Public Document Pack

ISLINGTON

**Resources Department**
**Town Hall, Upper Street, London, N1 2UD**

# 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 **19 September 2017 at 7.30 pm.**

**Yinka Owa**
**Director of Law and Governance**

| | | |
|---|---|---|
| Enquiries to | : | Jackie Tunstall |
| Tel | : | 020 7527 3068 |
| E-mail | : | democracy@islington.gov.uk |
| Despatched | : | 11 September 2017 |

| Membership | Substitute Members |
|---|---|
| Councillor Kat Fletcher (Chair) | Councillor Mouna Hamitouche MBE |
| Councillor Nick Wayne (Vice-Chair) | Councillor Robert Khan |
| Councillor Satnam Gill OBE | Councillor Marian Spall |
| Councillor Rakhia Ismail | Councillor Flora Williamson |
| Alan Begg (Independent Member) | |
| Nick Whitaker (Independent Member) | |

**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.

| | | |
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| 4. | Minutes of previous meeting | 1 - 4 |
| **B.** | **Items for Decision - Audit Committee** | **Page** |
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| 2. | Review of Polling Districts and Places | 213 - 218 |

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| **C.** | **Items for Decision - Audit (Advisory) Committee** | **Page** |
| 1. | Annual Standards and Members Conduct report | 219 - 222 |
| 2. | Market Supplements | 223 - 228 |
| 3. | Internal Audit Annual Report 2016-17 | 229 - 254 |
| 4. | Whistleblowing Report - April - August 2017 | 255 - 256 |

**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.

| | | |
|---|---|---|
| 1. | Whistleblowing Report - Exempt Appendix | 257 - 260 |

**F. Confidential/exempt items**

**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 23 January 2018

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London Borough of Islington

**Audit Committee and Audit Committee (Advisory) - 14 June 2017**

Minutes of the meeting of the Audit Committee and Audit Committee (Advisory) held at Committee Room 4, Town Hall, Upper Street, N1 2UD on 14 June 2017 at 7.00 pm.

| | | |
|---|---|---|
| **Present:** | **Councillors:** | Nick Wayne, Satnam Gill OBE and Rakia Ismail |
| **Also Present:** | **Independent members:** | Alan Begg and Nick Whitaker. |
| | **Councillor** | Diarmaid Ward (Items B1 and C1) |

**Nick Wayne in the Chair**

**149 APOLOGIES FOR ABSENCE (Item A1)**

Apologies for absence were received from Councillor Kat Fletcher.

**150 DECLARATION OF SUBSTITUTE MEMBERS (Item A2)**

There were no declarations of substitute members.

**151 DECLARATIONS OF INTEREST (Item A3)**

There were no declarations of interest.

**152 MINUTES OF PREVIOUS MEETING (Item A4)**

**RESOLVED**
That the minutes of the meeting held on the 25 May 2017 be confirmed as a correct record and the Chair be authorised to sign them.

**153 ANNUAL GOVERNANCE STATEMENT 2016/17 (Item B1)**

In the discussion it was noted that:-

- The Head of Internal Audit had given a moderate assurance which indicated some weakness but overall arrangements were good. This was consistent with previous reports.
- Comparisons could be made with other Councils for benchmarking purposes.
- Information was requested regarding job promotions for ethnic minority staff throughout the Council.

**RESOLVED**
a) That the Annual Governance Statement be noted.
b) That information regarding promotions for ethnic minority staff be sent to Audit Committee members.

**154 PRINCIPAL RISKS REPORT 2017/18 (Item C1)**

In the discussion it was noted that:-

- Two increasing risks had been identified:-

a) Serious information breach - an internal audit had been carried out on these risks and an action plan identified to ensure the Council was fully compliant with legislation.
b) Decline in services to schools and pupils - It was noted that there was risk of an unmanaged decrease in services due to decline in funding.

- Councillor Ward was present to respond to questions regarding the tragedy at Grenfell Tower the previous evening. He reported that a briefing email had been sent to members and a more detailed report would be sent shortly. He was confident that Islington had a robust fire safety policy and did not consider there was a significant risk to housing stock. There had been a 7m investment in the fire assessment programme since 2013. The Councils Fire Safety arrangements were monitored by the Homes and Estates Safety Board which met quarterly with the fire brigade in attendance.
- Councillor Ward would be speaking to the Housing Associations about their own fire risk assessment arrangements.
- Some housing stock was managed by Partners but the fire risk was still the responsibility of the Council.
- Concerns were raised about the way in which certain types of risk were incorporated into the risk document in terms of council assets eg flooding and fire risks.
- Any lessons learnt from the investigation into the fire at Grenfell Tower would be actioned swiftly. At this stage it was too early to be certain of the initial cause of the fire.
- Residents needed to be reassured about fire safety but it was important not to give false assurances.
- The following issues were raised for response:-
  a) Concern that there were no recorded decreasing trends;
  b) The reasons for the increase in youth crime;
  c) The concern that the Information Commission Office had still not issued guidance and that this would need to be followed up;
  d) Outcomes and actions needed to be monitored with target dates where necessary and these to be included in future reports;
  e) Comparisons of risk with other Councils be considered;
  f) How risks were being evaluated and the need to ensure that risks were evaluated correctly.

**RESOLVED**

a) That the report be noted and that Michael Bradley, the Head of Internal Audit, be thanked for his work over the past few years;
b) That responses raised to the issues above be sent to members of the Audit Committee and/or included in future Risk reports where necessary;
c) That for future reports:-
   i) Target dates be listed by actions where appropriate;
   ii) Where dates were included a short addendum be set out showing the progress made in achieving actions set out, in order to track progress on issues.

**155 THE COUNCIL'S USE OF SURVEILLANCE UNDER THE REGULATION OF INVESTIGATORY POWERS ACT 2000 (Item C2)**

The following was noted in discussion:-

- The granting of an authorisation under RIPA 2000 had never been refused by a magistrate;

- That an annual report would be submitted to the Executive, six months after the Audit Committee report.
- Consideration be given to providing the Policy and Performance Scrutiny Committee with information about RIPA in the Annual Crime report as an alternative to providing information to new members at induction.

**RESOLVED** that the report be noted.

**156 REGULATION OF INVESTIGATORY ACT 2000 (EXEMPT APPENDICES) (Item F1)**

**RESOLVED** that the exempt appendix be noted.

The meeting ended at 7.40 pm

**CHAIR**

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ISLINGTON

**Finance Department, 7 Newington Barrow Way, London, N7 7EP**

**Report of: Corporate Director of Finance**

| Meeting of | Date | Agenda Item | Ward(s) |
|---|---|---|---|
| Audit Committee | 19 September 2017 | | ALL |

# STATEMENT OF ACCOUNTS 2016-17 (INCUDING PENSION FUND ACCOUNTS) AND ANNUAL GOVERNANCE REPORT

## 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 2016/17. 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 2016/17 audited Statement of Accounts, Pension Fund Accounts and the accompanying Annual Governance Statement.

2.2 To note the auditor's Annual Governance Report 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 Statement of Accounts that were presented to the Auditors at the end of June 2017 and the details of the Auditor's Annual Governance Report.

3.2 The Committee is required to approve the audited Statement of Accounts by 30 September 2017, including the accompanying Annual Governance Statement.

3.3 There is also the requirement that a general letter of representation on behalf of the Council's management be provided to the Auditor.

## 4. STATEMENT OF ACCOUNTS 2016/17

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 2016/17 (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 Monday 26th June and Friday 4th August, the accounts and supporting documentation were made available for public inspection. During this period, the Auditors have and will consider any questions or objections relating to the accounts. The relevant statutory public notice was published on the Council's website and posted in key public buildings.

4.3 After several years of continuous major changes there were a few significant changes in accounting requirements or policies since the previous year. These included the Consolidated Income and Expenditure Statement to be based upon the management segments of the Council and the introduction of a new statement, the Expenditure and Funding Analysis (EFA). The audit has shown that the Council has successfully implemented these changes.

**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 Finance department has not engaged any 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 very minor presentational adjustments have been made to them. The Pension fund accounts were slightly delayed due to resourcing issue which have now been resolved.

4.9 No material adjustments are proposed to the Council's Accounts.

4.10 The Auditors are also 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.

4.11 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 2017 is attached at Appendix A. It summarises the findings of the 2016/17 audit, which is substantially complete, with just a few queries remaining at the time of writing.

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 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 B sets out a draft of the letter that will be signed by the Director of Finance and Chair of the Audit Committee 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 Report confirms that only minor presentational adjustments were made to the Statements.

**Recommendations**

5.5 The auditor has made a number of recommendations to further improve the process and meet tighter future timescales. The Council has accepted all of these and believes it can address them in a timely manner.

## 6. IMPLICATIONS

**Financial Implications**

6.1 These are contained within the body of the report.

**Legal Implications**

6.2 Section 3(3) of the Local Audit and Accountability Act 2014 and Regulation 7 of the Accounts and Audit Regulations 2015 require a local authority to prepare an annual statement of accounts. Regulation 9(1) requires that the responsible officer (the

Corporate Director of Finance and Resources) 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) by no later than 30th September (Regulations 9(2), 10(1) and 21). As the approval of accounts is a non-executive function, the appropriate committee is the Audit Committee. Regulation 9(2) 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. The annual governance statement must also be approved by the committee and published on the council's website by 30 September (regulations 6(2) and 10(1).

**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.

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**Appendices**

A Annual Governance Report 2016/17
B Letter of Representation
C Statement of Accounts 2016/17 including Pension Fund Accounts
D Annual Governance Statement 2016/17

**Background papers:**
None

| | | | |
|---|---|---|---|
| **Signed by** | | | 8 September 2017 |
| | Director of Financial Management | | Date |
| | | | |
| **Received by** | …… | | …….. |
| | Head of Democratic Services | | Date |

Responsible Officer: Alan Layton, Director of Financial Management
Report Author: Mohammed Sajid, Chief Accountant
Tel: 020-7527-2574

Email : mohammed.sajid @islington.gov.uk

Legal Implications

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# External Audit Report 2016/17 DRAFT

**London Borough of Islington Council and London Borough of Islington Pension Fund**

—

11 September 2017

# Content

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This report is addressed to London Borough of Islington and London Borough of Islington Pension Fund (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. PSAA issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies summarising where the responsibilities of auditors begin and end and what is expected from audited bodies. We draw your attention to this document which is available on PSAA's website (www.psaa.co.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.

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Neil Hewitson, the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers (0207 694 8981, andrew.sayers@kpmg.co.uk). After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing generalenquiries@psaa.co.uk, by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3H.

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# Important notice

This report is presented in accordance with our PSAA engagement. Circulation of this report is restricted. The content of this report is based solely on the procedures necessary for our audit. This report is addressed to London Borough of Islington (the Authority) and has been prepared for your use only. We accept no responsibility towards any member of staff acting on their own, or to any third parties. The National Audit Office (NAO) has issued a document entitled Code of Audit Practice (the Code). This summarises where the responsibilities of auditors begin and end and what is expected from the Authority. External auditors do not act as a substitute for the Authority'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.



**Basis of preparation:** We have prepared this External Audit Report (Report) in accordance with our responsibilities under the National Audit Office Code of Audit Practice (the Code) and the terms of our Public Sector Audit Appointments Ltd (PSAA) engagement.

**Purpose of this report:** This Report is made to the Authority's Audit Committee in order to communicate matters as required by International Audit Standards (ISAs) (UK and Ireland) and other matters coming to our attention during our audit work that we consider might be of interest and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone (beyond that which we may have as auditors) for this Report or for the opinions we have formed in respect of this Report.

**Limitations on work performed:** This Report is separate from our audit opinion and does not provide an additional opinion on the Authority's financial statements nor does it add to or extend or alter our duties and responsibilities as auditors. We have not designed or performed procedures outside those required of us as auditors for the purpose of identifying or communicating any of the matters covered by this Report. The matters reported are based on the knowledge gained as a result of being your auditors. We have not verified the accuracy or completeness of any such information other than in connection with and to the extent required for the purposes of our audit.

**Status of our audit:** Our audit is not yet complete and matters communicated in this Report may change pending signature of our audit report. We will provide an oral update on the status of our audit at the Audit Committee meeting. The following work is ongoing:

- Whole of government accounts
- Pension fund annual report
- Council - completion of non significant disclosures

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# Summary

## Financial statements audit – see section 2 for further details

Subject to all outstanding queries and procedures being satisfactorily resolved we intend to issue an unqualified audit opinion on the Authority's financial statements for the deadline of 30 September 2017, following the Audit Committee adopting them and receipt of the management representations letter.

We also anticipate issuing an unqualified audit opinion in relation to the Pension Fund's financial statements for the deadline of 30 September 2017

We have completed our audit of the financial statements. We have read the Narrative Report and reviewed the Annual Governance Statement (AGS). Our key findings are:

- There are no unadjusted audit differences.
- We agreed presentational changes to the accounts with Finance, mainly related to compliance with the CIPFA / LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.
- In additional to our routine requests, which are explained in section 2, we are asking for management representations regarding the non-consolidation of Islington Limited and the completeness, accuracy and valuation of property, plant and equipment.
- We will report that your AGS complies with delivering Good Governance guidance issued by CIPFA / SOLACE in April 2016.
- We reviewed the Narrative Report and have no matters to raise with you.
- We did not receive any queries or objections from local electors this year.
- The audit cannot be formally concluded and an audit certificate issued as we are considering elector queries relating to 2013/14, 2014/15 and 2015/16. Until we have completed our consideration of these, we are unable to certify that we have completed the audit of the accounts in accordance with the requirements of the Local Audit and Accountability Act 2014.



## Value for money – see section 3 for further details

Based on the findings of our work, we have concluded that the Authority has adequate arrangements to secure economy, efficiency and effectiveness in its use of resources. We therefore anticipate issuing an unqualified value for money conclusion for the deadline of 30 September 2017.

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# Summary

## 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 other matters which we wish to draw to your attention in addition to those highlighted in this report or our previous reports relating to the audit of the Authority's 2016/17 financial statements.

We identified one prior year recommendation that requires further action. We have made four new recommendations as a result of our 2016/17 work. The recommendations relate to submission of the pension fund accounts, the draft whole of government accounts pack, controls within the pension fund and preparation for the brought forward deadline next year. All recommendations are shown in appendix 1.

We undertake other grants and claims work for the Authority that does not fall under the PSAA arrangements. The status of our grants and claim work is summarised below:

- Housing benefits grant claim: The audit is underway and will be completed and signed off by 30 November 2017;
- Pooled housing capital receipts: This work commences in October 2017 to ensure sign off by 30 November 2017; and
- Teachers pension contribution return: This audit is underway and will be completed and signed off 30 November 2017.

Our fees for this work are explained in section two.



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## Section Two

# Financial statements audit

We audit your financial statements by undertaking the following:

| | Accounts production stage | | |
|---|---|---|---|
| **Work Performed** | **Before** | **During** | **After** |
| **1. Business understanding:** review your operations | ✓ | ✓ | – |
| **2. Controls:** assess the control framework | ✓ | – | – |
| **3. Prepared by Client Request (PBC):** issue our prepared by client request | ✓ | – | – |
| **4. Accounting standards:** agree the impact of any new accounting standards | ✓ | ✓ | – |
| **5. Accounts production:** review the accounts production process | ✓ | ✓ | ✓ |
| **6. Testing:** test and confirm material or significant balances and disclosures | – | ✓ | ✓ |
| **7. Representations and opinions:** seek and provide representations before issuing our opinions | ✓ | ✓ | ✓ |



We have completed the first six stages and report our key findings below:

| | |
|---|---|
| 1. Business understanding | In our 2016/17 audit plan we assessed your operations to identify significant issues that might have a financial statements consequence. We confirmed this risk assessment as part of our audit work. We provide an update on each of the risks identified later in this section. |
| 2. Assessment of the control environment | We assessed the effectiveness of your key financial system controls that prevent and detect material fraud and error. We found that the financial controls on which we seek to place reliance are operating effectively. We have made two recommendations which relate to bank reconciliations and pensioner payroll controls. We believe that these recommendations (see appendix 1) will strengthen your control environment. We reviewed work undertaken by your internal auditors, in accordance with ISA 610 and used the findings to inform our work. |
| 3. Prepared by client request (PBC) | We produced the PBC to summarise the working papers and evidence we ask you to collate as part of the preparation of the financial statements. We are pleased to report the Council continues to produce good-quality working papers with clear audit trails. |

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# Financial statements audit

| | |
|---|---|
| 4. Accounting standards | We work with you to understand changes to accounting standards and other technical issues. For 2016/17 these changes related primarily to:<br>• Updates to the presentation of the Comprehensive Income and Expenditure Statement and the Movements in Reserves Statement and the introduction of the new Expenditure and Funding Analysis: The changes to the EFA are aimed at demonstrating to stakeholders how the funding available to the Authority for the year has been used in providing services, in comparison with those resources consumed or earned by the Authority in accordance with generally accepted accounting practices;<br>• Amended guidance on the Annual Governance Statement; and<br>• Changes in the format of the Pension Fund accounts. |
| 5. Accounts production | We received complete draft accounts for the Council by 28 June 2017 in accordance with the deadline. We did not receive the draft pension fund accounts until 3 August 2017. The accounting policies, accounting estimates and financial statement disclosures are in line with the requirements of the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17. We will debrief with Finance to share views on the final accounts audit which hopefully will lead to further efficiencies in the 2017/18 audit process.<br>We thank Finance for their cooperation throughout the visit which allowed the audit to progress and complete within the allocated timeframe. |
| 6. Testing | We have summarised the findings from our testing of significant risks and areas of judgement in the financial statements on the following pages. During the audit we identified only presentational issues which have been adjusted as they have no material effect on the primary financial statements. One of the presentational audit adjustments relating to termination benefits was above our lower reporting threshold and further information for this is at appendix 3. |
| 7. Representations | You are required to provide us with representations on specific matters such as your going concern assertion and whether the transactions in the accounts are legal and unaffected by fraud. We provided a draft of this representation letter to the Director of Finance on 8 September 2017. We draw attention to the requirement in our representation letter for you to confirm to us that you have disclosed all relevant related parties to us. We are asking Management to provide specific representations on the non-consolidation of Islington Limited and the completeness, accuracy and valuation of property, plant and equipment. |



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## Section Two

# Financial statements audit

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, opening balances, public interest reporting, questions / objections, etc.).

There are no others matters which we wish to draw to your attention in addition to those highlighted in this report or our previous reports relating to the audit of the Authority's 2016/17 financial statements.

To ensure that we provide a comprehensive summary of our work, we have over the next pages set out:

- The results of the procedures we performed over changes in the pension liability due to LGPS Triennial Valuation and valuation of land and buildings which were identified as significant risks in our audit plan;
- The results of our procedures to review the required risks of the fraudulent risk of revenue recognition and management override of control; and
- Our view of the level of prudence applied to key balances in the financial statements.



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# Financial statements audit

| SIGNIFICANT audit risk | Account balances effected | Summary of findings |
|---|---|---|
| **Significant changes in the pension liability due to LGPS Triennial Valuation (Council and Pension Fund)**<br><br>During the year, the Pension Fund has undergone a triennial valuation with an effective date of 31 March 2016 in line with the Local Government Pension Scheme (Administration) Regulations 2013. The share of pensions assets and liabilities for each admitted body is determined in detail, and a large volume of data is provided to the actuary to support this triennial valuation.<br><br>The pension numbers to be included in the financial statements for 2016/17 will be based on the output of the triennial valuation rolled forward for the Council to 31 March 2017. For 2017/18 and 2018/19 the actuary will continue to roll forward the valuation for accounting purposes (IAS 19) based on more limited data.<br><br>There is a risk that the data provided to the actuary for the triennial valuation exercise is inaccurate and that these inaccuracies affect the actuarial figures in the accounts.<br><br>For both the triennial valuation and the roll forwards of the valuation to 31 March 2017, the actuary will use assumptions for items such as life expectancy of members, inflation, pay rises and discount rates. Small differences in these assumptions can lead to material changes in the liability.<br><br>The Pension Fund includes limited disclosures around actuarial pensions liabilities but these are key to understanding the financial position of the Pension Fund. | **Balance sheet:**<br><br>£868.4m<br><br>*PY: £570.3m* | As part of our audit of the Pension Fund Liability, we have undertaken work on a test basis to agree the data provided to the actuary back to the systems and reports from which it was derived and to understand the controls in place to ensure the accuracy of this data. This work focussed on the data relating to the Council but also corroborating the data used to that which is generated to request pension payments.<br><br>We reviewed the assumptions adopted in calculating the pension liability using the work of independent experts engaged by the NAO, together with a review by the KPMG Pensions team.<br><br>We have also reviewed the competence and experience of the actuary. We have tested the disclosure against CIPFA requirements.<br><br>There are no issues that we need to bring to your attention. |



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# Financial statements audit

| SIGNIFICANT audit risk | Account balances effected | Summary of findings |
|---|---|---|
| **Valuation of Land and Buildings (Council only)**<br><br>In 2015/16 the Council reported Property, Plant and Equipment of £3,761m. Of this balance, £247m related to assets held at historical cost. The remaining balance relates to Council dwellings and other land and buildings which are valued at fair value. Last year the Council revalued £3.1bn of the £3.7bn assets that are valued at fair value. The Council therefore exercises judgement in determining the fair value of the assets held and the methods used to ensure the carrying values recorded each year reflect those fair values. Given the materiality in value and the judgement involved in determining the carrying amounts of assets we consider this to be a significant risk.<br><br>Local authorities are required to ensure that as a minimum a rolling programme is in place to ensure all Property, Plant and Equipment required to be measured at fair value is revalued at least every five years. From 2015/16 the Council implemented a triennial valuations of assets, as it took the view that revaluation every five years is insufficient to ensure that the carrying balance is not materially misstated. Given the materiality in value and the judgement involved in determining the carrying amounts of assets we consider this to be an area of audit focus. | **Note 19: PPE**<br><br>£3,911m<br><br>*PY £3,761m*<br><br>(NBV) | We have:<br><br>• Reviewed the approach to valuation, the qualifications, reports by the Council's valuers, and judgements made by the Council;<br><br>• We reviewed the Council's judgement in assessing movements from the valuation date;<br><br>• Reviewed the disclosures made to ensure they are complete as per the valuations on the financial statements for all assets valued;<br><br>• Confirmed the information provided to the valuer from the Authority;<br><br>• Compared the assumptions made by your valuer to benchmarks;<br><br>• Used our specialist to review the approach taken, the valuations and the assess the reasonableness of the outcomes;<br><br>• Sampled properties to confirm they exist,<br><br>• Sampled properties and reviewed the rights and obligations to confirm the Council owns the asset;<br><br>• Completed testing over new capital additions in year to confirm these are appropriately capitalised and that Authority ownership is evidenced; and<br><br>• Reviewed disposals made in year and confirm appropriate removal from the PPE balance in 2016-17.<br><br>There are no issues that we need to bring to your attention. We have requested a management representation for the completeness, accuracy and valuation of property, plant and equipment. |



