899)
Total Income	(1,179,593)	0	0	346,276	0	(833,317)	(346,207)	(1,179,524)
Employee Expenses	288,978	-	-	(37,081)	85,748	337,645	38,557	376,202
Other Services Expenses	709,984	-	-	(126,339)	72,284	655,929	28,909	684,838
Support Service Recharges	158,032	-	-	-	(158,032)	0	-	0
Depreciation, Amortisation and Impairment	(50,650)	-	-	-	-	(50,650)	-	(50,650)
Interest Payments	35,598	-	-	(35,598)	-	0	41,631	41,631
Precepts and Levies	7,061	-	-	(7,061)	-	0	7,061	7,061
Payments to Housing Capital Receipts Pool	2,703	-	-	(2,703)	-	0	2,703	2,703
Gain or Loss on Disposal of Fixed Assets	21,451	-	-	(21,451)	-	0	21,451	21,451
Total Operating Expenses	1,173,157	0	0	(230,233)	0	942,924	140,312	1,083,236
Surplus or Deficit on the Provision of Services	(6,436)	0	0	116,043	0	109,607	(205,895)	(96,288)

46. Contingent Liabilities and Assets

Legal claims pending settlement

The Council is involved in approximately 8 outstanding employment tribunal cases relating mainly to claims of equal pay, unfair dismissal and/or sex, race or disability discrimination. A liability will arise if either the Council settles a case and agrees to pay compensation, or the decision of the Employment Tribunal is in favour of the applicant and the Council is ordered to pay compensation. The estimated maximum potential liability for these outstanding cases is £0.2m.

The Council has liability for costs in 2 major matters that concluded in 2013/14. The maximum liability the Council could face for these and other ongoing civil and disrepair claims is up to £1.2m.

Over the next few years, there are a number of leases expiring where there may be an obligation on the Council to make good any assessed dilapidations.

Termination Benefits

Due to the unprecedented cuts to the council's funding from central government, the council will have had to have delivered savings of more than £100m over the four year period to 2014-15 and it currently expects this trend to continue over the next four years. A significant number of posts have been cut from the Council workforce and the financial impact of these are set out in note 14. There will continue to be cuts to the Council workforce and given significant costs in terminating employment contracts going forward cannot be estimated with any great degree of accuracy as they will depend on a number of factors related to the individuals concerned, such as length of service, the council has created an earmarked reserve to meet such future costs. The balance of this reserve was £4.0m at 31st March 2014.

Contractual claims pending

None pending.

Guarantees given

None given

Contingent Assets

None known.

47. Events After the Balance Sheet Date

The Draft Statement of Accounts 2013/14 was authorised for issue on 30th June 2014 by Mike Curtis, Corporate Director of Finance. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31st March 2014, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

48. Defined Benefit Pension Schemes

Participation in Pensions Schemes

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

The Council participates in two post-employment schemes:

- the Local Government Pension Scheme for non-teaching employees, administered by both this Council and the London Pensions Fund Authority (for those former employees of GLC/ILEA) – this is a funded scheme, meaning that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets.
- 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 pensions liabilities, and cash has to be generated to meet actual pensions payments as they eventually fall due. This includes discretionary benefits in relation to the Teachers' Pension Scheme.

Transactions Relating to Post-Employment Benefits

The Council 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 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 or adjusted in the General Fund Balance via the Movement in Reserves Statement during the year:

	Local Government Pension Scheme		Discretionary Benefits Arrangements *	
	31 March 2013	31 March 2014	31 March 2013	31 March 2014
	£'000	£'000	£'000	£'000
Comprehensive Income and Expenditure Statement				
<i>Cost of Services</i>				
Current service costs including admin. expenses	23,664	32,056	-	-
Past service costs including curtailments	1,405	2,093	-	-
Settlements	-	(5,442)	-	-
<i>Financing and Investment Income and Expenditure</i>				
Net Interest Expense	19,061	20,655	2,218	1,995
Total Post Employment Benefits Charged to the Surplus or Deficit on the Provision of Services	44,130	49,362	2,218	1,995
Other Post Employment Benefits Charged to the Comprehensive Income and Expenditure Statement				
<i>Remeasurement of the net defined benefit liability comprising:</i>				
Return on plan assets (excluding the amount included in the net interest expense)	(58,170)	(57,839)	-	-
Actuarial gains and losses arising from changes in demographic assumptions	12,410	12,915	417	653
Actuarial gains and losses arising from changes in financial assumptions	125,341	(104,481)	3,949	(1,777)
Other (if applicable)	-	25,834	159	3,142
Total Post Employment Benefits Charged to the Comprehensive Income and Expenditure Statement	123,711	(74,209)	6,743	4,013

Movement in Reserves Statement

Reversal of net charges made to the Surplus or Deficit for the Provision of Services for post employment benefits in accordance with the Code	(44,130)	(49,362)	(2,218)	(1,995)
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Actual amount charged against the General Fund Balance for pensions in the year

Employers' contributions payable to scheme	24,689	26,886	3,307	3,425
Retirement Benefits Payable to Pensioners	-	-	3,307	3,425

*Discretionary benefits comprise the unfunded elements of the local government pension schemes (LGPS and LPFA) and the teachers' pension scheme.

Pensions Assets and Liabilities Recognised in the Balance Sheet

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

Scheme History	Funded Liabilities				Unfunded Liabilities		Total 31 March 14 £'000
	Islington Council Pension Fund		London Pensions Fund Authority		Discretionary Benefits		
	31 March 13 £'000	31 March 14 £'000	31 March 13 £'000	31 March 14 £'000	31 March 13 £'000	31 March 14 £'000	
Present Value of defined benefit obligation	(1,264,748)	(1,295,989)	(46,874)	(43,089)	(51,144)	(51,732)	(1,390,810)
Fair Value of Plan Assets	773,727	887,412	37,498	42,721	-	-	930,133
Net liability	(491,021)	(408,577)	(9,376)	(368)	(51,144)	(51,732)	(460,677)

The total net liability of £461m has a substantial impact on the net worth of the Council as recorded in the balance sheet. However, statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy:

- The deficit on the local government scheme will be made good by increased contributions over the remaining working life of employees, as assessed by the scheme actuary;
- Finance is only required to be raised to cover teachers' pensions when the pensions are actually paid.

Reconciliation of Present Value of the Scheme Liabilities (Defined Benefit Obligation)

Liabilities show the underlying commitments that the Council has in the long run to pay in retirement benefits.

Reconciliation of present value of the scheme liabilities 2013/14	Funded Liabilities		Unfunded Liabilities
	Islington Council Pension Fund £'000	London Pensions Fund Authority £'000	Discretionary Benefits £'000
Balance at 1st April 2013	1,264,748	46,874	51,144
Current service costs	30,873	181	-
Interest cost	53,968	1,606	1,995
Contributions by scheme participants	9,057	34	-
<i>Remeasurement (gains) and losses:</i>			
Actuarial gains and losses arising from changes in demographic assumptions	12,532	383	653
Actuarial gains and losses arising from changes in financial assumptions	(101,464)	(3,017)	(1,777)
Other (if applicable)	32,440	(838)	3,142
Past service costs	290	115	-
Losses/(gains) on curtailment	1,688	-	-
Liabilities assumed on entity combinations	42,392	-	-
Benefits paid	(39,014)	(2,249)	(3,425)
Liabilities extinguished on settlements	(11,521)	-	-
Balance at 31st March 2014	1,295,989	43,089	51,732

Reconciliation of present value of the scheme liabilities 2012/13	Funded Liabilities		Unfunded Liabilities
	Islington Council Pension Fund	London Pensions Fund Authority	Discretionary Benefits
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Balance at 1st April 2012	970,214	41,661	47,797
Current service costs	22,562	166	-
Interest cost	52,490	1,863	2,218
Contributions by scheme participants	8,400	39	-
<i>Remeasurement (gains) and losses:</i>			
Actuarial gains and losses arising from changes in demographic assumptions	12,410	5,509	417
Actuarial gains and losses arising from changes in financial assumptions	119,827	-	3,950
Other (if applicable)	-	-	159
Past service costs	393	-	-
Losses/(gains) on curtailment	1,012	-	-
Liabilities assumed on entity combinations	115,500	-	-
Benefits paid	(38,060)	(2,364)	(3,397)
Liabilities extinguished on settlements	-	-	-
Balance at 31st March 2013	1,264,748	46,874	51,144

Reconciliation of the Movements in the Fair Value of Scheme (Plan) Assets

Assets in the funded local government scheme are valued at fair value, principally market value for investments. Discretionary benefits arrangements under the Teachers' Pension Scheme and the Local Government Pension Scheme have no assets to cover the liabilities.

Reconciliation of the Movements in the Fair Value of Scheme Assets 2013/14	Funded Liabilities		Unfunded Liabilities
	Islington Council Pension Fund	Islington Pensions Fund Authority	Discretionary Benefits
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Opening Fair Value of Scheme Assets at 1st April 2013	773,727	37,498	0
Interest Income	33,639	1,280	-
<i>Remeasurement gain/(loss)</i>			
The return on plan assets, excluding the amount included in the net interest expense	57,809	30	-
Other (if applicable)	-	5,768	-
Business combinations	32,750	-	-
Settlements	(6,079)	-	-
Contributions by the employer	26,469	417	3,425
Contributions by scheme participants	9,057	34	-
Benefits paid	(39,014)	(2,250)	(3,425)
Administration expenses	(946)	(56)	-
Closing Fair Value of Scheme Assets at 31st March 2014	887,412	42,721	0

Reconciliation of the Movements in the Fair Value of Scheme Assets 2012/13	Funded Liabilities		Unfunded Liabilities
	Islington Council Pension Fund	Islington Pensions Fund Authority	Discretionary Benefits
	£'000	£'000	£'000
Opening Fair Value of Scheme Assets at 1st April 2012	604,300	36,304	0
Interest Income	33,725	1,622	-
<i>Remeasurement gain/(loss)</i>			
Return on plan assets, excluding the amount included in the net interest expense	56,507	1,663	-
Other (if applicable)	-	-	-
Business combinations	85,022	-	-
Contributions by the employer	24,689	357	3,411
Contributions by scheme participants	8,440	39	-
Benefits paid	(38,077)	(2,364)	(3,411)
Administration expenses	(879)	(57)	-
Closing Fair Value of Scheme Assets at 31st March 2013	773,727	37,498	0

Local Government Pension Scheme assets

The Fund's assets consist of the following categories:

Local Government Pension Scheme Assets (LGPS)	Quoted	Fair value of scheme assets	
		31/03/2013 £000	31/03/2014 £000
Equities			
UK quoted	Y	255,329	292,846
Private equity	N	38,686	44,371
Global - North America	Y	77,373	97,615
Global - Europe	Y	46,424	53,245
Global - Japan	Y	15,475	8,874
Global - Pacific (ex Japan)	Y	23,212	17,748
Global - Emerging / Other	Y	46,424	53,245
Sub-total equities		502,923	567,944
Bonds			
UK other	Y	154,745	186,357
Sub-total bonds		154,745	186,357
Property			
UK	Y	92,847	106,489
Overseas	N	7,737	8,874
Sub-total property		100,584	115,363
Cash			
Cash accounts	Y	15,475	17,748
Sub-total cash		15,475	17,748
Total assets		773,727	887,412

Local Government Pension Scheme Assets (LPFA)	Quoted	Fair value of scheme assets	
		31/03/2013 £000	31/03/2014 £000
Equities			
Global	Y	9,593	11,298
Investment funds unquoted	N	6,695	8,531
Investment funds quoted	Y	641	505
Private equity	N	2,939	2,897
Sub-total equities		19,868	23,231
Bonds			
LDI	N	3,672	2,628
Target return	Y	1,218	1,392
Investment funds and unit trusts quoted	Y	4,029	5,729
Investment funds and unit trusts unquoted	N	4,921	5,465
Sub-total bonds		13,840	15,214
Alternatives			
Infrastructure	N	1,346	1,497
Property funds	N	1,394	1,131
Commodity funds	Y	421	465
Cash	Y	731	976
Derivatives	N	(100)	128
Sub-total alternatives		3,792	4,197
Total assets		37,500	42,642

Basis for Estimating Assets and Liabilities

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

Both the local government scheme liabilities and teachers' pensions discretionary benefits liabilities have been assessed by Mercer, an independent firm of actuaries, being based on the latest full valuation of the scheme as at 31st March 2013.

The significant assumptions used by the actuary have been:

	Funded and Unfunded				Unfunded	
	Islington Council Pension Fund		London Pensions Fund Authority		Discretionary Benefits Teachers' Pension Scheme	
	31 March 13	31 March 14	31 March 13	31 March 14	31 March 13	31 March 14
Long-term expected rate of return on assets in the scheme:						
Equity Investments	7.0%	7.0%	6.3%	4.0%	0	0
Bonds	3.9%	4.3%	4.5%	4.0%	0	0
Other	5.3%	5.4%	4.1%	4.0%	0	0
Mortality assumptions						
Longevity at 65 for current pensioners (in years):						
Men	21.5	22.4	19.9	20.8	21.5	22.4
Women	24.4	25.1	23	24.3	24.4	25.1
Longevity at 65 for future pensioners (in years):						
Men	23.4	24.6	22.0	23.2	0.0	0.0
Women	26.4	27.4	24.9	26.6	0.0	0.0
Rate of inflation	2.4%	2.4%	2.4%	2.6%	2.4%	2.4%
Rate of increase in salaries	4.2%	4.2%	4.1%	4.4%	0.0	0.0
Rate of increase in pensions	2.4%	2.4%	2.4%	2.6%	2.4%	2.4%
Rate of discounting scheme liabilities	4.2%	4.4%	3.5%	4.2%	3.7%	4.3%

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table above. The sensitivity analyses below have been determined based on reasonably possible changes of the assumptions occurring at the end of the reporting period and assumes for each change that the assumption analysed changes while all the other assumptions remain constant. The assumptions in longevity, for example, assume that life expectancy increases or decreases for men and women. In practice, this is unlikely to occur, and changes in some of the assumptions may be interrelated. The estimations in the sensitivity analysis have followed the accounting policies for the scheme, i.e. on an actuarial basis using the projected unit credit method. The methods and types of assumptions used in preparing the sensitivity analysis below did not change from those used in the previous period.

Impact on the Defined Benefit Obligation in the Scheme	LGPS		LPFA	
	Increase in Assumption	Decrease in Assumption	Increase in Assumption	Decrease in Assumption
	£000	£000	£000	£000
Longevity (increase or decrease in 1 year)	26,182	(26,182)	(1,552)	1,552
Rate of inflation (increase or decrease by 1%)	24,105	(24,105)	578	(570)
Rate of increase in salaries (increase or decrease by 1%)	4,880	(4,880)	27	(27)
Rate of increase in pensions (increase or decrease by 1%)	24,105	(24,105)	578	(570)
Rate for discounting scheme liabilities (increase or decrease by 1%)	(23,675)	23,675	(588)	596

Impact of the Authority's Cash Flows

The objectives of the scheme are to keep employers' contributions at as constant a rate as possible. The Council has agreed a strategy with the scheme's actuary to achieve a funding level of 100% over the 22 years. Funding levels are monitored on an annual basis. The triennial valuation was completed on 31 March 2013.

The scheme will need to take account of the national changes to the scheme under the Public Pensions Services Act 2013. Under the Act, the Local Government Pension Scheme in England and Wales and the other main existing public service schemes may not provide benefits in relation to service after 31 March 2014 (or service after 31 March 2015 for other main existing public service pension schemes in England and Wales). The Act provides for scheme regulations to be made within a common framework, to establish new career average revalued earnings schemes to pay pensions and other benefits to certain public servants.

The authority anticipated to pay £29.9m expected contributions to the LGPS and LPFA schemes in 2014/2015.

The weighted average duration of the defined benefit obligation for scheme members within LGPS is 18 years, 2013/14 (15 years 2012/2013), and within LPFA is 14 years in 2013/14 (12 years in 2012/13).

The authority is exposed to a number of risks:

LGPS

- Investment risk. The Fund's primary risk is that assets fall short of liabilities in the long term and as a result it is not able to honour promised benefits to members. The Fund has identified the investment risk inherent in the predominantly equity based strategy, as its biggest risk. The Investment Strategy adopted by the Pension Sub-Committee to mitigate this risk includes a diversified asset allocation to include property, private equity and bonds. The equity portfolio is diversified by region and company holdings. The committee monitors regularly by performance benchmark and reviews strategies as markets evolve.
- Price Risk. The Fund quantifies prices risk by observing the potential market movement on the riskier assets and possible change in valuation.
- Currency risk. Overseas equities held by the Fund are currently 50-75% hedged hence mitigating any volatility in the major currencies of the dollar, yen and euro. 75% of the overseas equities are in the basket of the passive currency overlay hedge.
- Other risks.
 - Actions taken by the government, or changes to European legislation, could result in stronger local funding standards, which could materially affect the authority's cash flow.
 - There is a risk that changes in the assumptions (e.g. life expectancy, price inflation, discount rate) could increase the defined benefit obligation and/or the liabilities for actuarial valuation purposes.

LPFA

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

In addition, as many unrelated employers participate in the London Pension Fund Authority Pension Fund, there is an orphan liability risk where employers leave the Fund but with insufficient assets to cover their pension obligations so that the difference may fall on the remaining employers.

Defined Benefit Scheme - Accrued Pensions Contributions

At 31st March 2014, the Council owed LGPS £1.4m and LPFA £39k for employer, employee contributions and pension strain. These balances were subsequently settled by June 2014.

49. Pension Schemes Accounted for as Defined Contribution Schemes

Teachers' Pension Scheme

Teachers employed by the Council are members of the Teachers' Pension Scheme, administered by 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 the 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 2013/14 the Council paid £7.4m to Teacher's Pensions in respect of teachers' retirement benefits, representing 14.1% of pensionable pay. The figures for 2012/13 were £7.3m and 14.1% respectively. In addition the Council is responsible for all pension payments relating to added years it has awarded, together with the related increases. In 2013/14 these amounted to £0.8m (£0.79m in 2012/13).

The Council 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 and detailed in Note 48.

NHS Pension Scheme

During 2013/14, NHS staff have transferred to the Council. These staff have maintained their membership in the NHS Pension Scheme. The Scheme provides these staff with specified benefits upon their retirement and the Council contributes towards the costs by making contributions based on a percentage of members' pensionable salaries.

The scheme is an unfunded defined benefit scheme. However, the Council is not able to identify its share of the 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 2013/14 the Council paid £289k to the NHS Pension Scheme in respect of former NHS staff retirement benefits, representing 14% of pensionable pay. There was no contributions remaining payable at year end.

50. Grant Income

The Council credited the following grants and contributions to the Comprehensive Income and Expenditure Statement in 2013/14:

Income from Grants, Contributions and Donations	2012/13	2013/14
	<i>£'000</i>	<i>£'000</i>
Credited to Taxation and Non Specific Grant Income		
Non Domestic Rates	151,318	-
Revenue Support Grant	2,933	111,949
Top-up Grant	-	19,616
Early Intervention Grant	14,635	-
Learning Disability and Health Reform Grant	6,928	287
New Homes Bonus	5,220	9,833
Council Tax Freeze Grant	2,159	864
Local Services Support Grant	1,272	95
Education Services Grant	-	2,879
Donated Assets	8	-
Capital Grants	20,872	11,932
Other non specific grants	2,575	3,418
Other donations	-	-
Total	207,920	160,873
Credited to Services		
Dedicated Schools Grant	149,204	151,939
Housing Benefit Subsidy	201,814	205,471
HRA Subsidy	167	-
Council Tax Benefit Subsidy	29,140	-
Housing & Council Tax Benefits Administration Grant	3,320	2,962
Public Health Grant	-	24,350
Private Finance Initiative	33,304	32,907
Pupil Premium Grant	7,349	10,955
Sixth Form Funding	4,074	3,630
Asylum Seekers	1,495	1,273
Other grants and contributions	13,113	11,595
Other donations	-	-
Total	442,980	445,082

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

31 Mar 2013 £'000	Grant Balances	31 Mar 2014 £'000
Grants Receipts in Advance - Short Term		
Revenue Grants		
(1,952)	Social Care Reform Grant	(1,593)
(2,009)	Dedicated Schools Grant	(5,751)
-	Public Health Grant	(386)
(330)	Other Government Grants balances	(407)
-	Other Contributions balances	(10)
(4,291)	Total	(8,147)
Capital Grants		
(292)	Government Grants	(818)
(4,641)	s106 Contributions	(2,700)
(122)	Third Party contributions	(53)
(5,055)	Total	(3,571)
Grants Receipts in Advance - Long Term		
Capital Grants		
(563)	Government Grants	(371)
(14,392)	s106 Contributions	(16,320)
-	Third Party contributions	-
(14,955)	Total	(16,691)

51. 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). An element of DSG is recouped by the Department to fund academy schools in the council's area. 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 2011. The Schools Budget includes elements for a range of educational services provided on an authority-wide basis and for the Individual Schools Budget, which is divided into a budget share for each maintained school.

Over- and under-spending on the two elements are required to be accounted for separately. Details of the deployment of DSG receivable for 2013/14 are as follows:

Schools Budget funded by Dedicated Schools Grant	Central Expenditure £'000	Individual Schools Budget £'000	Total £'000
Final DSG for 2013/14 before Academy recoupment	-	-	163,982
Academy figure recouped for 2013/14	-	-	(8,301)
Total DSG after Academy recoupment for 2013/14	0	0	155,681
Brought forward from 2012/13	-	-	2,009
Carry forward to 2014/15 agreed in advance	-	-	-
Agreed initial budgeted distribution in 2013/14	32,016	125,674	157,690
In-year adjustments	-	-	-
Final budgeted distribution for 2013/14	32,016	125,674	157,690
less Actual Central Expenditure	-	-	-
less Actual ISB deployed to schools	(26,265)	(125,674)	(151,939)
plus Local authority contribution for 2013/14	-	-	-
Carry forward to 2014/15 agreed in advance	5,751	0	5,751

52. Trust Funds and Other Third Party Funds

The Council does not act as sole or custodian trustee for any trust funds, nor is it a trustee for any other funds. However the Council is responsible for the administration of a number of third party funds. These funds do not represent assets of the Council and, therefore, have not been included in the Council's Balance Sheet. These funds totalled £24.1m at 31st March 2014 (£16.4m at 31st March 2013) and mainly relate to money held for vulnerable individuals living in their own homes or in residential homes.

Housing Revenue Income and Expenditure Account

This Account records Income and Expenditure relating the Council's Housing Stock.