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# Financial statements audit

## Other areas of audit focus

We identified two other areas of audit focus. These are not considered to be significant risks as they are less likely to give rise to a material error. Nonetheless these are areas of importance where we carry out audit procedures to ensure that there is no material misstatement.

| Other areas of audit focus | Account balances effected | Summary of findings |
|---|---|---|
| **New format of the core financial statements (Council only)** | CiES<br>MiRS<br>EFA Statement | We have:<br>• assessed how the Authority has actioned the revised disclosure requirements for the CIES, MiRS and the new EFA statement as required by the Code; and<br>• checked the restated numbers and associated disclosures for accuracy , correct presentation and compliance with applicable Accounting Standards and Code guidance.<br>There are no issues that we need to bring to your attention. |
| **Pension fund investments (Pension Fund only)** | **Pension Fund Net Asset Statement**<br>Net Assets: £1,255m<br>*PY: £1,084m* | We have:<br>• undertaken detailed testing of investments including assessing the design of controls in place;<br>• obtained confirmations from the Fund managers and Custodians, and reconciliations between the two;<br>• reviewed ISAE3402 compliance reports on each Fund Manager comparing performance to known benchmarks; and<br>• for unquoted investments we checked the basis of the valuations and back to audited accounts as they become available.<br>There are no issues that we need to bring to your attention. |



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# Financial statements audit

| Risks that ISAs require us to assess in all cases | Why | Our findings from the audit |
|---|---|---|
| Fraud risk from revenue recognition | Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk.<br><br>**Council:** We do not consider this to be a significant risk, as there are limited incentives and opportunities to manipulate the way income is recognised. We have obtained an understanding of revenue controls. We evaluated and tested accounting policies for income recognition to ensure they are consistent with the requirements of the Code of Practice on Local Authority Accounting. We have performed detailed testing of revenue transactions, focusing on the areas we consider to be of greatest risk, for example, fees and charges and grant income where there are conditions attached to the grant income.<br><br>**Pension Fund:** We do not consider this to be a significant risk for local authority Pension Funds as there are limited incentives and opportunities to manipulate the way income is recognised. We therefore rebutted this risk and have not incorporated specific work into our audit plan in this area over and above our standard fraud procedures. | There are no matters arising from this work that we need to bring to your attention. |
| Fraud risk from management override of controls | Management is typically in a powerful position to perpetrate fraud owing to its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Our audit methodology incorporates the risk of management override as a default significant risk.<br><br>In line with our methodology, we carry out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual.<br><br>We have not identified any specific additional risks of management override. | Through our testing, including testing of journal entries, accounting estimates and significant transaction outside the normal course of business, no instances of fraud were identified.<br><br>We performed specific procedures to: review accounting judgements which are impacting the reported outturn position; review of controls associated with, and undertaken, sample testing of manual journals; and reviewed the yearend cut off process to ensure that transactions are reflected in the correct period.<br><br>There are no matters arising from this work that we need to bring to your attention. |



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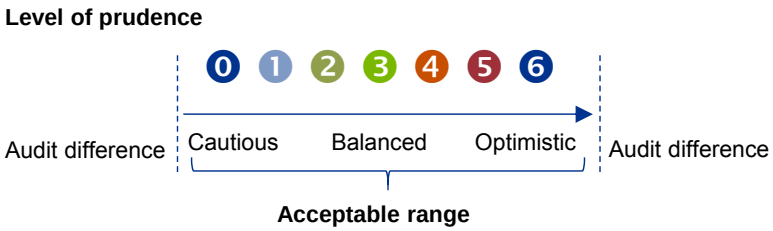
# Financial statements audit

## Judgements in your financial statements

We consider the level of prudence in key judgements in your financial statements. We summarise our view below using the following scale:




| Assessment of subjective areas | | | | |
|---|---|---|---|---|
| Asset / liability class | Current year | Prior year | Balance (£m) | KPMG comment |
| Provisions (excluding NDR) | 3 | 3 | £13.5m (PY:£13.3m) | The balance has remained steady with minimal movements. We consider the related disclosures to be proportionate and provisions have been recognised on a consistent basis. |
| NDR provisions | 3 | 3 | £6.0m (PY:£4.6m) | In 2013/14, local authority funding arrangements meant that the Authority is now responsible for a proportion of successful rateable value appeals. The Authority has provided for a fixed percentage of outstanding appeals in accounting for the potential liability, based on historical appeals success rates. We consider the disclosure to be proportionate and provisions have been recognised on a consistent basis. |
| Creditors including accruals | 3 | 3 | £103.5m (PY:£91.6m) | We consider the judgements involved in the creditors disclosure to be balanced. The main accruals are consistent with the prior year and in line with our expectations. The increase largely relates to central government creditors. |
| Pension liability | 3 | 3 | £868.4m (PY:£570.3m) | We regarded the actuary as an expert and reviewed the actuarial report and considered the application of assumptions including discount rate, inflation, salary growth and life expectancy against our expectations. We have not identified any issues with the information recorded in the accounts. |



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# Financial statements audit

| Assessment of subjective areas | | | | |
|---|---|---|---|---|
| **Asset / liability class** | **Current year** | **Prior year** | **Balance (£m)** | **KPMG comment** |
| PPE: HRA assets | 3 | 3 | £2,980.4m (PY:£2,880.6m) | The Authority continues its use of the beacon methodology in line with the DCLG's *Stock Valuation for Resource Accounting* published in November 2016. The Authority has utilised an external valuation expert to provide valuation estimates. We reviewed instructions provided and deem that the valuation exercise was in line with those instructions. The resulting increase is in line with regional indices provided by Gerald Eve, the valuation firm engaged by the NAO to provide supporting valuation information. |
| Debtors provisioning | 2 | 2 | £53.2m (PY:£50.1m) | We reviewed the impairment for debtors and for certain classes of debt especially relating to individuals our view is that the Authority is slightly on the cautious side but well within the acceptable range. |



### Narrative report of the Authority

We reviewed the Authority's narrative report and have confirmed that it is consistent with the financial statements and our understanding of the Authority.

### Pension fund audit

The audit of the pension fund was completed alongside the main audit. We are yet to receive and audit the Pension Fund Annual Report. There are no other specific matters to bring to your attention relating to the audit.

### Pension fund annual report

We have not yet received a copy of the pension fund annual report. Once this is received we will consider whether it is consistent with the Fund's financial statements. We will read the information in the Fund's Annual Report to identify material inconsistencies with the Fund's financial statements.

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# Financial statements audit

### Queries from local electors

We did not receive any questions or objections from members of the public this year.

### Audit certificate

The audit cannot be formally concluded and an audit certificate issued as we are considering elector queries relating to 2013/14, 2014/15 and 2015/16. Until we have completed our consideration of these, we are unable to certify that we have completed the audit of the accounts in accordance with the requirements of the Local Audit and Accountability Act 2014.

### Whole of Government Accounts (WGA)

We have not completed the review of your WGA consolidation pack at the time of issuing this draft report. The WGA submission deadline was 31 July 2017, however the Council did not submit the return until 11 August 2017 due to technical issues unlocking the pack. This has meant that the Council's information is not appearing in the current published mismatch reports. Once the NAO releases the next version of the mismatch reports we will complete our testing procedures to conclude on the WGA return.

### Other grants and claims work

We undertake other grants and claims work for the Authority that does not fall under the PSAA arrangements. The status of our grants and claim work is presented below:

- Housing benefits grant claim: The audit is underway and will be completed and signed off by 30 November 2017;
- Pooled housing capital receipts: This work will commence in October 2017 to ensure sign off by 30 November 2017; and
- Teachers pension contribution return: This audit is underway and will be completed and signed off by 30 November 2017.

### Audit fees

Our fee for the audit was £202,830 excluding VAT (£202,830 excluding VAT in 2015/16). The audit fee for the Pension Fund was £21,000 excluding VAT (£21,000 excluding VAT in 2015/16).

This fee was in line with that highlighted in our audit plan approved by the Audit Committee in March 2017.

Our work on the certification of Housing Benefits (BEN01) is not yet complete. The planned scale fee for this is £24,975 excluding VAT (£24,912 excluding VAT in 2015/16). Planned fees for other grants and claims which do not fall under the PSAA arrangements is £6,000 excluding VAT (£6,000 excluding VAT in 2015/16).

Our fee for the Council's subsidiary, Islington Limited was £4,000 excluding VAT (£4,000 excluding VAT in 2015/16).

We have not completed any non-audit work at the Authority in year.



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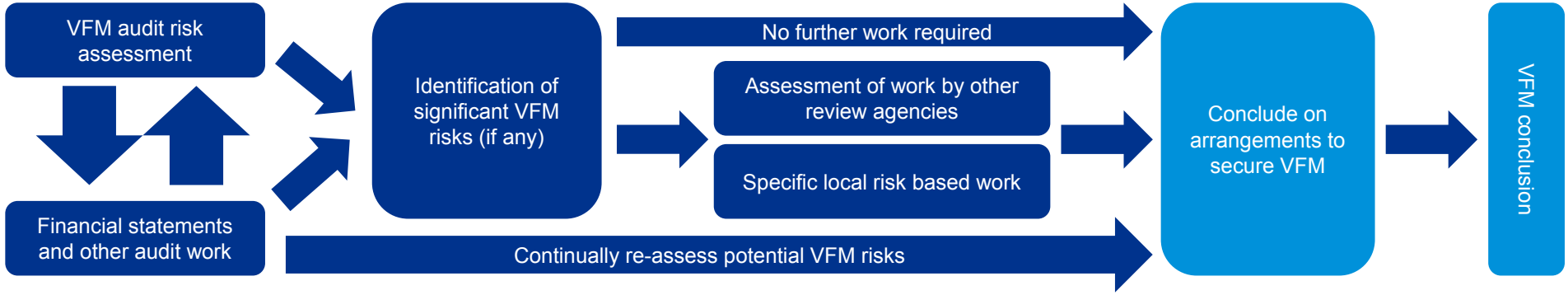
# Value for money

For 2016/17 our value for money (VFM) work follows the NAO's guidance. It is risk based and targets audit effort on the areas of greatest audit risk. Our methodology is summarised below. We did not identify any significant VFM risks and provide a summary below of the other areas of audit focus arising from our VFM work. We are satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2017, based upon the criteria of informed decision making, sustainable resource deployment and working with partners and third parties.






## Other areas of audit focus

Below we set out the detailed findings against other areas of audit focus for our VFM work.

| VFM: other area of audit focus | Our audit response and findings |
|---|---|
| Financial resilience | ■ We reviewed the controls and governance surrounding the budget setting and in year monitoring, including budget monitoring and reporting arrangements. We found this to be robust.<br>■ We considered the savings plans and the MTFP that the Authority has in place. We consider that the Authority has procedures in place that allow it to plan its finances effectively and to support the delivery of its strategic priorities and meets its statutory functions.<br>■ We reviewed the monitoring process in place for savings plans and deemed this appropriate for the Authority.<br>There are no other matters arising from this work that we need to bring to your attention. |

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## Appendix 1

# Recommendations raised and followed up

Recommendations raised as a result of our work in the current year are as follows:

| Priority rating for recommendations | | | | | |
|---|---|---|---|---|---|
| 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. | 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. | 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. |

| # | Risk | Recommendation | Management Response / Officer / Due Date |
|---|---|---|---|
| 1 | 2 | **Whole of government accounts submission**<br><br>The WGA submission deadline was 31 July 2017, however the Council did not submit the return until 11 August 2017 due to technical issues unlocking the pack which had to be resolved externally. The Council's data was therefore not included in the first two iterations of the mismatch tool published by the NAO and used as part of our audit.<br><br>In future years should ensure that in future years the pack is prepared earlier enough to allow issues to be resolved in time to meet the statutory deadline. | Agreed. The delay this year was due to technical issues with the submission form outside the Council's control. The return will be submitted on time through earlier preparation.<br><br>Responsible: Director of Financial Management<br>. |
| 2 | 3 | **Bank reconciliation review**<br><br>The Pension Fund bank reconciliation was not completed between October 2016 and February 2017. For the months where the reconciliation was complete there is no evidence of senior manager review.<br><br>Council bank reconciliations are performed throughout the year, however there is no formal plan or schedule to confirm which accounts are reconciled monthly. Furthermore, there is only an annual review and sign off of the reconciliations.<br><br>We recommend that bank reconciliations are completed and reviewed monthly for all material and active pension fund and council bank accounts. This will ensure the timely identification of issues and the opportunity to take appropriate action in a timely manner. | Agreed. Pension fund: the resourcing issues are now resolved and reconciliations are taking place. Council: All accounts should and are being reconciled monthly and a senior management review will be recorded each month to demonstrate regular reviews<br><br>Responsible: Director of Financial Management |



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## Appendix 1

# Recommendations raised and followed up

| # | Risk | Recommendation | Management Response / Officer / Due Date |
|---|---|---|---|
| 3 | 3 | **Review of pension payroll starters**<br><br>We note that the control reconciling new pension payroll starters to Altair (Pension Fund system) has not been completed from October to March 2017. We have also noted that for the months the reconciliation has been completed, there is no evidence of review.<br><br>We recommend that this control is enforced and monthly review by a senior member of staff takes place. This will ensure the timely identification of issues and the opportunity to take appropriate action in a timely manner. | Agreed. The resourcing issue has been resolved and the reconciliation and review will take place.<br><br>Responsible: Director of Financial Management |
| 4 | 3 | **Preparation for a faster accounts closure**<br><br>The deadline for completion of the 2017/18 audit will come forward to the 31 July 2018. This will mean a reduction in the time for the Council to prepare draft financial statements.<br><br>The Council needs to ensure develops a project plan to ensure it can deliver on the revised deadline. This should include a timetable for drafting the accounts, completion and quality review of working papers. | Agreed. Work has already begun on this and a detailed action plan has been devised and is being implemented. The Council is confident of meeting the earlier deadline.<br><br>Responsible: Director of Financial Management |



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## Appendix 1

# Recommendations raised and followed up

We followed up the recommendations from our prior year audit, in summary:

| Total number of recommendations | Number of recommendations implemented | Number outstanding (repeated below): |
|---|---|---|
| 1 | 0 | 1 |

| | Risk | Recommendation | Management Response / Officer / Due Date | Status at September 2017 |
|---|---|---|---|---|
| 1 | 2 | **Preparing and publishing Pension Fund statements**<br><br>We received the draft pension fund accounts before the start of thaudit however these did not form part of the financial statements published on the Authority's website. The Authority should insure that in future years it has appropriate arrangements in place to ensure that it prepares and publishes a full set of draft financial statements on its website by the statutory deadline. | **Accepted**<br><br>Management will ensure the pension fund accounts are published alongside the main financial statements by 30 June in future.<br><br>Responsible: Director of Financial Management | **Overdue**<br><br>The Pension Fund statements were not published on the Authority's website. The Authority did not provide the accounts for audit until 3 August 2017 and a complete set was not provided until the week commencing 4 September 2017. This was due to staffing constraints.<br><br>A new member of staff has been since recruited to the team to resolve these issues.<br><br>Responsible: Director of Financial Management |



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## Appendix 2

# Materiality and reporting of audit differences

The assessment of what is material is a matter of professional judgment and includes consideration of three aspects:

- 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; and
- 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.

We reassessed materiality for the Authority at the start of the final accounts audit due to the reduction in the general fund reserve balance.

Materiality for the Authority's accounts was set at £8.6 million which equates to around 0.8% of gross expenditure. The level of materiality set out in our audit plan issued to the Audit Committee in March 2017 was £10.5m.

Materiality for the Pension Fund was set at £10.0 million which equates to around 0.9% of gross assets.

We design our procedures to detect errors in specific accounts at a lower level of precision.



### Reporting to 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 £0.43 million for the Authority and less than £0.5 million for the Pension Fund.

Where 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.

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## Appendix 3

# Audit differences

We are required by ISA 260 to report all uncorrected misstatements, other than those that we believe are clearly trivial, to those charged with governance (which in your case is the Audit Committee). We are also required to report all material misstatements that have been corrected but that we believe should be communicated to you to assist you in fulfilling your governance responsibilities.

### Corrected audit differences

- Our audit of the Authority and Pension Fund financial statements did not identify any significant adjustments to figures in the principal financial statements.
- We identified presentational adjustments required to ensure that the accounts are compliant with the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 ('the Code') and for consistency within the accounts. These have been amended by management.
- We identified one material difference of £19k in relation to the disclosure of termination benefits. For this disclosure we had a lower materiality level of £10k. The amendment has been made by the Council.

### Uncorrected audit differences

- We are pleased to report that there are no uncorrected audit differences.



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## Appendix 4

# Audit independence

This appendix communicates all significant facts and matters that bear on KPMG LLP's independence and objectivity and informs you of the requirements of *ISA 260 (UK and Ireland) Communication of Audit Matters to Those Charged with Governance.*

### Integrity, objectivity and independence

We are required to communicate to you 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 KPMG LLP's independence and the objectivity of the Engagement Lead and audit team. We have considered the fees paid to us by the Authority for professional services provided by us during the reporting period. We are satisfied that our general procedures support our independence and objectivity.

### General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies all KPMG LLP audit partners and staff annually confirm their compliance with our Ethics and Independence Manual including in particular that they have no prohibited shareholdings. Our Ethics and Independence Manual is fully consistent with the requirements of the Ethical Standards issued by the UK Auditing Practices Board. As a result we have underlying safeguards in place to maintain independence through: instilling professional values; communications; internal accountability; risk management; and independent reviews. We would be happy to discuss any of these aspects of our procedures in more detail. There are no other matters that, in our professional judgement, bear on our independence which need to be disclosed.



### Audit matters

We are required to comply with *ISA (UK and Ireland) 260 Communication of Audit Matters to Those Charged with Governance* when carrying out the audit. ISA 260 requires that we consider the following audit matters and formally communicate them to those charged with governance:

- Relationships that may bear on the firm's independence and the integrity and objectivity of the audit engagement lead and audit staff;
- The general approach and overall scope of the audit, including any expected limitations thereon, or any additional requirements;
- The selection of, or changes in, significant accounting policies and practices that have, or could have, a material effect on the Authority's financial statements;
- The potential effect on the accounts of any material risks and exposures, such as pending litigation, that are required to be disclosed in the financial statements;
- Audit adjustments, whether or not recorded by the entity that have, or could have, a material effect on the Authority's financial statements;
- Material uncertainties related to events and conditions that may cast significant doubt on the Authority's ability to continue as a going concern;
- Disagreements with Management about matters that, individually or in aggregate, could be significant to the Authority's financial statements or the auditor's report. These communications include consideration of whether the matter has, or has not, been resolved and the significance of the matter;
- Expected modifications to the auditor's report;

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## Appendix 4

# Audit independence

- Other matters warranting attention by those charged with governance, such as material weaknesses in internal control, questions regarding management integrity, and fraud involving management; and
- Any other matters agreed upon in the terms of the audit engagement.

We continue to discharge these responsibilities through our attendance at Audit Committees, commentary and reporting and, in the case of uncorrected misstatements, through our request for management representations.

### Auditor declaration

In relation to the audit of the financial statements of London Borough of Islington Council and London Borough of Islington Pension Fund for the financial year ending 31 March 2017 we confirm that there were no relationships between KPMG LLP and London Borough of Islington Council and London Borough of Islington Pension Fund, their directors and senior management and their affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We confirm that we have complied with Ethical Standards and the Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

We have provided no non-audit services.



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## Appendix 5

# Audit quality framework

Audit quality is at the core of everything we do at KPMG and we believe that it is not just about reaching the right opinion, but how we reach that opinion. To ensure that every partner and employee concentrates on the fundamental skills and behaviours required to deliver an appropriate and independent opinion, we have developed our global Audit Quality Framework

- Comprehensive effective monitoring processes
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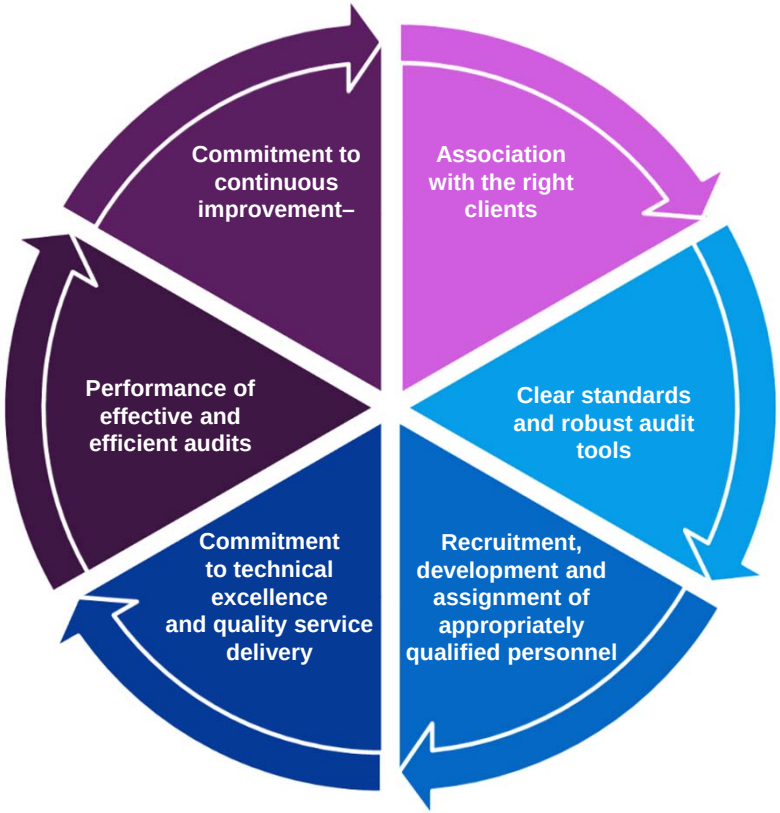
- Obtain feedback from key stakeholders
- Evaluate and appropriately respond to feedback and findings

- Select clients within risk tolerance
- Manage audit responses to risk
- Robust client and engagement acceptance and continuance processes
- Client portfolio management

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ISLINGTON

London Borough of Islington
Finance Department
7 Newington Barrow Way
London N7 7EP

Tel: 020 7527 2282

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

Date: 19 September 2017

Dear Neil,

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 2017, 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 2017 and of the Authority's expenditure and income for the year then ended;

ii. whether the Pension Fund financial statements give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2017 and the amount and disposition of the Fund's assets and liabilities as at 31 March 2017, other than liabilities to pay pensions and other benefits after the end of the scheme year; and

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 2016/17.