Income and Expenditure Statement for the Housing Revenue Account

2012/13 £'000	Housing Revenue Account Income and Expenditure Statement	2013/14 £'000
Expenditure		
22,104	Repairs and Maintenance	23,463
79,437	Supervision and Management	84,793
363	Rents, Rates, Taxes and Other Charges	288
15,226	Depreciation of non-current Assets	17,343
-	Impairment of non-current Assets	-
302	Debt Management Costs	333
-	Movement in the allowance for bad debts	582
117,432	Total Expenditure	126,802
Income		
(133,803)	Dwellings Rents (gross)	(140,685)
(1,556)	Non-Dwellings Rents (gross)	(1,592)
(28,224)	Charges for Services & Facilities	(27,566)
(833)	Transfers from General Fund - Communal Use	(833)
-	HRA Subsidy Receivable	-
(22,855)	PFI Government grant receivable	(22,855)
(116,912)	Revaluation and gain on non-current Assets	(367,835)
-	Contributions towards Expenditure	-
565	Movement in the allowance for bad debts	-
(303,618)	Total Income	(561,366)
(186,186)	Net Cost of Services as included in the comprehensive Income and Expenditure Statement	(434,564)
2,847	HRA services' share of Corporate and Democratic Core	2,890
-	HRA share of none allocated spec. services	-
(183,339)	Net (Income) / Cost of HRA Services	(431,674)

HRA share of the operating income and expenditure included in the comprehensive Income and Expenditure Statement:		
	<i>Gain or loss on sale of HRA non-current assets</i>	
(5,871)	Gain or loss on property, plant & equipment	(16,171)
(32)	Gain or loss on investment properties	192
(2,313)	Gain or loss on revaluation of investment properties	(128)
-	Net HRA Income or Expenditure on AMRA	-
28,341	Interest payable and similar charges	26,998
(1,031)	Capital Grants and Contributions receivable	(1,018)
(502)	Interest and investment income	(397)
(164,747)	(Surplus)/Deficit for the year on HRA Services	(422,198)

Statement of Movement on the Housing Revenue Account Balance

This Statement provides a reconciliation between the HRA Income and Expenditure Statement and the movement on the HRA Balance.

2012/13 £'000	Movement on the HRA Statement	2013/14 £'000
(11,703)	Balance on the HRA at the end of the previous year	(12,789)
(164,747)	Surplus or (Deficit) for year on the HRA Income and Expenditure Account	(422,198)
163,907	Adjustments between accounting basis and funding basis under statute	420,697
(840)	Net (Increase) or decrease before transfers to or from reserves	(1,501)
-	Transfers to / from reserves	210
(840)	Increase or decrease in year on the HRA	(1,291)
(246)	Business Combination (HFI Retained Earnings)	-
(12,789)	Balance on the HRA at the end of the current year:	(14,080)

The following table details the adjustments between accounting basis and funding basis under statute reported in the above table.

2012/13 £'000	Note on Reconciling Items for the HRA Balance	2013/14 £'000
Adjustments between accounting basis and funding basis under statute		
-	Impairment of non-current Assets	-
1,031	Capital Grants received transferred to Grants Reserve	1,018
-	REFCUS	(1,345)
6,526	Repayment of PFI / lease liabilities	6,231
5,903	Gain or loss on sale of HRA non-current assets	15,979
116,098	Gain or loss on revaluation of council dwellings	367,814
(3,086)	Net charges made for retirement benefits in accordance with IAS 19	(3,820)
(116)	Differences between interest payable and similar charges including amortisation of premiums and discounts	(116)
2,848	Employer's contributions payable to the Pension Fund and retirement benefits payable direct to pensioners	2,345
107	Differences between any other item of income & expenditure determined by the SerCOP and HRA statutory requirement	(36)
-	Capital Receipts to fund Disposal Costs	(388)
(15,226)	Transfer depreciation to Capital Adjustment Account	(17,343)
2,232	Capital Expenditure funded by the HRA	2,079
44,401	Transfers to/from Major Repairs Reserve	48,279
Transfer to / from earmarked reserves		
61	Transfer to/(from) PFI Smoothing Fund	61
3,128	Amounts transferred to/from HRA Reserve	149
163,907	Net additional amount required by statute to be debited or credited to the HRA Balance for the year	420,907

Notes to the Housing Revenue Account

1. Number and types of Dwellings

The number and types of dwelling in the Council's housing stock are shown below.

2012/13 Nos	Housing stock numbers	2013/14 Nos
23,357	Flats	23,231
2,489	Houses	2,462
-	Multiple Occupation	-
25,846	Total	25,693

2. Value of Dwellings

The value of Council Dwellings as at 31st March 2014 was £2.403 billion. The basis of the valuation for these dwellings is 'Existing Use Value for Social Housing' based on the vacant possession value of the properties, adjusted to reflect the occupation by a secure tenant. The vacant possession factor is 25% in 2013/14 (25% in 2012/13), which means that the vacant possession value of the dwellings within the HRA as at 31st March 2014 is £9.610 billion. The difference between the vacant possession and the Balance Sheet value shows the economic cost to the Government of providing social housing at less than open market rents.

2012/13 £'000	Housing Stock - Value	2013/14 £'000
Operational Assets		
1,884,768	Council dwellings	2,402,600
Other		
18,036	Other Land & buildings	18,305
19,609	Infrastructure Assets	23,675
969	Vehicles, Equipment & Plant	554
4,980	Surplus Non-operational assets	5,400
3	Community Assets	3
7,171	Investment Properties	6,789
8,705	Assets under Construction	10,996
1,944,241	Total	2,468,322

3. Major Repairs Reserve

Expenditure financed from the Major Repairs Reserve amounted to £32.90m in 2013/14 (£32.95m in 2012/13).

2012/13 £'000	Major Repairs Reserve	2013/14 £'000
(27,127)	Balance as at 1st April	(38,581)
(15,226)	Transfer from Capital Adjustment Account (equivalent to HRA depreciation)	(17,344)
(29,176)	Transfer to/(from) HRA	(30,934)
32,948	Capital Expenditure on Dwellings	32,903
(38,581)	Balance as at 31 March	(53,956)

4. Housing Repairs Account

Islington Council does not keep a Housing Repairs Account.

5. Capital Expenditure and Capital Receipts

The Council spent £50.49m on the Housing stock in 2013/14 (£40.96m in 2012/13). Capital Receipts in year amounted to £27.91m of which £3.08m was paid to Central Government.

2012/13 £'000	HRA Capital Expenditure	2013/14 £'000
40,261	Works to HRA Dwellings / Other Properties	48,677
704	REFCUS	1,809
40,965	Total	50,486

2012/13 £'000	Capital Expenditure by Funding Source	2013/14 £'000
5,818	Borrowing	4,238
464	Usable Capital receipts	10,235
704	Revenue Contributions	2,079
32,948	Major Repairs Reserve	32,916
-	PFI Funded works	-
1,031	Other	1,018
40,965	Total	50,486

2012/13 £'000	Summary of Capital Receipts	2013/14 £'000
9,483	Usable	24,833
2,703	Paid to DCLG	3,079
-	Reserved	-
12,186	Total	27,912

2012/13 £'000	Summary of Capital Receipts per Property Category	2013/14 £'000
2,805	Land	200
9,381	Dwellings and Other Properties	27,712
12,186	Total	27,912

6. Depreciation

The amount included in the Housing Revenue Account Income and Expenditure Account for Depreciation amounted to £17.3m in 2013/14 (£15.2m in 2012/13).

2012/13 £'000	Depreciation	2013/14 £'000
13,156	Council Dwellings	15,238
468	Other Land & Buildings	472
831	Infrastructure Assets	908
548	Vehicles, Equipment & Plant	502
131	Surplus Non-operational assets / Community Assets	130
93	Intangible Assets	93
15,227	Total Depreciation	17,343

7. Impairment

Nil impairment was charged during 2013/14 (nil for 2012/13).

8. Items Directed by the Secretary of State

None

9. Contribution to Pension Reserve

HRA share of the contribution to the Pension Reserve in 2013/14 was £0.051m (£0.051m in 2012/13).

10. Rent Arrears

Outstanding rent arrears at 31st March 2014 were £5.088m. The amounts outstanding at 31st March 2013 were £5.035. During 2013/14, irrecoverable rent arrears of £0.6m were written off. The cumulative bad debt provision for rent arrears within the HRA account is £2.79m. The table below shows the comparison of rent arrears over 2012/13 and 2013/14.

2012/13 £'000	Rent Arrears	2013/14 £'000
2,834	Current Tenants	2,834
2,201	Former Tenants	2,254
5,035	Total	5,088

11. Exceptional or Prior Year Items

None this year that have not been disclosed elsewhere.

Collection Fund Statement

This account fulfils the statutory requirement for billing authorities to establish and maintain a separate fund for the collection and distribution of amounts due in respect of Council Tax and Non-Domestic Rates.

Income and Expenditure Statement for the Collection Fund

2012/13			Summary of Income and Expenditure Account as at 31st March 2014			2013/14		
Council Tax	Non- Domestic Rates	Total				Council Tax	Non- Domestic Rates	TOTAL
£'000	£'000	£'000				£'000	£'000	£'000
Income								
(86,790)	(181,735)	(268,525)	Income collectable from Taxpayers (net of benefits, discounts for prompt payments and reliefs)			(91,569)	(189,671)	(281,240)
	(5,166)	(5,166)	Business Rate Supplement Income				(5,203)	(5,203)
Transfers from General Fund								
(28,863)		(28,863)	Council Tax Benefits					-
		-	Transitional Relief			-	863	863
		-	Discounts for Prompt Payment			-		-
Contributions								
		-	Towards previous year's Collection Fund Deficit			-	-	-
		-	Adjustment of previous years' community charge					-
(115,653)	(186,901)	(302,554)	Total Income			(91,569)	(194,011)	(285,580)
Expenditure								
Precepts, Payments & Demands								
12		12	Lloyd Square			12		12
27,538		27,538	Greater London Authority			20,858	36,564	57,422
	5,134	5,134	BRS Payments				5,175	5,175
86,359		86,359	London Borough of Islington			66,212	54,846	121,058
	181,070	181,070	Payments to National Pool					-
		-	Payments with respect to Central Share				91,410	91,410
113,909	186,204	300,113	Total Precepts & Demands			87,082	187,995	275,077
Collection & Admin Costs								
	666	666	Costs of Collection				656	656
	32	32	BRS Administrative Costs				28	28
Other Transfers to the General Fund								
		-	Renewable Energy Schemes				60	60
Contributions								
		-	Towards previous year's Collection Fund Surplus			-	-	-
		-	Adjustment of previous years' community charge					-
Bad and Doubtful Debts / Appeals								
74		74	Current Year Write Offs			76	236	312
			Appeals Provision				7,534	7,534
1,662		1,662	Allowance for Bad Debts Provisions			1,911	2,648	4,559
115,645	186,902	302,547	Total Expenditure			89,069	199,157	288,226
(8)	1	(7)	(Surplus) / Deficit for the Year			(2,500)	5,146	2,646

Collection Fund Account Reserves						
(11)	-	(11)	(Surplus)/Deficit brought forward	(18)	-	(18)
(8)	1	(7)	(Surplus)/Deficit for the year	(2,500)	5,146	2,646
(19)	1	(18)	Closing Collection Fund Balance	(2,518)	5,146	2,628

Current Share of (Surplus)/Deficit						
(14)	-	(14)	London Borough of Islington	(1,921)	1,544	(377)
(4)	-	(4)	Greater London Authority	(597)	1,029	432
-	-	-	Central Government	-	2,573	2,573
(18)	0	(18)	Total (Surplus)/Deficit c/f	(2,518)	5,146	2,628

Notes to the Collection Fund Statement

C1. Council Tax

Details of Council Tax are disclosed in full on the face of the Collection Fund Statement.

The 2013/14 Council Tax income is made up of following adjustments:

2012/13 £'000	Council Tax Income	2013/14 £'000
(137,596)	Gross Opening Charge	(139,261)
	Less: Adjustments	
9,297	Exemptions	8,182
55	Disabled Relief	69
12,611	Discounts	13,350
(20)	Other Adjustments	(2)
28,863	Council Tax Support	26,093
(86,790)	Income collectable from Taxpayers	(91,569)

The older person discounts for 2013/14 were £499k, the cost of which was absorbed by the General Fund. The £100 council tax discount is awarded to Islington residents, where the taxpayer or their partner is 65 or over on 1st April 2013 and is legally responsible for paying council tax at the property.

C2. Council Tax Base

For 2013/14, there were an estimated adjusted 86,769 (85,110 in 2013/14) residential properties in Islington which were placed in one of the eight valuation bands depending on their capital value. The total for each band is converted by use of appropriate multipliers and expressed in terms of a number of band D equivalents dwellings to give a tax base.

The tax base for council tax setting purposes for Islington was 68,837 equivalent Band D properties, (89,782 in 2012/13) and this was used to cover the net expenditure of the authorities that precept the Collection Fund. The reduction in the tax base between the two years is due to localisation of council tax which has replaced council tax benefits with council tax support scheme. Table below shows the number of properties in each band and the number of Band D equivalent properties. The 2013/14 band D equivalent council tax including precepts was £1264.87.

Bands	2013/14 Actual Net Chargeable Dwellings as at 31/03/14	2013/14 Council Tax incl precepts	2013/14 Net CTS of Chargeable dwellings at tax setting	Proportion of Band D Charges	2013/14 Band D Equivalent Dwellings at Tax Base for Tax Setting	2012/13 Band D Equivalent Dwellings at tax setting.
	No. of dwellings	£'000	No. of dwellings	%	No. of dwellings	No. of dwellings
A	1,224	843	988	66.7%	659	756
B	4,823	984	2,936	77.8%	2,284	3,744
C	24,342	1,124	15,906	88.9%	14,139	21,614
D	27,036	1,265	20,168	100.0%	20,168	26,736
E	14,767	1,546	11,955	122.2%	14,612	17,485
F	7,516	1,827	6,605	144.4%	9,540	10,481
G	6,234	2,108	5,869	166.7%	9,782	10,300
H	827	2,530	830	200.0%	1,661	1,632
Total	86,769		65,257		72,845	92,748
Total Band D Equivalent Dwellings					72,845	92,748
Budgeted Collection Rate					94.50%	96.80%
Net Collection Rate Band D Equivalent Dwellings					68,839	89,780

C3. Non-domestic Rates (NDR).

Under the arrangements for uniform business rates, the Council collects non-domestic rates for its area, which are based on local rateable values and multiplier set by the Government. There are two multipliers. The small business non domestic rating multiplier for 2013/14 is 46.2p and the non-domestic rating multiplier is 47.1p.

Previously, the total amount less reliefs and other reductions, was paid back to a central pool (NDR Pool) managed by the Government, which in turns paid back to authorities their share of the pool based on the standard amount per head of resident population. On 1 April 2013 the Government introduced a new local government funding regime, the Business Rates Retention Scheme. This removed the national pool and instead allows Islington to retain a proportion of business rates and share the rests with the precepting bodies. Councils were required to estimate the amount of business rates to be collected and paid over to the precepting bodies Central Government and Greater London Authority as well as retained.

As part of the localisation the Council has to finance appeals made in respect of rateable values as defined by the VOA and a provision for these amounts has been estimated in 2013/14.

The total non-domestic rateable value at 31st March 2014 was £486m (£482m at 31st March 2013). The rateable value of the borough has increased after the revaluation of all commercial properties in 2010 by the Valuation Office. However the growth was partly offset by the transitional protection arrangements, which limits the increase with a phasing over a period of 5 years.

The basis of the amount included in the Collection Fund is detailed below.

2012/13 £'000	Business Rates (NDR)	2013/14 £'000
(216,677)	Gross rates and empty rates due at the end of the year	(223,121)
<i>Less allowance and adjustments:</i>		
5,305	NDR Payable in respect of previous years	8,313
393	Transitional Protection Payments	(863)
25,672	Mandatory Relief	25,017
341	Discretionary Relief	978
161	Refund of overpayments	6
31,872	Total Reliefs and Adjustments	33,451
(184,805)	Net Rates Payable After Reliefs and adjustments	(189,670)
666	Costs of Collection	656
-	Transitional Protection Payments	863
-	Disregarded Renewable Energy	60
3,069	Losses in collection	2,885
-	Appeals Provision	7,534
(181,070)	Actual Non Domestic Rating Income	(177,672)

C4. Business Rates Supplement (BRS) - Crossrail.

The BRS was levied by GLA on non-domestic properties with a rateable value of £55,000 or more.

The aggregate rateable value of properties liable for BRS on 31st March 2014 was £346m (£344m at 31st March 2013). The multiplier for the year was 2.0p, giving a possible BRS income of £6.9m (unchanged from 2012/13).

After allowable adjustments, the collectable income from BRS payers for 2013/14 was £5.204m (£5.166m in 2012/13). The £5.175m (£5.134m in 2012/13) payable to GLA is net of £0.028m (£0.032m in 2012/13) administrative costs retained by the Council.

2012/13 £'000	Business Rates Supplement (Crossrail)	2013/14 £'000
(5,161)	BRS Due At Year End	(5,203)
<i>Less allowance and adjustments:</i>		
(5)	Refund of overpayments	-
-	Losses in collection	-
(5)	Total	0
(5,166)	Income due from Business Ratepayers	(5,203)
32	Costs of Collection	28
(5,134)	Total	(5,175)

C5. Collection Fund Share of (Surplus)/Deficit

The surpluses / deficits within the Collection Fund are shared between billing authorities and precepting bodies. The Council Tax apportionment of net balance with the preceptor (Greater London Authority) is shared in the subsequent year. The final balance on NDR account is also paid in the following year, however the apportionment is fixed with the council precepting partners in the following ratio: Central Government (50%), Greater London Authority (20%) and Islington (30%).

Pension Fund

Explanatory Foreword

The principal purpose of the Islington Council Pension Fund is to provide pensions for its employees (other than teachers who have their own national fund) under the Local Government Pension Scheme.

The Pension Fund is a defined benefit scheme built up from contributions paid by both employees and the Council, together with interest and dividends received from the Fund's investments; out of which pensions and other benefits are paid. Employees' contributions to the Fund and the extent of benefits paid out are fixed by Government Regulations. An independent actuary assesses the Council's contribution rate every three years. The Local Government Pension Scheme is operated under regulations made under Sections 7 and 12 of the Local Government Superannuation Act 1972. The Regulations are the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 and the Local Government Pension Scheme (Administration) Regulations 2008, as amended, and cover contributions, valuation of the Fund and benefits. The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009, as amended, cover fund management and suitable investments. The Pension Fund Accounts have been drawn up in accordance with the 2013/14 Code of Practice on Local Authority Accounting issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the provisions of Chapter 2 of the Statement of Recommended Practice "Financial Reports of Pension Schemes".

The Council has delegated the investment arrangements of the scheme to the Pensions Sub-Committee who decide on the investment policy most suitable to meet the liabilities of the Scheme and the ultimate responsibility for the investment policy lies with it. The Committee is made up of four elected members of the Council who each have voting rights, and four observers, representing members of the fund, who do not have voting rights. The Committee reports to the Council and has fully delegated authority to make investment decisions. The Committee obtains and considers advice from the Corporate Director of Finance, and as necessary from the Pension Fund's appointed actuary (including specific investment advice), investment managers and investment advisers.

The investment portfolio is managed by investment managers. The fund has two private equity fund managers Pantheon Ventures (total commitment £28.2 million) and Standard Life (total commitment £48.1 million). The fund also has one fund of funds private global property manager, Franklin Templeton (total commitment £25 million). The fund managers have discretion to buy and sell investments within the constraints set by the Pensions Sub-Committee.

The Statement of Investment Principles, Funding Strategy Statement and Governance Policy Statement for the Fund are available on the Council's website www.islington.gov.uk. The easiest way to access this is through the A-Z button, under "Finance Department"; "The Statement of Investment Principles, Funding Strategy Statement and Governance Policy Statement, for the Fund are available on the Council's website :

<http://www.islington.gov.uk/about/pension-scheme/Pages/policies.aspx>

Power is given in the 2008 Administration Regulations (as amended) to admit employees of other organisations to the London Borough of Islington Pension Fund. Lists of the scheduled and admitted bodies to the fund are detailed below:

Organisation	Employer
Islington Council	Administering Authority
St Mary Magdalene	Scheduled Body
City of London Academy	Scheduled Body
William Tyndale School	Scheduled Body
New North Community School	Scheduled Body
The Courtyard School	Scheduled Body
Stem 6 th Form Academy	Scheduled Body
Community Services Volunteers (CSV)	Admitted Body
Aquaterra	Admitted Body
Circle Anglia	Admitted Body
Camden & Islington NHS Foundation Trust	Admitted Body
SSE Contraction Ltd (Islington Lighting)	Admitted Body
Southern Housing Group	Admitted Body
Braithwaite	Admitted Body
Pleydell	Admitted Body
Kier Support Services	Admitted Body
Cofely Workplace Ltd (Balfour Beatty)	Admitted Body
Caterlink	Admitted Body
NCP Services (Islington South)	Admitted Body
RM Education	Admitted Body
Breyer Group	Admitted Body
Mears Ltd	Admitted Body
Greenwich Leisure Ltd	Admitted Body

There are also twelve other admitted bodies that do not currently have any active members. These are:

- London Property Maintenance
- FSST
- St Lukes
- Association of London Authorities (ALA)
- Family Services Unit (FSU)
- Redbrick
- Brunswick
- Cushman & Wakefield
- Kier Islington
- Mouchel Parkman
- Cambridge Education Associates (CEA)
- Notting Hill Housing Trust

Accounting Policies

The accounts have been prepared in accordance with the provisions of Chapter 2 of Recommended Accounting Practice of the Pension SORP May 2007 and the 2013/14 Code of Practice on Local Authority Accounting issued by the Chartered Institute of Public Finance and Accountancy (CIPFA), which is IFRS compliant. The financial statements have been prepared on an accruals basis except for transfers to and from the scheme which are accounted for on a cash basis.

The accounts summarise the transactions and net assets of the fund. They do not take account of future liabilities to pay pensions and other benefits after the period end.

The principal accounting policies of the scheme are as follows:

1. Investments

- Investment values are at bid price.
- Listed investments are shown in the Pension Fund accounts at market value, determined by Stock Exchange prices at the net asset statement date.
- Fixed interest securities are stated at their bid price. The value of fixed interest investments in the Fund's investment portfolio excludes interest earned but not paid over at the Fund year-end, which is included separately within accrued investment income.
- Current market value of equities is based on bid price as provided by fund managers.
- Index linked securities are valued at bid price.
- Pooled Investment Vehicles are stated at bid price for funds with bid/offer spreads or single price where there are no bid/offer spreads as provided by the investment manager.
- Managed funds and Unit trusts are valued at the price quoted by their respective managers on the last trading day of the year, which is determined by the market value of the underlying investments.
- Private equity is priced on the latest audited valuation plus any drawdowns and distributions to the 31 March 2014.
- Property is valued on the unit price as quoted by the fund manager.
- Derivatives are stated at market value.
- Corporate bonds are managed in a pooled fund valued at a single swinging price.
- Acquisition costs of assets are included within the historic cost of the assets

2. Investment Income

- Investment income (e.g. dividends and interest on Government Stocks) is accounted for on an accruals basis.
- Investment income is taken into account where dividends have been declared at the end of the financial year.
- Investment income also includes withholding tax where this cannot be recovered. The amount of irrecoverable withholding tax is disclosed as a separate line in the face of the account.

3. Foreign Currencies

Foreign income has been translated into sterling at the date of the transaction. Foreign income due at the year-end has been translated into sterling at the rate ruling at 31 March 2014.

4. Contributions

Normal contributions, both from employees and employers, are accounted for in the payroll month to which they relate at values specified in the rates and adjustments certificate. Additional contributions from employers are accounted for when received.

5. Benefits Payable

Benefits payable and refund of contributions are brought into the accounts on the basis of valid claims approved during the year. Under the rules of the Fund, retirees receive a lump sum retirement grant in respect of any membership up to 31 March 2008, in addition to their annual pension. Lump sum retirement grants are accounted for from the date of retirement. Where a member can choose regarding the type or amount of benefit, then these lump sums are accounted for on an accruals basis from the date that the option is exercised. Other benefits are accounted for on the date the member leaves the Fund or on death.

6. Transfers

Transfer values are those sums paid by, or received from, other pension schemes and included in the accounts on the basis of the date paid for transfers to or from other Local Government schemes.

7. Expenses

- Regulations permit the Council to charge administration costs and the investment managers' fees to the Fund.
- Administration costs represent officers' salaries and other expenses for work on scheme administration and investment-related matters and central establishment and computer recharges.
- The cost of administration, fund managers' fees, performance measurement fees and valuation fees are charged directly to the fund.
- Expenses are recognised on an accruals basis net of any recoverable VAT.

8. Stock Lending

The fund does not participate in stock lending.

9. Additional Voluntary Contributions

Additional Voluntary Contributions (AVCs) paid by scheme members are not included within the accounts as these are managed independently of the fund by specialist AVC fund providers. This is in accordance with regulation 4 (2) (b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulation 2009. Total contribution paid by members during 2013/14 amounted to £153,314 and the value of the fund as at 31 March 2014 was £1.555m.

10. Actuarial Position

The financial statements summarise the transactions of the scheme and deal with the net assets at the disposal of the trustees. They do not take account of obligations to pay pensions and benefits that fall due after the end of the scheme year. The actuarial position of the scheme, which does take account of such obligations, is dealt with in the statement by the actuary included in the annual report and these financial statements should be read in conjunction with it.

Income and Expenditure Account

2012/13 £'000	Pension Fund Account (dealing with members, employers and others directly involved in the scheme)	2013/14 £'000	Note
Income			
27,985	Employer contributions	28,962	2
9,467	Members contributions	9,831	2
3,090	Transfers in from other pension funds	3,767	3
2,511	Other Income	2,530	4
43,053	Total Income	45,090	
Expenditure			
(43,003)	Benefits payable	(44,535)	5
(3,586)	Payment to and on account of leavers	(9,057)	6
(992)	Administrative & other expenses borne by scheme	(1,002)	7
(47,581)	Total Expenditure	(54,594)	
(4,528)	Net additions/ (withdrawals) from dealing with members	(9,504)	
Returns on investment			
13,478	Investment income	28,531	8
98,088	Change in market value (realised & unrealised)	36,999	
(793)	Investment management expenses	(1,116)	10
110,773	Total Returns on investments	64,414	
Net return on investments			
106,245	Net increase/decrease in fund in year	54,910	
812,861	Opening net assets of the scheme	919,106	
919,106	Closing net assets of the scheme	974,016	

Net Assets Statement

2012/13 £'000	Net Assets Statement for the year ended 31 March 2014	2013/14 £'000	Note
Investments			
907,934	Investment assets	950,833	9
10,348	Other Investment and Cash	20,881	9
918,282	Total Investments	971,714	
Current Assets and Liabilities			
-	Investment liabilities	-	
-	Borrowings	-	
2,797	Current assets	3,871	11
(1,973)	Current liabilities	(1,568)	12
824	Net Current Assets	2,302	
919,106	Net assets of the scheme at 31 March	974,016	

The accounts summarise the transactions of the scheme and deal with the net assets at the disposal of the trustees. They do not take account of obligations to pay pensions and benefits which fall due after the end of the scheme year. The actuarial position of the scheme, which does take account of such obligations, is dealt with in the statement by the actuary included in the annual report and these financial statements should be read in conjunction with it.

Notes to the Pensions Account

1. Basis of Preparation

The accounts have been prepared in accordance with the Occupational Pension Schemes Regulations 1996 and with guidelines set out in the Statement of Recommended Practice, Financial Reports of Pension Schemes (Revised May 2007) and the 2013/14 Code of Practice on Local Authority Accounting issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).

2. Contributions Receivable

a) Employers' Contributions

The following table sets out an analysis of the contributions made by the Council and its Admitted bodies.

Contributions receivable - Employers' contributions	Normal Contributions		Special Contributions		Strain Recovery*	
	2012/13	2013/14	2012/13	2013/14	2012/13	2013/14
	£'000	£'000	£'000	£'000	£'000	£'000
Administering Authority						
Islington Council	23,494	24,810	-	-	1,193	1,658
Scheduled Bodies						
St Mary Magdalene	136	142	-	-	-	-
City of London Academy	88	91	-	-	-	-
New North Community School	6	72	-	-	-	-
William Tyndale School	23	86	-	-	-	-
The Courtyard School	-	6	-	-	-	-
Stem 6th form Academy	-	2	-	-	-	-
Admitted bodies						
CSV	997	941	-	-	-	78
Aquaterra	226	226	-	-	-	-
Circle Anglia	17	12	-	-	-	-
Camden & Islington NHS Foundation Trust	75	65	-	-	-	-
CEA	679	-	-	-	209	-
Notting Hill Trust	2	1	-	-	-	-
NCP Services (Islington South)	16	16	-	-	-	-
SSE Contracting Ltd (Islington Lighting)	22	21	-	-	-	-
Southern Housing Group	7	5	-	-	-	-
Braithwaite	3	3	-	-	-	-
Pleydell	3	10	-	-	-	-
Caterlink	155	148	-	-	-	-
Mouchel Parkman	-	-	100	-	-	-
Cofely Workplace Ltd (Balfour Beatty)	49	71	-	-	-	-
R M Education	5	8	-	-	-	-
Kier support Services	434	405	-	-	-	37
Breyer Group	19	17	-	-	-	-
Mears Ltd	26	27	-	-	-	-
Greenwich Leisure Ltd	1	4	-	-	-	-
Totals	26,483	27,189	100	0	1,402	1,773

*Note 15 provides further information regarding "Strain Recovery"

b) Members' Contributions

The following table sets out an analysis of the contributions made by Employees of the Council and its Admitted bodies.

Contributions receivable - Members contributions	Normal Contributions (inc Added Years Contributions)	
	2012/13	2013/14
	£'000	£'000
Administering Authority		
Islington Council	8,440	9,056
Scheduled Bodies		
St Mary Magdalene	90	93
City of London Academy	51	52
New North Community School	13	16
William Tyndale School	13	13
The Courtyard School	-	4
Stem 6th form Academy	-	3
Admitted bodies		
CSV	217	185
Aquaterra	75	76
Circle Anglia	4	2
Camden & Islington NHS Foundation Trust	13	9
CEA	231	-
Notting Hill Trust	1	0
NCP Services (Islington South)	9	9
SSE Contracting Ltd (Islington Lighting)	7	7
Southern Housing Group	2	1
Braithwaite	2	2
Pleydell	2	6
Caterlink	56	54
Cofely Workplace Ltd (Balfour Beatty)	23	34
R M Education	4	7
Kier Support Services	193	181
Breyer Group	10	9
Mears Ltd	11	11
Greenwich Leisure Ltd	-	1
Totals	9,467	9,831

3. Transfers in

2012/13 £'000	Transfers in	2013/14 £'000
-	Group transfers in from other schemes	-
3,090	Individual transfers in from other schemes	3,767
3,090	Total transfers in	3,767

4. Other Income

2012/13 £'000	Other Income	2013/14 £'000
0	Income from Other Investments	0
0	Interest	0
2,511	Other	2,530
2,511	Total other income	2,530

5. Benefits

The following table sets out an analysis of the benefits paid to former employees of this Council and the admitted bodies.

Benefits Payable	Pensions		Lump sum benefits		Lump sum death	
	2012/13 £'000	2013/14 £'000	2012/13 £'000	2013/14 £'000	2012/13 £'000	2013/14 £'000
Administering Authority						
Islington Council	32,604	34,112	5,925	6,174	1,351	1,186
Scheduled Bodies						
St Mary Magdalene	6	6	2	-	-	-
City of London Academy	-	3	-	19	-	-
New North Community School	7	4	-	-	-	-
William Tyndale School	-	-	-	-	-	-
The Courtyard School	-	-	-	-	-	-
Stem 6th form Academy	-	-	-	-	-	-
Admitted bodies						
CSV	818	872	66	175	21	0
Aquaterra	180	198	30	-	-	-
Circle Anglia	41	49	-	88	-	-
Camden & Islington NHS Foundation Trust	47	49	-	-	-	-
CEA	706	789	424	-	-	-
FSST	6	6	-	-	-	-
Kier Islington Ltd (Caxton)	539	542	26	-	71	-
NCP Services (Islington South)	29	28	-	-	-	-
SSE Contracting Ltd (Islington Lighting)	21	21	-	-	-	-
Redbrick	2	2	-	-	-	-
Mouchel Parkman	29	30	-	-	-	-
St Lukes	2	2	-	-	-	-
ALA	6	9	-	23	-	-
Brunswick	8	9	-	2	-	-
Cushman & Wakefield LLP	12	12	-	-	-	-
London Property Maintenance	1	0	-	-	-	-
Caterlink	8	2	-	-	5	20
Notting Hill Trust	10	14	-	13	-	-
Kier Support Services	-	2	-	71	-	0
Cofely Workplace Ltd (Balfour Beatty)	-	1	-	2	-	-
Mears Ltd	-	-	-	-	-	-
Greenwich Leisure Ltd	-	-	-	-	-	-
Totals	35,082	36,762	6,473	6,567	1,448	1,206

6. Payments to and on Account of Leavers

2012/13 £'000	Payment to and on Account of Leavers	2013/14 £'000
31	Refunds of Contributions	6
-	Group Transfers*	6,079
3,555	Individual Transfer	2,972
3,586	Total payments to and on account of leavers	9,057

*Bulk transfer from Islington to LPFA in respect of staff who joined the LGA and TfL

7. Administrative and Other Expenses

2012/13 £'000	Administrative expenses	2013/14 £'000
771	Employee Cost	747
180	Support services / IT	185
0	Actuarial fees	47
21	Audit fee	21
-	Legal and other professional fees	-
20	Other expenses	2
992	Total administrative expenses	1,002

All other costs of administration are borne by Islington Council.

8. Income from Investments

2012/13 £'000	Investment Income	2013/14 £'000
14,576	Dividends from equities	17,623
(3,205)	Income from other investments vehicles	8,688
2,106	Net rents from pooled investment properties	2,220
1	Interest on cash deposits	-
13,478	Total Investment income	28,531
-	Irrecoverable withholding tax	-
13,478	Total Investment income	28,531

9. Investments

Investments	Market value 01 Apr 13 £'000	Purchases at cost and derivative payments £'000	Sale proceeds and derivative receipts £'000	Change in market value £'000	Value as at 31 Mar 14 £'000
Fixed interest securities	82	-	-	(5)	77
Indexed linked securities	130	-	-	(10)	120
Equities	481,514	62,325	56,501	19,733	507,071
Pooled investment vehicles (P.I.V)	266,422	38,021	38,024	4,517	270,936
Other Investment - P.I.V	-	-	-	-	-
Properties - P.I.V	116,517	3,785	1,147	10,066	129,221
Private Equity - P.I.V	43,244	4,078	6,627	2,700	43,395
Venture Capital	25	-	10	(2)	13
Total	907,934	108,209	102,309	36,999	950,833
Other Investment & Cash	10,348				20,881
Total Investments	918,282				971,714

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year including profits and losses realised on sales of investments during the year. Investments are now valued at bid price.

Transaction costs are included in the cost of purchases and sale proceeds. Transaction costs include costs charged directly to the scheme such as fees, commissions, stamp duty and other fees. In addition, indirect costs are incurred through bid-offer spread on investments within pooled investment vehicles. The amount of indirect costs is not separately provided to the scheme.

Investment Assets by Type	2012/13	2013/14
	<i>£'000</i>	<i>£'000</i>
Fixed interest securities (valued at Bid Price)		
Fixed interest securities (valued at Bid Price)	82	77
Total Fixed interest securities	82	77
Equities (valued at Bid Price)		
UK quoted	267,828	270,673
Overseas quoted	213,686	236,398
Total Equities	481,514	507,071
Pooled investment vehicles (valued at Bid Price)		
UK Managed Funds		
Property	69,652	76,797
Other : Bond	189,766	195,242
Overseas Managed Funds		
Other : Equity	72,664	68,206
Property	6,410	8,750
Other : Private Equity	43,244	43,395
UK Unit trusts (valued at Bid Price)		
Property	40,455	43,674
Other	4,017	7,501
Total Pooled investment vehicles	426,208	443,565
Index -linked Securities (Valued at Bid Price)		
UK public sector quoted	130	120
Overseas public sector quoted	-	-
Insurance policies		
Insurance policies	-	-
Other investment balances (valued at Amortised cost)		
Amounts due from broker	-	-
Outstanding trades	1,052	213
Outstanding dividends & RWT	2,405	2,274
Cash deposits : Sterling	6,891	18,394
Total Other investment balances	10,478	21,001
Total Investment Assets	918,282	971,714

Type of future	Expiration	Economic Exposure value	Market Value
UK FTSE exchange traded	Less than 1 year	-	-
UK gilt exchange traded	Less than 1 year	-	-
Total		0	0

All fund managers operating the pooled investment vehicles are registered in the United Kingdom.

10. Investment management expenses

2012/13 £'000	Investment management expenses	2013/14 £'000
709	Administration, management and custody	969
27	Performance measurement services	26
57	Other advisory fees	121
793	Total investment management expenses	1,116

11. Current assets

2012/13 £'000	Current Assets	2013/14 £'000
2,721	Contributions due from Employers	3,836
76	Sundry Debtors	35
0	Cash Balances	0
2,797	Total	3,871

12. Current liabilities

2012/13 £'000	Current Liabilities	2013/14 £'000
(708)	Accrued benefits	(585)
(1,087)	Sundry Creditors	(766)
(178)	Accrued expenses	(217)
(1,973)	Total	(1,568)

13. Expenditure

a) Benefits provided by the scheme include:

- Retirement pensions at normal retirement age or earlier should the Council's medical adviser decide that a member be retired on grounds of ill health, or on grounds of redundancy or efficiency of the service at or after the age of fifty-five.
- Pensions for widows and widowers and in certain circumstances children's pensions.

b) Lump sum payments on retirement or death in service. Retirement benefits are normally based on a members' pensionable pay over the last year of service, whilst the lump sum payment in respect of death in service is three times the actual final year's pay.

c) A contributor who leaves the service of the Council or opts out of the scheme and has less than three months membership may take a refund of contributions, so long as not re-entering the scheme within one month and one day of leaving/opting out. Any refund is subject to certain statutory deductions.

However, where the member's service is three months or more, no refund can be given, instead preserved benefits are awarded which are accrued up to the contributor's last day of service and are payable when benefits would normally become payable had the contributor remained in the employment of the Council. In certain circumstances, it may be possible to transfer accrued membership to another local authority or to an outside scheme/arrangement.

d) Payment of a Contribution Equivalent Premium (CEP) restores the Employee's rights in the state pension scheme as if he/she had not been contracted out, and extinguishes his/her accrued rights to a guaranteed minimum pension (GMP) in the local government pension scheme.

e) Regulations permit the Council to charge administration costs and the investment managers' fees to the Fund. Administration costs represent officers' salaries and other expenses for work on scheme administration and investment-related matters and central establishment and computer recharges. The fees paid to the investment managers are their charges for managing the investments of the Fund.

14. Income

Income is credited to the Pension Fund consisting mainly of:

a) Employees' contributions ranging between 5.25% and 7.5% according to the annual earnings band an employee falls in.

b) Employers' contributions determined by the triennial actuarial review. The last review as at 31 March 2010, effective from 1 April 2011 fixed at 10.9% of pensionable payroll costs. In common with many other local authorities, the Pension Fund has a deficit. It was agreed with the actuary that the deficit on past service should be met by separate additional lump sum payments and recovered over twenty five years. A lump sum contribution of £8.9m was made in 2013/14.

c) Upgraded Pensions relate to compensation payments (added years) made on redundancy or efficiency grounds, the index-linked increases thereon, and certain non-contributing service which the Council has treated as counting at full length in the payment of benefits. Income is transferred to the Pension Fund from the General Fund to offset these payments.

d) Contributions are invested and used for the benefit of the Pension Fund. The investment income in the form of dividends, interest and capital realisation is paid into the Fund.

e) Transfers to and from the Fund and other organisations are permitted. Transfers within the local government scheme are on a year for year, day for day basis but in all other transfers the money received from the organisation is used to purchase an amount of reckonable service in the local government scheme.

f) The Pension Fund is Tax Exempt

15. Actuarial Position

Mercer, an independent actuary, values the Fund every three years. The actuary's job is to decide whether present contribution rates are sufficient for funding purposes. They may, if the situation demands, recommend an increase in contributions to ensure the solvency of the Fund. The latest actuarial valuation, including calculated changes to the ongoing employer contribution rate to meet current service accrual, and to the lump sums needed to meet past service deficit, was carried out as at 31 March 2013.

Pension Fund Triennial Revaluation

The Pension Fund Triennial revaluation carried out as at 31 March 2013 will not come into effect in terms of altered employer contributions until 1 April 2014 to 31 March 2017. Under this revaluation the Fund assets were valued at £919m and liabilities at £1,312m, a deficit of £393m. The funding level had declined from 72% to 70%. The funding target to recover the deficit was however, mitigated by improvements in financial factors as at 31 August 2013 in particular the increase in gilts yields. In agreement with employers, and the administering authority the actuary has built into the recovery plan this improvement to stabilise contributions requirement if appropriate.

The actuary has defined a common employer contribution rate of 12.8% of pensionable pay per annum, and an average additional contribution of 7.3% of pensionable pay for 22 years to eliminate the deficit. This would imply an average employer contribution rate of 20.1% of pensionable pay in total.

Additional monetary amounts are paid each year and inflated by the amount specified in the annual Pensions Increase Order, to complete a 22 year programme of payments to bring the Fund back to 100% funding.

The contribution rates were calculated using the projected unit actuarial method and the main assumptions (2013 valuation) were as follows for future service:

- Rate of return on investments 6.35% per annum
- Rate of general pay increases 4.35% per annum
- Rate of increases to pensions in payment (in excess of Guaranteed Minimum Pensions) 2.6% per annum

Assets have been valued at their market value at the valuation date.

The Audit Commission published a report on the impact of early retirement on public sector pension funds in 1997, "Retiring Nature: Early Retirement in Local Government".

Following the Council's consideration of this report, a system of controls was put in place to protect the Pension Fund from the unfunded costs or "strain" placed on the Fund to finance early retirements due to redundancy, and also high levels of medical retirements. As a result all medical retirements must be considered and approved by the Council's Occupational Health Adviser based on practice guidelines issued by the adviser's professional body.

In addition the levels of medical retirements are monitored annually to ensure that the costs incurred are not significantly different from the annual allowance for such costs made by the Fund actuary. For early retirements resulting from redundancy, there is no allowance in the Pension Fund for the costs of the additional years of benefit payable before normal retirement age, or the loss of contribution income, (the capitalised sum of these cash streams are termed the "strain" on the Pension Fund). To allow for this, when departments consider redundancies involving an early retirement, they must take into account the "strain" cost in the appraisal, and if an early retirement is permitted, the department must repay the "strain" payment into the Fund. Instalments over three years are permitted, with an interest charge.

16. Fund Membership

Membership of the Fund	Administering Body		Admitted Bodies		Scheduled Bodies		Totals	
	2012/13	2013/14	2012/13	2013/14	2012/13	2013/14	2012/13	2013/14
	No's	No's	No's	No's	No's	No's	No's	No's
Employees Contributing into the Fund	4,852	5,658	482	360	121	147	5,455	6,165
Pensioners / Dependents	4,327	4,498	370	326	4	6	4,701	4,830
Widows / Children's Pensions	847	881	44	43	-	-	891	924
Deferred Benefits	6,126	6,324	901	702	45	60	7,072	7,086
Totals	16,152	17,361	1,797	1,431	170	213	18,119	19,005

17. Additional Voluntary Contributions

2012/13	Additional Voluntary Contribution	2013/14
Market Value £'000		Market Value £'000
1,057	Prudential	1,245
237	Equitable life	227
109	NPI	83
1,403	Total Additional Voluntary Contributions	1,555

18. Contingent Assets and Liabilities

There were no contingent assets or liabilities in 2013/14.

19. Contractual Commitments.

There were no contractual commitments at the period end.

20. Related Parties

Islington Pension Fund is administered by Islington Council.

Members of the Pensions Sub-committee are related parties of the fund and four of them are members of the LGPS.

As at 31 March 2014, Islington Council owed the Pension fund £1.4m (£1m 2012-13). Full contributions from the Council for the year are disclosed in table 2a.

21. Post Balance Sheet Events

None identified at the date of issue.

22. Risk and risk management

The Fund's primary risk is that assets fall short of liabilities in the long term and as a result not able to honour promised benefits to members. The Fund has identified the investment risk inherent in the predominantly equity based strategy, as it biggest risk. Investment Strategy adopted by the pension sub-committee to mitigate this risk includes a diversified asset allocation to include property, private equity and bonds. The equity portfolio is diversified by region and company holdings. The committee monitors managers regularly by performance benchmark and reviews strategies as markets evolve.