These financial statements comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the 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 the Accounts and Audit Regulations 2015, 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 2017 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 2017 and the amount and disposition of the Fund's assets and liabilities as at 31 March 2017, other than liabilities to pay pensions and other benefits after the end of the scheme year;

   iii. have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

   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.

   Included in the Appendix to this letter are the definitions of fraud, including misstatements arising from fraudulent financial reporting and from misappropriation of assets.

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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 free from 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*.

   Included in the Appendix to this letter are the definitions of both a related party and a related party transaction as we understand them as defined in IAS 24 and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17

10. The Authority confirms that:

    a) The financial statements disclose all of the key risk factors, assumptions made and uncertainties surrounding the Authority's ability to continue as a going concern as required to provide a true and fair view.
    b) 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.

11. 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.

12. The Authority provides the following specific representations as follows:

a) The Authority has elected not to consolidate Islington Company (ICo), a wholly owned trading vehicle. The Authority notes the company falls within the group boundary of the council on the grounds of control and significant influence in line with the Code. However we confirm we have not consolidated on the grounds the turnover and assets, and hence the council's interest, are not material to warrant producing consolidated financial statements.
b) Completeness, accuracy and valuation of property, plant and equipment. The Authority confirms the property plant and equipment disclosure included in its financial statements as at 31 March 2017 is materially complete and accurate and the valuation is reported in line with our accounting policies.

This letter was tabled and agreed at the meeting of the Audit Committee on 19 September 2017.

Yours faithfully,

Cllr Kat Fletcher
Chair of the Audit Committee

Mike Curtis
Corporate Director of Finance

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**Appendix to the Authority 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; and
- Notes, comprising a summary of significant accounting policies and other explanatory information and the Expenditure and Funding Analysis.

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 2016/17.

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 person 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

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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."

**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 Party and Related Party Transaction**

**Related party:**

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 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).
   viii. The entity or any member of a group of which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting entity.

Key management personnel in a local authority context are all chief officers (or equivalent), elected members, the 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 2016/17

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# Introduction by the Corporate Director of Resources

I have great pleasure in presenting the Statement of Accounts for the year ended 31 March 2017. 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 (revenue and capital) last year was £1.2bn. 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 'Cost of Services', you will see that the gross cost of these services was £1.09bn, and in the Note on Capital Expenditure and Financing, you will see that we spent £112m 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 2016/17 this contribution amounted to £78m. This expenditure resulted in a drawdown from general reserves of just under £2.1m for the year. We financed our investments through external contributions of £24m, contributions from the HRA of £42m, whilst £15m came from revenue sources and £30m from the sale of council assets.

Mike Curtis
Corporate Director of Resources
19 September 2017

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

# Narrative Report to the Statement of Accounts and Summary of the Council's Financial Performance in the Year 2016/17

The Narrative Report provides an explanation in overall terms of the council's financial position and helps interpret the accounting statements. The aim of the Narrative Report is to explain the financial facts rather than comment on the council's policies. 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
- Financial Statements
- Notes to the accounts (including pension disclosures, and the Statement of Accounting Polices 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 31 March 2017, 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 Expenditure and Funding Analysis is a new note, positioned alongside the core financial statements, which gives a clear link between in-year reporting of financial performance and the final outturn set out in the core financial statements.

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 council's single entity accounts. 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 31 March 2017.

In common with most other local authorities the Pension Fund has a deficit. The council asks an independent actuary to review the fund's position triennially and advise how to set the contributions to the Pension Fund to address the deficit. Such a review took place in 2016/17. More detailed information can be found in the Pension Fund Accounts.

## Changes in terminology, presentation and accounting policies

The main development in the 2016/17 Statement of Accounts is the introduction of the Expenditure and Funding Analysis (EFA), a new note which shows how the council's funding basis (under statute) compares with the results under generally accepted accounting practices. The EFA provides a more direct link between the council's financial performance monitoring and the General Fund. The final outturn position, discussed below, forms the starting point for the preparation of the EFA. The format of the EFA mirrors the service departments used to report the outturn position.

The format of the Comprehensive Income and Expenditure Statement has changed this year to reflect the organisational structure under which the council manages and operates its financial performance. In 2015/16, the Statement followed the format prescribed by the Service Reporting Code of Practice (SeRCOP). The Movement in Reserves Statement also has a new, streamlined format this year.

## Budget 2016/17

On 25 February 2016, the council agreed its 2016/17 budget, setting a budget requirement of £211.2m. This resulted in a basic amount of band D council tax of £1,020.15 (representing a council tax increase of 1.99% plus a 2% additional precept for social care) and a total amount of band D council tax (including GLA precept) of £1,296.15.

## General Fund Outturn 2016/17

Overall, there was a gross General Fund overspend of £4.5m compared to the budget. This overspend was met by transfers from reserves. The table below shows the revenue outturn position by department.

| Departmental income and expenditure (excluding HRA) | Net Budget *£'000* | Net Outturn *£'000* | Over / (Under-spend) *£'000* |
|---|---|---|---|
| **Frontline Services** | | | |
| Children's Services (excluding schools) | 59,562 | 65,245 | 5,683 |
| Schools | 21,335 | 23,863 | 2,528 |
| Environment and Regeneration | 12,853 | 14,753 | 1,900 |
| Housing & Adult Social Services | 94,796 | 94,665 | (131) |
| Public Health | (469) | (469) | 0 |
| **Central Services** | | | |
| Chief Executive | 1,189 | 2,240 | 1,051 |
| Finance & Resources | 37,706 | 38,087 | 381 |
| **Corporate Items** | | | |
| Corporate Items | (226,972) | (233,835) | (6,863) |
| **General Fund Variance** | **0** | **4,549** | **4,549** |
| Budgeted drawdown from General Fund Balances | | | 2,084 |
| Unbudgeted transfer to General Fund Balances (excluding schools) | | | (63) |
| Unbudgeted transfer from Schools Balances | | | 2,528 |
| **Total** | | | **4,549** |

| Departmental income and expenditure (including HRA) | Over / (Under-spend) *£'000* |
|---|---|
| General Fund over/(under) spend for the year (including schools) | 4,549 |
| Housing Revenue Account over/(under) spend for the year | (2,748) |
| **Net expenditure** | **1,801** |

## Explanation of 2016/17 Variances

The General Fund overspend of £2.1m (excluding Schools) was due to overspends in Children's Services, Environment and Regeneration, Finance and Resources, and the Chief Executive's department. These were partly offset by underspends in Housing (General Fund) and corporate items. There was a break even position in Adult Services and Public Health. An explanation of the main variances is given below.

- Children's Services – there were significant overspends due to increased demand for specialist services, such as Children Looked After (CLA) placements, support for 16-to-17 year olds living in supported accommodation, and support for 18+ year olds leaving care. These were partly offset by underspends in other areas including staffing.
- Environment and Regeneration – the overspend is mainly due to a delay realising planned savings in waste collection and recycling services, and not adopting the Village Principle, where collection routes are divided by localised areas to increase efficiency, and the consequential operational costs from delaying decisions on fleet replacement. This was offset by underspends in parking services, which received higher than expected income.
- Chief Executive's department – the department inherited an overspend position following a departmental restructure. New Homes Bonus funding originally planned to meet this overspend was committed against other expenditure.
- Finance and Resources – the overspend is mainly due to a shortfall against the commercial property income target, caused by savings materialising over a longer time frame than expected.
- Corporate items – the underspend is due to an effective treasury management strategy which resulted in lower interest charges than expected. In addition, corporate revenue contributions to the capital programme were lower than planned due to the availability of previously unbudgeted Strategic Community Infrastructure Levy income. The corporate position also reflects the allocation of HRA resources to the General Fund towards the cost of IT improvements. These underspends were partly offset by overspends on Wi-fi concessions due to a lack of suitable sites, and increased demand for statutory support for individuals who have no recourse to public funds.

The 2016/17 budget took account of unavoidable cost increases including demographic pressures, mainly in social care, and structural pressures in service budgets. The budget included savings of £22m to cover unavoidable cost increases and reductions in central government funding. Service departments will continue to face significant cost pressures and risks in the coming year. This is discussed further in the Looking Forward section of this report.

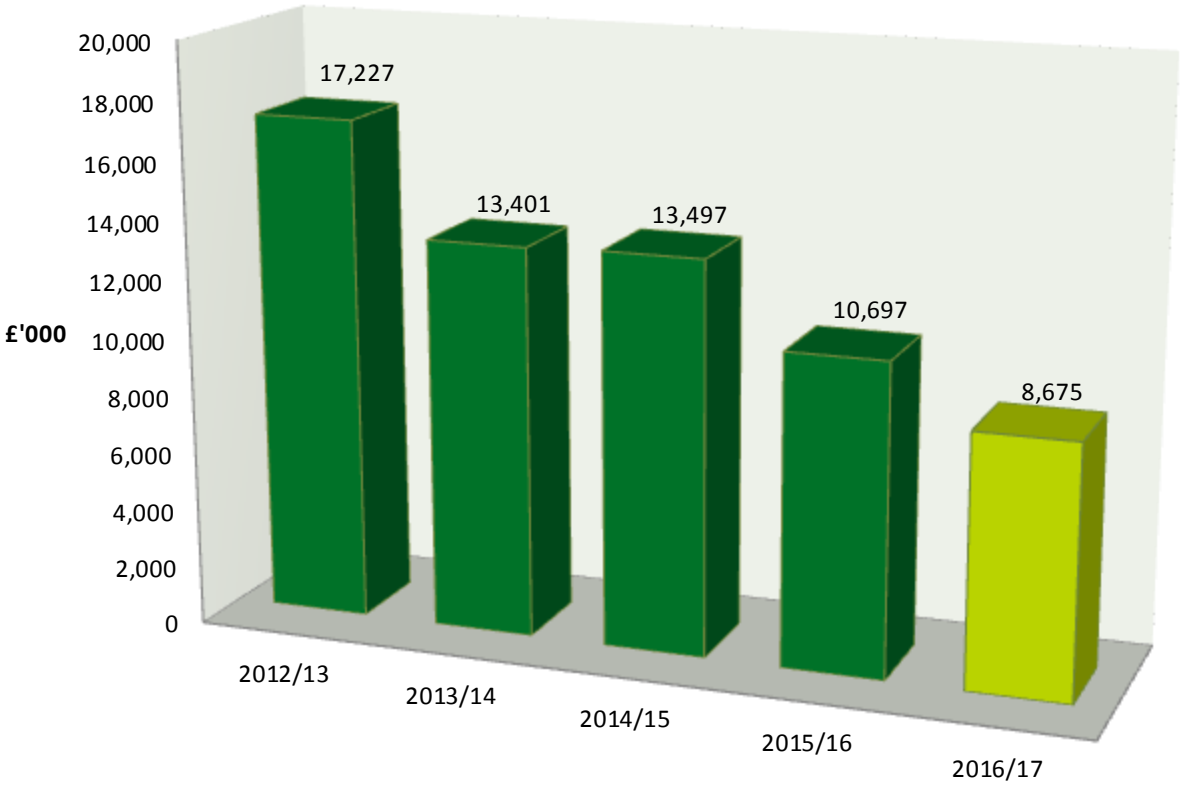
The 2016-17 Provisional Outturn report on the council's website gives a detailed explanation of the outturn position and variances against budget:

http://democracy.islington.gov.uk/documents/s11754/Provisional%20Outturn%202016-17_Executive%2018.5.17.pdf

## General Fund Balances

To maintain its financial resilience, the council currently aims to maintain the General Fund balance (excluding schools) at a level where it is the equivalent of 4% of the council's net budget requirement over the medium term. On 31 March 2017 the General Fund balance (excluding schools) totalled £8.7m (£10.7m on 31 March 2016), which is 4% of the net budget requirement. The schools balance totalled £9m (£11.5m on 31 March 2016).

General fund balances over the last five years are as follows:




## Housing Revenue Account 2016/17

The Housing Revenue Account (HRA) is a separate account for all the expenses and income relating to council housing. The 2016/17 outturn was a £2.7m in-year underspend. As at 31 March 2017 the HRA balance totalled £17.5m (£14.8m as at 31 March 2016).

The main variances between budget and outturn included rental income being £3m higher than budgeted, income from leaseholder service charges being £2m higher than expected and other income including tenant service charges, parking and commercial income being £1m higher than expected. These variances were offset by a £1.6m charge to the HRA for IT improvements and £1.5m additional charges for depreciation.

## Capital Expenditure and Funding 2016/17

The council delivered £111.7m of capital expenditure in 2016/17, representing 112% of the initial annual programme. The table below sets out this expenditure by department

| Capital Programme 2016/17 Outturn | 2016/17 Capital budget £m | 2016/17 Capital expenditure £m | Re-profiling (to)/from future years £m |
|---|---|---|---|
| Housing and Adult Social Services | 61.2 | 77.2 | 16.0 |
| Children's Services | 18.4 | 17.8 | (0.6) |
| Environment & Regeneration | 19.6 | 16.7 | (2.9) |
| Finance and Resources | 0.1 | 0.0 | (0.1) |
| **Total Capital Programme** | **99.3** | **111.7** | **12.4** |

The funding of the 2016/17 capital programme is shown in the table below.

| Funding Sources | 2016/17 £m |
|---|---|
| Usable Capital Receipts | 30.3 |
| Government grants and other external contributions | 23.7 |
| Major Repairs Reserve | 42.3 |
| Capital expenditure charged in-year to revenue accounts | 15.4 |
| **Total funding** | **111.7** |

## Net Assets as at 31 March 2017

The council's balance sheet shows what the council owns and owes at the end of the financial year. This year it shows net assets of £2.6bn, (made up of £4.1bn of assets and £1.5bn of liabilities). The most significant asset held by the council is its Property, Plant and Equipment portfolio (worth £3.9bn), of which council dwellings make up £2.98bn. The largest liability facing the council is in relation to the Pension Scheme (£868m). Details of this scheme and the council's plans to overcome the liability are given later in the Narrative Report. The balance sheet also includes a long term liability of £134m relating to the council's PFI and similar schemes and is payable over the next 23 years. Further details can be found in Note 23. There were no individually material assets added this year or significant new liabilities incurred.

Current assets (amounts due within 12 months) include £52.3m of short term debtors (£54.7m 2015/16). £22.8m was owed by central government and other public sector bodies mainly for grants and reimbursements. Other debtors include council tax, NNDR and parking debts. Short term debtors are included in the balance sheet net of a £53.2m provision for uncollectable debts. Whilst the council makes every effort to recover outstanding debts, it is prudent to set money aside to allow for the possibility that some debts will not be recovered. The balance sheet also includes short term creditors of £103.5m (£91.1m 2015/16). A significant proportion of these relate to central government and other public sector bodies, at £46.9m. Short term PFI creditors amounted to £10.2m.

## Borrowing and Investments 2016/17

As at 31 March 2017, the council had £63.7m of temporary investments and £37m of long term investments. These investments were for periods ranging from overnight to two years at an average interest rate of 0.55%. The total long term debt is now £267.8m (£217.7m from the Public Works Loan Board, £46.5m from other local authorities and a £3.6m commercial loan) compared to £268.8m as at 31 March 2016. The average rate of interest on debt has increased very slightly from 4.46% in March 2016 to 4.48% in March 2017.

During the year the council complied with the treasury limits and Prudential Indicators set out in the council's Annual Treasury Management and Investment Strategy 2016/17.

| 31 March 2016 | Treasury Management Cashflow | 31 March 2017 |
|---|---|---|
| *£'000* | | *£'000* |
| 16,369 | Cash and Cash Equivalents | 11,036 |
| 68,179 | Short Term Investments | 53,418 |
| **84,548** | **Total** | **64,454** |

Total cash and cash equivalents as at 31 March 2017 were £11m. The main factors that would affect cash in the future are:

- Acquisitions and disposals relating to the capital programme
- The value of the reserve balances
- Appeals provisions
- Grants and contributions unapplied

## Material and unusual charge or credit to the accounts

There were no material and unusual charges or credits to the accounts in 2016/17.

## Significant provisions and contingencies and material write offs

The balance sheet includes provisions of £19.4m as at 31 March 2017 (£17.9m as at 31 March 2016). The most significant provision is the Insurance Provision (£10.5m as at 31 March 2017). Since 1992/93 the council has self-funded many of its insurable risks and a large part of the provision relates to claims submitted against the council since then which are still open, where the council has not yet paid out. Any claims prior to 1992/93 are handled by its then insurer, Municipal Mutual Insurance (MMI). In 1992/93 MMI ceased taking new business and has since become insolvent and a scheme of arrangement has been “triggered”. This means that the council will have to repay a portion of previously settled claims and MMI will only contribute a reduced percentage towards future claims. The Insurance Provision also covers these liabilities relating to MMI.

## Material events after the reporting date

Material events after the reporting date are disclosed in Note 38.

## Significance of the pensions liability

The estimated pensions liability facing the council is £868.4m at the end of the financial year (£570.3m as at 31 March 2016). This liability shows the underlying commitments that the council has in the long run to pay retirement benefits. The total net liability of £868.4m 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 Pension Scheme will be made good by increased contributions over the remaining working life of employees, as assessed by the scheme actuary;
- Finance is only raised to cover teachers’ pensions when the pensions are actually paid.

In 2017/18, the council is expected to make contributions of £32m to the Local Government Pension Scheme and the London Pension Fund Authority.

## Looking forward

On 25 February 2017, the council agreed its budget for 2017/18 and set a budget requirement of £208.5m. This resulted in a basic amount of band D council tax of £1,071.06 (representing a council tax increase of 1.99% plus a 3% additional precept for social care) and a total amount of band D council tax (including GLA precept) of £1,351.08.

| Planned Revenue Expenditure | 2016/17 £m |
|---|---|
| **Departments** | |
| Children's Services | 87,666 |
| Chief Executive | 462 |
| Environment and Regeneration | 27,188 |
| Finance and Resources | 7,439 |
| Housing and Adult Social Services | 88,065 |
| Public Health | 0 |
| Corporate and Democratic Core / Non-Distributable Costs | 14,545 |
| **Net Cost of Services** | **225,365** |
| Net Corporate Items | (5,456) |
| **Net Operating Expenditure** | **219,909** |
| **Other Budget Items** | |
| Transfer to / (from) Reserves | (855) |
| Contingency | 2,000 |
| New Homes Bonus (net of estimated top-slice to London Local Enterprise Partnership) | (11,973) |
| Other Corporate Grants (Estimate) | (600) |
| **Amount to be met from core government funding, retained business rates and council tax** | **208,481** |

The council has had to make £172m of savings between 2011 and 2017 to balance its budget and the 2016/17 budget included savings of £22m (£10m to cover cuts in government funding and £12m to cover unavoidable cost increases due to inflation and demographic factors). Following the 2017/18 local government finance settlement and indicative funding allocations for future years to 2019/20, the council is expecting to have to make total savings of £47m in the three years to 2020. The medium term situation remains uncertain with the risk of further cuts by 2020, and beyond. The phasing out of revenue support grant means the council will rely on retained business rates, council tax and other income alone.

The council is likely to be affected by the following changes in the next few years:

- Housing – the council is expected to be required to sell high value properties when they become vacant to finance the extension of the right-to-buy scheme to housing association tenants. Expected capital receipts from these sales will need to be paid up front to the government. This could lead to a reduction in social housing stock of 350 homes a year in Islington over the next few years, and a 1% annual reduction in social rental income to the Housing Revenue Account.
- Welfare – reductions in welfare benefits are likely to lead to an increase in homelessness and continuing pressure on temporary accommodation and other housing support. In particular the reduction in the benefits cap from £26k to £23k a year and a reduction in the backdating period for housing benefit from six months to four weeks could to lead to an increased risk of rent arrears and homelessness, with the latter impacting on the council's temporary accommodation budget.
- Business Rates – the move to 100 per cent retention of business rate income by councils nationally will increase financial risks and uncertainties, including the impact of appeals. Under the new system, the council will bear 100 per cent of the value of appeals and 100 per cent of the risk.
- Health and Social Care – the power given in 2017/18 to 2019/20 to raise an additional precept of up to 3% a year on council tax (6% over three years) to fund adult social care will raise an additional £2.3m a year for the council. In addition the council will receive up to £11m additional Better Care funding by 2020, a

social care grant of £1.3m in 2017/18 and further funding of around £15.4m over the next three years for social care. However this is unlikely to be enough to meet demographic and other pressures affecting social care in the short term. This will particularly affect older people on fixed incomes who are in poor health. Reductions in public health grant in the next few years (£3m like-for-like cut since 2015-16) will impact on the council's ability to fund public health programmes that prevent and reduce longer term costs.

- Schools – the council will be adversely affected by changes to school funding following the introduction of a national funding formula in 2018/19, with an estimated loss of £1.5m by 2020.

On 25 February 2017 the council agreed a capital programme of £461m over the three years from 2017/18 to 2019/20 as shown below. This includes the continuation of existing programmes of investment in new homes, housing major works and improvements and adult services (£384m), school buildings and children's services (£29m), and environmental services (£48m).

| Capital Programme 2017/18 to 2019/20 | 2017/18 £'000 | 2018/19 £'000 | 2019/20 £'000 | Total £'000 |
|---|---|---|---|---|
| Housing & Adult Social Services | 89,900 | 147,200 | 147,200 | 384,300 |
| Children's Services | 16,371 | 12,500 | 0 | 28,871 |
| Environment and Regeneration | 24,308 | 13,616 | 10,126 | 48,050 |
| **Total Capital Programme** | **130,579** | **173,316** | **157,326** | **461,221** |

## Corporate information summary

The final section of the Narrative Report includes key facts and figures about Islington, information about the council's performance, the local environment, staff resources and key risks the council faces.

Islington facts and figures

- **Small** – 6 square miles – the second smallest London borough
- **Growing population** – 228,000, increasing about 2% a year, and expected to increase to 240,000 by 2021
- **Most densely populated** authority in the country. Lack of large green open spaces
- **Young –** 65% under 40 years old
- **Diverse population** – 36% BME, 32% born outside the UK, 12% of households where English is not the main language
- 18% of the population are disabled or have a limiting long-term illness
- 10,000 businesses
- **Economic inequality** – the borough includes areas of affluence and significant deprivation. Twenty eight per cent of the population are home owner-occupiers, whilst 42% of households live in social rented housing. Forty eight per cent of the population has a university degree whereas 17% have no qualifications. Life expectancy varies significantly across the borough, but average life expectancy in Islington is amongst the lowest in London.
- **Deprivation** - Islington is the 24th most deprived authority in England. It has the third highest rate of child poverty. Twenty nine per cent and 32% of primary and secondary pupils, respectively receive free school meals, and 55% and 69% of primary and secondary pupils, respectively receive the deprivation-linked pupil premium. In addition 14% of adults are on out-of-work benefits and 8,165 pensioner households receive council tax support
- **Crime relatively high** – fourth highest level of crime across London

Islington Council performance and priorities

Islington Council has a number of key corporate priorities including:

- Building more council housing and supporting private renters
- Helping residents who are out of work to find the right job
- Helping residents to cope with the rising cost of living
- Providing residents with good services on a tight budget
- Making Islington a place where our residents have a good quality of life

The achievement of these is measured using corporate performance indicators. These are set out in the council's Corporate Plan and Annual Report. The council's performance against some of the key performance indicators is outlined below.