23. Price and currency risk

Price and currency risk can be quantified by observing the potential market movement on the riskier assets and possible change in valuation.

Price risk

Price Risk	Final Market Value as at 31/03/14 £'000	% Change	Value on Increase £'000	Value on Decrease £'000
UK Equities	325,881	11.99%	364,954	286,808
Overseas Equities	257,985	11.82%	288,479	227,491
Total Bonds	196,825	5.51%	207,670	185,980
Cash	18,655	0.02%	18,659	18,651
Property	127,550	2.28%	130,458	124,642
Private Equity	44,550	5.46%	46,982	42,118
Total Assets	971,446		1,057,202	885,690

Currency risk

The overseas equities are currently 50- 75% hedged hence mitigating any volatility in the major currencies of the dollar, yen and euro. 75% of the overseas equities are in the basket of the passive currency overlay hedge and as such the table above shows the aggregate currency exposure to overseas equities. A single outcome exchange rate volatility impact reflects the changes in value.

Currency Risk	Final Market Value as at 31/03/14 £'000	% Change	Value on Increase £'000	Value on Decrease £'000
Overseas Equities- Yen	12,530	2.85%	12,887	12,173
Overseas Asset 2-euro	103,922	2.85%	106,882	100,962
Overseas Asset 3-US dollar	59,262	2.85%	60,950	57,574
Overseas Asset 4-other int	61,376	2.85%	63,124	59,628
Overseas Asset 5-asia ex japan	20,446	2.85%	21,028	19,864
Total Assets	257,536		264,871	250,201

24. Financial Instruments

The following table provides an analysis of the financial assets and liabilities of Pension Fund grouped into Level 1 to 3, based on the level at which the fair value is observable.

Values at 31 March 2014	Quoted Market Price	Using Observable Inputs	With Significant Unobservable inputs	Total
	Level 1	Level 2	Level 3	
	£'000	£'000	£'000	£'000
Financial Assests				
Financial assets at fair value through profit and loss	907,438	64,276	-	971,714
Loans and Receivables	-	3,871	-	3,871
Total Financial Assets	907,438	68,147	0	975,585
Financial Liabilities				
Financial liabilities at fair value through profit and loss	-	-	-	-
Financial liabilities at amortised cost	-	(1,568)	-	(1,568)
Total Financial Liabilities	0	(1,568)	0	(1,568)
Net Financial Assets	907,438	66,578	0	974,016

Values at 31 March 2013	Quoted Market Price	Using Observable Inputs	With Significant Unobservable inputs	Total
	Level 1	Level 2	Level 3	
	£'000	£'000	£'000	£'000
Financial Assests				
Financial assets at fair value through profit and loss	864,690	53,592	-	918,282
Loans and Receivables	-	2,797	-	2,797
Total Financial Assets	864,690	56,389	0	921,079
Financial Liabilities				
Financial liabilities at fair value through profit and loss	-	-	-	-
Financial liabilities at amortised cost	-	(1,973)	-	(1,973)
Total Financial Liabilities	0	(1,973)	0	(1,973)
Net Financial Assets	864,690	54,416	0	919,106

Valuation of financial instruments carried a fair value

The valuation of financial instruments had been classified into three levels, according to the quality and reliability of information used to determine fair values.

Level 1

Financial instruments at Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as Level 1 comprise quoted equities, quoted fixed securities and quoted index linked securities.

Listed investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange

Level 2

Financial instruments at Level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.

Level 3

Financial instruments at Level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data. Such instruments would include unquoted equity investments and hedge funds, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

The values of the investment in private equity are based on valuations provided by the general partners to the private equity funds in which The Islington Council Pension Fund has invested.

These valuations are prepared in accordance with the International Private Equity and Venture Capital Valuation Guidelines, which follow the valuation principles of IFRS and US GAAP. Valuations are usually undertaken annually at the end of December. Cash flow adjustments are used to roll forward the valuation to 31 March as appropriate.

25. Investment Assets by Fund Manager

Investment Assets by Fund Manager	2012/13 £'000	2013/14 £'000
LBI In House Fund		
EQUITIES		
UK quoted - LBI self managed	253,419	259,963
Overseas quoted - LBI self managed	39,486	50,004
CASH DEPOSITS		
Sterling	1,722	3,218
Other	0	0
OTHER INVESTMENT BALANCES		
Outstanding Dividends/Tax	1,634	1,626
Outstanding trades	376	0
FIXED INTEREST		
UK	82	77
INDEX-LINKED		
UK	130	120
POOLED FUNDS		
UK	3,992	5,002
Total LBI In House Fund	300,841	320,010
Newton		
EQUITIES		
Overseas quoted - NEWTON	103,380	109,268
UK quoted - NEWTON	7,294	8,392
CASH DEPOSITS		
Sterling	2,738	3,450
Other	0	0
OTHER INVESTMENT BALANCES		
Outstanding Dividends	477	487
Outstanding trades	585	213
Total Newton	114,474	121,810
RCM		
EQUITIES		
Overseas quoted - RCM	70,820	77,126
UK quoted - RCM	7,115	2,318
POOLED FUNDS		
Other	0	2,485
CASH DEPOSITS		
Sterling	2,037	2,646
Other	0	0
OTHER INVESTMENT BALANCES		
Outstanding Dividends	242	161
Outstanding trades	143	0
Total RCM	80,357	84,736

Investment Assets by Fund Manager (contd.)	2012/13	2013/14
	£'000	£'000
Standard Life Bonds		
POOLED INVESTMENT VEHICLES		
Managed funds	189,766	195,242
Pantheon		
POOLED INVESTMENT VEHICLES		
Private equity - overseas	21,406	20,163
Standard Life		
POOLED INVESTMENT VEHICLES		
Private equity - overseas	21,838	23,232
Aviva Lime Property		
UK UNIT TRUSTS		
Property	40,455	43,674
Threadneedle Pensions		
POOLED INVESTMENT: Property		
	50,053	55,962
Baring English Growth Fund		
UK UNIT TRUSTS		
	16	13
Midlands Growth Fund		
UK UNIT TRUSTS		
	9	0
Thesis		
POOLED INVESTMENT: Property		
	19,600	20,835
BNY Mellon		
CASH DEPOSITS : Sterling		
	393	9,080
Legal & General		
POOLED INVESTMENT VEHICLES		
Managed funds	72,664	68,207
Franklin Templeton		
Pooled Investment Global Property		
	6,410	8,750
Total Investment Assets	918,282	971,714

Glossary of Financial Terms

Accounting Standards: A set of rules about how accounts are to be kept. By law local authorities must follow "proper accounting practices" which are set out both in acts of parliament and in professional codes and statements of recommended practice.

Accruals: The concept that income and expenditure are recognised as they are earned or incurred not as money is received or paid.

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

Asset Register: A record of Council assets, including land and buildings, housing, infrastructure and vehicles, equipment etc., kept for the purposes of calculating capital charges to be made to service revenue accounts. It is updated annually to reflect new acquisitions, disposals etc.

Bad Debt Provisions: Amount of money set aside to meet cost of monies owed to the Council that are not expected to be repaid.

Balances: The amount of money left over at the end of the year after allowing for all expenditure and income that has taken place. These are also known as financial reserves.

Capital Expenditure: Expenditure on the purchase, construction and enhancement of Council assets such as houses, offices, schools, roads etc. Expenditure can only be treated as "capital" if it meets the statutory definitions and is in accordance with "proper accounting practices".

Capital Adjustment Account: Represents amounts set aside from revenue resources or capital receipts to finance expenditure on fixed assets or the repayment of external loans and certain other financing transactions.

Capital Financing Costs: The revenue cost of paying for capital expenditure. These costs are made up of interest on borrowing and the repayment of loans (similar to repayment of a domestic mortgage). This results in the costs of capital schemes being spread over a number of years within the revenue accounts.

Capital Grants: Monies received from government departments and other statutory bodies towards the Council's capital expenditure.

Capital Receipts: Income over £10,000 from the sale of a fixed asset. They can only be used to finance other capital expenditure or repay outstanding debt on assets financed from loan.

Central Support Services: The Best Value Accounting Code of Practice (SerCOP) requires the reallocation of central support services' costs, such as legal and finance, to General Fund service heads, the Housing Revenue Account and trading accounts in order to provide a more accurate picture of how much services cost in their totality.

Chargeable Dwellings: The number of dwellings in the Council's area liable for Council Tax.

Collection Fund: This account fulfils the statutory requirement for billing authorities to establish and maintain a separate fund for the collection and distribution of amounts due in respect of Council Tax and National Non-Domestic Rates.

Collection Fund Adjustment Account: Represents the difference between the accrued Council Tax income due for the year credited to the Income and Expenditure Account in accordance with the SORP and the amount of monies due from the Collection Fund in line with regulations. This adjustment takes place through the Statement of the Movement on the General Fund Balance.

Contingent Liabilities: Sums of money that the Council will be liable to pay in certain circumstances e.g. as a result of losing court cases. Contingent liabilities are either:

- (a) a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the organisation's control, or
- (b) a present obligation that arises from past events but is not recognised because:
 - (i) it is not probable that a transfer of economic benefits will be required to settle the obligation, or
 - (ii) the amount of the obligation cannot be measured with sufficient reliability.

A contingent asset arises from past events and whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the entity's control.

Council Tax: A tax on domestic property values.

Creditors: Amounts of money owed by the Council for goods or services received.

Debt Charges: The cost of borrowing money to meet capital expenditure, including principal payments and interest charges.

Debtors: Amounts of money owed to the Council for goods or services provided.

Deemed Debt: Outstanding loans inherited from ex GLC housing.

Deferred Capital Receipts: This refers to income of a capital nature that will be received in future accounting periods. A corresponding debtor normally offsets it; for example, receipts related to mortgages made by the Council.

Deferred Credits: Income of a revenue nature received in advance.

Deferred Liability: This relates to obligations arising from past events, the settlement of which is expected to result in an outflow from the organisation. Under both finance and operating leases, the lessee acquires a contractual right to enjoy the future economic benefits embodied in the leased property over the lease term.

Depreciation:

A provision made in the accounts to reflect the value of assets used during the year e.g. a vehicle purchased for £10,000 with a life of five years would depreciate on a straight line basis at the rate of £2,000 p.a. Depreciation forms part of the "capital charge" now made to service revenue accounts and is covered by International Accounting Standard (IAS) 16.

Direct Expenses: Expenditure on employees or running costs that are directly controlled by the service involved.

Direct Revenue Financing (DRF): The use of revenue monies to pay for capital expenditure, also known as Revenue Contributions to Capital Outlay.

Disposals: Sales of Council's assets - see Capital Receipts.

Emoluments: All sums paid to or receivable by an employee including the money value of any other benefit received other than in cash.

External Auditors: The auditor appointed by the Audit Commission to carry out an audit of the Council's accounts. Currently this is the Operations Directorate of the Audit Commission, who have statutory responsibilities to ensure that:

- The Council's accounts are prepared in compliance with applicable statutory provisions;
- The Council has complied with the Service Reporting Code of Practice (SerCOP);
- The Council has observed proper accounting practices in compiling the accounts;
- The Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Revaluation Reserve Account: Represents principally the balance of surpluses or deficits arising on periodic revaluation of fixed assets.

General Fund: The Council's main revenue account that covers the net cost of all services.

Government Grants Deferred: Government grant income which has been used to finance capital expenditure.

Heritage Assets: A tangible asset with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture. Heritage assets are those assets that are intended to be preserved in trust for future generations because of their cultural, environmental or historical associations.

Housing General Fund: That part of the Housing Service's budget which does not relate to the Council's landlord functions. This includes costs of homelessness and rent allowances. These services appear as a separate Service Head within the General Fund budget.

Housing Revenue Account (HRA): A statutory account that contains all expenditure and income on the provision of Council Housing for rent. The HRA is a ring-fenced account within the General Fund. Local authorities are not allowed to make up any deficit on the HRA from its own resources.

Housing Subsidy: The grant paid by Central Government to local authorities to subsidise the cost of Council Housing. The grant is paid into the Housing Revenue Account.

Indirect Employee Expenses: Employee overheads and other costs incurred in employing staff apart from pay e.g. removal expenses etc.

Infrastructure: A classification of fixed assets which includes facilities required to enable other developments to take place (e.g. roads, street lighting) and similar environmental works.

Intangible Assets: An intangible item, such as software licences and development expenditure, may meet the definition of an asset when the Council controls access to the future economic benefits that it represents.

Leases: Certain types of leasing arrangements are not treated as capital expenditure and the Council can use them to lease computer equipment and vehicles without the costs having to be met from capital resources such as borrowing. They are known as "operating leases", but the Council must also consider the cost of future "leasing charges". This benefit does not apply to "finance leases" where ownership transfers to the lessee.

Leasing Charges: The annual rental payments on items such as vehicles and computers that have been leased by the Council. See Capital Financing Costs.

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.

Long Term Debtors: These debtors represent the capital income still to be received where sales of assets have taken place and deferred receipts such as mortgages have been agreed.

Members Allowances: Payments to Councillors, authorised by law, in respect of the costs incurred in carrying out their duties as elected representatives.

Minimum Revenue Provision: The minimum amount, which the Council must charge to the General Fund in the year, in respect of the repayment of principal of borrowing for capital purposes. The minimum provision is expressed as 4% of the Council's General Fund capital financing requirement.

Memorandum Account: These accounts are not part of the Council's formal statutory accounts and are included in the statement for added information.

Non-Domestic Rates (NDR): The rates paid by businesses. The amount paid is based on a rateable value set by the Inland Revenue multiplied by a national rate in the £ set by the Government. The rates are collected by local authorities and paid over to the Government. They are then redistributed on the basis of the resident population.

NDR Pool: The NDR pool is the fund operated by the Government into which all business rates are effectively paid and then from which they are redistributed to local authorities.

Preceptor: Preceptors are other authorities who get their income from the billing authorities in their area. In London there is now a single preceptor, the Greater London Authority (GLA). The Greater London Authority and its component bodies calculate their total spending needs for the year and the GLA sets its Council Tax in the same way as a London Borough. Each billing authority then collects their tax for them.

Provision: An amount of money set aside in the budget to meet known liabilities that will arise in the future but may not be quantifiable at present.

Provision for Losses on Collection: Local authorities are required to make an allowance for income that is unlikely to be collected. A provision for losses has to be taken into account when calculating the Council Tax levy - see Collection Rate

Prudential Code: This is new system, which plays a key role in capital finance and came into effect on 1st April 2004. It provides local authorities the financial freedom to borrow, provided that such borrowing is prudent, affordable and sustainable.

Rateable Value: The value of a property for rating purposes. The Inland Revenue sets rateable values. The rates payable by an individual business, are calculated by multiplying the rateable value of the property by the rate in the £ set by the Government.

Rate in the £: The rates payable by businesses is calculated by multiplying the rateable value of the property by a rate in the £ expressed in pence. The rate in the £ for 2009/10 was 48.1 pence. The rates payable on a particular property is therefore the rateable value multiplied by the rate in the £.

Recharges: A charge from one account to another to reflect the cost of a service provided. They are included in Service budgets under the heading of "Support Services".

Related Party Transactions: These are material transactions between the Council and other bodies (related parties) such as government departments, preceptors, the Pension Fund and Council funded organisations that must be disclosed in financial statements. In the context of the Statement of Accounts, material transactions between Councillors and Service Heads (and any member of their immediate family or other person living at the same address) with related parties must be disclosed. This includes directorships, employment at a senior level, or significant financial interests in companies or partnerships or voluntary organisations who have material transactions with the Council.

Reserves: The amounts held by way of balances and funds that are free from specific liabilities or commitments.

Revenue Contribution to Capital Outlay (RCCO): The use of revenue monies to pay for capital expenditure - also known as Direct Revenue Financing (DRF).

Revenue Expenditure Funded from Capital Under Statute (REFCUS): – Expenditure which would otherwise have been classified as revenue, but which was classified as capital expenditure for control purposes. Types of deferred charges included items such as financial assistance towards capital investment incurred by other parties, works on properties not owned by the authority and any amounts specifically directed by the Secretary of State for individual authorities.

Revenue Support Grant: The main grant payable to support local authority revenue expenditure. A local authority's RSG entitlement is intended to make up the difference between expenditure, and income from the NDR Pool and Council Tax so that, if all local authorities spent in line Council Tax, would be the same throughout the country.

Section 151 Responsibilities: Section 151 of the Local Government Act 1972 (as amended) sets down responsibilities on the Council concerning the appointment of a Chief Financial Officer and the management of its financial affairs.

Service Level Agreements (SLAs): Written "contracts" for internal services to be provided by one Service Head (the provider) to another (the client or user). They set out the service to be provided, the duration, price and conditions of the service, and are agreed before the financial year begins.

Service Support Services Costs: The reallocation of the cost of Service administration over the services provided so as to show the full cost of each function.

Specific Grants: A grant receivable from a Government department that relates to expenditure incurred on providing a particular service e.g. Dedicated Schools Grant (DSG).

Statutory Account: Any account that the Council is, by law, required to keep.

Support Service: A service provided for other Service Heads within the Council rather than direct to the public, including payroll, computing, central personnel and legal services.

Supported Capital Expenditure: Allocations from the Government under the new Prudential Code that replaces the previous system of credit approvals. These allocations enable services to borrow to fund capital schemes, and they will receive revenue funding to pay for the borrowing costs.

Trading Accounts: The profit and loss account of any trading organisation required to be disclosed separately in the Council's accounts.

Transitional Relief: Abatements to Business Rates to mitigate the effects of changes resulting from revaluations.

Transport Supplementary Grant (TSG): Paid by the Government toward the cost of capital works to roads of more than local significance, meeting 50% of approved costs.

Turnover: In the context of the Statement of Accounts, the value of work carried out by a trading organisation.

Ultra Vires: This literally means 'beyond the power'. Local authorities are only allowed to do things for which they have specific legal powers. If they spend money on anything else, this is illegal and is referred to as being 'ultra vires'.

Unsupported Borrowing: Local Authorities can set their own borrowing levels based on their capital need and their ability to pay for the borrowing. The levels will be set by using the indicators and factors set out in the Prudential Code. The borrowing costs are not supported by the Government so services need to ensure they can fund the repayment costs. This borrowing may also be referred to as Prudential Borrowing.

Usable Capital Receipts: The proportion of capital receipts which the Council is able to use for capital spending purposes and which is not required to set aside to redeem debt.

Write-offs: Income is recorded in the Council's accounts on the basis of amounts due. When money owing to the Council cannot be collected the income already shown in the accounts has to be reduced or written off.

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1. Scope of responsibility

- 1.1. Islington Council is responsible for ensuring that its business is conducted in accordance with the law and that public money is safeguarded and properly accounted for and used economically, efficiently and effectively. Additionally, the Council has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.
- 1.2. In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs and facilitating the effective exercise of its functions, which includes arrangements for the management of risk. The Council has approved and adopted a code of corporate governance which is consistent with the principles of the CIPFA/SOLACE framework *Delivering Good Governance in Local Government*. A copy of the code is on our website and included in the Council's Constitution.
- 1.3. This statement explains how the Council has complied with the code and also meets the requirements of regulation 4(3) of Part 2 of the Accounts and Audit Regulations 2011 in relation to the publication of an Annual Governance Statement. In line with the CIPFA/SOLACE framework, this statement is "an open and honest self-assessment" of the Council's performance across all of 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.

2. The purpose of the governance framework

- 2.1. The governance framework comprises the systems, processes, culture and values by which the authority is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the Authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost effective services.
- 2.2. The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an on-going process designed to identify and

prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

2.3. The governance framework described in this document has been in place at Islington Council for the year ended 31 March 2013 and up to the date of approval of the Statement of Accounts.

3. The governance framework

This section describes the key elements of Islington Council's governance arrangements.

3.1. *Identifying and communicating the Authority's vision of its purpose and intended outcomes for citizens and service users*

3.1.1. The central aim of the Council's Administration is to make Islington a fairer place. This is defined as cutting the number of Islington people living in poverty and cutting the gap in outcomes between Islington's most affluent and the least affluent on the things that matter.

3.1.2. On 30 March 2011 the Islington Partnership Board, which comprises the main public sector organisations in the borough, agreed a Community Strategy Statement of Ambition and a Charter for Fairness and Equality. These formed the basis of the Council's Corporate Plan 2011-15 with six priorities linked by the overarching priority of fairness and incorporating the recommendations of the Islington Fairness Commission.

3.1.3. The six priorities are:

- Decent, suitable and affordable homes;
- Lower crime and anti-social behaviour;
- Cycle of poverty broken
- Best start in life for children
- Healthy, active and independent lives;
- Delivering basic services efficiently and well.

3.1.4. These priorities and the intended outcomes have been communicated to citizens and service users in newsletters, on the Council's website (www.islington.gov.uk) and through a variety of other media. The Council also uses large print and translated documents to make the information as accessible as possible to all of its citizens and service users.

3.2. *Reviewing the Authority's vision and its implications for the Authority's governance arrangements and translating the vision into objectives for the authority and its partnerships*

- 3.2.1. The Corporate Plan sets out the priorities and objectives for the period 2011-15. Underpinning the plan is a set of corporate performance indicators which help measure progress against the higher level objectives. Targets are set annually and performance monitored throughout the year. Equalities objectives have also been set and targets to measure progress against these have been incorporated within the corporate performance indicator suite
- 3.2.2. The Council's performance against its objectives and targets, including progress against Equalities targets, is reviewed quarterly by Policy and Performance Scrutiny Committee.
- 3.2.3. In addition to quarterly monitoring, a robust review of progress against Equalities objectives was undertaken in the final quarter of 2013-14. This included consultation with relevant voluntary and community sector organisations. The findings of the review will be used to inform equalities objectives for 2014-15.
- 3.2.4. Progress against the specific Fairness Commission recommendations is reported annually to full Council. The most recent update was considered by Council on 27 February 2014.
- 3.2.5. Each year, the Council publishes an Annual Report setting out progress in the past year in delivering the priorities set out in the Corporate Plan, and end of year performance against targets. The Annual Report includes an update on Equalities objectives and Fairness Commission recommendations. The Annual Report for 2012-13 was considered by the Policy and Performance Scrutiny Committee on 25 June 2013. The Annual Report for 2013-14 will be presented to Policy and Performance Scrutiny Committee on 21 July 2014.
- 3.2.6. The priorities set out in the current Corporate Plan, which runs to 2015, will be reviewed and refreshed during the coming year to ensure they remain relevant and continue to reflect the priorities of the administration. The review of Equalities objectives will form part of this process. A revised set of corporate priorities and performance indicators will be developed and agreed by autumn 2014.

3.3. Measuring the quality of services for users, to ensure they are delivered in accordance with the authority's objectives and that they represent best use of resources and value for money.

3.3.1. The Council's robust management processes enable it to measure the quality of services provided to Islington's residents and service users:

- Service, financial and corporate planning processes ensure that the Council's objectives are based on service commitments and strategic priorities;
- Directorates report monthly on their key financial, risk and service delivery indicators. Performance slippages are highlighted and remedial action taken;
- The Annual Report includes a summary of income for the past year and how this has been allocated across the Council to support key service areas and priorities. It also sets out income for the coming year. The Annual Report is reviewed by the Policy and Performance Scrutiny Committee. The report for 2012-13 was presented on 25 June 2013 (see para 3.2.2 above)
- Members regularly evaluate the Council's performance in meeting its key priorities through informal processes as well as through scrutiny, where recommendations such as those arising from the equality scrutiny in 2012, ensure that the Council's legal duties and priorities are given effect throughout the Council.

3.4. Defining and documenting the roles and responsibilities of the Executive, Non-Executive, Scrutiny and officer functions, with clear delegation arrangements and protocols for effective communication in respect of authority and partnership arrangements

3.4.1. Islington Council's Constitution sets out how the Council operates, how decisions are made, how decisions remain efficient and transparent, and how the Council demonstrates its accountability to residents and local businesses.

3.4.2. The Constitution also sets out the roles and responsibilities of the Executive, Non- Executive, Scrutiny and officer functions. A Publicity Protocol governing Members' and Committees' communication is laid out in part 6 of the Constitution; compliance with this is supported by a specialist Communications Team.

3.4.3. The Constitution is updated at least annually. Key amendments coming into effect in 2013/14 included clarifying changes to reflect the coming into force of provisions of the Police Reform and Social Responsibility Act 2012 the specific position in respect of the extent of Corporate

Director responsibility for approving allocation of section 106 monies and changes to reflect the new requirements for recording of votes in respect of the Council's budget report decisions.

3.5. Developing, communicating and embedding codes of conduct; defining the standards of behaviour for Members and staff

- 3.5.1. The Council expects the highest conduct and behaviour from all its Members and officers. Responsibility for promoting, developing and maintaining these high standards lies with the Audit Committee, supported by the Standards Committee which is responsible for considering complaints of breach of the Members Code of Conduct. In accordance with the Localism Act 2012, during 2012/13 the Council appointed Independent Persons who have statutory functions in relation to the process for dealing with complaints of breach of the Code.
- 3.5.2. Part 6 of the Constitution contains the revised Members Code of Conduct which sets out the rules for registering and declaring interests; it also includes protocols on Member/Officer Relations, Financial Regulations and Procurement Rules, and the Members Call for Action.
- 3.5.3. Part 7 of the Constitution contains the Members' Allowances Scheme which includes details on Members' eligible expenses. The scheme is reviewed annually taking into account advice and recommendations of the London Council's Independent Remuneration Panel.
- 3.5.4. An Officer Code of Conduct is reviewed, revised and publicised to staff from time to time. An exercise to review the classification of posts as requiring a DBS has been undertaken following changes in the relevant legislation.

3.6. Reviewing the effectiveness of the authority's decision making framework, including delegation arrangements, decision making in partnerships and robustness of data quality

- 3.6.1. Decision making arrangements are set out in the Constitution. The Council operates a Leader and Cabinet (Executive) model of decision making. Although some decisions are reserved for full Council, most are made by the Executive or by Committees, Sub-Committees or officers. The limited powers delegated to individual portfolio holders are set out in the Constitution as is the process should the Leader decide to exercise any executive powers personally. In accordance with the Local Government Act 2000 the Council has mechanisms in place to allow the effective, independent and rigorous examination of the proposals and decisions by the Executive. These mechanisms involve the overview and scrutiny process, call-in and question time. The conduct of the Council's business is governed by the Constitution.

- 3.6.2. The Constitution includes formal delegation of responsibility and accountability, procurement rules and the Council's Financial Regulations. The Monitoring Officer and Section 151 Officer have overall responsibility for ensuring standing orders, standing financial instructions, the scheme of delegation and supporting material are up to date and clearly communicated.
- 3.6.3. Forthcoming Executive decisions are published on the Forward Plan which sets out all key decisions at least 28 days in advance of when it is anticipated they will be made, subject to urgency procedures. The Executive is responsible for the implementation of policy and ensuring the effectiveness of service delivery. The scrutiny function supports effective decision making and policy development by the Executive. The Policy and Performance Scrutiny Committee and Review Committees are responsible for overseeing a targeted work programme that can help support service improvement through an in-depth investigation of poor performance and the development of an effective strategy/policy framework for the Council and its partners. This includes consideration of the corporate plan and the medium term financial strategy. The Policy and Performance Scrutiny Committee and Review Committees are the scrutiny bodies responsible for monitoring the performance of the Council and its partners in relation to their stated policy and priorities.
- 3.6.4. All formal meetings are clerked by well trained and experienced Democratic Services Officers and lawyers are present when appropriate to provide advice on law and constitutional procedure. Members are required to make sound decisions based on written reports which are prepared in accordance with the Council's report writing guidelines and have to be cleared by relevant officers including Finance and Legal Services and by portfolio holders. Reports must pay due regard to equalities and environmental issues, together with financial and legal implications and risks. Joint Board (an officer and Executive member group) meets about a month before each Executive and has included on its agenda all items planned for the next Executive meeting. Not all items are proactively briefed on but they are available for members to ask questions about.

3.7. Reviewing the effectiveness of the framework for identifying and managing risks and demonstrating clear accountability

- 3.7.1. In order to ensure that the Council's objectives are effectively managed, the Council has in place arrangements to deliver a strategic approach to managing risk. Operational, divisional and departmental risk registers are used to feed into the corporate risk register. In 2014/15, the Council will be refreshing the risk framework to proactively ensure threats are minimised and opportunities are maximised in a

consistent and proportionate manner. This will include a framework encompassing strategic, operational and programme risks resulting in a more enterprise-wide and dynamic approach. Further developments will be made in terms of defining the Council's risk appetite to ensure a more objective approach to prioritising risks and opportunities and assigning clear accountability.

3.8. Ensuring effective counter-fraud and anti-corruption arrangements are developed and maintained

- 3.8.1. Islington Council's Anti-Fraud Policy reflects current fraud legislation. The Council investigates reported or suspected fraud, and participates in the National Fraud Initiative. The Council's whistle blowing policy provides a mechanism for suspected breaches of law, procedure or policy to be confidentially reported.
- 3.8.2. Completed anti-fraud investigation work in 2013/14, while not identifying any significant fraud highlighted control weaknesses in a number of lesser areas. Investigations reports with recommendations to mitigate fraud risk were issued to service management on completion of these investigations.

3.9. Ensuring effective management of change and transformation

- 3.9.1. At a strategic (tier one level) the Council ensures effective management of change and transformation through the auspices of CMB (Corporate Management Board) who also operationalize this responsibility through the newly formed Corporate Transformation Programme Board (tier 2) whose role it is to provide assurance through positively challenging, supporting and critiquing not only the seven themed Corporate Transformation Programme but also other large pieces of organisational change including for example large scale insourcing. Directorate Management Teams (DMT's) are the (third tier) of the governance structure and provide localised assurance driven by Corporate Directors under the umbrella of a strong and coherent performance management culture.
- 3.9.2. Complimentary to this is the creation of a centralised Programme Management Office (PMO); created at the recommendation of Internal Audit. The responsibility for this sits with the Corporate Transformation & Efficiency Team. The PMO will become operational from 1st September 2014. This has been created to improve portfolio control and governance over the large body of transformation and change management activity in which LBI is currently engaged, and which is likely to increase over the coming years. The proximate aim is to raise success likelihood of current transformation/change programmes – success being as an example, outcomes delivered on schedule, money cashed, and positive change implemented.

3.9.3. This will be accomplished by:

- Benefits realisation – ensure benefit realisation activities are carried out following project closure. This includes assuring cashable savings are concluded.
- Risk and issue tracking – supporting programmes in ensuring risks and issues are escalated appropriately and mitigation and contingency plans are agreed and bought into. Monitoring progress of risks and issues and assessing their impact on the deliverability of the portfolio as a whole, including resource implications.
- Assurance/Quality control - establishing good/consistent practice and standards for governance including project-programme planning, reporting, analysing risks and issues and maintaining and updating the risk log for the programme.
- Analysing dependencies across the portfolio of programmes, bringing together programme managers to highlight cross-programme dependencies and opportunities and ensure related actions are concluded.
- Information management – holding master copies of project-programme information, generating quality management documentation, controlling and updating programme documentation.
- Ensuring post project reviews are carried out and actions arising from lessons learned are embedded into future practice.

3.10. *Ensuring the authority's financial management arrangements conform with the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010) and CIPFA Statement on the Role of the Head of Internal Audit (2010)*

3.10.1. The Corporate Director of Finance and Resources (Chief Finance Officer in accordance with Section 151 of the Local Government Act 1972) was the Council's most senior executive role charged with leading and directing financial strategy and operations for 2013/14. In his role as Chief Finance Officer, he is responsible for:

- Ensuring lawfulness and financial prudence of decision-making;
- Reporting to full Council (or to the Executive if the matter to which the report relates is an executive responsibility) and the Council's external auditor if he considers that any proposal, decision or course of action will involve incurring unlawful expenditure; or is unlawful and is likely to cause a loss or deficiency; or if the Council is about to enter an item of account unlawfully, and
- Providing advice on the scope of powers and authority to take decisions, maladministration, financial impropriety,

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probity and budget and policy framework issues to Councillors

3.10.2. The Head of Internal Audit gives an objective and evidence based opinion on all aspects of governance, risk management and internal control, and reports quarterly to the Audit and Governance Committee.

3.10.3. A Corporate Governance Group also meets every two months to discuss and monitor compliance with corporate systems of internal control, data security and governance issues. The group includes the Corporate Director of Finance and Resources, (the Section 151 Officer) the Assistant Chief Executive (Governance and HR) (the Council's Monitoring Officer), and the Head of Internal Audit.

3.11. ***Ensuring effective arrangements are in place for the discharge of the monitoring officer function***

3.11.1. The roles and responsibilities in respect of the democratic process are set out in detail in the Constitution. The Assistant Chief Executive (Governance and HR) is responsible, in her role as monitoring officer, for:

- Maintaining and keeping under review an up-to-date version of the Constitution (setting out in particular the bodies and post holders able to exercise, the Council's functions, and codes of behaviour for members and officers) and making this widely available to Councillors, officers and the public.
- Holding an up-to-date list of authorisations issued by the Directors to other officers under Part 3, paragraph 8.7 and Appendix 3 of the Constitution, permitting other officers to exercise powers delegated to them under the Constitution.
- Reporting to full Council (or to the Executive if the matter to which the report relates is an executive responsibility) if she considers that any proposal, decision or omission has given, may or would give rise to unlawfulness or has given rise to any maladministration which has been investigated by the Ombudsman.
- Contributing to the promotion and maintenance of high standards of conduct through provision of support to the Standards Committee and by maintaining a Register of Interests of Councillors and voting co-opted members of the Council

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- Receiving and acting on complaints that a member has breached the Islington Members' Code of Conduct
- Advising whether decisions of the Executive are in accordance with the Policy Framework and the Budget.
- Advising Councillors on the scope of powers and authority to take decisions, maladministration, financial impropriety, probity and budget and policy framework issues.

3.12. *Ensuring effective arrangements are in place for the discharge of the head of paid service function*

3.12.1. As head of the paid service, the Chief Executive works closely with elected members to deliver the following:

- Leadership: working with elected members to ensure strong and visible leadership and direction, encouraging and enabling managers to motivate and inspire their teams
- Strategic direction: ensuring all staff understand and adhere to the strategic aims of the organisation and follow the direction set by the elected members
- Policy advice: acting as the principal policy adviser to the elected members of the Council to lead the development of workable strategies which will deliver the political objectives set by the Councillors
- Partnerships: leading and developing strong partnerships across the local community to achieve improved outcomes and better public services for local people
- Operational management: overseeing financial and performance management, risk management, people management and change management within the Council

3.13. *Undertaking the core functions of an audit committee, as identified in CIPFA's Audit Committees: Practical Guidance for Local Authorities*

3.13.1. The Audit Committee and its associated Sub-Committees exist to deal with a range of matters including Council accounts and audit functions and personnel and electoral registration functions.

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3.13.2. The regular training of the Audit Committee's members helps ensure the Committee is able to effectively discharge its responsibilities.

3.13.3. The Audit Committee has independent members suitably qualified to support the committee in an advisory capacity.

3.14. *Ensuring compliance with relevant laws and regulations, internal policies and procedures, and that expenditure is lawful*

3.14.1. Chief Officers are responsible for ensuring that their staff operate lawfully and that human resources policies and the Code of Employee Conduct promote high standards of behaviour and are reinforced by appropriate training. As well as providing support on request on specific projects and issues, the Council's Legal Service provides proactive updates, training and advice to all Chief Officers and Members on new legislation and case law developments and changes to existing legislation and regulations. Legal Services explain the legal implications in all reports to the Council, its Committees and the Executive. The service also provides legal implication comments for reports to Chief Officers and to meetings of the Corporate Management Board. A representative of the Service attends all Council, Executive, Policy and Performance Scrutiny Committee, Planning and Licensing meetings and other meetings when appropriate.

3.14.2. The Internal Audit function produces an annual plan which identifies key strategic and operational risks facing the Council and sets out a programme of work designed to provide assurance to the Section 151 Officer, Management and Members that the Council complies with relevant laws, regulations, internal policies and procedures. All internal and external audit reports are available to the Audit Committee.

3.15. *Whistleblowing and for receiving and investigating complaints from the public*

3.15.1. The Council has established a whistle blowing policy in accordance with the requirements of the 1998 Public Interest Disclosure Act. This forms part of the Council's Anti-Fraud Policy. The Audit Committee is responsible for reviewing and updating the whistle blowing policy and receives a report concerning it annually. The policy was updated in March 2014.

3.15.2. The whistle blowing policy is publicised to staff via the corporate induction process, internal newsletters and on the Council's intranet and internet sites. At the time of the launch of the new policy it was also publicised to staff in IC News. The policy encourages officers to report inappropriate action by fellow employees or Members, also by

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external contractors, without fear of victimisation or retribution. Whistle blowing referrals are promptly investigated by Internal Audit, where appropriate, after initial referral to the Head of Internal Audit.

- 3.15.3. Islington Council has a formal process for managing complaints which has recently been reviewed and streamlined, with a view to "getting it right first time". The process is set out on the Council website and is available from Council offices and libraries.
- 3.15.4. The Council has a corporate complaints officer responsible for ensuring that the Council learns from complaints and improves its performance as a result. Departmental complaints officers record and report on all complaints, and the service response is monitored.
- 3.15.5. Complainants who are dissatisfied with how the Council has dealt with a complaint can contact the Local Government Ombudsman; an independent, impartial and free service. The Ombudsman has powers to independently investigate complaints about how the Council has acted.

3.16. *Identifying the development needs of members and senior officers in relation to their strategic roles, supported by appropriate training*

- 3.16.1. Islington Council is committed to the on-going professional development of Members and officers. Upon election, all Members are given a corporate induction and offered access to an on-going training and mentoring programme. All training provided to Members is reported to Committee annually.
- 3.16.2. The Member training and development programme will be reviewed following the local elections in June 2014.
- 3.16.3. There is an annual performance appraisal scheme for officers, which links targets to service objectives, underpinning the Council's vision. In addition, an Audit Commission review concluded that Islington staff received regular feedback on their performance. Through these processes, officers are able to identify their development needs, which are logged on individual development plans that they are encouraged to maintain.
- 3.16.4. Newly employed officers attend the Council's corporate induction programme, after which directorate and role specific training is provided where needed. Information on staff training and development programmes and courses available are regularly publicised on the Council's intranet website which includes an induction training course for all new Islington staff and Managers. An extensive induction

programme was developed to support staff transferring to the Council from Homes for Islington as part of the reintegration of housing management services. Similar support has been provided to staff transferring in in respect of other functions and services. There is compulsory training for staff on key issues such as equality, data security and health and safety.

3.16.5. The Executive and the Corporate Management Board have a number of 'away days' each year that help them to improve their performance collectively through ideas sharing and looking at improved ways of working.

3.17. *Establishing clear channels of communication with all sections of the community and other stakeholders, ensuring accountability and encouraging open consultation*

3.17.1. The Council regularly engages and consults with residents and the wider community on a diverse range of issues. It uses various communication channels such as Islington Life (the Council magazine), public meetings and the Council's website. There are also forums such as the Islington Business Board and Empower Islington Group which engage with specific communities of interest, and a series of VCS dialogue sessions delivered in 2013-14 have enabled local voluntary and community sector organisations to identify issues and help shape policy around key challenges and priorities. An annual VCS Conference, hosted in November, provides an opportunity for engagement with a wider number of local organisations.

3.17.2. In December 2011 the Council launched a new online Citizens Panel which sought views from residents about every six weeks. As membership of the Citizens Panel needed refreshing, this year the Council reviewed options for the most effective means of collecting perception data from Islington residents. It identified an annual telephone survey as providing the best combination of robust data and low costs. The survey will be conducted in the first quarter of 2014-15.

3.17.3. Council meetings are open to the public; however exceptions are made for matters that require confidentiality. The time, date and location of public meetings are displayed on the Islington website.

3.17.4. In 2011-12 the Council introduced ward partnerships as a means of Councillors engaging with local residents and organisations and seeking views on matters of local interest. Meetings are open to the public and dates are published in advance on the Council's website.

3.18. *Enhancing the accountability for service delivery and effectiveness of other public service providers*

- 3.18.1. Each Executive Member is required to report annually to the Policy and Performance Scrutiny Committee on delivery of services and priorities within their portfolio. The Executive Member is accompanied by the relevant Corporate Director.
- 3.18.2. Accountability and effectiveness of other service providers is addressed through relevant partnership arrangements, including the Safer Islington Partnership, Children and Families Board and the Health and Wellbeing Board.
- 3.18.3. The Council's scrutiny committees can undertake more in depth research into particular challenges or concerns, and request evidence from other service providers. In 2012-13 the Policy and Performance Committee undertook a scrutiny of safer neighbourhood policing and progress on implementing its recommendations was reported back to the Committee in 2013-14.
- 3.18.4. The Health and Wellbeing Board, which includes membership from the Council, Islington Clinical Commissioning Group and Healthwatch Islington provides the mechanism for leadership of the local health and wellbeing system, maintaining an overview of account for improvement in health and wellbeing outcomes, and ensuring effective coordination and integration of commissioning plans to secure best use of resources and population health outcomes.

3.19. *Incorporating good governance arrangements in respect of partnerships and other joint working as identified by the Audit Commission's report on the governance of partnerships, and reflecting these in the authority's overall governance arrangements*

- 3.19.1. The Council works in partnership with a wide range of partners from the statutory sector, third sector and business to deliver services for local people and drive forward improvements in Islington. Partnership working includes different types of relationships – from contractual arrangements between the Council and other organisations to deliver services or projects through to strategic forums (some of which are required by statute, others voluntary) which bring partners together around the table to agree how best to tackle key challenges and shared priorities. Some have funding to allocate and targets to meet, others provide a steer to inform individual partners' priorities and commissioning.
- 3.19.2. The governance arrangements vary depending on the nature of partnership working but are designed to ensure that the partnership

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remains appropriate, effective and fit for purpose. In addition, the Council's Financial Regulations provide guidance on best practice in managing partnership arrangements.

- 3.19.3. Where the relationship is a contractual one i.e. funding to deliver an agreed service, the contract or service level agreement will set out requirements around use of funding, what is to be delivered, targets, measurable outputs and how the contract is to be monitored, reviewed and evaluated. Contracts and budgets are managed by the relevant department with the Corporate Director having overall responsibility.
- 3.19.4. Where the relationship is a strategic one, for instance membership of a partnership such as the Safer Islington Partnership, the Terms of Reference will set out governance and accountability.
- 3.19.5. Generally speaking, most partnerships and forums are not legal entities - partners are there on a voluntary basis and the Council is the formal accountable body in terms of any targets or funding that falls within the remit of the partnership.
- 3.19.6. Where a partnership is a mandatory requirement, e.g. the Safer Islington Partnership, there will be an expectation set out in legislation on named partners to attend. Even in the case of non-mandatory partnerships such as the Children and Families Board or the Islington Partnership Board, partners may agree 'mandatory' membership from key organisations.
- 3.19.7. Over the past decade, the Council has worked closely with its partners through the Islington Partnership Board (IPB) and its precedents to allocate funding to deliver priorities and targets agreed with government. The IPB agrees the overall priorities for the borough, shares information about key issues affecting individual organisations and agrees joint working arrangement for cross cutting challenges such as youth unemployment and welfare benefit reforms.

4. Review of Effectiveness

- 4.1. The Council 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 the executive managers within the authority who have responsibility for the development and maintenance of the governance environment, the head of internal audit's annual report, and also by comments made by the external auditors and other review agencies and inspectorates.

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4.2. The Annual Governance Statement has adopted the six core principles of good governance as recommended by CIPFA/SOLACE. The Council has a number of mechanisms in place to ensure that its partnership governance arrangements are appropriate, fit for purpose and effective.

4.3. The process and activities that have been applied in maintaining and reviewing the effectiveness of the governance framework are set out below.

4.3.1. The Authority

Part three of the Council's Constitution sets out which bodies or officers are responsible for which functions, whether Executive or Non-Executive. The terms of reference of bodies referred to in this Constitution are set out in part 5 of the Constitution. These include specific responsibilities for ensuring the Council has effective governance arrangements in place.

The Authority's functions may lawfully be exercised by:

- Council;
- The Executive;
- The Leader;
- Individual members of the Executive;
- Individual Ward Members (although not currently in Islington as the Council has not decided to delegate any such powers);
- Committees and Sub-Committees of the Council or the Executive;
- Joint Committees;
- Officers, and
- Other persons properly authorised under specific legislation.

4.3.2. The Executive

The Executive is made up of the Leader of the Council and seven Executive members. The Executive is responsible for the Council's most significant decisions, which are made in line with Council policy and budget. Its terms of reference are clearly defined in Parts 3 and 5 of the Constitution.

The Executive also has an important role in the risk management process, reviewing the corporate risk register on a quarterly basis. Executive agendas, minutes and summaries of decisions are available on the Council website.