***Housing***

- Increasing the supply of affordable homes – 241 new affordable homes built by housing associations and the council in 2015/16, 460 more in 2016/17 and on target to deliver 2,000 by 2019.
- Preventing homelessness – reduced homeless acceptances to 375 in 2016, the third lowest in London, by ensuring 33% of lets went to homeless families, permanently housing over 1,000 households and preventing a further 520 from becoming homeless. In addition, numbers in temporary accommodation were the third lowest in London and costs were reduced through agreeing the maximum rate we pay and avoiding the most expensive nightly booked accommodation
- Ensuring effective management of council housing – 85% of repairs right first time, 78 households helped with overcrowding, 179 helped to downsize, voids now re-let in less than three weeks on average. The drive for improvements will continue and tenants will be encouraged to contact the council online.
- Improving housing conditions for private tenants – Eight prosecutions and 188 enforcement notices on rogue landlords, 374 private sector homes improved, 12 fines against letting agents breaking the law, and setting up our own lettings agency with ten properties let to families in need.
- Going forward, ensure the council does its best to serve the interests of residents under the New Housing and Planning Act, including managing the impact of the requirement to sell of high value properties on providing genuinely affordable housing.

***Employment and skills***

- Providing employment support for those who need it most – 1,150 unemployed residents supported into paid work (350 young people, 200 with disabilities, 385 mostly lone parents) – plus 25 council work placements and adult learning courses delivered to 2,300 people.
- Supporting employers to recruit locally – 120 employers engaged with Islington Offer (providing 22 Saturday jobs, 150 apprenticeships, 27 carved jobs and 320 part-time jobs), 70 employers supporting young people and engagement with 30 construction employers
- Creating change for the next generation – 96.7% of post 16s moving into education and training and only 2.2% not in education or training. Apprenticeship programme reaching 1,800 pupils, 500 business volunteers engaged with 2,860 young people, and 104 young people placed into apprenticeships (44 in the council)
- Lobbying government and influencing policy on employment and skills – including devolution of employment support to London government and launching Islington Wellbeing and Work partnership with NHS and DWP
- Going forward, providing intensive support to those on sickness benefits, maximise jobs and training opportunities from local developers, attract and support more adult learners, influence national employment and skills policies and skills provision across London.

***Cost of living***

- Supporting families to cope with everyday costs – 92% of pupils taking up universal free school meals, 329 students in post 16 bursaries scheme, 200 free and low cost events for children and low cost events for young people.
- Help people struggling with debt – limit concentrations of payday lenders and betting shops, 4,308 Resident Support scheme awards totalling £2.2m to help with rent, council tax and household essentials, and supporting advice services (Citizens Advice helped over 5,000 residents).
- Reduce energy bills – residents saved £320,870 through Warm Homes Discount, Debt Relief and Energy Doctor, 3,236 households signed up to Warm homes discount, 2,475 SHINE referrals leading to 10,788 interventions and £3m saved to date, Bunhill Phase 2 and other energy projects in pipeline, communal heating and hot water charges reduced by £2 a week.
- Going forward, launch our own energy brand offering affordable gas and electricity tariffs, develop new heating networks and continue to deliver the smart energy project.

***Council services***

- Make it easier to access council services online, accessible via smart phones and tablets, including business rates, council tax, Registrars, school admissions, Street Environment, housing repairs – has led to an increase of 23% in digital transactions.
- Generate new income – set up ICo trading company, income of £1m from Skills Funding Agency for adult learning, £3.9m from New Homes Bonus and £159k from Jobcentre Plus for employment support, £18.4m Section 106 and £3m Community Infrastructure levy income from developers, and £630k from selling legal expertise.
- Maximise income collection – collected 100% of rents due, 96.5% of council tax and 99.1% of business rates. Council tax arrears campaign (cost £350k) recovered £1.1m.
- Provide efficient high quality core services – shared ICT service with Camden and Haringey will save each borough £2m a year, missed refuse and recycling collections reduced to 400 a month, over 4,000 fly tipping and other reports on Clean Islington app, 1 million visits to libraries and 2.4 million visits to leisure centres
- Going forward, provide more council services online but also face-to-face support for those who need it, implement the digital inclusion strategy and shared ICT service, introduce virtual vouchers for parking, use bin sensors to improve waste recycling and new sweeping vehicles to improve street cleanliness.

***Quality of life***

- Improve community safety – Youth Crime Strategy and £500k to tackle gangs and crime, established integrated gangs team, encourage reporting of hate crime
- Support vulnerable residents and carers – 89.2% of people discharged from hospital to re-ablement service now living independently, 81.2% of service users with learning disability now living independently, and former Independent Living Fund support now ringfenced.
- Help children achieve their potential – 91% of families with under-fives now registered with children's centres, 700 free places for 2 year olds taken up, 815 families in Stronger Families pilot achieved improved outcomes and 81 adults supported into work. Also good performance and progress in schools including improvements in early years and for pupils from disadvantaged backgrounds.
- Help residents to live healthy independent lives – health visiting commissioning for under-fives transferred to local authorities, over 5300 people with mental health issues supported, redesign of adult health improvement services and leading procurement of open access sexual health services in north central London.
- Funding community projects to improve quality of life – core grants of £1.1m to over 40 voluntary organisations, £450k allocated to over 180 local community groups and various projects through Community Chest and Local Initiatives fund. Projects included lunch clubs and activities for older people, educational support training and mentoring, arts and music, sports and fitness, cultural activities and

celebrations, festivals and street parties, and community gardening, activities for specific communities, support for those affected by disability / learning difficulties / addiction / bereavement.

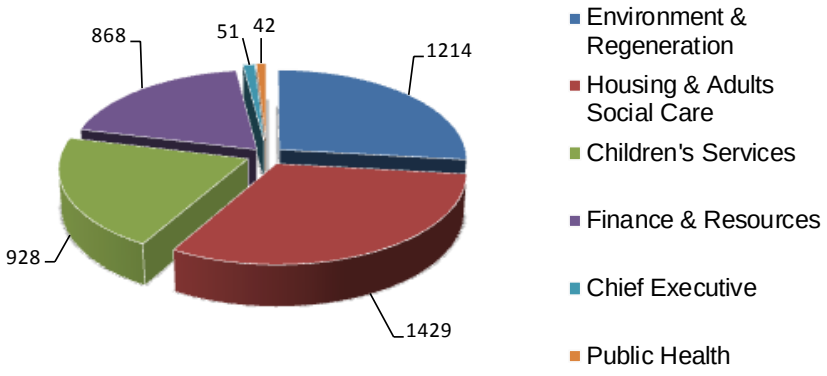
- Going forward, focus on tackling youth crime / gangs / hate crime / domestic violence, address attainment and progress variations between schools, reduce primary schools absences and exclusions, deliver more support to families with complex needs, implement new contacts for adult health improvements, and address the impact of further reductions in Public Health Grant and the ending of the ring fence on this funding.

The council will continue to focus on and monitor these priorities in 2017/18. A particular priority is housing (the council is investing £40m in new council housing in the 2017/18 budget), employment (£3m invested to continue funding employment projects previously funded by New Homes Bonus) and support for young people (where the council is ending council tax for care leavers under 25).

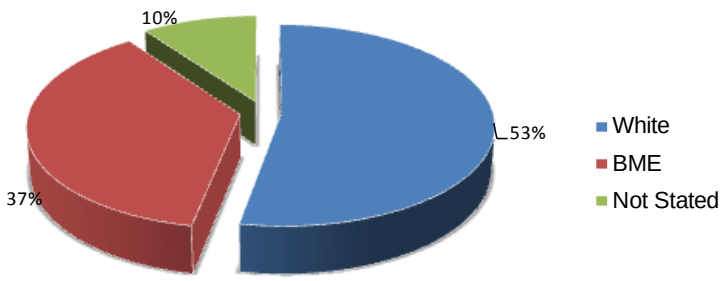
Staffing

The council has a large and diverse workforce and is one of the largest employers in the borough. Details of staff numbers by department, gender, ethnicity and disability are included below (figures are taken from the 2017/18 Budget Residents Impact Assessment). Staff numbers in October 2016 (full time equivalents) exclude schools.

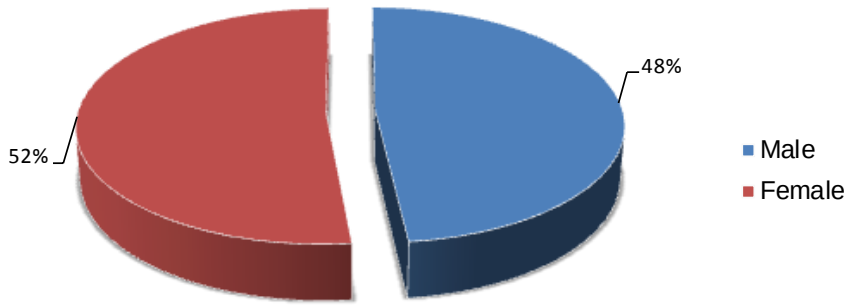
***Department:***



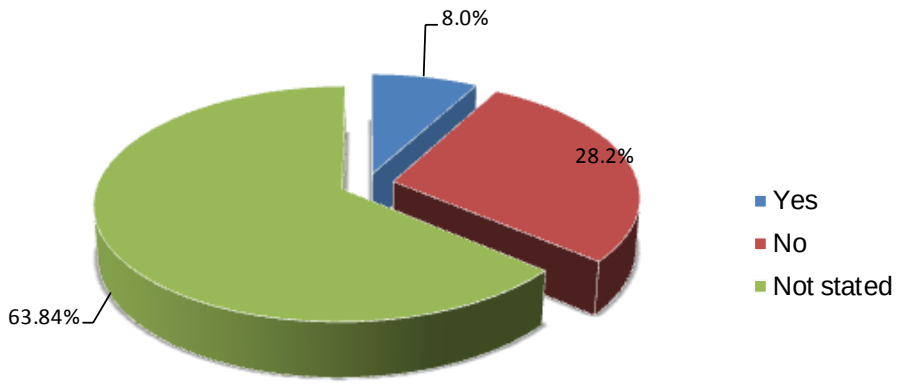

***Ethnicity:***



***Gender:***




***Disability:***




Key risks

The council maintains a corporate risk register identifying the key risks the council faces, along with likely impact and actions taken to mitigate risks.

Some of these risks are stable in terms of likelihood or impact; others are an increasing or emerging concern. The former include IT delivery, safeguarding adults, health and social care integration, and the risk of a serious information breach. The latter include services to schools, youth crime, the future of affordable housing, health and social care and cyber breaches.

Specific risks on the risk register include:

- Financial strategy – this includes failure to balance the budget and medium term financial strategy and achieve the savings required. It also includes the risks posed by a reduction in General Fund balances, service overspends and income reductions, demographic and other pressures in adult social care and children's services, ambitious commercial income targets and the impact of the decision to leave the European Union. These risks will be mitigated by close control of expenditure and managing demand, particularly in early years services, and social care. Financial risks specific to each service are monitored at service level, and include universal credit implementation (Housing), grant reductions and contract costs (Public Health), welfare reforms (Adults services) and increased demand for specialist services such as High Needs pupil placements (Children's services).

- IT delivery and transformation – this includes the risk of non-delivery of IT projects that enable and optimise service transformation. This is being addressed through project reviews, demand management, foundation technology and the work of the Islington Camden and Haringey shared service management board
- Safeguarding Adults – this includes the failure to fulfil statutory obligations and to respond to incidents causing preventable harm. This is being addressed through responding to previous practice issues raised and working with commissioning and safeguarding teams and the Care Quality Commission.
- Safeguarding Children – this includes failure to follow procedures leading to ineffective child protection and significant harm. At present no significant safety issues have been raised and action plans are in place to develop good practice.
- Decline in services to schools – this includes decline in spending on schools as a result of reductions in funding for schools, and high-needs pupils and early years pupils being more than expected leading to an unmanaged decline in services. These risks will be mitigated through the implementation of a business plan and responding to the school funding consultation and assessing the implications for services.
- Violence against young people / youth crime – this includes failure to respond to or prevent rising crime affecting young people. This risk is currently being managed through the work of youth crime prevention and gangs teams.
- Future of affordable housing – this includes a reduction in social housing supply reducing the ability to provide decent homes and support other objectives including social care and the council's wider fairness agenda. While the levy on high value voids has been delayed and the pay to stay policy for higher earners living in social housing has been scrapped, there is still uncertainty about the high value levy and the number of sales that will be required, along with the pressure on temporary accommodation and the ability to meet demand. These risks will be mitigated by negotiating with the Department for Communities and Local Government on levy, reviewing the HRA business plan and recharges, and building savings into the HRA budget.
- Health and Social Care integration – this includes the risk that new health and social care models will not be financially sustainable and that we will be unable to provide adequate adult social care. In particular providers face major financial challenges and there is some uncertainty about the support that will be provided by the NHS, however this will be addressed by local delivery boards and the Health and Wellbeing board. This risk will be mitigated by working closely with the local NHS and reviewing the Sustainability and Transformation plan.
- Serious information breach – this includes not keeping personally identifiable data secure leading to a serious information breach. There is some uncertainty about changes to regulations, staff capacity, cloud computing risks and there is a lot still to be done around cyber security, information governance, updating joint working requirements and reviewing our risk appetite. Risks will be mitigated by internal audit review, addressing audit recommendations, training and built-in measures in new Office 365 software.
- Serious fraudulent activity – this incudes lack of awareness of fraud risks and a failure to design and implement preventative and detective controls, which could lead to financial loss, service disruption and reputational damage. This is being addressed through the development of an anti-fraud strategy, publicity and training.
- Cyber breach – this includes the risk of system controls and information being compromised, with specific risks around ransomware and computer hygiene controls, which could be addressed by working with the development group, policies on breaches and the development of a cyber grid and joint working.
- Health and safety – this includes the risk of a significant health and safety incident affecting the safety and wellbeing of service users, the wider public and council staff. This being addressed through a schools safety audit, training and dealing with specific risks such as Legionnaires disease and control of hazardous substances.
- Response and resilience – this includes recovery of key systems and processes following an incident and emergency response, and will be addressed through increasing staff awareness, emergency exercises, collaborative working, checking emergency equipment and supplies and business impact assessments.

## 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 2016/17 (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 Resources
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets
- Approve the Statement of Accounts.

B) The Corporate Director of Resources' Responsibilities

The Corporate Director of Resources 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 Resources 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 Resources 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 31 March 2017 and income and expenditure for the year ending on that date.

Mike Curtis, Corporate Director of Resources
19 September 2017

## Approval of the accounts

I certify that the audited Statement of Accounts has been approved by resolution of the Audit Committee of the London Borough of Islington in accordance with the Accounts and Audit Regulations 2015.

Councillor Kat Fletcher, Chair of the Audit Committee
19 September 2017

## 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 'unusable reserves'. The Movement in Reserves Statement shows how the movements in year of the authority's reserves are broken down between gains and losses incurred in accordance with generally accepted accounting practices and the statutory adjustments required to return to the amounts chargeable to council tax [or rents] for the year. The Net Increase/Decrease line shows the statutory General Fund Balance and Housing Revenue Account Balance movements in the year following those adjustments.

| Movement in Reserves 2016/17 | General Fund £'000 | Earmarked General Fund Reserves £'000 | Housing Revenue Account £'000 | Earmarked HRA Reserves £'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 2016 carried forward** | **22,227** | **67,565** | **14,773** | **34,949** | **69,780** | **67,881** | **0** | **277,175** | **2,483,249** | **2,760,424** |
| **Movement in reserves during 2016/17** | | | | | | | | | | |
| Total Comprehensive Income and Expenditure | (36,229) | - | 7,177 | - | - | - | - | (29,052) | (99,810) | (128,862) |
| Adjustments between accounting basis & funding basis under regulations (Note 15) | 24,911 | - | 13,663 | - | 1,238 | (10,278) | - | 29,534 | (29,534) | 0 |
| **Net Increase/Decrease before Transfers to Earmarked Reserves** | **(11,318)** | **0** | **20,840** | **0** | **1,238** | **(10,278)** | **0** | **482** | **(129,344)** | **(128,862)** |
| Transfers to/(from) Earmarked Reserves (Note 31) | 6,769 | (6,769) | (18,092) | 18,092 | - | - | - | 0 | - | 0 |
| **Increase/ (Decrease) in 2016/17** | **(4,549)** | **(6,769)** | **2,748** | **18,092** | **1,238** | **(10,278)** | **0** | **482** | **(129,344)** | **(128,862)** |
| **Balance at 31 March 2017 carried forward** | **17,678** | **60,796** | **17,521** | **53,041** | **71,018** | **57,603** | **0** | **277,657** | **2,353,905** | **2,631,562** |

The General Fund carried forward balance of £17,677k as at 31 March 2017 comprises £8,676k General Fund balances and £9,002k of school reserves, as shown in the Expenditure and Funding Analysis.

| Movement in Reserves 2015/16 | General Fund £'000 | Earmarked General Fund Reserves £'000 | Housing Revenue Account £'000 | Earmarked HRA Reserves £'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 2015** | **24,859** | **59,515** | **13,543** | **13,661** | **58,389** | **73,983** | **6,009** | **249,959** | **2,343,651** | **2,593,610** |
| **Movement in reserves during 2015/16** | | | | | | | | | | |
| Total Comprehensive Income and Expenditure | (33,057) | - | 35,675 | - | - | - | - | 2,618 | 164,196 | 166,814 |
| Adjustments between accounting basis & funding basis under regulations (Note 15) | 38,475 | - | (13,157) | - | 11,391 | (6,102) | (6,009) | 24,598 | (24,599) | 0 |
| **Net Increase/Decrease before Transfers to Earmarked Reserves** | **5,418** | **0** | **22,518** | **0** | **11,391** | **(6,102)** | **(6,009)** | **27,216** | **139,598** | **166,814** |
| Transfers to/(from) Earmarked Reserves (Note 31) | (8,050) | 8,050 | (21,288) | 21,288 | - | - | - | 0 | - | 0 |
| **Increase/ (Decrease) in 2015/16** | **(2,632)** | **8,050** | **1,230** | **21,288** | **11,391** | **(6,102)** | **(6,009)** | **27,216** | **139,598** | **166,814** |
| **Balance at 31 March 2016 carried forward** | **22,227** | **67,565** | **14,773** | **34,949** | **69,780** | **67,881** | **0** | **277,175** | **2,483,249** | **2,760,424** |

The General Fund carried forward balance of £22,227k as at 31 March 2016 comprises £10,697k General Fund balances and £11,530k of school reserves, as shown in the Expenditure and Funding Analysis.

## Expenditure and Funding Analysis

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

| 2015/16 Net Expenditure Chargeable to the General Fund and HRA Balances £'000 | 2015/16 Adjustments between the Funding and Accounting Basis £'000 | 2015/16 Net Expenditure in the Comprehensive Income and Expenditure Statement £'000 | Expenditure and Funding Analysis | 2016/17 Net Expenditure Chargeable to the General Fund and HRA Balances £'000 | 2016/17 Adjustments between the Funding and Accounting Basis £'000 | 2016/17 Net Expenditure in the Comprehensive Income and Expenditure Statement £'000 |
|---|---|---|---|---|---|---|
| 59,073 | 3,245 | 62,318 | Children's Services (excluding schools) | 61,598 | 3,648 | 65,246 |
| (352) | 23,495 | 23,143 | Schools | 3,013 | 20,811 | 23,824 |
| 11,836 | 13,782 | 25,618 | Environment and Regeneration | 1,473 | 13,280 | 14,753 |
| 77,748 | 5,743 | 83,491 | Housing & Adult Social Services | 84,367 | 10,298 | 94,665 |
| 519 | 103 | 622 | Public Health | (589) | 120 | (469) |
| 1,314 | 192 | 1,506 | Chief Executive | 2,054 | 186 | 2,240 |
| 48,680 | (10,978) | 37,702 | Finance & Resources | 47,317 | (9,230) | 38,087 |
| (204,235) | 222,700 | 18,464 | Corporate Items | (187,913) | 207,846 | 19,933 |
| (22,518) | (14,294) | (36,812) | Housing Revenue Account | (20,842) | 14,042 | (6,800) |
| **(27,935)** | **243,988** | **216,052** | **Net Cost of Services** | **(9,522)** | **261,001** | **251,479** |
| - | (218,672) | (218,672) | Other Income and Expenditure | - | (222,427) | (222,427) |
| **(27,935)** | **25,316** | **(2,620)** | **(Surplus) or Deficit** | **(9,522)** | **38,574** | **29,052** |
| (111,577) | | | Opening General Fund and HRA Balance | (139,514) | | |
| (27,937) | | | Less Deficit on General Fund and HRA Balance in Year | (9,522) | | |
| (139,514) | | | Closing General Fund and HRA Balance | (149,036) | | |

| 31 Mar 15 | | 31 Mar 16 | General Fund and HRA Balances | 31 Mar 16 | | 31 Mar 17 |
|---|---|---|---|---|---|---|
| (13,497) | 2,800 | (10,697) | General Fund Balance | (10,697) | 2,021 | **(8,676)** |
| (59,515) | (8,050) | (67,565) | General Fund Earmarked Reserves | (67,565) | 6,769 | **(60,796)** |
| (11,361) | (169) | (11,530) | Schools | (11,530) | 2,528 | **(9,002)** |
| (13,543) | (1,230) | (14,773) | HRA Balance | (14,773) | (2,748) | **(17,521)** |
| (13,661) | (21,288) | (34,949) | HRA Earmarked Reserves | (34,949) | (18,092) | **(53,041)** |
| (111,577) | (27,937) | (139,514) | Total | (139,514) | (9,522) | **(149,036)** |

Details of the adjustments between the funding basis and the accounting basis are given in Note 13.

## 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 (or rents). Authorities raise taxation to cover expenditure in accordance with statutory requirements; this may be different from the accounting cost. The taxation position is shown in the Expenditure and Funding Analysis and the Movement in Reserves Statement.

| 2015/16 Gross Expenditure £'000 | 2015/16 Gross Income £'000 | 2015/16 Net Expenditure £'000 | Comprehensive Income and Expenditure Statement | 2016/17 Gross Expenditure £'000 | 2016/17 Gross Income £'000 | 2016/17 Net Expenditure £'000 |
|---|---|---|---|---|---|---|
| 136,407 | (74,089) | 62,318 | Children's Services (excluding schools) | 139,367 | (74,121) | 65,246 |
| 166,450 | (143,307) | 23,143 | Schools | 172,341 | (148,517) | 23,824 |
| 85,234 | (59,616) | 25,618 | Environment and Regeneration | 82,793 | (68,040) | 14,753 |
| 123,436 | (39,945) | 83,491 | Housing and Adult Social Services | 135,611 | (40,946) | 94,665 |
| 29,408 | (28,786) | 622 | Public Health | 29,590 | (30,059) | (469) |
| 2,121 | (615) | 1,506 | Chief Executive | 2,592 | (352) | 2,240 |
| 249,513 | (211,811) | 37,702 | Finance and Resources | 246,622 | (208,535) | 38,087 |
| 19,136 | (672) | 18,464 | Corporate Items | 20,732 | (799) | 19,933 |
| 176,268 | (213,080) | (36,812) | Housing Revenue Account (HRA) | 207,506 | (214,306) | (6,800) |
| **987,973** | **(771,921)** | **216,052** | **Cost of Services** | **1,037,154** | **(785,675)** | **251,479** |
| 33,422 | (38,824) | (5,402) | Other operating expenditure | 24,844 | (35,699) | (10,855) |
| 46,734 | (595) | 46,139 | Financing and investment income and expenditure | 45,354 | (783) | 44,571 |
| - | (259,409) | (259,409) | Taxation and non-specific grant income | - | (256,143) | (256,143) |
| **1,068,129** | **(1,070,749)** | **(2,620)** | **(Surplus) or Deficit on Provision of Services** | **1,107,352** | **(1,078,300)** | **29,052** |
| | | (67,091) | (Surplus) or deficit on revaluation of Property, Plant and Equipment assets | | | (176,628) |
| | | - | (Surplus) or deficit on revaluation of available for sale financial assets | | | |
| | | (97,105) | Actuarial (gains) or losses on pension assets / liabilities | | | 276,438 |
| | | **(164,196)** | **Other Comprehensive Income and Expenditure** | | | **99,810** |
| | | **(166,816)** | **Total Comprehensive income and Expenditure** | | | **128,862** |

## 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 2016 £'000 | Balance Sheet | 31 March 2017 £'000 | Notes |
|---|---|---|---|
| 3,760,882 | Property, Plant & Equipment | 3,911,002 | 19 |
| 487 | Heritage Assets | 487 | 21 |
| 19,450 | Investment Property | 26,984 | 20 |
| 720 | Long Term Investments | 37,709 | 25 |
| 10 | Long Term Debtors & Prepayments | 6,871 | |
| **3,781,549** | **Total Long-Term Assets** | **3,983,053** | |
| 68,179 | Short Term Investments | 53,418 | 25 |
| 806 | Inventories | 851 | 29 |
| 54,695 | Short Term Debtors | 52,300 | 28 |
| 16,369 | Cash and Cash Equivalents | 11,036 | 33 |
| **140,049** | **Total Current Assets** | **117,605** | |
| (91,624) | Short Term Creditors | (103,487) | 27 |
| (14,553) | Short Term Borrowing | (32,003) | 25 |
| (23,101) | Cash and Bank Overdrawn | (20,631) | 33 |
| (5,262) | Short Term Provisions | (7,440) | 30 |
| (14,946) | Short Term Grants Receipts in Advance | (7,558) | 41 |
| **(149,486)** | **Total Current Liabilities** | **(171,119)** | |
| (12,647) | Long Term Provisions | (11,975) | 30 |
| (257,776) | Long Term Borrowing | (253,334) | 25 |
| (570,339) | Liability Related to Defined Benefit Pensions Scheme | (868,422) | 39 |
| (144,830) | Other Long Term Liabilities | (135,008) | 25 |
| (26,096) | Long Term Grants Receipts in Advance | (29,238) | 41 |
| **(1,011,688)** | **Total Long Term Liabilities** | **(1,297,977)** | |
| **2,760,424** | **Net Assets** | **2,631,562** | |
| 277,175 | Usable Reserves | 277,657 | MIRS |
| 2,483,249 | Unusable Reserves | 2,353,905 | 32 |
| **2,760,424** | **Total Reserves** | **2,631,562** | |

## 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.

| 2015/16 £'000 | Cash Flow Statement | 2016/17 £'000 |
|---|---|---|
| **2,618** | **Net surplus or (deficit) on the provision of services** | **(29,052)** |
| 116,738 | Adjustments to the net surplus or deficit on the provision of services for non-cash movements | 137,181 |
| (57,636) | Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities | (39,572) |
| **61,720** | **Net cash flows from Operating Activities (Note 34)** | **68,557** |
| (7,276) | Investing Activities (Note 35) | (84,175) |
| (41,577) | Financing Activities (Note 36) | 12,755 |
| **12,867** | **Net increase or (decrease) in cash and cash equivalents** | **(2,863)** |
| (19,599) | Cash and Cash equivalents at the beginning of the reporting period | (6,732) |
| **(6,732)** | **Cash and cash equivalents at the end of the reporting period (Note 33)** | **(9,595)** |

# Notes to the Accounts

## 1. Accounting Policies

### i. General Principles

The Statement of Accounts summarises the council's transactions for the 2016/17 financial year and its financial position at the year-end of 31 March 2017. The council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015 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 2016/17 (the Code), supported by International Financial Reporting Standards (IFRS).

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

### 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 the 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 given in Note 5.

### 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 readily 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 non-current 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, revaluation and impairment losses or amortisation. However, it is required to make an annual provision from revenue to contribute towards the reduction in its overall borrowing requirement (equal to an amount calculated on a prudent basis determined by the authority in accordance with statutory guidance). 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. Council Tax and Non-Domestic Rates

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

Accounting for Council Tax and NDR

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

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

**ix. 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 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 in exchange for those benefits and are charged on an accruals basis to the appropriate service segment or, where applicable, to the Corporate Costs service segment in the Comprehensive Income and Expenditure Statement at the earlier of when the council can no longer withdraw the offer of those benefits or when the council recognises costs for a restructuring.

Where termination benefits involve the enhancement of pensions, statutory provisions require the 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 they were defined contributions schemes 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 service line and Public Health service line 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 2.5% (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
- unitised securities – current bid price
- property – market value.

The change in the net pension's liability is analysed into the following components:

Service cost comprising:

- 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 Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Corporate items.
- 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 (asset) 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 (asset) at the beginning of the period – taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments

- 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 also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to 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.

**x. Events after the Balance Sheet Date**

This refers to events, 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.

**xi. Financial Instruments**

Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the council becomes a party to the contractual provisions of a financial instrument 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 Financing & Investment Income line in the Comprehensive Income and Expenditure Statement at a marginally higher effective rate of interest than the rate receivable from the soft loan debtor, with the difference increasing the amortised cost of the loan in the Balance Sheet.

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 relevant service or Financing & Investment Expenditure line in the Income and Expenditure Statement. 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.

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

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

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 Available for Sale 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 though 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 xx (Provisions, Contingent Liabilities & Contingent Assets) below.

**xii. 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 as at 31 March. Resulting gains or losses are recognised in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

**xiii. Government Grants and Contributions**

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

- the council will comply with the conditions attached to the payments, and
- the grants or contributions will be received.

Amounts recognised as due to the council are not credited to the 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.

**xiv. Community Infrastructure Levy**

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

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

**xv. Interests in Companies and Other Entities**

The council has one wholly owned subsidiary called Islington Company, company no. 05303559. The accounts for this subsidiary, when material, are consolidated into the council's accounts to form Group Accounts for the council.

**xvi. 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, being the price that would be received to sell such an asset in an orderly transaction between market participants at the measurement date. As a non-financial asset, investment properties are measured at highest and best use. 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, where material, 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.

**xvii. 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.

**xviii. Property, Plant and Equipment**

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

Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the council and the cost of the item can be measured reliably. Expenditure that maintains 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 is 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 – current value, determined using the basis of existing use value for social housing (EUV–SH)
- Council offices – current value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV), except for a few offices that are situated close to the council's housing properties, where there is no market for office accommodation, and that are measured at depreciated replacement cost (instant build) as an estimate of current value
- School buildings – current value, but because of their specialist nature, are measured at depreciated replacement cost which is used as an estimate of current value
- Surplus assets – the current value measurement base is fair value, estimated at highest and best use from a market participant's perspective
- Vehicles, Plant and Equipment (VPE) – depreciated historic cost is used as a proxy for fair value
- Infrastructure, Community Assets and Assets under Construction – Depreciated historical cost.
- 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).

Where there is no market-based evidence of fair value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of current value.

Where non-property assets that have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for fair value.

Assets included in the Balance Sheet at fair value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year-end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. 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).

Deprecation is calculated on the following bases:

- Dwellings and 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 previous losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

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

Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale. When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (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 is payable to the Government. The balance of receipts remains within the Capital Receipts Reserve, and can then only be used for new capital investment [or set aside to reduce the council's underlying need to borrow (the capital financing requirement)]. Receipts are appropriated to the Reserve from the General Fund Balance in the 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 Non-Current Assets in the Balance Sheet. Assets under Construction are carried in the Balance Sheet at accumulated historical cost during the period of construction and are exempt from depreciation. In exceptional cases, impairment losses might need to be charged during the construction period, should they arise. Once assets are ready for operational use, the assets are reclassified and valued in accordance with the basis relevant to that particular class of assets.

**xix. 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 (capital investment). 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.

The non-current assets recognised on the Balance Sheet are 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 ((the profile of write-downs is calculated using the same principles as for a finance lease)

- Lifecycle replacement costs – Debited to the relevant service in the Comprehensive Income and Expenditure Statement.

**xx. 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.

**xxi. 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, local taxation and retirement and employee benefits and do not represent usable resources for the council – these reserves are explained in the relevant policies.

**xxii. 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.

**xxiii. 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.

**xxiv. Overheads and Support Services**

The costs of overheads and support services are charged to service segments in accordance with the authority's arrangements for accountability and financial performance. Each service segment includes the appropriate charges for the use of its non-current assets and appropriate employee benefit accrued costs.

**xxv. Schools**

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

**xxvi. Fair Value Measurement**

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

a) in the principal market for the asset or liability, or
b) in the absence of a principal market, in the most advantageous market for the asset or liability.

The council measures the fair value of an asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. When measuring the fair value of a non-financial asset, the council takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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

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

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

## 2. Prior Period Adjustments

The 2016/17 Code states the service analysis in the Comprehensive Income and Expenditure Statement (CIES) should reflect the organisational structure under which the authority manages and operates its financial performance. In 2015/16, the service analysis followed the format prescribed by the Service Reporting Code of Practice (SeRCOP). The information for 2015/16 in the CIES has been restated to reflect the new reporting format. This restatement is also reflected in Note 17 – Financing and Investment Income and Expenditure, where net expenditure relating to trading operations is now reported as part of the Cost of Services in the CIES. In the 2015/16 audited statements it was reported as part of Financing and Investment Income and Expenditure, in line with SeRCOP.

The Code introduces a new streamlined Movement in Reserves Statement (MIRS), which presents the Total Comprehensive Income and Expenditure from the CIES as one line, on the basis that the columnar analysis of the useable and unusable reserves in the MIRS automatically separates the movements between the Surplus and Deficit on the Provision of Services and Other Comprehensive Income and Expenditure.

The Code also introduces the Expenditure and Funding Analysis, a new note which shows how the funding basis of the authority (under statute) compares with the results under generally accepted accounting practices, analysed over the council's directorates. The Expenditure and Funding Analysis includes the retrospective restatement of 2015/16 information, in accordance with the Code.

There have been no other material prior period adjustments to the Statement of Accounts.

No material errors have been identified in the 2015/16 Statement of Accounts requiring correction in this set of accounts.

## 3. Accounting Standards Issued, But Not Yet Adopted

The Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 (the Code) requires an authority to disclose information relating to the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted by the 2016/17 Code. There are two such accounting changes, and additional disclosures will be required in the 2017/18 accounts when these accounting changes are introduced by the 2017/18 Code. These will affect the Pension Fund accounts, and are:

- the requirement to disclose the total amount of transaction costs of all major pension fund scheme asset classes, as defined in IAS 39 Financial Instruments, Recognition and Measurement and IAS 40 Investment Property.
- the requirement to disclose details of any single investment exceeding 5% of the net assets available for benefits. In previous years, authorities were required to disclose details of any single investment exceeding either 5% of the net assets available for benefits or 5% of any class or type of security.

The accounting standards that bring about these amendments will be applied on 1 April 2017, and the council will adopt these standards on 1 April 2017.

## 4. 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 shown below:

- 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.

- The council wholly owns a trading vehicle, Islington Company (ICo) and this falls within the group boundary of the council on the grounds of control and significant influence in line with the Code. However, the turnover and assets, and hence the council's interest, are not material to warrant producing consolidated financial statements.
- The council recognises school assets for community schools on its Balance Sheet. The council has not recognised assets relating to academies, voluntary aided, voluntary controlled or free schools, as it is of the opinion that these assets are not controlled by the council.

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

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

The items in the council's Balance Sheet as at 31 March 2017 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 longevity increased by 1 year the net liabilities would increase by £41.9m.

### Asset Valuations

The council's Property Plant and Equipment (PPE) are held on a long term basis and require regular valuation to ensure the council's financial statements 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 Guidance for 2016 (*published by the Department for Communities and Local Government (DCLG). EUV–SH is to be arrived at using beacon properties to assess the vacant possession value for properties. An adjustment factor is applied to the total vacant possession valuation based on the beacon valuation. The adjustment is used to reflect the additional risk and liability the public sector landlords undertake when compared with private sector investors.

A 1 percentage point change in the Adjustment factor would change the valuation of Housing Stock, by £119m.

### 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 £6.25m 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.

**Leases / Service Concessions**

The council has 51 leases for Property, Plant & Equipment and has classified them as either finance or operating leases. The impact of deeming 15 of these as finance leases is that £17.4m of assets have been included in the Balance Sheet. A further 36 assets have been deemed to be operating leases and are not recognised in the asset register.

The council has recognised six public/ private partnerships, as service concessions under IFRIC12. The value of assets and liabilities recognised as service concessions are shown in Note 23.

**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 Comprehensive Income and Expenditure Statement. 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 £54m 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.

## 6. Profits and losses for significant trading operations

The council does not have any significant trading operations.

## 7. Significant Agency Income and Expenditure

The council has an agency agreement with Thames Water whereby the council collects the payment of water bills from its HRA tenants on behalf of Thames Water. The council received income of £1.437m for this arrangement in 2016/17 (£1.349m in 2015/16).

## 8. 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 2016/17, eight 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 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.
8) *Better Care Fund:* to drive the transformation of local services to ensure that people receive better and more integrated care and support. The aims and outcomes are the development of a locality offer; enhancing primary care capacity; IT and inter-operability to ensure patient information can be shared; to meet demographic pressures in social care; to maintain social care eligibility; and to incentivise providers to support integrated care.

Islington Council is the host party for arrangements 1) – 6) and Camden & Islington NHS Foundation Trust is the host party for arrangement 7). The Better Care Fund is hosted by Islington Clinical Commissioning Group for arrangement 8).

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 and Expenditure Statement.

| Pooled Budgets 2016/17 | Gross Expenditure | Islington Council Contribution | Islington CCG Contribution | Camden & Islington NHS Foundation Trust Contribution | Whittington Hospital NHS Trust Contribution | Total Contributions |
|---|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Learning Disabilities Pooled Fund | 31,172 | (27,351) | (3,821) | - | - | (31,172) |
| Intermediate Care Pooled Fund | 6,703 | (2,001) | (4,644) | - | (58) | (6,703) |
| Integrated Community Equipment Services Pooled Fund | 994 | (497) | (497) | - | - | (994) |
| Mental Health Commissioning Adult Mental Health Care | 4,879 | (2,692) | (2,187) | - | - | (4,879) |
| Carers Pooled Fund | 961 | (866) | (95) | - | - | (961) |
| MHCOP Pooled Fund | 5,656 | (3,242) | (2,414) | - | - | (5,656) |
| Mental Health Care Trust Pooled Fund | 23,584 | (3,144) | - | (20,440) | - | (23,584) |
| Better Care Fund | 17,208 | (1,318) | (15,890) | | | (17,208) |
| **Totals** | **91,157** | **(41,111)** | **(29,548)** | **(20,440)** | **(58)** | **(91,157)** |

| Pooled Budgets 2015/16 | Gross Expenditure | Islington Council Contribution | Islington CCG Contribution | Camden & Islington NHS Foundation Trust Contribution | Whittington Hospital NHS Trust Contribution | Total Contributions |
|---|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Learning Disabilities Pooled Fund | 29,237 | (25,584) | (3,653) | - | - | (29,237) |
| Intermediate Care Pooled Fund | 6,644 | (1,927) | (4,679) | - | (38) | (6,644) |
| Integrated Community Equipment Services Pooled Fund | 994 | (497) | (497) | - | - | (994) |
| Mental Health Commissioning Adult Mental Health Care | 4,855 | (2,668) | (2,187) | - | - | (4,855) |
| Carers Pooled Fund | 892 | (809) | (83) | - | - | (892) |
| MHCOP Pooled Fund | 5,784 | (3,406) | (2,378) | - | - | (5,784) |
| Mental Health Care Trust Pooled Fund | 23,029 | (3,127) | - | (19,902) | - | (23,029) |
| Better Care Fund | 18,388 | (1,409) | (16,979) | | | (18,388) |
| **Total** | **89,823** | **(39,427)** | **(30,456)** | **(19,902)** | **(38)** | **(89,823)** |

## 9. Members' Allowances

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

| 2015/16 £'000 | Members' Allowances | 2016/17 £'000 |
|---|---|---|
| 499 | Basic Allowance | 503 |
| 333 | Special Responsibility Allowance | 340 |
| 3 | Other Allowances | 2 |
| **835** | **Total** | **845** |

Details of the amounts paid to individual councillors are published on the council's website and can be accessed via the following link:

https://www.islington.gov.uk/about-the-council/funding-and-spending/members-allowances

## 10. Officers' Remuneration

### Senior officers' remuneration

The tables below show senior officers' remuneration for 2016/17 and 2015/16.

| Senior officers remuneration for 2016/17<br>Post | Salary (Including fees & allowances)<br>£ | Compensation for loss of employment<br>£ | Total Remuneration excluding pension contributions<br>£ | Employers Pension contributions<br>£ | Total Remuneration including pension contributions<br>£ |
|---|---|---|---|---|---|
| Chief Executive - Lesley Seary | 161,600 | - | **161,600** | 20,200 | **181,800** |
| Assistant Chief Executive - Governance & HR ** | 61,329 | 89,492 | **150,821** | 259,534 | **410,356** |
| Assistant Chief Executive - Strategy & Community Partnerships ** | 57,009 | 85,653 | **142,662** | 272,117 | **414,780** |
| Corporate Director of Children's Services | 143,395 | - | **143,395** | 17,924 | **161,319** |
| Corporate Director of Environment & Regeneration *** | 142,776 | - | **142,776** | 17,847 | **160,623** |
| Corporate Director of Housing & Adult Social Services | 131,037 | - | **131,037** | 16,380 | **147,417** |
| Corporate Director of Resources | 135,779 | - | **135,779** | - | **135,779** |
| Corporate Director of Public Health * | 115,134 | - | **115,134** | 16,464 | **131,598** |
| Head of Strategy & Change ** | 67,403 | - | **67,403** | 8,591 | **75,994** |
| Head of Communications & Change ** | 62,958 | - | **62,958** | 7,907 | **70,865** |
| **Total** | **1,078,421** | **175,145** | **1,253,566** | **636,966** | **1,890,531** |

* The post of Corporate Director of Public Health is shared with London Borough of Camden and 52% of the costs are recharged to Camden.

** The two Assistant Chief Executives posts were deleted at the end of September, and from that time the Head of Strategy & Change and the Head of Communications & Change started reporting directly to Chief Executive.

*** The Corporate Director of Environment & Regeneration received a payment of £7k per annum from the North London Waste Authority for duties performed on behalf of that Authority

| Senior officers remuneration for 2015/16<br>Post | Salary (Including fees & allowances)<br>£ | Compensation for loss of employment<br>£ | Total Remuneration excluding pension contributions<br>£ | Employers Pension contributions<br>£ | Total Remuneration including pension contributions<br>£ |
|---|---|---|---|---|---|
| Chief Executive - Lesley Seary | 160,000 | - | **160,000** | 20,000 | **180,000** |
| Assistant Chief Executive - Governance & HR | 115,451 | - | **115,451** | 14,431 | **129,882** |
| Assistant Chief Executive - Strategy & Community Partnerships | 110,451 | - | **110,451** | 13,806 | **124,257** |
| Corporate Director of Children's Services (0.7 fte)** | 93,922 | - | **93,922** | - | **93,922** |
| Corporate Director of Children's Services** | 12,241 | - | **12,241** | 1,530 | **13,772** |
| Corporate Director of Environment & Regeneration | 134,480 | - | **134,480** | 16,810 | **151,290** |
| Corporate Director of Housing & Adult Social Services | 129,741 | - | **129,741** | 16,218 | **145,959** |
| Corporate Director of Resources | 134,463 | - | **134,463** | - | **134,463** |
| Corporate Director of Public Health * | 115,134 | - | **115,134** | 16,464 | **131,598** |
| **Total** | **1,005,883** | **0** | **1,005,883** | **99,260** | **1,105,143** |

* The post of Corporate Director of Public Health is shared with London Borough of Camden and 52% of the costs are recharged to Camden.

** The previous Corporate Director of Children's Services left on 31 December 2015 and was replaced by the new Corporate Director on 29 February 2016.

The council does not operate a bonus scheme for senior officers, nor does it offer expense allowances.