4.3.3. Audit Committee

The Audit Committee's terms of reference are set out in Part 5 of the Constitution and are in accordance with recommendations from CIPFA. Its key responsibilities include approval of the annual Internal Audit work plan, review and approval of the annual Statement of Accounts and monitoring the effectiveness of the Council's corporate

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governance activities and promoting high standards of member conduct.

The Committee meets on a quarterly basis. Since its inception in November 2008 it continues to review and report on the Council's auditing processes, with particular regard for performance, value for money, and governance issues. The Committee includes independent members.

4.3.4. Overview and Review Committees

The Policy and Performance Scrutiny Committee and Review Committees enable Councillors to develop policy and to scrutinise the performance of the Council and decisions made by the Executive.

The Policy and Performance Scrutiny makes policy recommendations and co-ordinates the work of the four review committees, which are Health Scrutiny, Regeneration and Employment, Children and Young People's Education and Communities. The responsibilities of the Policy and Performance Scrutiny Committee are set out in parts 2 and 5 of the Constitution.

The Policy and Performance Scrutiny Committee is initially responsible for all Councillor Calls for Action. The Communities Review Committee is the Council's Crime and Disorder Committee. This includes anti-social behaviour or other behaviour adversely affecting the local environment and complaints about substance.

4.3.5. The Standards Committee

The Standards Committee is responsible for considering complaints of breach of the Members Code of Conduct referred by the Monitoring.

The Committee has the support of Independent Persons appointed under the Localism Act 2012 in respect of its consideration of complaints.

4.3.6. Internal Audit

The Council's internal audit service is delivered via a shared service with LB Camden.

The Internal Audit plan is developed using a risk-based approach. Internal Audit provide reports on the control of key potential risks identified from risk registers and reports and also comments on operational risks found in services which could impact on the achievement of business objectives. Audit's assurance opinion is

further informed through a "Service Assurance Statement" process which involves an on-going self-assessment within the year by Corporate Directors of the extent to which their services comply with expected controls and processes operating across their Service Directorates. The outputs from the completed self-assessments are mapped against Internal Audit's independent assessment of the internal control environment as well as the departmental risk registers. This assurance process provides the Council with greater assurance to support and embed a robust governance framework. Audit's assessment is derived from this work for the 2013/14 year is that services' governance and internal control arrangements are generally sound.

Section 6.3 (Part 2) of The Accounts and Audit Regulations 2011 require that relevant bodies conduct, at least once in each year, a review of the effectiveness of its internal audit function. The findings of the review must be considered, as part of the consideration of the system of internal control referred to in the regulations by the body or relevant committee of the body.

4.3.7. We concluded that the internal audit service continues to be effective, complies with the Public Sector Internal Audit Standards (PSIAS), and provides the necessary skills and expertise to deliver a cost effective, value added, service to the Council, its partners and stakeholders.

4.3.8. Key Improvements and overall performance of the service in 2013/14 include:

- Continued working with LB Camden to further develop the shared audit service providing more timely reporting and assurance to management;
- Key Performance Indicators showed that internal audit meets set targets for delivering the audit plan, maintaining staff productivity targets, and following up on implementation of agreed audit recommendations;
- Audit Quality Surveys received following each completed audit project revealed that all surveys showed good or very good satisfaction with the audit service provided;
- We independently reviewed the operating procedures for both sides of the shared service against the PSIAS to provide assurance on compliance with best practice and procedures were harmonised and effective;
- External audit continue to place reliance on the work of internal audit through their review of audit work on key financial systems and other key risk areas, and

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- The shared service has been working with four other London boroughs to re-procure the contracted element of the service. This will provide opportunities both to enhance the value from the provider but also to work more closely with these boroughs to develop the shared service benefits even further.
- 4.3.9. All planned audits from 2013/14 and going forward will be scheduled for follow up reviews to ensure that management action plans for implementation of agreed audit recommendations have been fully implemented within agreed timescales. This will provide DMTs, Corporate Governance Group, CMB and the Audit Committee with a direction of travel in the internal control environment across the Council and areas where further improvement is required.
- 4.3.10. Key messages arising from Internal Audit's work in the 2013/14 year regarding areas where the Council's controls and Governance need to be strengthened are included in section 5 below. More details of these issues are reported separately in Internal Audit's Annual Report 2013/14 end of year report to the June 2014 Audit committee.
- 4.3.11. The Council have been advised on the implications of the result of the review of the effectiveness of the governance framework by the audit committee, and that the arrangements continue to be regarded as fit for purpose in accordance with the governance framework. The areas already addressed and those to be specifically addressed with new actions planned are outlined below.

5. Significant Governance Issues during 2013/14

- 5.1. A key element of the annual governance review process is also to identify any significant internal control issues. The Council has adopted the approach recommended by the CIPFA which has identified what may be considered generally as a significant issue. These include:
- The issue has seriously prejudiced or prevented achievement of a principal objective;
 - The issue has resulted in a need to seek additional funding to allow it to be resolved;
 - The issue has resulted in significant diversion of resources from another aspect of the business;
 - The issue has led to a material impact on the accounts;
 - The audit committee, or equivalent, has advised that it should be considered significant for this purpose, or
 - The Head of Internal Audit has reported on it as significant in the annual opinion on the internal control environment.
- 5.2. Our work within Departments over the year has not identified any significant issues with the Council's overall governance framework. However, continued rigour is important in the following areas:

- 5.2.1. The Council prior to setting its budget has a sound process that ensures that estimates are robust and in particular savings proposals are fully scrutinised to ensure managerial and financial deliverability. The Council's budget monitoring process during the year routinely monitors service financial performance against budget and looks to put management action in place to deliver the council's financial outturn within the overall budget. Whilst the Council's budget has been under pressure since the major cuts started in 2010, in each of the financial years to date the council has delivered its overall spending within budget, demonstrating the robustness of the process. Further cuts to financial staff numbers will add more risk to the process, however processes are being reviewed to mitigate the risk as much as is possible and focus the reduced resource where they are needed.
- 5.2.2. The Council has partnership agreements ("section75") with the Camden and Islington Mental Health Foundation Trust, Whittington Health and Islington NHS Clinical Commissioning Group, for the provision and commissioning of health and social care services. The purpose is to ensure cost effective, joined up services for vulnerable people. There are regular meetings between the Chairs and Chief Executives of these organisations and the Council Leader and Chief Executive, and an annual report to the respective Boards and the Council's Executive to ensure that the day to day arrangements for collaborative working are meeting the aims of the partnerships and the objectives of the Council.
- 5.2.3. Islington has a Safeguarding Adults Partnership Board that exceeds current and proposed national guidelines for its scope and inclusiveness, chaired by an independent expert in the field. The Chair and the Director of Housing and Adult Social Services report quarterly to the Leader, Executive Member for Health and Social Care and Chief Executive on safeguarding matters.
- 5.2.4. The current structures and organisational arrangements provide a strong accountability and leadership of Islington's statutory duties for children in need of help and protection, children in care and care leavers, including early help and benefitting from high educational standards locally. The Corporate Director of Children's Services reports directly to the Chief executive and the span of control allows the work to be given due priority. Assurance checks are integral to the decision making processes of the Council. The quality of work for children in need of help and protection, children looked after and care leavers is scrutinised through Islington's Quality Assurance Framework. Professional leadership is challenged by the Chief Executive and Leader of the Council who hold the Corporate Director of Children's Services, the Lead Member for Children and Families and the Director of Specialist and Targeted Services to account on a quarterly basis. Progress on themes arising from audit and performance data is

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reported at these meetings. As part of this quality assurance, external and highly qualified professionals in the field carry out service reviews to benchmark against inspection expectations. There are research links with universities that inform practice. An annual self-assessment is carried out. Social worker caseloads, timeliness of interventions and outcomes for children are monitored at all levels and management oversight is good. The quality, value for money and sufficiency of placements for children is kept under review. An evaluation of Early Intervention has been undertaken, and only evidence based programmes are in use. The Safeguarding Children Board has an independent chair and the annual report is discussed by the Health and Wellbeing Board and by the Health Overview and Scrutiny. The JSNA includes sections on vulnerable children and those in need of help and protection, and is used to determine priorities for both the safeguarding board and for services for children and families. Educational outcomes for Children Looked After and care leavers are scrutinised at the Corporate Parenting Board. The Corporate Parenting Board is chaired by the Lead Member for Children and Families. It has strong representation from the Children's Active Involvement Service, and the voice of the child is well evidenced in individual casework. Budget and change management proposals are scrutinised for impact on the quality of work with children in need of help and protection, children looked after and care leavers and this is included in Equality Impact Assessments.

- 1.1.1. The council's contract with Kier as the sole provider of housing repairs services will come to an end in August 2014 and a decision to reintegrate service delivery has been made. Accordingly, since the commencement of the reintegration lead-out period in July 2013, project work has commenced to ensure a seamless transition of agreed staff, assets, processes and services back to the council. This will be subject to further review in 2014-15.
- 1.1.2. Completed anti-fraud investigation work in 2013/14, while not identifying any significant fraud highlighted control weaknesses in a number of lesser areas. Investigations reports with recommendations to mitigate fraud risk were issued to service management on completion of these investigations.
- 1.1.3. Internal audit continue to work with the officers in the data security team to further develop the control framework around data security and information governance more widely. Significant developments have happened around awareness and compliance.

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Signed by: Richard Wootts 17 JULY 2014
Leader Date

Signed by: Lesley Sney 17 JULY 2014
Chief Executive Date



Report of: **Assistant Chief Executive (Governance and HR)**

Meeting of Audit Committee	Date 29 September 2014	Agenda Item	Ward(s)
Delete as appropriate	Exempt	Non-exempt	

SUBJECT: Local Government Pension Scheme 2014 – Discretionary Policy

1. Synopsis

- 1.1 The introduction of the new Local Government Pension Scheme (LGPS) on 1 April 2014 involving a change from a “Final Salary Scheme” to a “Career Average Scheme” requires employers under Regulation 60 of the Local Government Pension Scheme Regulations 2013 to review their existing discretionary pension policy statement(s) and publish new policy statement(s) in line with the new scheme.
- 1.2 This report summarises the relevant regulations and the pension policies that need to be reviewed and makes recommendations for the adoption of a new pension policy statement as required under Regulation 60. It also considers and makes recommendations concerning certain other discretions available under the LGPS.

2. Recommendations

- 2.1 To consider and approve with such amendments as the committee may agree the proposed policy statement and the draft proposals set out in **Appendix 1 Table 1**, where the council is the employer (including schools).
- 2.2 To agree to apply the same policy in respect of Regulation 30(8) discretions where council is the administering body and a former employer has ceased to be a scheme employer .

3. Background

- 3.1 The Local Government Pension Scheme (LGPS) contains a number of discretionary elements and the council's current policies relevant to this report which were last reviewed in 2009 is attached as **Appendices 2 and 3**. Augmentation of pensions is no longer available.

- 3.2 The Local Government Pension Scheme Regulations 2013 ('the Regulations') and the related Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (the Transitional Regulations) introduced a number of discretionary powers that need to be considered by the council. As an employer, the council is required to formulate, publish and keep under review a policy statement on these discretions. In addition, there are a small number of other discretions which apply and are also addressed in the attached table.
- 3.3 The council must consider the discretionary powers granted to employers in the context of both "active members" (generally current employees) who are in 2014 LGPS and also former employees ("members" of the LGPS) who left the council prior to 31st March 2014 with preserved / deferred pension benefits.
- 3.4 The Trade Unions are being consulted concerning the recommendations in this report and any comments will be reported back to the committee.

4 Employer Discretions

- 4.1 Regulation 60 of the Regulations requires the council as employer to prepare a written statement of its policy in relation to the exercise of its functions under regulations:
- (a) 16(2)(e) and 16(4)(d) (funding of additional pension);
 - (b) 30(6) (flexible retirement);
 - (c) 30(8) (waiving of actuarial reduction); and
 - (d) 31 (award of additional pension),

and an administering authority must prepare such a statement in relation to the exercise of its functions under regulation 30(8) in cases where a former employer has ceased to be a Scheme employer.

For details of the Regulations see:

<http://www.legislation.gov.uk/ukxi/2013/2356/regulation/60/made>

- 4.2 There is no longer an automatic entitlement to an unreduced pension for employees who voluntarily retire early aged between 55 and 60 whose length of service plus age is 85 or more. The Transitional Regulations provide a discretion to "switch back on" that entitlement on compassionate grounds.
- 4.3 In preparing, reviewing and making revisions to its statement under Regulation 60 the council must have regard to the extent to which the exercise of these discretionary powers, could lead to a serious loss of confidence in the public service.
- 4.3 The council is required to keep the statement under review and make such revisions as are appropriate following a change in its policy.
- 4.4 The discretions for consideration are detailed in **Appendix 1, Table 1** along with a summary of the council's current policy, where applicable, and recommendations for future policy.
- 4.5 The Appendix invites members to consider in respect of some of the available discretions adopting a policy to use them but only in exceptional circumstances. The advantage of this that is that it retains flexibility to respond in cases, for example, of particular hardship. This does of course mean that there may be some cost to the council. The

discretion to allow flexible retirement has been used relatively frequently (13 times since March 2012 at a cost to the council of £505,938) but exercise of the other discretions has rarely been requested under the previous scheme.

5 Implications

5.1 Financial implications:

There are financial implications arising directly from the report. The costs of exercising the discretions detailed in **Table 1** can give rise to pension strain costs when a member draws their pension benefits before their normal or state pension age (for whatever reason).

Factors that influence the strain costs include the members' age, length of service, gender and marital status. The impact on the fund is the loss of future contribution streams from the employee and the member, and paying out benefits earlier than otherwise anticipated. Generally where a strain costs arises due to an employer decision, such as waiving actuarial reductions, the strain costs will be met by the employer and not the Pension Fund.

5.2 Legal Implications:

Regulation 60 of the Local Government Pension Scheme Regulations 2013 requires the council to prepare and publish a written statement of its policy in relation to various discretions available to it under the scheme and to publish that statement. The statement must thereafter be kept under review.

The Regulations require that in preparing or making revisions to its pension policy statements, the scheme employer must have regard to the extent to which the exercise of any of its policies could lead to a serious loss of confidence in the public service (Regulation 60(5)).

5.3 Environmental Implications:

There are no environmental implications arising from this report.

5.4 Equality Impact Assessment:

The council must, in the exercise of its functions, have due regard to the need to eliminate discrimination, harassment and victimisation, and to advance equality of opportunity, and foster good relations, between those who share a relevant protected characteristic and those who do not share it (section 149 Equality Act 2010). The council has a duty to have due regard to the need to remove or minimise disadvantages, take steps to meet needs, in particular steps to take account of disabled persons' disabilities, and encourage people to participate in public life. The council must have due regard to the need to tackle prejudice and promote understanding.

Under the The Local Government Pension Scheme Regulations 2013 the council is required to have a policy statement in relation to the exercise of the discretionary provision contained in the Act. All eligible employees working for the council are automatically admitted to the LGPS, unless they opt-out. However, care needs to be taken in the exercise of discretions that equality characteristics as outlined in the Equality Act 2010 are taken into account.

6 Conclusion and reasons for recommendations

- 6.1 A formal review of the council's discretionary pension policy statement is required due to the introduction of the new Local Government Pension Scheme from 1 April 2014. In formulating and reviewing the policy statement the council must have regard to the extent to which the exercise of its discretionary powers could lead to a serious loss of confidence in the public service.

Appendices

Appendices 1 – 5 attached

Background papers:

Final report clearance:

Signed by:

Debra Norman	Date
Assistant Chief Executive (Governance and HR)	

Received by:

Head of Democratic Services	Date
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Local Government Pension Scheme Discretions
Table 1

Ref	The LGPS Regulations 2013	Detail	Proposal	Comment
1	16(2)e (funding of additional pension)	The LGPS regulations allow members to make additional pension contributions (APCs) to the LGPS at their own cost of up to £6,500. In addition it allows for shared costs between the employer and employee. Voluntary funding of additional pension contributions via Shared Cost Additional Pension Contributions (APC) - (by regular ongoing contribution)	Not to fund additional pension via shared cost APC.	Current approach
2	16(4)(d) (funding of additional pension)	Voluntary funding of additional pension contributions via Shared Cost Additional Pension Contributions (APC) - (by one off lump sum)	Not to fund additional pension via shared cost APC.	Current approach
3	30(6) (flexible retirement) [Replacing Reg 18 LGPS Benefit Regs 2008]	Employees aged 55 or more who reduce their working hours or grade may elect, with the employer's consent, to receive immediate payment of all or part of the retirement pension to which they would be entitled in respect of that employment. (The pension amount will normally be actuarially adjusted although under regulation 30(8) the employer may waive any reduction in whole or part – see below)	To continue with the council's existing provision for flexible retirement (Policy attached as Appendix 2.)	Current policy allows the flexible retirement of active members of the LGPS with decisions made in agreement with the relevant Corporate Director (or Assistant Chief Executive) based on business benefits (with no waiver of actuarial reduction).
4	30(8) (waiving of actuarial reduction – in cases of voluntary early retirement and flexible retirement)	An active member can voluntarily retire on or after age 55 and draw pension benefits, as can a deferred member on or after age 55 [Regulation 30(5)] The employer's consent to the retirement used to be	Option 1 Not to apply the discretion to waive all or part of any actuarial reduction in respect of Regulation 30(5) or Regulation 30(6).	Current policy is to consider the early release of pension benefits, (which prior to the new regulations required the employer's consent, from

		<p>required in the case of employees aged 55-59 but this is no longer the case under the new regulations.)</p> <p>.</p> <p>Employees aged 55 or more who reduce their working hours or grade may elect, with the employer's consent, to receive immediate payment of all or part of the retirement pension to which they would be entitled in respect of that employment (Regulation 30(6) – see above).</p> <p>The pension amount in both cases will normally be actuarially adjusted.</p> <p>.</p> <p>Employers may agree to waive all or part of the actuarial reduction in each case. Waiving the reduction would require the council to make a payment to the pension fund for the shortfall (pension strain) created by paying the pension early without reduction,</p>	<p>Option 2 Not to apply the discretion to waive the actuarial reduction in respect of Regulation 30(6).</p> <p>To consider in the case of Regulation 30(5) waiving all or part of any actuarial reduction in very exceptional circumstances:</p> <p>i) where for an active member immediately prior to retirement, there is a clear financial or operational advantage with each case considered on its merits and subject to the approval of the relevant Corporate Director (or Assistant Chief Executive).</p> <p>(e.g. in the case of an active member) in circumstances where redundancy is not an immediate option, but potentially possible in the medium term, there could be a cost saving) or ii) on compassionate grounds</p> <p>(See Appendix 4 for criteria to consider on compassionate grounds)</p> <p>Subject to in all cases to there being no detrimental impact on services.</p>	<p>the age of 55) on compassionate grounds with an actuarial reduction. The former service area is responsible for reimbursing the pension fund costs arising from the early release.</p> <p>Current policy is to consider the early release of pension benefits on grounds of redundancy / efficiency without an actuarial reduction at the discretion of the relevant Corporate Director / Assistant Chief Executive.</p>
5	31 (award of additional pension)	An employer may award an active member , or a member who was an active member who was dismissed by reason of redundancy, or business	<p>Option 1 Not to fund additional pension via added contributions of up to</p>	There is limited provision in the existing policy to use this discretion.

	[replacing Reg12 LGPS Benefits Regs 2008 which allowed an additional £5,000 per annum]	efficiency, or whose employment was terminated by mutual consent on grounds of business efficiency, additional annual pension of up to £6,500 from 1st April 2014 and that figure is increased on 1st April 2015 and in future years, in line with the Regulations.	£6,500 (as at 1 April 2014). Option 2 To consider the use of this regulation, in circumstances where the relevant Corporate Director (or Assistant Chief Executive) considers it will lead to significant cash saving and the cost to the pension fund will be reimbursed within one month. (e.g.in the case of an active member, in circumstances where redundancy is not an immediate option, but potentially possible in the medium term, so there could be an overall cost saving) An equalities impact will need to be considered in all such decisions made.	(See – Appendix 3)
Additional Discretions				
6	The LGPS (Transitional Provisions and Savings) Regulations 2014 (Switching on the 85 year rule -for scheme member wishing to voluntarily draw benefits on or after 55 and before age 60.)	An active member is able to retire without the employer's permission between age 55 and before age 60 and their pension benefits will normally be subject to an actuarial reduction to meet the strain on the pension fund. In cases where the employee is protected under the 85 year rule (a scheme member on 30 September 2006) , the employer has discretion to waive the actuarial reduction by switching on the 85 year rule if an employee voluntarily requests to draw their pension benefits and the pension strain cost is met by the employer. (i.e. age at retirement and length of service add up to 85)	Option 1 Not to switch on the 85 year rule for those who retire before the age of 60. Option 2 To switch on the 85 year rule in very exceptional circumstances where there is a clear financial or operational advantage' with each case considered on its merits and subject to the approval of the relevant Corporate Director. / Assistant Chief Executive.	Currently the 85 year rule is switched off.

7	Discretions for leavers post 31 March 2008 / pre 1 April 2014	Members who have left employment before 1 April 2014 come under the previous LGPS regulations.	Consent to the early release of pension benefits to be considered in line with the existing (pre 1 April 2014) policy in respect of discretions.	
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Existing Policy

The Local Government Pension Scheme - Flexible Retirement Policy

1 Introduction

- 1.1 The London Borough of Islington values the knowledge, experience and skills of all its employees. We are committed to having a flexible approach to retirement and recognise the benefits that it can have for both employees and the council as a whole.
- 1.2 The work on past retirement policy already allows employees to apply to continue to work over the age of 65 and potentially up to the age of 75, should they so wish.
- 1.3 The Flexible Retirement Policy allows employees who are members of the Local Government Pension Scheme (LGPS) to apply to reduce their working hours or pay grade (stepping down) and to draw pension benefits accrued up until the transfer to flexible retirement.

2 Flexible Retirement Policy

- 2.1 Flexible retirement occurs where an employee draws their pension and carries on working, either at a lower grade (stepping down) or on reduced hours.
- 2.2 It is available to Local Government Pension Scheme (LGPS) members who are aged 55 or over (including those working beyond the age 65) and who, with the Council's consent, reduce their hours or grade. Subject to necessary approvals, such employees may also be able to draw their local government pension whilst continuing to work. In addition they can remain in the Local Government Pension Scheme until the day before their 75th birthday, building up further benefits in the scheme.