**Remuneration bands above £50k**

Employees receiving more than £50k remuneration for the year (excluding employers' pension contributions but including redundancy payments) are shown below. This table excludes senior officers, who are shown above.

| Remuneration Band | 2015/16 Schools No of employees | 2015/16 Other No of employees | 2016/17 Schools No of employees | 2016/17 Other No of employees |
|---|---|---|---|---|
| £50,000 - £54,999 | 121 | 102 | 122 | 117 |
| £55,000 - £59,999 | 80 | 85 | 95 | 82 |
| £60,000 - £64,999 | 47 | 44 | 36 | 29 |
| £65,000 - £69,999 | 20 | 30 | 28 | 24 |
| £70,000 - £74,999 | 16 | 11 | 13 | 6 |
| £75,000 - £79,999 | 12 | 10 | 15 | 11 |
| £80,000 - £84,999 | 10 | 14 | 8 | 6 |
| £85,000 - £89,999 | 12 | 5 | 14 | 13 |
| £90,000 - £94,999 | 5 | 3 | 4 | 1 |
| £95,000 - £99,999 | 3 | 2 | 2 | 4 |
| £100,000 - £104,999 | 2 | 4 | 3 | 2 |
| £105,000 - £109,999 | - | 3 | 2 | 4 |
| £110,000 - £114,999 | 1 | 4 | - | 4 |
| £115,000 - £119,999 | - | 1 | 2 | 1 |
| £120,000 - £124,999 | 3 | 1 | 2 | - |
| £125,000 - £129,999 | - | - | - | 1 |
| £130,000 - £134,999 | 1 | - | 1 | - |
| £135,000 - £139,999 | - | 1 | - | - |
| £140,000 - £144,999 | 1 | - | 1 | - |
| £145,000 - £149,999 | - | - | - | - |
| over £150,000 | 1 | - | - | - |
| **Total** | 335 | 320 | 348 | 305 |

**Termination Benefits**

The table below shows the number and cost of exit packages agreed by the council. Exit packages are grouped according to cost band. The table shows the number of compulsory redundancies and other departures within each cost band. It also shows the total cost of all exit packages, analysed by cost band.

| 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 | |
|---|---|---|---|---|---|---|---|---|
| | 2015/16 | 2016/17 | 2015/16 | 2016/17 | 2015/16 | 2016/17 | 2015/16 £'000 | 2016/17 £'000 |
| £0 - £20,000 | 27 | 21 | 79 | 90 | 106 | 111 | 936 | 806 |
| £20,001 - £40,000 | 3 | 1 | 31 | 28 | 34 | 29 | 910 | 775 |
| £40,001 - £60,000 | - | 1 | 5 | 3 | 5 | 4 | 242 | 186 |
| £60,001 - £80,000 | - | - | 3 | 4 | 3 | 4 | 230 | 296 |
| £80,001 - £100,000 | - | 1 | 8 | 1 | 8 | 2 | 706 | 170 |
| £100,001 - £150,000 | 3 | - | 6 | 2 | 9 | 2 | 994 | 223 |
| Over £150,000 | - | 3 | 2 | 3 | 2 | 6 | 482 | 1,497 |
| **Total** | 33 | 27 | 134 | 131 | **167** | **158** | **4,500** | **3,953** |
| Other costs associated with termination benefits | | | | | | | 1,257 | 519 |
| **Total termination benefits** | | | | | | | **5,757** | **4,472** |

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 2016/17 cost of termination benefits of £4.5m includes £640k 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 £0.5m other costs associated with termination benefits in 2016/17 relate to additional costs incurred relating to 2015/16 accruals estimates and costs relating to flexible retirement.

## 11. 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 the council or to be controlled or influenced by the council. Disclosure of these transactions allows readers to assess the extent to which the council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the council.

**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 benefits).

Grants received from government departments in 2016/17 and grant balances held in receipts in advance are shown in Note 41.

**Members / Officers**

Members of the council and senior officers 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 declarations of interest completed by members and senior officers. Details of each member's declaration can be viewed on the council's website.

Members' allowances paid in 2016/17 are disclosed in Note 9.

Significant related party transactions are detailed in the following table:

| Related Parties | | Income Received 2016/17 | Payments Made 2016/17 | Balance outstanding as at 31 March 2017 |
|---|---|---|---|---|
| **Organisation** | **Nature of Relationship** | *£'000* | *£'000* | *£'000* |
| **Members/Senior officers** | | | | |
| Voluntary Organisations | Four senior officers, 12 members and five close relatives are involved in management of voluntary organisations. | 88 | 874 | 54 |
| Community Groups | Four senior officers and 20 members are involved in management of community groups. | 33 | 1,313 | 6 |
| Housing Associations | One senior officer and two close relatives of members are involved in the management of housing associations. | - | 2,392 | - |
| Universities, Colleges & Schools | Three senior officers, and two members are involved in the management of universities, colleges or schools. | 114 | 621 | 226 |
| North London Waste Authority | Two members are board members of this organisation. | 702 | 6,982 | 53 |
| **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. | 26,676 | 21,462 | 6,102 |
| Local authority - Camden | The Council transacts with other local authorities - Camden is the main authority that LBI transacts with. | 4,241 | 2,709 | (71) |
| Other Public Bodies | One member and one close relative of a member's family are involved in the management of other public bodies | - | 16 | - |
| **Entities Controlled or Influenced by the Authority** | | | | |
| 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. | 1 | 14,665 | 68 |
| 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. | 327 | - | (11) |
| Subsidiaries | iCo is a wholly owned subsidiary of the council. One member and four senior officers are on the board of this organisation. | 146 | - | (114) |
| **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. | 301 | 48,792 | (914) |

## 12. Fees payable to the Appointed Auditor

In 2016/17, Islington Council incurred the following fees relating to external audit:

| 2015/16 £'000 | Fees Payable to the Appointed Auditor | 2016/17 £'000 |
|---|---|---|
| **Audit Services** | | |
| 203 | Fees payable to the appointed auditor with regard to external audit services carried out by the appointed auditor for the year | 203 |
| 31 | Fees payable to the appointed auditor for the certification of grant claims and returns for the year | 31 |
| 40 | Additional fees payable to the appointed auditor relating to prior year audits and audit objections | 20 |
| **274** | **Total Fees for Audit Services** | **254** |
| **Non-Audit Services** | | |
| - | Fees payable in respect of non-audit services provided by the appointed auditor during the year | - |

## 13. Note to the Expenditure and Funding Analysis

| Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement | Adjustments for Capital Purposes £'000 | Adjustments for Pensions £'000 | Adjustments between accounting policies for reporting £'000 | Other Adjustments £'000 | Total Adjustments £'000 |
|---|---|---|---|---|---|
| Children's Services (excluding schools) | 1,407 | 2,244 | - | (3) | 3,648 |
| Schools | 16,867 | 2,480 | | 1,464 | 20,811 |
| Environment and Regeneration | 10,928 | 2,298 | - | 54 | 13,280 |
| Housing & Adult Social Services | 9,108 | 1,174 | - | 16 | 10,298 |
| Public Health | - | 74 | - | 46 | 120 |
| Chief Executive | - | 188 | - | (2) | 186 |
| Finance & Resources | 3,562 | (12,763) | - | (29) | (9,230) |
| Corporate | (39,126) | 24,668 | 222,048 | 256 | 207,846 |
| Housing Revenue Account | 44,233 | 1,283 | 379 | (31,853) | 14,042 |
| **Net Cost of Services** | **46,979** | **21,646** | **222,427** | **(30,051)** | **261,001** |
| Other Income and Expenditure | - | | (222,427) | - | (222,427) |
| **(Surplus) or Deficit** | **46,979** | **21,646** | **0** | **(30,051)** | **38,574** |

### ***Adjustments for Capital Purposes***

This column includes the following adjustments:

- Addition of depreciation, amortisation, impairments and revaluation gains and losses in the service lines as these are not chargeable under generally accepted accounting practices.
- Adjustment for capital disposals with a transfer of income on disposal of assets and the amounts written off for those assets.
- A contribution from the Capital Receipts Reserve is made to compensate the General Fund for payments to the Government capital receipts pool

- Deduction of statutory charges for capital financing, including the Minimum Revenue Provision, as these are not chargeable under generally accepted accounting practices. Deduction of statutory charges relating to repayments of PFI and lease liabilities as these are not chargeable under generally accepted accounting practices.
- The movements in the fair value of investment properties are reversed out in the Comprehensive Income and Expenditure Statement as they are not proper charges to the General Fund
- Capital grants are adjusted for income not chargeable under generally accepted accounting practices. The Comprehensive Income and Expenditure Statement is credited with capital grants receivable in the year without conditions or for which conditions were satisfied in the year.
- Adjustment in respect of revenue expenditure funded from capital under statute. The underlying revenue nature of the expenditure means that it will be debited to the Comprehensive Income and Expenditure Statement as it is incurred, but if the council applies the statutory provision to treat the expenditure as capital, it is reversed out of the Comprehensive Income and Expenditure Statement.

***Pensions Adjustments***

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

- For services, this represents the removal of the employer pension contributions made by the authority as allowed by statute and the replacement with current service costs and past service costs.
- The net interest on the defined benefit liability is charged to the Comprehensive Income and Expenditure Statement.

***Adjustments between accounting policies for internal management and financial reporting***

Adjustment to reclassify items the Code dictates must sit outside Cost of Services in the Comprehensive Income and Expenditure Statement but are reported and managed internally under Corporate services and the HRA. Notes 16, 17 and 18 provide a breakdown of the items that sit outside Cost of Services.

***Other Adjustments***

Other differences between amounts debited/credited to the Comprehensive Income and Expenditure Statement and amounts payable/receivable to be recognised under statute

- A transfer equivalent to HRA depreciation, and additional contributions required to sustain the HRA business plan, from the HRA to the major repairs reserve as these are not chargeable to the HRA under generally accepted accounting practices.
- The charge representing the difference between what is chargeable under statutory regulations for council tax and NDR that was projected to be received at the start of the year and the income recognised under generally accepted accounting practices in the Code. This is a timing difference as any difference will be brought forward in future Surpluses or Deficits on the Collection Fund.

## 14. Expenditure and Income Analysed By Nature

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

| 2015/16 £'000 | Expenditure and Income Analysed by Nature | 2016/17 £'000 |
|---|---|---|
| | **Expenditure** | |
| 351,262 | Employee expenses | 357,801 |
| 554,242 | Other service expenses | 564,664 |
| 49,715 | Depreciation | 62,474 |
| 64 | Amortisation | - |
| 28,688 | Impairments | 46,950 |
| 50,723 | Interest expenses | 50,618 |
| 11,107 | Precepts & levies | 7,081 |
| 3,978 | Payments to the government Housing Capital Receipts Pool | 3,816 |
| 18,350 | Disposal of assets | 13,948 |
| **1,068,129** | **Total Expenditure** | **1,107,352** |
| | **Income** | |
| (311,579) | Fees, charges and other service income | (326,735) |
| (593) | Interest and investment income | (783) |
| (38,824) | Proceeds from the sale of assets | (35,699) |
| (131,155) | Income from council tax and non-domestic rates | (135,509) |
| (588,598) | Government grants and contributions | (579,574) |
| **(1,070,749)** | **Total Income** | **(1,078,300)** |
| **(2,620)** | **(Surplus) or Deficit on the Provision of Services** | **29,052** |

## 15. Adjustments between Accounting Basis and Funding Basis Under Regulations

This note details the adjustments that are made to the total comprehensive income and expenditure recognised by the council in the year in accordance with proper accounting practice to arrive at the resources that are specified by statutory provisions as being available to the council to meet future capital and revenue expenditure.

| 2016/17 | 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 | (33,229) | (76,610) | - | - | - | 109,839 |
| Revaluation losses on Property Plant and Equipment | - | - | - | - | - | 0 |
| Movement in the fair value of Investment Properties | 5,816 | - | - | - | - | (5,816) |
| Amortisation of intangible assets | | - | - | - | - | 0 |
| Capital grants and contributions applied | 14,381 | 4,617 | - | - | - | (18,998) |
| Income in relation to donated assets | - | - | - | - | - | 0 |
| Revenue expenditure funded from capital under statute | (8,690) | - | - | - | - | 8,690 |
| 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 | - | (13,948) | - | - | - | 13,948 |
| **Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement** | | | | | | |
| Statutory provision for financing of capital investment | 4,084 | | - | - | - | (4,084) |
| Repayment of lease / PFI liabilities | 2,938 | 6,727 | | | | (9,665) |
| Capital expenditure charged against the General Fund and HRA | 15,403 | - | - | - | - | (15,403) |
| **Adjustments primarily involving the Capital Grants Unapplied Account** | | | | | | |
| Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement | | - | - | - | - | 0 |
| Application of grants to capital financing transferred to the Capital Adjustment Account | - | - | - | - | - | 0 |
| **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 | 366 | 35,333 | (35,699) | - | - | 0 |
| Use of the Capital Receipts Reserve to finance new capital expenditure | | - | 30,293 | - | - | (30,293) |
| Use of capital receipts to fund disposal costs | - | (353) | 353 | - | - | 0 |
| Contribution from the Capital Receipts Reserve to finance the payments to the government Housing Capital Receipts Pool | (3,815) | - | 3,815 | - | - | 0 |
| Transfer from Deferred Capital Receipts Reserve upon receipt of cash | - | - | - | - | - | 0 |

| 2016/17 | 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** | | | | | | |
| Transfer of Depreciation to the Major Repairs Reserve | - | 31,998 | - | (31,998) | - | 0 |
| Additional Contributions from the HRA | - | - | - | - | - | 0 |
| Use of the Major Repairs Reserve to finance new capital expenditure | - | - | - | 42,276 | - | (42,276) |
| **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 | - | (3) | - | - | - | 3 |
| **Adjustments primarily involving the Pensions Reserve** | | | | | | |
| Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement | (53,116) | (5,304) | - | - | - | 58,420 |
| Employer's pensions contributions and direct payments to pensioners payable in the year | 32,754 | 4,021 | - | - | - | (36,775) |
| **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 | (256) | - | - | - | - | 256 |
| **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 | (1,547) | (141) | - | - | - | 1,688 |
| **Total Adjustments** | **(24,911)** | **(13,663)** | **(1,238)** | **10,278** | **0** | **29,534** |

| 2015/16 | 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 | (33,068) | (45,785) | - | - | - | 78,853 |
| Revaluation losses on Property Plant and Equipment | - | - | - | - | - | 0 |
| Movement in the fair value of Investment Properties | 2,020 | - | - | - | - | (2,020) |
| Amortisation of intangible assets | (35) | (28) | - | - | - | 63 |
| Capital grants and contributions applied | 11,695 | 3,658 | - | - | - | (15,353) |
| Income in relation to donated assets | - | - | - | - | - | 0 |
| Revenue expenditure funded from capital under statute | (4,506) | - | - | - | - | 4,506 |
| 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 | (2,581) | (15,769) | - | - | - | 18,350 |
| **Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement** | | | | | | |
| Statutory provision for financing of capital investment | 4,254 | | - | - | - | (4,254) |
| Repayment of lease / PFI liabilities | 2,511 | 6,191 | | | | (8,702) |
| Capital expenditure charged against the General Fund and HRA | 5,282 | - | - | - | - | (5,282) |
| **Adjustments primarily involving the Capital Grants Unapplied Account** | | | | | | |
| Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement | | - | - | - | - | 0 |
| Application of grants to capital financing transferred to the Capital Adjustment Account | - | - | - | - | 6,009 | (6,009) |
| **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 | 2,400 | 36,297 | (38,697) | - | - | 0 |
| Use of the Capital Receipts Reserve to finance new capital expenditure | | - | 22,867 | - | - | (22,867) |
| Use of capital receipts to fund disposal costs | - | (461) | 461 | - | - | 0 |
| Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool | (3,978) | - | 3,978 | - | - | 0 |
| Transfer from Deferred Capital Receipts Reserve upon receipt of cash | - | - | - | - | - | 0 |

| 2015/16 | 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** | | | | | | |
| Transfer of Depreciation to the Major Repairs Reserve | - | 23,039 | - | (23,039) | - | 0 |
| Additional Contributions from the HRA | - | 8,451 | - | (8,451) | - | 0 |
| Use of the Major Repairs Reserve to finance new capital expenditure | - | - | - | 37,592 | - | (37,592) |
| **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 | - | (87) | - | - | - | 87 |
| **Adjustments primarily involving the Pensions Reserve** | | | | | | |
| Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement | (55,503) | (5,530) | - | - | - | 61,033 |
| Employer's pensions contributions and direct payments to pensioners payable in the year | 33,688 | 3,212 | - | - | - | (36,900) |
| **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 | (1,207) | - | - | - | - | 1,207 |
| **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 | 553 | (32) | - | - | - | (521) |
| **Total Adjustments** | **(38,475)** | **13,157** | **(11,391)** | **6,102** | **6,009** | **24,599** |

## 16. Other Operating Expenditure

The table below shows a breakdown of 'Other Operating Expenditure' included in the Comprehensive Income and Expenditure Statement.

| 2015/16 Gross Expenditure £'000 | 2015/16 Gross Income £'000 | 2015/16 Net Expenditure £'000 | Other Operating Expenditure | 2016/17 Gross Expenditure £'000 | 2016/17 Gross Income £'000 | 2016/17 Net Expenditure £'000 |
|---|---|---|---|---|---|---|
| 11,108 | - | 11,108 | Levies | 7,081 | - | 7,081 |
| 3,978 | - | 3,978 | Payments to the Government Housing Capital Receipts Pool | 3,816 | - | 3,816 |
| 18,336 | (38,824) | (20,488) | Gains/Loss on the disposal of non-current assets | 13,947 | (35,699) | (21,752) |
| **33,422** | **(38,824)** | **(5,402)** | **Total** | **24,844** | **(35,699)** | **(10,855)** |

## 17. Financing and Investment Income and Expenditure

The table below shows a breakdown of 'Financing and Investment Income and Expenditure' included in the Comprehensive Income and Expenditure Statement.

| 2015/16 Gross Expenditure £'000 | 2015/16 Gross Income £'000 | 2015/16 Net Expenditure £'000 | Financing and Investment Income and Expenditure | 2016/17 Gross Expenditure £'000 | 2016/17 Gross Income £'000 | 2016/17 Net Expenditure £'000 |
|---|---|---|---|---|---|---|
| 30,742 | | 30,741 | Interest payable and similar charges | 30,239 | | 30,239 |
| 19,982 | - | 19,982 | Net interest on the net defined benefit liability | 20,378 | - | 20,378 |
| - | (595) | (594) | Interest Receivable and similar Income | - | (783) | (783) |
| (4,003) | - | (4,003) | Income and expenditure in relation to investment properties and changes in the fair value | (5,263) | - | (5,263) |
| 13 | - | 13 | Gains/Loss on the disposal of investment properties | - | - | 0 |
| **46,734** | **(595)** | **46,139** | **Total** | **45,354** | **(783)** | **44,571** |

## 18. Taxation and Non-Specific Grant Income

The table below shows a breakdown of 'Taxation and Non-Specific Grant Income' included in the Comprehensive Income and Expenditure Statement.

| 2015/16 Gross Income £'000 | Taxation and Non Specific Grant Income | 2016/17 Gross Income £'000 |
|---|---|---|
| (73,868) | Council Tax Income | (77,749) |
| (66,506) | Revenue Support Grant | (52,918) |
| (56,690) | Business Rates Retained | (59,732) |
| (20,380) | Top-up Grant | (20,550) |
| (26,612) | Non-ringfenced government grants | (26,196) |
| (15,353) | Capital grants and contributions | (18,998) |
| **(259,409)** | **Total** | **(256,143)** |

## 19. Property, Plant and Equipment

| Movement in Property, Plant and Equipment - 2016/17 | Council Dwellings £'000 | Other Land and Buildings £'000 | Vehicles, Plant, Furniture & Equipment £'000 | Infrastructure Assets £'000 | Community Assets £'000 | Surplus Assets £'000 | Assets Under Construction £'000 | Total Property, Plant and Equipment £'000 | PFI Assets Included in Property, Plant and Equipment £'000 |
|---|---|---|---|---|---|---|---|---|---|
| **Cost or Valuation** | | | | | | | | | |
| **As at 1 April 2016** | **2,880,664** | **660,356** | **36,233** | **242,746** | **28,294** | **90** | **31,865** | **3,880,248** | **259,884** |
| Additions | 35,209 | 15,564 | 2,604 | 8,340 | - | - | 37,420 | **99,137** | - |
| Revaluation increases/(decreases) recognised in the Revaluation Reserve | 143,739 | 33,516 | - | - | - | - | - | **177,255** | 139,353 |
| Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services | (73,947) | (24,623) | - | - | - | - | - | **(98,570)** | 6,116 |
| Derecognition - Disposals | (13,443) | (2,321) | (31) | - | - | (50) | - | **(15,845)** | (1,089) |
| Derecognition - Other | (95) | - | - | - | - | - | - | **(95)** | - |
| Assets reclassified (to)/from Held for Sale and Investment Properties | - | (2,532) | - | - | - | - | - | **(2,532)** | - |
| Other movements in cost or valuation | 8,257 | 4,273 | - | 60 | - | - | (12,590) | **-** | - |
| **As at 31 March 2017** | **2,980,384** | **684,233** | **38,806** | **251,146** | **28,294** | **40** | **56,695** | **4,039,598** | **404,264** |
| **Accumulated Depreciation and Impairment** | | | | | | | | | |
| **As at 1 April 2016** | **61** | **(27,229)** | **(20,343)** | **(68,625)** | **(3,227)** | **(3)** | **-** | **(119,366)** | **(13,017)** |
| Depreciation charge | (29,397) | (17,243) | (4,197) | (11,638) | - | - | - | (62,475) | (10,185) |
| Depreciation written out on revaluations recognised in the Revaluation Reserve | - | - | - | - | - | - | - | - | - |
| Depreciation written out on revaluations recognised in the Surplus/Deficit on the Provision of Services | 29,334 | 22,495 | - | - | - | - | - | 51,829 | 12,058 |
| Impairment losses/(reversals) recognised in the Revaluation Reserve | - | (628) | - | - | - | - | - | (628) | - |
| Impairment losses/(reversals) recognised in the Surplus/Deficit on the Provision of Services | - | (210) | - | - | - | - | - | (210) | - |
| Derecognition - Disposals | - | 1,976 | 13 | - | - | 2 | - | 1,991 | - |
| Derecognition - Other | 2 | - | - | - | - | - | - | 2 | - |
| Assets reclassified (to)/from Held for Sale and Investment Properties | - | 261 | - | - | - | - | - | 261 | - |
| Other movements in depreciation and impairment | - | - | - | - | - | - | - | - | - |
| **As at 31 March 2017** | **-** | **(20,578)** | **(24,527)** | **(80,263)** | **(3,227)** | **(1)** | **-** | **(128,596)** | **(11,144)** |
| **Net Book Value as at 31 March 2017** | **2,980,384** | **663,655** | **14,279** | **170,883** | **25,067** | **39** | **56,695** | **3,911,002** | **393,120** |

| Movement in Property, Plant and Equipment - 2015/16 | 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** | | | | | | | | | |
| **As at 1 April 2015** | **2,903,509** | **590,199** | **31,701** | **236,544** | **28,294** | **8,049** | **18,297** | **3,816,593** | **267,259** |
| Additions | 42,063 | 6,641 | 4,532 | 6,194 | - | - | 23,161 | 82,591 | 933 |
| Revaluation increases/(decreases) recognised in the Revaluation Reserve | (16,672) | 81,557 | - | - | - | 2,206 | - | 67,091 | (967) |
| Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services | (42,894) | (21,893) | - | - | - | - | - | (64,787) | (6,793) |
| Derecognition - Disposals | (15,417) | (491) | - | - | - | (2,231) | - | (18,139) | (548) |
| Derecognition - Other | - | - | - | - | - | - | - | 0 | - |
| Assets reclassified (to)/from Held for Sale and Investment Properties | - | (3,101) | - | - | - | - | - | (3,101) | - |
| Other movements in cost or valuation | 10,075 | 7,444 | - | 8 | - | (7,934) | (9,593) | 0 | - |
| **As at 31 March 2016** | **2,880,664** | **660,356** | **36,233** | **242,746** | **28,294** | **90** | **31,865** | **3,880,248** | **259,884** |
| **Accumulated Depreciation and Impairment** | | | | | | | | | |
| **As at 1 April 2015** | **0** | **(28,542)** | **(16,555)** | **(57,236)** | **(3,227)** | **(484)** | **0** | **(106,044)** | **(10,669)** |
| Depreciation charge | (20,181) | (14,354) | (3,788) | (11,389) | - | (1) | - | (49,713) | (6,473) |
| Depreciation written out on revaluations recognised in the Revaluation Reserve | - | - | - | - | - | - | - | 0 | - |
| Depreciation written out on revaluations recognised in the Surplus/Deficit on the Provision of Services | 20,120 | 15,979 | - | - | - | - | - | 36,099 | 4,112 |
| 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 | 122 | 30 | - | - | - | - | - | 152 | 13 |
| Derecognition - Other | - | - | - | - | - | - | - | 0 | - |
| Assets reclassified (to)/from Held for Sale and Investment Properties | - | 140 | - | - | - | - | - | 140 | - |
| Other movements in depreciation and impairment | - | (482) | - | - | - | 482 | - | 0 | - |
| **As at 31 March 2016** | **61** | **(27,229)** | **(20,343)** | **(68,625)** | **(3,227)** | **(3)** | **0** | **(119,366)** | **(13,017)** |
| **Net Book Value as at 31 March 2016** | **2,880,725** | **633,127** | **15,890** | **174,121** | **25,067** | **87** | **31,865** | **3,760,882** | **246,867** |