3 Eligibility

- 3.1 In order to apply for the flexible retirement scheme an employee must:
 - be aged 55 or over, and
 - have 3 months total membership of the LGPS, and
 - complete the Flexible Retirement Request Form, and
 - obtain the consent of the line manager and Head of Service/Chief Officer.

The proposed reduction in salary, through either reduced hours or level of responsibility, must involve as a minimum either a 30% reduction in hours, or two grades difference in salary.

- 3.2 As an alternative to the last option, an employee may apply for a job at a lower grade and/or on reduced hours through open competition for a post through the council's normal open recruitment process and if successful make a request for pension benefits under the flexible retirement scheme. In such cases the employee's new department must agree to the application and the request form should be authorised by the new employing department.

4 Procedure

- 4.1 Any employee wishing to work reduced hours and/or at a lower grade (stepping down), must first put their request in writing to their line manager by completing the flexible retirement request form (see Appendix B). In the first instance the line manager will consider the request and the business case for supporting it. The manager may give provisional approval where they consider that:

- there is no detrimental effect on service delivery; and
- there is available alternative work at the lower grade or that the role can be carried out within the reduced hours or that suitable alternative arrangements can be made to cover the work; and
- the arrangement is fair and equitable to other team members

4.2 **Appendix A** contains points that the manager may wish to bear in mind when considering a request and **Appendix B** the application form.

4.3 If the line manager provisionally supports the request, the form should be forwarded to the Pensions Section where estimated pension figures will be calculated.

4.4 If, having received the figures, the employee wishes to proceed the line manager should obtain the agreement of their Head of Service / Director / Corporate Director, who will authorise the request.

4.5 No application for flexible retirement will be agreed at Head of Service / Chief Officer level in the absence of the line manager's support and necessary financial information from HR and the Pension Section.

4.6 Following the recommendation of the Head of Service / Chief Officer the employee should be advised in writing of the outcome. This should normally be within 28 days of the original request.

4.7 HR Express will amend and reissue the employee's contract of employment to reflect the new hours and/or grade as approved.

4.8 Employees requesting to draw their pension following appointment to a lower grade (stepping down) or reduce hours through open recruitment should seek the approval of their new line manager.

4.9 The policy for flexible retirement is as follows: -

Each case is treated on its merits, based on the needs of the service at the relevant time taking into account all relevant considerations including the grounds on which the application for flexible retirement is made, requirements of service provision, length of service, and capital cost of the strain on the Pension Fund.

4.10 If an application for flexible pension is refused and the employee wants to appeal please see **Appendix C**.

5 Receiving Pension Benefits Whilst Working

5.1 In all cases, employees must receive information as to how flexible retirement will affect their net pay and pension entitlement. This is important, as an employee's pension may be actuarially reduced if paid before age 65. In addition, any job held while in receipt of pension benefits may attract a higher rate of tax. While the Council will provide necessary pay and pension figures, the employee should be encouraged to seek independent financial advice. The employee may also seek advice from the Employee Assistance Programme. (See section 8 below for details.)

5.2 An employee who is granted flexible retirement under this scheme maintains continuity of service for terms and conditions of employment, including redundancy.

5.3 An employee granted flexible retirement can continue in employment under the flexible retirement scheme until they reach the Council's normal retirement age, which is currently 65. An employee who reaches the age of 65, who wants to continue working can apply to remain working under the work on past retirement scheme.

6. Pension Implications For Working Reduced Hours Or Stepping Down

6.1 Where an employee varies their working arrangements their pension entitlements will continue to accrue. Pension rights accrued before the reduction in hours or grade will be unaffected by the change. The employee's pension following the change may however be affected where, for example, special payments are no longer paid in the new role. Employees who opt for flexible retirement should obtain information from the Pensions Section about how their benefits might be affected and also seek independent financial advice.

6.2 Working part-time prior to, or in a lower grade prior to, the normal retirement age may also affect an employee's ill-health benefits or redundancy and compensation payments if they subsequently retire on health grounds or are made redundant or leave on efficiency grounds. Employees should contact HR Express / Pension Section to obtain further information about how these might be affected.

7. Long Service Retirement Award

7.1 Eligibility for the long service award on retirement will be awarded on retirement from the council rather than when an employee takes up the flexible retirement option.

8 Flexible Retirement Policy Changes

8.1 This policy will be reviewed in the light of the operation of the scheme and in line with legislative changes and also changes to the Local Government Pension Scheme.

9 Further information

9.1 If you would like further information on this policy, please contact your HR Business Partner or the Pensions Section.

9.2 To access the Employee Assistance Programme phone: 0800 243 458 or visit <http://www.workplaceoptions.co.uk/member-login.asp>

The login and password details are: Client ID: Islington Password: employee.

9.3 There is also further information about personal financial management on izzi at: <http://izzi/council/councilnews/freetime/health/Pages/eap.aspx>

9.4 Trade union members can also obtain advice from their trade union. Contact Vaughan West, GMB on 0207 527 3805 or Jane Doolan, Unison on 0207 527 8298.

Note: Flexible Retirement Appendices not attached

Existing Policy

Termination by Reason of Redundancy or in the Interests of the Efficiency of the Service, including Early Retirement

1 General Policy: Redundancy

Without prejudice to the Council's discretion to treat every case on its merits, the Council's general redundancy payments policy is based on the statutory redundancy payment as follows:

- for service up to the age of 21 – employees made redundant are entitled to 0.5 actual weeks pay (without any salary cap) for each completed year of service during that period;
- for service between 22 - 41 years of age – employees made redundant are entitled to 1 actual weeks pay (without any salary cap) for each completed year of service during that period;
- for service over 41 years of age – employees made redundant are entitled to 1.5 actual weeks pay (without any salary cap) for each completed year of service during that period.

The maximum number of years continuous service that can be counted for statutory redundancy payments purposes is 20. The redundancy payment is calculated according to statutory provisions but using actual contractual weekly pay rather than the statutory maximum.

The formula set out above includes both the redundancy payment (including the statutory element) and the discretionary lump sum.

The general policy applies only to redundancy, and not to efficiency, situations.

The general redundancy payments policy applies only to employees with two or more year's continuous service with a body listed in the Redundancy Payments (Continuity of Employment in Local Government, Etc) (Modification) Order.

2 Exceptional Discretionary Policy: Redundancy or Efficiency

The Council may use its discretion under the Local Government (Early Termination of Employment) (Discretionary Compensation) (England & Wales) Regulations 2006 (as amended), in exceptional circumstances, and only where the relevant employee has not received an additional period of membership or an additional pension (see section 3 below) to pay a lump sum of up to a total of 2 years (104 weeks) actual pay without any salary cap as a compensatory payment to any employee (eligible for the Local Government Pension Scheme), whose employment is terminated by reason of redundancy or in the interests of the efficiency of the service, including early retirement. This discretion can only be exercised within six months of termination and will be in exceptional circumstances and on a case-by-case basis, to be determined by the Corporate Director of each relevant department or, where appropriate, by the Chief Executive (in relation to a Corporate Director) or by Corporate Services Committee (in relation to the Chief Executive). Any redundancy (under Part XI Employment Rights Act 1996) and any enhanced compensation payments (under regulation 5 of these Regulations) on top of redundancy shall be deducted from any lump sum payable under this section.

The Council will have regard to the extent to which the exercise of discretionary powers, unless properly limited, could lead to a serious loss of confidence in the public service. The following factors will be taken into account when deciding whether to award a compensatory payment and, if a compensatory payment is made, the amount of that payment:

- Individual financial and other personal circumstances
- The Council's interests, including corporate and service imperatives
- The Council's fiduciary duty, including its duty to protect the interests of Council Tax payers and to exercise prudence and propriety
- Overall work record of the employee, including performance, attendance, length of service, level of responsibility and disciplinary record
- Any other factor relevant to the individual case

Redundancy and efficiency payments will be met from service department budgets.

3 **Augmentation**

The Council has discretion to

- (i) Increase an active member of the LGPS's membership (i.e. add years) by a maximum of ten additional years; and
- (ii) Award an active member an additional pension of up to £5000 per annum under Regulations 12 and 13 respectively of the Local Government Pension Scheme (Benefits, Membership and Contribution) Regulations 2007 (as amended).

Regulation 12 allows the Council to award an active member additional membership at any time up to the termination of employment (non-redundancy) or in the six months following termination (redundancy). In the latter case any increase shall be backdated to the date of termination. Regulation 13 additional pension is payable from the same date as the underlying pension becomes payable and can be paid in addition to any increased membership under Regulation 12.

The Council's general policy on such augmentation is that no extra membership or pension should be granted, subject to exceptional individual circumstances. However, as an exception to the general augmentation policy, the Council will use these augmentation provisions to give pension scheme members the option on a redundancy or efficiency dismissal of converting all of any discretionary compensation payment (less the statutory or contractual redundancy payment) into additional pensionable service under Regulation 12 up to a maximum of ten years.

Examples of how many additional years the conversion of the lump sum payment can deliver are available from the Pension Section, HR, or your trade union representative. The figures vary depending on salary and length of service. Where the compensation includes a statutory or contractual redundancy payment, this payment shall not be eligible for augmentation.

4 **Further information**

Further information about this policy can be obtained from:

Steve Rogers, Pension Section - email: steve.rogers@islington.gov.uk
telephone 0207 527 2028

Pat Edwards, Human Resources - email: pat.edwards@islington.gov.uk
telephone 0207 527 2420 or you can contact your HR Business Partner.

Also information on the statutory redundancy scheme is available on:

<http://www.direct.gov.uk/en/Employment/RedundancyAndLeavingYourJob/Redundancy/index.htm>



Draft for consideration

The Local Government Pension Scheme 2014

Guidance Criteria in the Exercise of Discretionary Powers

Consideration for the early release of pension benefits on compassionate grounds*

Applies to existing and former members of the LGPS

In respect of both existing and former employees in relation to determining on compassionate grounds the early release of retirement pension and grant, the council will examine each case on its merits and may take into consideration:

- the nature of the compassionate grounds put forward in the application; and the supporting evidence supplied showing exceptionally difficult personal or domestic circumstances
- the likely period that the claimed compassionate grounds will last into the future;
- medical evidence, where relevant, which relates to the member or deferred pensioner and/or a dependent relative;
- the likelihood or otherwise of the member or deferred pensioner obtaining employment at some stage in the future;
- the nature and reason for the employee leaving;
- the member's or deferred pensioner's age and period of membership;
- income and/or capital having been received or in prospect of being received from the Council or other sources;
- the costs to the pension fund; and
- any other relevant factor(s).

In the case of existing employees the final decision rests with the relevant Corporate Director/ Assistant Chief Executive.

In the case of former employees in the first instance the Director Financial Management will make a decision based on the evidence supplied by the individual. In the case of an appeal the relevant Corporate Director/ Assistant Chief Executive will make the final decision.

*There is no definition in the Local Government Pension Scheme Regulations 2013 of 'compassionate grounds'



DRAFT

The Local Government Pension Scheme 2014 - Policy Statement

(Subject to decisions made by Members at the Audit Committee on 29 September 2014)

1 Introduction

Regulation 60 of the The Local Government Pension Scheme Regulations 2013 requires the council to prepare a written statement of its policy in relation to the exercise of its functions with regards to the following Regulations.

- (a) 16(2)(e) and 16(4)(d) (funding of additional pension);
- (b) 30(6) (flexible retirement);
- (c) 30(8) (waiving of actuarial reduction); and
- (d) 31 (award of additional pension),

The council's policy with regards these Regulations is as follows:

2 Regulation 16 – Additional Pension Contributions

The council's policy concerning the whole or part funding of an active member's additional pension contributions:

Not to fund additional pension via shared Additional Pension Contributions either by regular on-going contributions or by way of a one off lump sum payment.

3 Regulation 30(6) – Flexible Retirement

The council's policy concerning flexible retirement

Consideration will be given to requests from employees aged 55+ who are active members of the LGPS to reduce their working hours or grade of employment and receive immediate payment of all or part of their retirement pension to which they would be entitled in respect of that employment. The council's policy on flexible retirement which is based on business benefits (with no waiver of actuarial reduction) is attached.

4 Regulation 30(8) – Waiving of Actuarial Reduction

The council's policy concerning the waiving of actuarial reduction

Not to apply the discretion to waive the actuarial reduction in respect of Regulation 30(6) (flexible retirement).

To consider in the case of Regulation 30(5) waiving all or part of any actuarial reduction in very exceptional circumstances:

- i) where for an active member immediately prior to retirement, there is a clear financial or operational advantage with each case considered on its merits.
- or
- ii) on compassionate ground (active or deferred members aged 55+) with each case considered on its merits

subject to in all cases to there being no detrimental impact on services.

5 Regulation 31 – Award of added pension contributions

The council's policy regarding the award of added pension contributions of up to £6,500 (as at 1 April 2014) where an active member or a member a member who was an active member but dismissed by reason of redundancy, or business efficiency, or whose employment was terminated by mutual consent on grounds of business efficiency,

Option 1 (Subject to Audit Committee's approval)

Not to fund additional pension via added contributions of up to £6,500 (as at 1 April 2014).

or

Option 2 (Subject to Audit Committee's approval)

To consider the award of added pension contributions of up to a maximum of up £6,500 (as at 1 April 2014) in circumstances where the relevant Corporate Director (or Assistant Chief Executive) considers it will lead to significant cash saving and the cost to the pension fund will be reimbursed within one month.

6 Additional Discretions under the Local Government Pension Scheme (Transitional Provisions and Savings) Regulations 2014

The council's policy regarding "switching on" the 85 year rule

Option 1 (Subject to Audit Committee's approval)

Not to switch on the 85 year rule for a scheme member who voluntarily retire or leave employment and elect to draw their benefits at or after the age of 55 and before the age of 60. In all such cases benefits will be actuarially reduced.

or

Option 2 (Subject to Audit Committee's approval)

To switch on the 85 year rule in very exceptional circumstances where there is a clear financial or operational advantage' with each case considered on its merits for a scheme member who voluntarily retire or leave employment and elect to draw their benefits at or after the age of 55 and before the age of 60.

7 Discretions for leavers post 31 March 2008 / pre 1 April 2014

The council's policy regarding scheme members who have left employment before 1 April 2014 and are subject to previous LGPS regulations.

In all such cases the council will consider the early release of pension benefits in line discretions enacted in the relevant policies in force pre 1 April 2014. .

8 Further Information

Further information about this policy statement can be obtained from the Pension Section - email: pensions@islington.gov.uk

Or see the Local Government Pension Scheme website: <http://www.lgps2014.org/>

Report of : Corporate Director of Finance and Resources

Meeting of	Date	Agenda Item	Ward(s)
Audit Committee	29 th September 2014		All
Delete as appropriate	Exempt	Non-exempt	

Subject: Elected Member Pensions

1 Synopsis

- 1.1 Prior to April 2014 elected members were eligible to join the Local Government Pension Scheme (LGPS). Following the issuing of new LGPS regulations the right for elected members to join the LPGA has been taken away, although existing councillor benefits accrued are protected.
- 1.2 This report sets out the options available to the council should it wish to secure a replacement pension provision for elected members.

2 Recommendations

- 2.1 To note the current position regarding elected members membership of the Local Government Pension Scheme and the advice contained in this report.
- 2.2 To determine whether the Council should make arrangements for an alternative pension scheme for elected members
- 2.3 If it is determined that the Council should make alternative pension arrangements for elected members, to identify a preferred option for the form of that provision, to be the subject of further investigation and appraisal.

3 Background

- 3.1 The Local Government Pension Scheme is a defined benefit scheme and previously was accessible by both council employees, employees in scheduled and admitted bodies and elected councillors. With effect from 1 April 2014 access to the LGPS was abolished for new councillors and terminated for any existing councillors at the end of their fixed term of office on 22 May 2014. Existing benefits already accrued by councillors who were members of the scheme are protected. No national or local replacement scheme for Councillors has been put in place.
- 3.2 Before the change in regulations, 12 of Islington's 48 councillors (25%) were active members of the LGPS contributing 6% of their allowances to the pension fund. The Council paid £32,595 in employer's contributions in the pension fund for those councillors in 2013/14. If all 48 councillors had been active members of the pension fund this would have cost the council £94,000 in employers contributions in 2013/14.
- 3.3 A defined benefit (DB) scheme guarantees an amount of pension at retirement based on the final salary or career average earnings of the individual. A defined contribution (DC) scheme on the other hand, allows the individual to build up a pot of money that is used to provide them with an income in retirement via the purchase of an annuity. That income depends on factors including the amount contributed and the fund's investment performance.

4 Considerations

- 4.1 Officers have been asked to look into an alternative provision of pensions for elected members.
- 4.2 The approach to elected member pensions at other London councils is mixed. Many do not have an alternative provision under active consideration. At least one council has already taken the employer contribution for elected councillors as a budget saving. Newham is the most active borough in considering providing a replacement pension scheme for its councillors. It has already considered this matter and resolved that it should provide a pension scheme for its elected members that provide benefits as close as possible to those available under the LGPS. It had considered the option of a scheme that it could open up to other councils elected members but rejected this due to additional regulatory requirements, financial and legal risk concerns. Newham officers are investigating the appropriate procurement route and whether a full EU tender process is required.
- 4.3 The Council's actuary (Mercer) has provided the following comments on the Newham proposals (based on the limited information provided in the council report):

- **General**

We have assumed that the scheme proposed would be an "off the shelf" Trust based Defined Benefit scheme, providing benefits as close as possible to those under the current LGPS. We have not investigated what schemes are currently available and how comparable they are to LGPS but we are aware of a number of them from our outsourcing work. There is no reference within the Newham paper as to whether any providers have been approached to check that this is a viable proposition.

- **A private sector scheme?**

The scheme would not operate under the LGPS Regulations, nor would it be a “public sector” scheme, despite the membership. This means that in order to be a UK registered pension scheme it would operate under the various Pensions Acts and would be treated in the same way as other UK private sector pension schemes. This includes:

- Trustees rather than the Administering Authority– for an off the shelf arrangement, there is usually a Trustee body totally independent from the employers. Depending on the set up, this could lead to a material dilution of influence on funding and investment decisions.
- The Pensions Regulator (TPR) oversight and involvement with the Pension Protection Fund (PPF) including payment of PPF levies (might not be financially material but assessment may be complex for a local authority).
- Different treatment of exit debts to LGPS, with private sector exit debts typically being higher all other things equal. However, given the ongoing nature of the Councillor participation this may not be a significant problem.

- **Costs (expenses)**

Set up costs – these are potentially material and even prohibitively expensive. Costs will depend on take-up and how the scheme is set up, above. An “off the shelf” arrangement would be less costly than a bespoke scheme but a cost would still be incurred.

Ongoing costs – again, this depends on set-up, member take-up and level of contributions into scheme but there will still be fixed elements of cost to cover which may well be disproportionate to the overall take-up.

- **Membership**

Councillors are not employees of their Councils. Who is the employer for the purposes of the Scheme as this would be required? Does this have any issues for the Council constitution?

- **Funding and investment**

There is likely to be less control and flexibility here although typically there would be some options in the off the shelf schemes.

Investment strategy is likely to be more cautious.

Funding assumptions are also likely to be more cautious than those of LGPS Funds.

Any deficits are likely to be recovered over a shorter period than adopted by LGPS Funds.

These ultimately lead to higher contribution requirements at least in the short term, all other things being equal in terms of benefits.

- **Administration**

The Council would be dealing with another set of administrators so more complexity internally on pensions.

The Council will need to adhere to deadlines/timescales/processes which could be different to LGPS.

Further employer duties may need to be met.

- **Legal / other issues (mentioned in Newham paper)**

The Government against this as a matter of policy

The decision to provide pensions to Councillors would be subject to public scrutiny

There would need to be appropriate Governance put in place at committee/board level – how does this fit into the Council's constitution?

- **Benefit provision objective**

Does it need to be Defined Benefit (DB) pension provision?

Defined Contribution (DC) pension provision is generally less complex although they do not have a benefit guarantee so are not comparable to current arrangements. Further, new flexibilities at retirement are being introduced from 2015 which may be particularly attractive to members although these can also be extended to DB members if schemes allow it.

- **Conclusion**

Given this, and other challenges associated with DB schemes, if you were thinking of making pension provision for Councillors, it may be more attractive to determine reasonable contribution rates into a DC arrangement to target the comparable DB/LGPS benefit rather than attempting more formal "broad comparability" of DB benefits. It may also be attractive to the Councillors given the flexibilities introduced by the Budget. We have a lot experience in this area and indeed have recently helped establish a MasterTrust DC arrangement for Higher Education bodies across the UK.

- 4.4 Discussions with London Councils and the Local Government Association (LGA) has found out that the LGA is actively looking into facilitating the setting up of either a Group Personal Pension or Master Trust Defined Contribution scheme for the sector as a whole and have taken advice on the matter from the actuarial firm Barnet Waddingham.
- 4.5 Prior to considering the options available to the Council, members of the Committee should be mindful of the governments' strong view on this matter. In justifying its decision to exclude councillors from the LGPS, the government said that councillors were not full-time politicians or salaried town hall staff, and that their continuing membership of the LGPS only served to exacerbate the blurring between elected volunteers and paid employees.

Options for Islington

- 4.6 The first decision for the Audit Committee is to determine in principle whether the Council should look to provide a broadly comparable pension provision for elected members or whether the Council could decide to leave it to elected members to choose if and what private pension provision they take up, recognising that those members in existing employment may already have access to a pension scheme and 75% of councillors in the last Council did not join the LGPS.
- 4.7 If the Audit Committee determines that the Council should look to provide a pension for elected members then there is a more complex decision over what form that provision should take.
- 4.8 The Council's actuary has pointed out a number of issues with trying to replicate the LGPS scheme through a Defined Benefit Scheme. In addition advice indicates that the direct costs of such a scheme would be significantly more than the current costs and the required governance and regulatory burdens would further increase the costs. Therefore this approach would not be recommended.

- 4.9 The Council could look to provide a Defined Contribution arrangement such as a MasterTrust DC, an option mentioned by the actuary. Based on advice this option is feasible although a more detailed appraisal of this option would need to be carried out before going ahead with it.
- 4.10 Alternatively, rather than making a specific arrangement for Islington councillors, the Council could await the LGA's development of a sector based approach to providing elected member pensions. This is the most desirable pension provision option as it is likely to incur the least cost and provide a consistent offer to all elected members in local government. How long the LGA scheme would take to implement is unknown at present.

5 Implications

5.1 Financial implications

- 5.1.1 The cost to the Council of providing councillor pensions in 2013/14 was £32,595 for the 12 Councillors in the LGPS, if all 48 Councillors were members this would have cost £94,000. The budget for Councillor pensions remains available to either contribute to funding an alternative scheme or as a further budget saving from 2014/15 onwards.

- 5.2 As stated in the report an alternative pension provision through a Defined Benefit scheme would incur significant set up costs and higher on-going costs. Although these have not been quantified advice is that that these costs would be significantly in excess of the current costs and disproportionate to the number of likely scheme members. A Defined Contribution scheme would incur fewer setup and on-going costs and not have the governance burden of a DB scheme.

5.3 Legal Implications

- 5.3.1 The Council has been advised by Nigel Giffin of Leading Counsel that it has power to arrange pension provision for elected members by virtue of section 1 of the Localism Act 2011. The Council must exercise its discretionary power rationally, for a proper purpose and by reference only to legally relevant considerations. Relevant considerations include the reasons why the government took their view in relation to pension provision for elected members (although the Council is not obliged to agree with the government view). Any decision definitely to adopt particular arrangements would require fuller appraisal of such arrangements, including their cost.

5.4 Environmental Implications

- 5.4.1 None applicable to this report.

5.5 Equality Impact Assessment

- 5.5.1 An equalities impact assessment has not been undertaken on the proposals in this report as the matter is at an early stage.

6 Conclusion and reasons for recommendation

- 6.1 The government has clearly expressed a view that councillors should not be allowed to be active members of the Local Government Pension Scheme. Legal advice indicates that there is no relevant statutory prohibition, restriction or limitation on the Council arranging the separate provision of members' pensions. Members of the Audit Committee are asked for their views on firstly whether the Council should make arrangements for an alternative pension scheme for elected members and if so, secondly whether it should be an Islington specific scheme, DB or DC or whether joining with a national LGA scheme would be preferable.

Background papers: None.

Final Report Clearance

Signed by



17/09/14

Corporate Director of Finance and Resources

Date

Received by

Head of Democratic Services

Date

Responsible Officer : Mike Curtis, Corporate Director of Finance
Report Author : Alan Layton, Director of Financial Management

E-mail : alan.layton@islington.gov.uk



Report of: Corporate Director of Resources

Meeting of:	Date	Agenda item	Ward(s)
Audit Committee	29 September 2014		All

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SUBJECT: THE COUNCIL'S USE OF SURVEILLANCE UNDER THE REGULATION OF INVESTIGATORY POWERS ACT 2000

1. Synopsis

- 1.1 The report updates the committee on the council's use of covert surveillance under the Regulation of Investigatory Powers Act 2000 (RIPA).
- 1.2 The report also provides feedback on the inspection from the Office of Surveillance Commissioners (OSC) on 15 November 2013.

2. Recommendations

- 2.1 To note the report from the OSC following its inspection on 15 November 2013.
- 2.2 To note the Council's action plan to address the recommendations of the OSC inspection report.
- 2.3 To note the level and nature of covert surveillance undertaken by the council.

3. Background

- 3.1 RIPA provides a statutory framework regulating the use of directed surveillance and the conduct of covert human intelligence sources (informants or undercover officers) by public authorities. The Act requires public authorities, including local authorities, to use covert investigation techniques in a way that is necessary, proportionate and compatible with human rights. RIPA also provides for the appointment of a Chief Surveillance Commissioner to oversee the way in which public authorities carry out covert surveillance.
- 3.2 Directed surveillance is covert surveillance that is conducted for the purposes of a specific investigation or operation and it is likely to result in the obtaining of private information about a person. Private information includes any aspect of a person's private or personal relationship with others, including

family and professional or business relationships. Whilst a person may have a reduced expectation of privacy when in a public place, covert surveillance of that person's activities in public may still result in the obtaining of private information.

3.3 The use of covert surveillance techniques by local authorities has been the subject of some controversy in recent years. The Government introduced significant changes under the Protection of Freedoms Act 2012 which came into effect on 1 November 2012. The changes mean that a local authority can now only grant authorisations under RIPA for the use of directed surveillance where it is for the purpose of investigating criminal offences which attract a maximum custodial sentence of six months or more or criminal offences relating to the underage sale of alcohol or tobacco. A magistrate's approval is also required before the RIPA authorisation can take effect.

3.4 All RIPA authorisations must be signed by an authorising officer. Authorising officers must be trained before issuing any authorisations and they should also attend regular refresher training. The council currently has 5 authorising officers:

- Corporate Director Housing & Adult Social Services
- Director of Operations (Housing)
- Service Director Public Protection
- Director Public Realm
- Audit Manager (Investigations)

3.5 The Home Office revised code of practice sets out that it is considered good practice for elected members of a local authority to review the authority's use of RIPA and its policy and procedures. The revised code also sets out that it is good practice for public authorities to appoint a Senior Responsible Officer (SRO) to be responsible for the authority's compliance with RIPA. The SRO will engage with the OSC inspectors when they conduct their inspections and where necessary oversee the implementation of post-inspection action plans. Within local authorities, the SRO should be a member of the corporate leadership team and the Corporate Director of Finance & Resources has been nominated to this role for the council.

4. OSC inspection

4.1 The OSC carries out an inspection of the council's management of covert activities every 2 to 3 years. The inspection on 15 November 2013 was carried out by Assistant Surveillance Inspector, Mr L W Turnbull. The Inspector concluded, "This council has clearly tried to comply with the requirements of the legislation: the array of policy and guidance does provide evidence of this."

4.2 The Inspector set out recommendations in his inspection report and an action plan has been drawn up to address these recommendations. An exempt copy of the Commissioner's report is at annex A and an exempt copy of the action plan is at annex B to this report.

4.3 The council maintains a central register of authorisations. The register was previously maintained by Internal Audit but following the recommendation of the OSC Inspector the register is now maintained by Legal Services. Legal Services is now also responsible for issuing the unique reference numbers (URNs) for investigations.

5. Use of RIPA

5.1 During this financial year since 1 April 2014 the council has authorised directed surveillance on 2 occasions as follows:

- 1 to investigate anti-social behaviour on an estate involving drug taking and dealing, intimidating residents and arson.
- 1 to investigate unlawful sub-letting

Both RIPA authorisations have been given judicial approval by a magistrate.

- 5.2 For the period 1 April 2013 to 31 March 2014 the council authorised directed surveillance on 6 occasions to investigate anti-social behaviour and drug-dealing. All 6 authorisations were given judicial approval by a magistrate.
- 5.3 The council has not authorised the use of a covert human intelligence source in the period from 1 April 2013 to date.
- 5.4 The trend in the number of RIPA authorisations has been downwards. By comparison the council has granted the following number of directed surveillance authorisations in previous years:
- 2013/14 - 6
 - 2012/13 – 17
 - 2011/12 – 15
 - 2010/11 – 23
 - 2009/10 – 34
 - 2008/09 - 38

6. Future developments

- 6.1 On 22 July 2014 the Government published draft RIPA codes of practice on the authorisation of covert surveillance and covert human intelligence sources by public authorities. The Government is consulting on the draft codes which will be subject to approval by Parliament.
- 6.2 The draft codes reflect the safeguards brought in by the Government since the last codes were issued in 2010 including the introduction in the Protection of Freedoms Act 2012 of judicial supervision for local authorities' use of the powers.
- 6.3 When the consultation has concluded and the codes of practice are approved by Parliament, the council's policies and procedures will be updated to reflect the changes.

7. Implications

7.1 Financial implications:

There are no financial implications arising directly from this report. Robust anti-fraud activity is an integral part of the council's strategy for safeguarding its assets and maximising its use of resources. The use of investigatory surveillance is one of the tools the council uses to achieve these aims.

7.2 Legal Implications:

RIPA was introduced to ensure that covert surveillance undertaken by public authorities is undertaken in accordance with the European Convention on Human Rights and the Human Rights Act 1998.

The council can only undertake covert surveillance if the proposed operation is authorised by one of the council's authorising officers and subsequently approved by a magistrate. A local authority can only use directed surveillance if it is necessary to prevent or detect criminal offences which attract a maximum custodial sentence of six months or more or criminal offences relating to the underage sale of alcohol or tobacco. The authorising officer must also be satisfied that the proposed directed surveillance is proportionate to what is sought to be achieved.

There has been a reduction in the number of directed surveillance authorisations granted by the council since 1 November 2012 when the Protection of Freedoms Act 2012 introduced significant changes to local authorities' use of RIPA. However, the council could still face a legal challenge to the way in which covert surveillance is conducted. This could lead to the evidence obtained being ruled as inadmissible or a complaint to the Investigatory Powers Tribunal. The council's action plan addresses the comments and recommendations in the OSC report and will minimise the risk of the council being challenged for non-compliance with RIPA.

7.3 Environmental Implications:

Nil

7.4 Equality Impact Assessment:

An equalities impact assessment has not been conducted as this report only provides monitoring information and a legal update for the Committee.

8. Conclusion and reasons for recommendations

- 8.1 The council has comprehensive RIPA policy and procedures and this was recognised in the recent report from the OSC. The OSC made recommendations as to how the council could improve the management of its covert activities and these recommendations are being implemented.
- 8.2 The Protection of Freedoms Act 2012 has introduced additional safeguards to the use of RIPA and the impact of covert surveillance on the privacy of those under investigation. This has seen a reduction in the use of directed surveillance by the council.

Appendix A (exempt) OSC Inspection Report 15.11.13

Appendix B (exempt) Action plan to implement recommendations of OSC Inspection Report

Background papers: None.

Final report clearance:

Signed by:



Corporate Director for Finance and Resources Date

Received by:

Head of Democratic Services Date

Report Author: Marina Lipscomb
Tel: 020 7527 3314
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Report of: **Executive Member for Finance and Resources**

Meeting of	Date	Agenda Item	Ward(s)
Audit Committee	29 th September 2014		

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SUBJECT: Internal Audit Charter

1.Synopsis

1.1.The purpose, authority, and responsibility of the internal audit activity must be formally defined in an internal audit charter, consistent with the Definition of Internal Auditing, the Code of Ethics, and the Standards. The Head of Internal Audit must periodically review the internal audit charter and present it to senior management and the board for approval.

1.2.This report sets out the Internal Audit Charter at Appendix A.

2. Recommendations

2.1.The Audit Committee are asked to note the contents of the Internal Audit Charter.

3. Background

3.1.In line with the Public Sector Internal Audit Standards (PSIAS), the purpose, authority, and responsibility of the internal audit activity must be formally defined in an internal audit charter, consistent with the Definition of Internal Auditing, the Code of Ethics, and the Standards.

3.2.An Internal Audit Charter also establishes the internal audit activity's position within the Council, including the head of internal audit's (HIA) reporting lines, authorising access to records, personnel, and physical properties relevant to the performance of engagements; and also defining the scope of internal audit activities. It is therefore a reference point for measuring the effectiveness of internal audit.

3.3. The HIA is responsible for drafting the charter, discussing the detail and seeking approval from the board (often via the audit committee). The charter should be reviewed annually to ensure that it remains relevant to the needs of the organisation.

4. Implications

4.1. Financial implications

There are no financial implications

4.2. Legal Implications

This charter should be read in the context of the wider legal and policy framework which sets requirements and standards for internal audit, including the Accounts and Audit Regulations, the PSIAS, and the Council's constitution, regulations and governance arrangements.

4.3. Environmental Implications

There are no environmental implications

4.4. Equality Impact Assessment

There are no direct equality implications arising from the recommendation in this report

5. Conclusion and reasons for recommendations

5.1. The Internal Audit Charter, attached as Appendix A, defines the purpose, authority, and responsibility of the internal audit activity as required by the Public Sector Internal Audit Standards.

Appendices

Appendix A: Internal Audit Charter

Final Report Clearance

Signed by



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.....
Corporate Director of Finance

Date

Received by

.....
Head of Democratic Services

.....
Date

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Internal Audit Shared Service

Internal Audit Charter

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Introduction

Internal auditing is an independent and objective assurance and consulting activity that is guided by a philosophy of adding value to improve the operations of London Boroughs of Camden and Islington.

It assists London Boroughs of Camden and Islington in accomplishing their objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of the risk management, control, and governance processes operating in both councils.

Definitions

For the purposes of this Charter, the following definitions apply:

The Board: The governance group charged with independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of financial reporting. At both LB Camden and Islington this shall mean the Audit Committee.

Senior Management: Those responsible for the leadership and direction of the Councils.

Role & Purpose

The requirement for an internal audit function in local government is detailed within the Accounts and Audit (England) Regulations 2011, which states that a relevant body must:

‘undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control’.

The standards for ‘proper practices’ in relation to internal audit, are laid down in the Public Sector Internal Audit Standards 2013 (‘the Standards’).

Each Council is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements. Internal audit plays a vital role in advising the Councils that these arrangements are in place and operating effectively. Each Council’s response to internal audit activity should lead to the strengthening of the control environment and, therefore, contribute to the achievement of the organisations objectives.

This is achieved through internal audit providing a combination of assurance and consulting activities. Assurance work involves assessing how well the systems and processes are designed and working, with consulting activities available to help to improve those systems and processes where necessary.

The role of internal audit is best summarised through its definition within the Standards, as an:

'independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes'

Professionalism

The internal audit activity will govern itself by adherence to The Institute of Internal Auditors' mandatory guidance including the Definition of Internal Auditing, the Code of Ethics, and the International Standards for the Professional Practice of Internal Auditing (Standards). This mandatory guidance constitutes principles of the fundamental requirements for the professional practice of internal auditing and for evaluating the effectiveness of the internal audit activity's performance.

The IIA's Practice Advisories, Practice Guides, and Position Papers will also be adhered to as applicable to guide operations. In addition, the internal audit activity will adhere to LB Camden and Islington relevant policies and procedures and the internal audit activity's standard operating procedures manual.

Authority

The internal audit activity, with strict accountability for confidentiality and safeguarding records and information, is authorised full, free, and unrestricted access to any and all of the organisation's records, physical properties, and personnel pertinent to carrying out any engagement. All employees are requested to assist the internal audit activity in fulfilling its roles and responsibilities. The internal audit activity will also have free and unrestricted access to the Audit Committee.

Organisation

The responsibility for maintaining an adequate and effective system of internal audit within LB Camden & Islington lies with the respective Directors of Finance, as the authority's Chief Finance Officers (S151 Officer).

For the Councils, internal audit is provided by internal council employees and through a partnership arrangement with PWC.

The Head of Audit is responsible for effectively managing the internal audit activity in accordance with the 'Definition of Internal Auditing', the 'Code of Ethics' and 'the Standards'.

The Head of Audit reports functionally to the Audit Committees, and organisationally to the Director of Finance who has statutory responsibility as proper officer under Section 151 of the Local Government Act 1972, for ensuring an effective system of internal financial control and proper financial administration of each Council's affairs.

The Head of Audit has direct access to the Chief Executives who carry the responsibility for the proper management of their Council and for ensuring that the principles of good governance are reflected in sound management arrangements.

Where it is considered necessary to the proper discharge of internal audit function, the Head of Audit has direct access to elected Members of the Council and in particular those who serve on committees charged with governance (i.e. the Audit Committees).

The Head of Audit will communicate and interact directly with the Audit Committees, including in executive sessions and between Audit Committee meetings as appropriate.

Internal Audit Resources

The Head of Audit will be professionally qualified (CIPFA, CMIIA, CCAB or equivalent) and have wide internal audit and management experience, reflecting the responsibilities that arise from the need to liaise internally and externally with Members, senior management and other professionals.

The Director(s) of Finance will provide the Head of Audit with the resources necessary to fulfil the Council's requirements and expectations as to the robustness and scope of the internal audit opinion.

The Head of Audit will ensure that the internal audit service has access to an appropriate range of knowledge, skills, qualifications and experience required to deliver the audit strategy and operational audit plan.

The annual operational plan will identify the resources required to complete the work, thereby highlighting sufficiency of available resources. The Head of Audit can propose an increase in audit resource or a reduction in the number of audits if there are insufficient resources.

Senior Management and the Audit Committee will be advised where, for whatever reason, internal audit is unable to provide assurance on any significant risks within the timescale envisaged by the risk assessment process.

The annual operational plan will be submitted to senior management and the Audit Committee for approval. The Head of Audit will be responsible for delivery of the plan. The plan will be kept under review to ensure it remains responsive to the changing priorities and risks of the Council.

Significant matters that jeopardise the delivery of the plan or require changes to the plan will be identified, addressed and reported to senior management and the Audit Committee.

If the Head of Audit, the Audit Committee or Senior Management considers that the scope or coverage of internal audit is limited in any way, or the ability of internal audit to deliver a service consistent with the Standards is prejudiced, they will advise the Director(s) of Finance accordingly.

The Head of Audit must seek approval from the Audit Committee for any significant additional consulting services not already included in the audit plan, prior to accepting the engagement.

Independence and objectivity

The internal audit activity will remain free from interference by any element in the organisation, including matters of audit selection, scope, procedures, frequency, timing, or report content to permit maintenance of a necessary independent and objective mental attitude.

Internal auditors will have no direct operational responsibility or authority over any of the activities audited. Accordingly, they will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair internal auditor's judgment.

Internal auditors must exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors must make a balanced assessment of all the relevant circumstances and not be unduly influenced by their own interests or by others in forming judgments.

To achieve the degree of independence and objectivity necessary to effectively discharge its responsibilities, arrangements are in place to ensure the internal audit activity:

- retains no executive or operational responsibilities;
- operates in a framework that allows unrestricted access to senior management and the Board;
- reports functionally to the Board;
- reports in their own name;
- rotates responsibilities for audit assignments within the internal audit team;
- completes individual declarations confirming compliance with rules on independence, conflicts of interest and acceptance of inducements; and
- ensures the planning process recognises and addresses potential conflicts of interest through internal audit staff not undertaking an audit for at least two years in an area where they have had previous operational roles.

The Head of Audit will confirm to the Audit Committee, at least annually, the organisational independence of the internal audit activity

If independence or objectivity is impaired in fact or appearance, the details of the impairment will be disclosed to Senior Management and the Board. The nature of the disclosure will depend upon the impairment.

To ensure the independence of the Head of Audit is safeguarded and that remuneration and performance assessment are not inappropriately influenced by those subject to audit, the Chief Executive will both countersign and contribute feedback to the performance appraisal of the Head of Audit. Feedback will also be sought from the Chair of the Governance Committee.

Responsibility

The scope of internal auditing encompasses, but is not limited to, the examination and evaluation of the adequacy and effectiveness of each Council's governance, risk management, and internal control processes in relation to the organisation's defined goals and objectives. Internal control objectives considered by internal audit include:

- Consistency of operations or programmes with established objectives and goals and effective performance.
- Effectiveness and efficiency of operations and employment of resources
- Compliance with significant policies, plans, procedures, laws, and regulations
- Reliability and integrity of management and financial information processes, including the means to identify, measure, classify, and report such information.
- Safeguarding of assets.

Internal Audit is responsible for evaluating all processes ('audit universe') of the entity including governance processes and risk management processes. It also assists the Audit Committee in evaluating the quality of performance of external auditors and maintains proper degree of coordination with internal audit.

Internal audit may perform consulting and advisory services related to governance, risk management and control as appropriate for the organisation. It may also evaluate specific operations at the request of the Audit Committee or management, as appropriate.

Based on its activity, Internal audit is responsible for reporting significant risk exposures and control issues identified to the Audit Committee and to Senior Management, including fraud risks, governance issues, and other matters needed or requested by the Audit Committee.

Internal audit plan

At least annually, the Head of Audit will submit to the Audit Committee an internal audit plan for review and approval, including risk assessment criteria. The internal audit plan will include timing as well as budget and resource requirements for the next fiscal year. The Head of Audit will communicate the impact of resource limitations and significant interim changes to senior management and the Audit Committee.

The internal audit plan will be developed based on a prioritisation of the audit universe using a risk-based methodology, including input of senior management and the Audit Committee. Prior to submission to the Audit Committee for approval, the plan may be discussed with appropriate senior management. Any significant deviation from the approved internal audit plan will be communicated through the periodic activity reporting process.

Scope of Internal Audit Activities

The Head of Audit is responsible for the delivery of an annual audit opinion and report that can be used by the Council to inform its governance statement. The annual opinion will conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.

A range of internal audit services are provided to form the annual opinion. The approach is determined by the Head of Audit and will depend on the level of assurance required, the significance of the objectives under review to the organisations success, the risks inherent in the achievement of objectives and the level of confidence required that controls are well designed and operating as intended.

In accordance with the annual audit plan, auditors will plan and evaluate their work so as to have a reasonable expectation of detecting fraud and identifying any significant weaknesses in internal controls. Additionally, proactive fraud reviews will be incorporated within the plan to deter and detect fraud, covering known areas of high risk.

Managers are required to report all suspicions of theft, fraud and irregularity to the Head of Audit. The Head of Audit manages and controls all investigations and will ensure that investigators are fully trained in carrying out their responsibilities.

Where there is evidence that Council staff are committing fraud, internal audit will liaise with Human Resources and the department concerned, invoking disciplinary action as appropriate. The decision on whether to invoke criminal proceedings will be made by the Head of Audit in conjunction with the relevant officers.

The monitoring of the Council's Anti-Fraud Strategy will be the responsibility of the Head of Audit, as part of the monitoring of the internal audit annual plan.

Internal audit also facilitate the Council's participation in the National Fraud Initiative (NFI) in which data from the Council's main systems are matched with data supplied from other Local Authorities and external agencies to detect potential fraudulent activity.

Reporting and monitoring

A written report will be prepared and issued by the Head of Audit or designee following the conclusion of each internal audit engagement and will be distributed as appropriate. Internal audit results will also be communicated to the Audit Committee.

The internal audit report may include management's response and corrective action taken or to be taken in regard to the specific findings and recommendations. Management's response, whether included within the original audit report or provided thereafter by management of the audited area should include a timetable for anticipated completion of action to be taken and an explanation for any corrective action that will not be implemented.

The internal audit activity will be responsible for appropriate follow-up on engagement findings and recommendations. All significant findings will remain in an open issues file until cleared.

Periodic assessment

The Head of Audit is responsible also for providing periodically a self-assessment on the internal audit activity as regards its consistency with the Audit Charter (purpose, authority, responsibility) and performance relative to its Plan.

In addition, the Head of Audit will communicate to senior management and the Audit Committee on the internal audit activity's quality assurance and improvement program, including results of ongoing internal assessments and external assessments conducted at least every five years.



Signed by:

Head of Audit for LB Camden & Islington

_____ Date

Director of Finance

LB Camden

Date

LB Islington

Date

Chief Executive Officer

LB Camden

Date

LB Islington

Date

Chairman of the Audit Committee

LB Camden

Date

LB Islington

Date

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