### Depreciation

Depreciation is calculated using the following useful economic lives and depreciation rates:

- 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. Council Dwellings valuations were carried out by Wilks, Heads and Eve LLP, whilst all other valuations were carried out internally by Mr Peter Holmes MRICS and Mr Andrew Jeffery MRICS as at 1 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** | **14,278** | **170,883** | **25,066** | **0** | **56,695** | **266,922** |
| **Valued at fair value as at:** | | | | | | | | |
| 31 March 2017 | 2,980,387 | 592,631 | - | - | - | 41 | - | **3,573,059** |
| 31 March 2016 | - | 31,863 | - | - | - | - | - | **31,863** |
| 31 March 2015 | - | 38,499 | - | - | - | - | - | **38,499** |
| 31 March 2014 | - | 117 | - | - | - | - | - | **117** |
| 31 March 2013 | - | 541 | - | - | - | - | - | **541** |
| **Total Cost or Valuation** | **2,980,387** | **663,651** | **14,278** | **170,883** | **25,066** | **41** | **56,695** | **3,911,001** |

### Capital Commitments

As at 31 March 2017, 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 £79.7m. Similar commitments as at 31 March 2016 were £77.4m. The commitments are:

| Capital Commitments | 31 March 2017 £'000 |
|---|---|
| **Housing Commitments:** | |
| Holly Park Estate, Ivy Hall | 1,329 |
| Bramber House & John Barnes Library | 933 |
| Goodinge Com Centre | 4,229 |
| Dovercourt Estate | 16,442 |
| Camden Estate | 2,797 |
| Tollington Way/Mary Seacole | 2,439 |
| Moreland School/Kings Square | 40,355 |
| Tunbridge Sadler & Wells | 503 |
| MP55 Holland Walk Area (TMO) | 1,733 |
| MP34B Girdlestone Estate | 3,050 |
| Finsbury Estate Boilers | 621 |
| MP22 Bemerton South Square CIP | 2,421 |
| **Other Commitments:** | |
| Finsbury Leisure Contract | 1,898 |
| Dowery Street | 1,343 |
| **Total** | **80,093** |

## 20. 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:

| 2015/16 £'000 | Investment Properties | 2016/17 £'000 |
|---|---|---|
| (1,287) | Rental income from investment property | (1,307) |
| 63 | Direct operating expenses arising from investment property | 455 |
| **(1,224)** | **Net (gain)/loss** | **(852)** |

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:

| 2015/16 £'000 | Movement in fair value of Investment Properties | 2016/17 £'000 |
|---|---|---|
| **12,501** | **Balance at start of the year** | **19,450** |
| - | Additions | - |
| (14) | Disposals | - |
| 4,003 | Net gains/(losses) from fair value adjustments | 5,263 |
| 2,960 | Transfers (to)/from Property, Plant and Equipment | 2,271 |
| **19,450** | **Balance at end of the year** | **26,984** |

### Fair value measurements

The tables below give an analysis of the fair value measurement of investment properties and surplus assets.

| Level 1 £'000 | Level 2 £'000 | Level 3 £'000 | Fair value as at 31 March 2016 £'000 | Fair Value Measurements | Level 1 £'000 | Level 2 £'000 | Level 3 £'000 | Fair value as at 31 March 2017 £'000 |
|---|---|---|---|---|---|---|---|---|
| - | 19,412 | 39 | **19,451** | Investment Properties | - | 26,974 | 10 | **26,984** |
| - | 78 | 11 | **89** | Surplus assets | - | - | 41 | **41** |
| **0** | **19,490** | **50** | **19,540** | **Fair value as at 31 March** | **0** | **26,974** | **51** | **27,025** |

## 21. Heritage Assets

The value of heritage assets as at 31 March 2017 was £0.5m. All the heritage assets recognised in the council's Balance Sheet are carried at valuation.

## 22. Leases

### Council as Lessee

Finance Leases

The council has fifteen assets acquired under such leases carried on the Balance Sheet at the following net amounts:

| 31 March 2016 £'000 | Leased Assets | 31 March 2017 £'000 |
|---|---|---|
| | Property, Plant and Equipment: | |
| 7,217 | - Other Land and Buildings | 8,951 |
| 2,257 | - Community Assets | 2,257 |
| 186 | - Vehicles, Plant, Furniture and Equipment | 975 |
| 5,225 | Investment Properties | 5,260 |
| **14,885** | **Total** | **17,443** |

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 2016 £'000 | Minimum lease payments | 31 March 2017 £'000 |
|---|---|---|
| | Finance lease liabilities (net present value of minimum lease payments): | |
| 83 | - Payable within one year | 232 |
| 486 | - Payable after one year | 876 |
| 1,065 | Finance costs payable in future years | 1,071 |
| **1,634** | **Total minimum lease payments** | **2,179** |

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

| Minimum Lease Payments | Finance Lease Liabilities | | Minimum Lease Payments | |
|---|---|---|---|---|
| | 31 March 2016 £'000 | 31 March 2017 £'000 | 31 March 2016 £'000 | 31 March 2017 £'000 |
| Not later than one year | 83 | 232 | 115 | 282 |
| Later than one year and not later than five years | 114 | 507 | 236 | 644 |
| Later than five years | 372 | 369 | 1,288 | 1,253 |
| **Total** | **569** | **1,108** | **1,639** | **2,179** |

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 2016/17 contingent rents payable by the council in respect of finance leases totalled £0.34m (£0.29m in 2015/16).

Operating Leases

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

| 31 March 2016 £'000 | Operating Leases (Lessee) | 31 March 2017 £'000 |
|---|---|---|
| 557 | Not later than one year | 789 |
| 1,917 | Later than one year and not later than five years | 2,792 |
| 1,682 | Later than five years | 2,761 |
| **4,156** | **Total** | **6,341** |

**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 2016 £'000 | Operating Leases (Lessor) | 31 March 2017 £'000 |
|---|---|---|
| 970 | Not later than one year | 912 |
| 2,841 | Later than one year and not later than five years | 2,563 |
| 2,297 | Later than five years | 1,678 |
| **6,108** | **Total** | **5,154** |

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.

## 23. 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, as shown in paragraph xix of Note 1 (Accounting Policies).

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 I; 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 £ '000 | Infra-structure £ '000 | Total £ '000 |
|---|---|---|---|---|
| **Net Book Value at 1 April 2015** | **198,326** | **47,741** | **10,525** | **256,592** |
| Additions | 932 | - | | **932** |
| Depreciation & Impairment | (3,723) | (2,048) | (702) | **(6,473)** |
| Revaluation | (3,873) | 225 | | **(3,648)** |
| Disposal | (535) | | | **(535)** |
| **Net Book Value at 31 March 2016** | **191,127** | **45,918** | **9,823** | **246,868** |
| | | | | |
| **Net Book Value at 1 April 2016** | **191,127** | **45,918** | **9,823** | **246,868** |
| Additions | - | - | - | **0** |
| Depreciation & Impairment | (6,942) | (2,541) | (702) | **(10,185)** |
| Revaluation | 128,044 | 29,483 | - | **157,527** |
| Disposal | (1,089) | - | - | **(1,089)** |
| **Net Book Value at 31 March 2017** | **311,140** | **72,859** | **9,121** | **393,120** |

| **Movement in liabilities resulting from PFI or similar contracts:** | | | | |
|---|---|---|---|---|
| **Value at 1 April 2015** | **(76,574)** | **(76,075)** | **(9,589)** | **(162,238)** |
| New liability incurred | - | - | - | **0** |
| Repayments made in year | 6,031 | 2,058 | 410 | **8,499** |
| **Value at 31 March 2016** | **(70,543)** | **(74,017)** | **(9,179)** | **(153,739)** |
| | | | | |
| **Value at 1 April 2016** | **(70,543)** | **(74,017)** | **(9,179)** | **(153,739)** |
| New liability incurred | - | - | - | **0** |
| Repayments made in year | 6,727 | 2,164 | 456 | **9,347** |
| **Value at 31 March 2017** | **(63,816)** | **(71,853)** | **(8,723)** | **(144,392)** |

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 | 278 | 789 | 1,851 | 2,689 | 0 | |
| Interest | 496 | 1,873 | 1,584 | 406 | 0 | |
| Service Charges | 3,978 | 16,933 | 23,659 | 21,146 | 0 | |
| **Street Lighting** | | | | | | |
| Liability | 500 | 2,459 | 4,518 | 1,246 | | |
| Interest | 833 | 2,828 | 1,958 | 128 | | |
| Service Charges | 1,282 | 5,474 | 7,765 | 1,849 | | |
| **Housing (1)** | | | | | | |
| Liability | 948 | 2,755 | 2,897 | 10,064 | 3,841 | |
| Interest | 2,643 | 9,623 | 10,019 | 6,949 | 495 | |
| Service Charges | 7,671 | 37,302 | 61,070 | 64,491 | 12,268 | |
| **Housing (2)** | | | | | | |
| Liability | 6,612 | 36,699 | 0 | | | |
| Interest | 5,666 | 12,369 | 0 | | | |
| Service Charges | 19,176 | 76,882 | 0 | | | |
| **BSF Phase 1** | | | | | | |
| Liability | 1,435 | 6,214 | 10,411 | 12,767 | 7,730 | 0 |
| Interest | 2,414 | 8,739 | 8,456 | 4,876 | 867 | 0 |
| Service Charges | 1,455 | 6,801 | 9,231 | 12,571 | 6,525 | 0 |
| **BSF Phase 2** | | | | | | |
| Liability | 539 | 2,804 | 4,672 | 7,324 | 10,216 | 2,134 |
| Interest | 2,603 | 9,830 | 10,653 | 7,972 | 4,049 | 201 |
| Service Charges | 1,035 | 4,333 | 6,668 | 7,603 | 10,353 | 1,332 |

## 24. 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.

| 2015/16 £'000 | Capital Expenditure and Sources of Capital Financing | 2016/17 £'000 |
|---|---|---|
| **729,675** | **Opening Capital Financing Requirement** | **716,710** |
| | ***Capital Investment*** | |
| 82,591 | Property, Plant & Equipment | 99,137 |
| 6,285 | Intangibles / REFCUS / Other | 13,425 |
| | ***Sources of Finance*** | |
| (22,867) | Usable Capital Receipts | (30,293) |
| (23,144) | Capital grants | (23,735) |
| (37,592) | Major Repairs Reserve | (42,276) |
| - | Other contributions | - |
| (5,282) | Capital expenditure charged in-year to revenue accounts | (15,403) |
| | ***Debt Repayment*** | |
| (4,254) | Statutory provision for the repayment of debt | (4,084) |
| (8,702) | Repayment of PFI / lease liabilities | (9,665) |
| **716,710** | **Closing Capital Financing Requirement** | **703,816** |
| | ***Explanation of Movements in Year*** | |
| 12,965 | (Increase)/ decrease in underlying need to borrow (supported by government financial assistance) | 13,752 |
| - | Increase in obligation arising from PFI contracts | - |
| - | Assets acquired under finance leases | (858) |
| - | Debt repayment | - |
| **12,965** | **(Increase)/ decrease in Capital Financing Requirement** | **12,894** |

## 25. 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 non-derivative financial liabilities held during the year are measured at amortised cost and comprise:

- long-term loans from the Public Works Loan Board and commercial lenders
- short-term loans from other local authorities
- cash and bank overdrawn
- finance leases detailed in Note 22
- Private Finance Initiative contracts detailed in Note 23
- trade payables for goods and services received

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 financial assets held by the council during the year are held under the following two classifications.

Loans and receivables (financial assets that have fixed or determinable payments and are not quoted in an active market) comprising:

- loans to other local authorities
- loans to a Building for Schools company made for service purposes
- trade receivables for goods and services delivered
- overnight deposit with the Debt Management Office

Unquoted equity investments held at cost because it is impracticable to determine fair value, comprising:

- equity investments in Islington Company a wholly owned subsidiary

Balances on fixed term deposits as at 31 March 2017 that are shown under 'cash and cash equivalents' in the Balance Sheet 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.

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 adopted this latter approach in 2014/15.

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

**Financial Instruments - Balances**

The financial assets and 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 2016 £'000 | 31 March 2017 £'000 | 31 March 2016 £'000 | 31 March 2017 £'000 |
| **Investments** | | | | |
| Loans and receivables | 720 | 37,709 | - | - |
| *- short term investments* | - | - | 68,179 | 53,418 |
| *- cash equivalents* | - | - | 12,800 | 10,700 |
| *- cash* | | | 3,569 | 336 |
| **Total investments** | 720 | 37,709 | 84,548 | 64,454 |
| **Debtors** | | | | |
| Loans and receivables | 10 | 6 | - | - |
| Financial assets carried at contract amounts | - | - | 18,006 | 9,585 |
| **Total Debtors** | 10 | 6 | 18,006 | 9,585 |
| **Borrowings** | | | | |
| Financial liabilities at amortised cost | 257,776 | 253,334 | - | - |
| *- cash and bank overdrawn* | - | - | 23,101 | 20,631 |
| *- short term borrowing* | - | - | 14,553 | 32,003 |
| **Total borrowings** | 257,776 | 253,334 | 37,654 | 52,634 |
| **Other Long Term Liabilities** | | | | |
| PFI and finance lease liabilities | 144,820 | 135,002 | 9,488 | 10,474 |
| Other | 10 | 6 | - | - |
| **Total other long term liabilities** | 144,830 | 135,008 | 9,488 | 10,474 |
| **Creditors** | | | | |
| Financial liabilities carried at contract amount | - | - | 10,718 | 19,111 |
| **Total creditors** | 0 | 0 | 10,718 | 19,111 |

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 2017/18.

**Soft Loan**

Where loans are advanced at below market rates they are classed as 'Soft Loans'. The 2016/17 Code of Practice sets out specific accounting requirements for soft loans. The main soft loans consist of season ticket loans £272k, gym membership loans £127k and home computer loans £422k and are carried at nominal value

in the Balance Sheet as they are due within ten months, 12 months and two years, respectively; thus the effect on the accounts is deemed to be immaterial.

**Unquoted Equity Instruments Measured at Cost**

The council holds shares in Islington Limited which are carried at cost of £1,000 because their fair value cannot be measured reliably. This is because the company has no established trading history, having only been formed in October 2014, and there are no similar companies whose shares are traded and which might provide comparable market data.

**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 2016/17 | 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 | £'000 |
| Interest expense | (28,958) | - | - | - | (28,958) |
| **Total expense in Surplus or Deficit on the Provision of Services** | **(28,958)** | **0** | **0** | **0** | **(28,958)** |
| Interest income | - | 783 | - | - | 783 |
| Fee income | - | - | 10 | - | 10 |
| **Total income in Surplus or Deficit on the Provision of Services** | **0** | **783** | **10** | **0** | **793** |
| **Surplus arising on revaluation of financial assets in Other Comprehensive Income and Expenditure** | **0** | **0** | **0** | **0** | **0** |
| **Net gain/(loss) for the year** | **(28,958)** | **783** | **10** | **0** | **(28,165)** |

| Income, Expense, Gains and Losses 2015/16 | 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 | £'000 |
| Interest expense | (29,647) | - | - | - | (29,647) |
| **Total expense in Surplus or Deficit on the Provision of Services** | **(29,647)** | **0** | **0** | **0** | **(29,647)** |
| Interest income | - | 570 | - | - | 570 |
| Fee income | - | - | 24 | - | 24 |
| **Total income in Surplus or Deficit on the Provision of Services** | **0** | **570** | **24** | **0** | **594** |
| **Surplus arising on revaluation of financial assets in Other Comprehensive Income and Expenditure** | **0** | **0** | **0** | **0** | **0** |
| **Net gain/(loss) for the year** | **(29,647)** | **570** | **24** | **0** | **(29,053)** |

**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 remaining contractual cash flows as at 31 March 2017 that will take place over the remaining term of the instruments, using the following methods and assumptions:

- Loans borrowed by the council have been valued by discounting the contractual cash flows over the whole life of the instrument at the appropriate market rate for local authority loans.
- The fair values of other long-term loans and investments have been discounted at the market rates for similar instruments with similar remaining terms to maturity on 31 March.
- The fair values of finance lease assets and liabilities and of PFI scheme liabilities have been calculated by discounting the contractual cash flows (excluding service charge elements) at the appropriate AA-rated corporate bond yield.
- Where an instrument will mature in the next 12 months, the 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.

Fair values are shown in the table below, split by their level in the fair value hierarchy. The different levels are explained in the accounting policies (Note 1. xxvi).

| Fair value comparison of financial liabilities | Fair Value Level | Balance Sheet *31 March 2016* *£000s* | Fair Value *31 March 2016* *£000s* | Balance Sheet *31 March 2017* *£000s* | Fair Value *31 March 2017* *£000s* |
|---|---|---|---|---|---|
| **Financial liabilities held at amortised cost:** | | | | | |
| Long-term loans from PWLB | 2 | 221,478 | 282,397 | 220,337 | 309,118 |
| Other long-term loans | 2 | 50,851 | 42,225 | 50,999 | 52,281 |
| Lease payables and PFI liabilities | 3 | 154,308 | 236,648 | 145,476 | 229,629 |
| **Total** | | **426,637** | **561,270** | **416,812** | **591,028** |
| Liabilities for which fair value is not disclosed | | 33,829 | | 53,749 | |
| **Total Financial Liabilities** | | **460,466** | | **470,561** | |
| Recorded on balance sheet as: | | | | | |
| Short-term creditors | | 20,206 | | 29,585 | |
| Short-term borrowing | | 14,553 | | 32,003 | |
| Cash and bank overdrawn | | 23,101 | | 20,631 | |
| Long-term borrowing | | 257,776 | | 253,334 | |
| Other long-term liabilities | | 144,830 | | 135,008 | |
| **Total Financial Liabilities** | | **460,466** | | **470,561** | |

| Fair value comparison of financial assets | Fair Value Level | Balance Sheet 31 March 2016 £000s | Fair Value 31 March 2016 £000s | Balance Sheet 31 March 2017 £000s | Fair Value 31 March 2017 £000s |
|---|---|---|---|---|---|
| **Financial assets held at amortised cost:** | | | | | |
| Long-term loans to companies | 3 | 749 | 869 | 37,870 | 37,949 |
| **TOTAL** | | **749** | **869** | **37,870** | **37,949** |
| Assets for which fair value is not disclosed | | 102,535 | | 73,884 | |
| **TOTAL FINANCIAL ASSETS** | | **103,284** | | **111,754** | |
| Recorded on balance sheet as: | | | | | |
| Long-term debtors | | 10 | | 6 | |
| Long-term investments | | 720 | | 37,709 | |
| Short-term debtors | | 18,006 | | 9,585 | |
| Short-term investments | | 68,179 | | 53,418 | |
| Cash and cash equivalents | | 16,369 | | 11,036 | |
| **TOTAL FINANCIAL ASSETS** | | **103,284** | | **111,754** | |

Financial Liabilities

The fair value of financial liabilities held at amortised cost is higher than their balance sheet 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 held at amortised cost is higher than their balance sheet carrying amount because the interest rate on similar investments is now lower than that obtained when the investment was originally made.

## 26. 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 and Investment 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 and Investment 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 £30m 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 £55m 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 and Investment Strategy 2016/17 approved by Full Council on 25 February 2016. The 2016/17 Treasury Management and Investment Strategy can be found via the following web link::

http://democracy.islington.gov.uk/documents/g2595/Public%20reports%20pack%2025th-Feb-2016%2019.30%20Council.pdf?T=10

The Council has adopted a diversified counterparty list which includes non-UK banks for investments. The sovereign states whose banks are included are 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 2016/17 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 as at 31 March 2017, 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 2017 | **Balance Invested as at 31 March 2017** | | | | | **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 9 months and up to 24 months | |
| **Counterparty** | YES / NO | YES / NO | *£'000* | *£'000* | *£'000* | *£'000* | *£'000* | *£'000* |
| Local Authorities | YES | YES | 18,000 | 8,000 | 7,000 | - | 57,000 | **90,000** |
| HM Treasury | YES | YES | 10,700 | - | - | - | - | **10,700** |
| **Total** | | | **28,700** | **8,000** | **7,000** | **0** | **57,000** | **100,700** |

The above analysis shows that all deposits outstanding as at 31 March 2017 met the council's credit rating criteria on the 31 March 2017.

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 2016/17 | Average % Default based on Previous Experience 5 years to 2015/16 | Average % Default based on Previous Experience for 2016/17 | Bad Debt Provision for 2016/17 |
|---|---|---|---|---|---|
| Sundry Debtors | 9,370 | 0.01% | 0.08% | 0.05% | 771 |

The authority does not generally allow credit for customers, such that £2.4m of the £9.4m balance is past 30 days from invoice date. The remaining £7m 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 2016 | 31 March 2017 |
|---|---|---|
| | *£'000* | *£'000* |
| Less than three months | 8,736 | 8,045 |
| Three to six months | 336 | 301 |
| Six months to one year | 233 | 257 |
| More than one year | 555 | 766 |
| **Total** | 9,860 | 9,369 |

**Liquidity Risk**

The council has access to borrowing facilities via the Public Works Loan Board and other local authorities, and at higher rates from banks and building societies. 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 as at 31 March 2017 was as follows:

| Liquidity Risk | PWLB | | Loan Stock | | Other | | Total | |
|---|---|---|---|---|---|---|---|---|
| | 31 March 2016 | 31 March 2017 | 31 March 2016 | 31 March 2017 | 31 March 2016 | 31 March 2017 | 31 March 2016 | 31 March 2017 |
| | *£'000* | *£'000* | *£'000* | *£'000* | *£'000* | *£'000* | *£'000* | *£'000* |
| Less than one year | 1,112 | 2,846 | - | 3,596 | 10,000 | 22,000 | 11,112 | 28,442 |
| Between one and two years | 2,846 | 1,112 | - | - | 8,000 | 11,000 | 10,846 | 12,112 |
| Between two and five years | 2,224 | 5,447 | 3,596 | - | 28,500 | 27,500 | 34,320 | 32,947 |
| Between five and ten years | 38,401 | 38,401 | - | - | - | - | 38,401 | 38,401 |
| Between ten and twenty years | 65,784 | 61,449 | - | - | - | - | 65,784 | 61,449 |
| More than twenty years | 108,425 | 108,425 | - | - | - | - | 108,425 | 108,425 |
| **Total** | **218,792** | **217,680** | **3,596** | **3,596** | **46,500** | **60,500** | **268,888** | **281,776** |
| Accrued Interest * | | | | | | | 3,441 | 3,561 |
| Trade creditors * | | | | | | | 10,718 | 19,111 |
| Cash Overdrawn * | | | | | | | 23,101 | 20,631 |
| **Total Carrying Amount** | | | | | | | **306,148** | **325,079** |

* 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 and Investment Strategy aims to mitigate these risks by setting an upper limit of £120m on external debt that can be subject to variable interest rates. As at 31st March 2017, the whole 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 | (107) |
| Increase in government grant receivable for financing costs | n/a |
| Impact on the Provision of Services (surplus/deficit) | (107) |
| Share of overall impact debited/credited to HRA | 1,088 |
| Decrease in fair value of fixed rate investments | 0 |
| Impact on Other Comprehensive Income and Expenditure | (107) |
| Decrease in fair value of fixed rate borrowings/liabilities* | 42,381 |

*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 used in the 'Fair Value' disclosure note.

## 27. Short Term Creditors

| 31 March 2016 £'000 | Short Term Creditors | 31 March 2017 £'000 |
|---|---|---|
| 23,648 | Central Government bodies | 30,641 |
| 7,030 | Other local authorities | 8,960 |
| 3,096 | NHS bodies | 4,030 |
| 4,090 | Public corporations and trading funds | 3,263 |
| 53,760 | Other entities and individuals | 56,593 |
| **91,624** | **Total** | **103,487** |

## 28. Short Term Debtors

| 31 March 2016 | | | Short Term Debtors | 31 March 2017 | | |
|---|---|---|---|---|---|---|
| Gross Debt £'000 | Impairments for Doubtful Debt £'000 | Net Debt £'000 | | Gross Debt £'000 | Impairments for Doubtful Debt £'000 | Net Debt £'000 |
| 9,199 | (5) | 9,194 | Central Government bodies | 13,057 | (7) | 13,050 |
| 3,825 | (17) | 3,808 | Local authorities | 3,034 | (35) | 2,999 |
| 2,594 | (5) | 2,589 | NHS bodies | 3,343 | (10) | 3,333 |
| 2,213 | (20) | 2,193 | Public corporations and trading funds | 3,402 | (6) | 3,396 |
| 86,934 | (50,023) | 36,911 | Other entities and individuals | 82,690 | (53,168) | 29,522 |
| **104,765** | **(50,070)** | **54,695** | **Total Debtors** | **105,526** | **(53,226)** | **52,300** |

## 29. Inventories

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

| 31 March 2016 £'000 | Inventories & Long term Contracts | 31 March 2017 £'000 |
|---|---|---|
| **962** | **Balance outstanding at start of year** | **806** |
| 82 | Purchases | 2,053 |
| (238) | Recognised as an expense in year | (2,008) |
| **806** | **Balance outstanding at year-end** | **851** |
| 208 | Maintenance materials | 253 |
| 267 | Items held for sale | 268 |
| 331 | Consumable stores | 330 |
| **806** | **Total** | **851** |

## 30. Provisions

| Provisions 2016/17 | Insurance £'000 | Business Rate Appeals £'000 | Social Services Charges £'000 | Disrepair claims £'000 | Other minor £'000 | Total £'000 |
|---|---|---|---|---|---|---|
| **Balance at 1 April 2016** | **10,986** | **4,576** | **1,715** | **512** | **119** | **17,908** |
| Additional provisions made in 2016//17 | 2,495 | 3,418 | 30 | 372 | 853 | **7,168** |
| Amounts used in 2016/17 | (3,016) | (2,042) | (64) | (420) | | **(5,542)** |
| Unused amounts reversed in 2016/17 | | | - | | (119) | **(119)** |
| **Balance at 31 March 2017** | **10,465** | **5,952** | **1,681** | **464** | **853** | **19,415** |

| Analysis of Balance at 31 March 2017 | | | | | | |
|---|---|---|---|---|---|---|
| Settled within 12 months | 4,017 | 2,042 | 64 | 464 | 853 | **7,440** |
| More than 12 months | 6,448 | 3,910 | 1,617 | | | **11,975** |

### 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, and the timing of any future payments, is determined by the Valuations Office and is not within the council's control.

### Insurance Provision

The council maintains an insurance fund as a provision covering anticipated liabilities for Errors and Omissions, Libel and Slander, Motor (Third Party), Employers' Liability, Public Liability, Fire and other risks – up to a limit of £1,000,000 for any one claim. External policies cover claims in excess of these limits. The

council is a member of a consortium arrangement to purchase insurance cover along with eight other London boroughs.

Each year, the council takes actuarial advice on the value of insurance claims which will be paid from the self–funding arrangements.

There are four categories of claims making up 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) | 8,900 |
| Claims settled prior to 1992/93 (2) | 1,700 |
| Provision for claims incurred but yet to be settled prior to 1992/93 (3) | 600 |
| Provision for claims yet to be received for events prior to 1992/93 (4) | 1,200 |
| **Total Insurance exposure at 31 March 2017** | **12,400** |

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 £8.9m 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 then insurer, Municipal Mutual Insurance (MMI), 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 25%; however, actuarial advice is that the Council should hold provision for 75% as a prudent position (£1.7m), to allow for additional claw-backs in future years.

3) The Council is holding a provision of £0.6m for incurred claims yet to be settled for pre-1992/93 incidents.

4) 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 £1.5m over the next 10 to 20 years. The Council, on actuarial advice, has provided for 75% of these potential claims, so c£1.2m.

The closing balance of the insurance fund as at 31 March 2017 was £11.6m, including £1.2m held in imprest accounts by the council's claims handlers. Actuarial advice is that the fund has a deficit of £0.8m as at 31 March 2017.

It is the Actuary's opinion that the fund balance (including imprest accounts) of £11.6m sits comfortably within a reasonable range of undiscounted liabilities of £8m-£16m as at 31 March 2017, and so is a reasonable provision for these uncertain liabilities as at 31 March 2017, based on information available as at the date of the signing of the actuarial report

## 31. 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 2016/17.

| Transfers to/from Earmarked Reserves | Balance at 1 April 2016 £'000 | Transfers Out 2016/17 £'000 | Transfers In 2016/17 £'000 | Balance at 31 March 2017 £'000 |
|---|---|---|---|---|
| **General Fund** | | | | |
| Invest to Save | (3,468) | 7,830 | (11,572) | (7,210) |
| Services Specific (Corporate) | (12,979) | 13,730 | (14,570) | (13,819) |
| Capital Reserve | (28,352) | 22,304 | (9,055) | (15,103) |
| Cemetery Trading Account | (608) | - | (345) | (953) |
| Building Schools for the Future | (158) | 151 | - | (7) |
| Levies Reserve | (844) | 844 | - | - |
| Housing Benefit Reserve | (9,049) | 3,272 | (1,890) | (7,667) |
| BSF PFI 1 Reserve | (633) | - | (1,490) | (2,123) |
| Redundancy Reserve | (660) | 3,823 | (3,517) | (354) |
| Contingency Reserve | (1,010) | - | (2,000) | (3,010) |
| CIL Strategic Reserve | (2,561) | 5,965 | (3,404) | - |
| CIL Local Reserve | (480) | - | (4,445) | (4,925) |
| S106 Reserve | (6,444) | 1,447 | (284) | (5,281) |
| **Total** | **(67,246)** | **59,366** | **(52,572)** | **(60,452)** |
| Street Market Reserves | (319) | - | (25) | (344) |
| **Grand Total** | **(67,565)** | **59,366** | **(52,597)** | **(60,796)** |
| **HRA** | | | | |
| PFI - Housing PFI I | (5,510) | - | - | (5,510) |
| HRA Tenants' H&HW r-f Reserve | (563) | - | (546) | (1,109) |
| HRA Risk Equalisation Reserve | (18,293) | - | (17,684) | (35,977) |
| Revaluations Smoothing Reserve | (10,583) | 553 | (415) | (10,445) |
| **HRA Total** | **(34,949)** | **553** | **(18,645)** | **(53,041)** |

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

*PFI Smoothing Reserves (BSF PFI 1 and Housing PFI 1)*: 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.

*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.

*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.

*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.

*Section 106:* earmarked for future s106 funded projects.

*Community Infrastructure Levy (CIL) Strategic and Local:* earmarked for future CIL funded projects.

*HRA Tenants' Heating and Hot Water*: earmarked reserve designed to allow us to manage a stable tenant charging policy, over time, in order to insulate tenants from the volatility of the gas market.

*HRA Risk Equalisation:* earmarked to mitigate against the financial risks/pressures arising from legislative changes.

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

## 32. Unusable Reserves

| 31 March 2016 £'000 | Unusable Reserves | 31 March 2017 £'000 |
|---|---|---|
| 821,928 | Revaluation Reserve | 983,011 |
| 2,231,518 | Capital Adjustment Account | 2,241,120 |
| 3 | Financial Instruments Adjustment Account | - |
| (570,339) | Pensions Reserve | (868,422) |
| 4,642 | Collection Fund Adjustment Account | 4,386 |
| (4,503) | Accumulated Absences Account | (6,190) |
| **2,483,249** | **Total Unusable Reserves** | **2,353,905** |

### 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.

| 2015/16 £'000 | Store of unrealised gains on revaluation of non current assets - Revaluation Reserve | 2016/17 £'000 |
|---|---|---|
| **(766,020)** | **Balance as at 1 April** | **(821,928)** |
| (245,813) | Gains on Revaluations | (481,016) |
| 5,559 | Less Depreciation on Revalued Amounts | 11,874 |
| 178,722 | Less Impairments written off to previous gains | 304,388 |
| 5,624 | Less gains written out for disposed assets | 3,669 |
| **(821,928)** | **Balance as at 31 March** | **(983,011)** |

**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 Capital Adjustment 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 Capital Adjustment Account is credited with the amounts set aside by the council as finance for the costs of acquisition, construction and subsequent costs.

The Capital Adjustment Account contains accumulated gains and losses on Investment Properties and gains recognised on donated assets that have yet to be consumed by the council.

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

Note 15 provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

| 2015/16 £'000 | Capital Adjustment Account | 2016/17 £'000 |
|---|---|---|
| **(2,220,026)** | **Balance as at 31 March** | **(2,231,518)** |
| (22,867) | Capital Expenditure Financed from Usable Capital Receipts | (30,293) |
| (37,592) | Capital Expenditure Financed from the Major Repairs Reserve | (42,276) |
| (5,282) | Capital Expenditure Financed from Revenue Resources | (15,403) |
| (21,364) | Capital Expenditure funded by Grant | (18,998) |
| 4,506 | REFCUS funded by Capital Receipts | 8,690 |
| 63 | Amortisation of Intangible Assets | - |
| 29,138 | Impairment of Assets | 47,365 |
| 49,715 | Depreciation of PPE non-current Assets | 62,475 |
| (4,254) | Minimum Revenue Provision | (4,084) |
| (8,702) | Repayment of Obligations arising from PFI Contracts/Lease liabilities | (9,665) |
| (5,624) | Write out of Gains relating to Revalued Disposed Assets | (3,669) |
| 18,350 | Current Value of Disposed Assets | 13,947 |
| (5,559) | Write out of depreciation on revalued amounts (HCA) | (11,874) |
| (2,020) | Gains and losses on Fair Value of Investment Properties | (5,816) |
| **(11,491)** | **Total Increase / (Decrease) in Amounts Set Aside to Finance Capital** | **(9,601)** |
| **(2,231,518)** | **Balance as at 31 March** | **(2,241,120)** |

### 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 council 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.

| 2015/16 £'000 | Financial Instruments Adjustment Account | 2016/17 £'000 |
|---|---|---|
| **90** | **Balance as at 1 April** | **3** |
| - | Premiums and discounts incurred in the year and charged to the Comprehensive Income and Expenditure Statement | - |
| (87) | Proportion of premiums and discounts incurred in previous financial years charged against the General Fund Balance in accordance with statutory requirements | (3) |
| **3** | | **-** |
| - | 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 | - |
| **3** | **Balance as at 31 March** | **-** |

Loans were repaid in 2006/07 and the related discount for early repayment of the loan was transferred to the Financial Instruments Adjustments Account (FIAA). In subsequent years, the balance on the FIAA has been amortised through the Movement in Reserves Statement (MIRS) and Movement on Housing Revenue Account Statement (MHRAS) in accordance with statutory provisions. The remaining balance of £3k was fully amortised in 2016/17.

### d) 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 council 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 council 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 council has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

| 2015/16 £'000 | Pensions Reserve | 2016/17 £'000 |
|---|---|---|
| **(643,309)** | **Balance at 1 April** | **(570,339)** |
| 97,105 | Actuarial gains or losses on pensions assets and liabilities | (276,438) |
| (61,035) | 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 | (58,420) |
| 36,900 | Employer's pensions contributions and direct payments to pensioners payable in the year | 36,775 |
| **(570,339)** | **Balance at 31 March** | **(868,422)** |

### e) 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.

| 2015/16 | | | Collection Fund Adjustment Account | 2016/17 | | |
|---|---|---|---|---|---|---|
| Council Tax | Non-Domestic Rates | Total | | Council Tax | Non-Domestic Rates | Total |
| £'000 | £'000 | £'000 | | £'000 | £'000 | £'000 |
| 5,253 | 595 | 5,848 | **Balance at 1 April** | 4,644 | (2) | 4,642 |
| (3,843) | | (3,843) | Contribution to General Fund for previous year's (surplus) / deficit | (3,057) | | (3,057) |
| 3,234 | (597) | 2,637 | Current year's council tax surplus / (deficit) | 891 | 1909 | 2,800 |
| **4,644** | **(2)** | **4,642** | **Balance at 31 March** | **2,478** | **1,907** | **4,385** |

### f) 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 as at 31 March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

| 2015/16 | | Accumulated Absences Account | 2016/17 | |
|---|---|---|---|---|
| £'000 | £'000 | | £'000 | £'000 |
| | **5,024** | **Balance at 1 April** | | **4,503** |
| | - | Business combinations | | - |
| (5,024) | | Settlement or cancellation of accrual made at the end of the preceding year | (4,503) | |
| 4,503 | | Amounts accrued at the end of the current year | 6,190 | |
| | (521) | 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 | | 1,687 |
| | **4,503** | **Balance at 31 March** | | **6,190** |

## 33. Cash and Cash Equivalents

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

| 31 March 2016 | Cash and Cash Equivalents | 31 March 2017 |
|---|---|---|
| £'000 | | £'000 |
| (23,101) | Cash and Bank Overdrawn | (20,631) |
| | | |
| 12,800 | Liquid investments | 10,700 |
| 74 | Cash held by the authority | 79 |
| 3,495 | Bank accounts | 257 |
| 16,369 | Cash and Cash Equivalents | 11,036 |
| **(6,732)** | **Total Cash and Cash Equivalents** | **(9,595)** |

Further information on liquid investments is included in note 25.

## 34. Cash Flow Statement – Operating Activities

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

| 2015/16 £'000 | Operating Activities Adjustments | 2016/17 £'000 |
|---|---|---|
| **2,618** | **Net Surplus or (Deficit) on the Provision of Services** | **(29,052)** |
| | **Adjust net surplus or deficit on the provision of services for non cash movements** | |
| 49,715 | Depreciation | 62,475 |
| 29,138 | Impairment and downward valuations taken to CAA | 47,365 |
| (2,431) | Impairment and valuation movements on HRA non-dwellings not taken to CAA | 138 |
| 63 | Amortisation | - |
| (96) | Increase/Decrease in Interest Creditors | 120 |
| (8,245) | Increase/Decrease in Creditors | (6,560) |
| (147) | Increase/Decrease in Interest and Dividend Debtors | (236) |
| 8,393 | Increase/Decrease in Debtors | 2,642 |
| 156 | Increase/Decrease in Inventories | (45) |
| 24,133 | Pension Liability | 21,645 |
| (271) | Contributions to/(from) Provisions | 1,506 |
| 18,350 | Carrying amount of non-current assets sold [property plant and equipment, investment property and intangible assets] | 13,947 |
| (2,020) | Movement in Investment Property Values | (5,816) |
| - | Other non-cash items charged to the net surplus or deficit on the provision of services | - |
| **116,738** | **Total** | **137,181** |
| | **Adjust for items included in the net surplus or deficit on the provision of services that are investing or financing activities** | |
| (19,410) | Capital Grants credited to surplus or deficit on the provision of services | (18,998) |
| 10 | Net adjustment from the sale of short and long term investments | 14,772 |
| (38,236) | Proceeds from the sale of property plant and equipment, investment property and intangible assets | (35,346) |
| **(57,636)** | **Total** | **(39,572)** |
| **61,720** | **Net Cash Flows from Operating Activities** | **68,557** |

The cash flows for operating activities include the following items:

| 2015/16 £'000 | Operating Activities (Interest) | 2016/17 £'000 |
|---|---|---|
| 448 | Interest Received | 547 |
| (30,836) | Interest Paid | (30,120) |

## 35. Cash Flow Statement – Investing Activities

| 2015/16 £'000 | Investing Activities | 2016/17 £'000 |
|---|---|---|
| (82,197) | Purchase of property, plant and equipment, investment property and intangible assets | (97,574) |
| (51) | Purchase of short-term and long-term investments | (37,000) |
| (412) | Other payments for investing activities | (9,584) |
| 37,882 | Proceeds from the sale of property, plant and equipment, investment property and intangible assets | 35,924 |
| 9,000 | Proceeds from short-term and long term investments | - |
| 28,502 | Other receipts from investing activities | 24,059 |
| **(7,276)** | **Net cash flows from investing activities** | **(84,175)** |

## 36. Cash Flow Statement – Financing Activities

| 2015/16 £'000 | Financing Activities | 2016/17 £'000 |
|---|---|---|
| 29,200 | Cash receipts of short- and long-term borrowing | 230,000 |
| - | Other receipts/ (payments) from financing activities | - |
| (8,702) | Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts | (9,592) |
| (65,677) | Repayments of short- and long- term borrowing | (217,117) |
| 3,602 | Council Tax and NDR adjustments | 9,464 |
| **(41,577)** | **Net cash flows from financing activities** | **12,755** |

## 37. Contingent Liabilities and Assets

### Legal claims pending settlement

The council is involved in six 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 £0.1m.

The council also has ongoing disrepair claims, a number of challenges to its housing allocation policies, and a building construction claim. The maximum potential liability for all these is estimated at £0.7m.

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 delivered savings of over £170m over the seven years 2010-17 and has built a further £21m of savings into its 2017/18 budget. Government national budget plans currently indicate that this trend will continue until 2020 by which time the council will have faced a like-for-like reduction in core unringfenced government funding of revenue support grant, business rates and top-up grant of approximately 70%. Over the next three years the council expects to have to find savings of £47m. A significant number of posts have been cut from the council workforce and the financial impact of these is set out in Note 10. There will inevitably be further cuts to the council workforce. The significant costs in terminating employment contracts in the future 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 grade and length of service. The council has used an earmarked reserve as a prudent

measure to meet termination costs that realise budget savings. This reserve is now largely exhausted and the process for managing future termination costs from 2017/18 will revert to the approach where service departments meet the costs. The balance of the reserve was £0.350m as at 31 March 2017.

**Contractual claims pending**

None pending.

**Guarantees given**

The Council has given a guarantee to its trading subsidiary, ICo Limited.

**Contingent Assets**

None known.

## 38. Events After the Balance Sheet Date

The draft Statement of Accounts 2016/17 was authorised for issue on 19 June 2017 by Mike Curtis, Corporate Director of Resources. 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 as at 31 March 2017, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

After the financial year end the Bridge School converted into an academy and as a result the school buildings will be transferred out of the council's Balance Sheet. This is expected to be a reduction of approximately £32m.

As a result of the tragic events at Grenfell Tower in the Royal Borough of Kensington & Chelsea on 14th June the Council is undertaking a review of its Property portfolio and will need to make any requisite remedial works. At this early stage the Council is unable to estimate the financial impact of this. Furthermore the carrying value of such properties in the Council's Balance Sheet may be impacted.

## 39. 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 2016 | 31 March 2017 | 31 March 2016 | 31 March 2017 |
| | *£'000* | *£'000* | *£'000* | *£'000* |
| **Comprehensive Income and Expenditure Statement** | | | | |
| *Cost of Services* | | | | |
| Current service costs including admin. expenses | 38,380 | 33,283 | - | - |
| Past service costs including curtailments | 2,671 | 4,759 | - | - |
| Settlements | - | - | - | - |
| *Financing and Investment Income and Expenditure* | - | - | - | - |
| Net Interest Expense | 18,287 | 18,605 | 1,695 | 1,773 |
| **Total Post Employment Benefits Charged to the Surplus or Deficit on the Provision of Services** | **59,338** | **56,647** | **1,695** | **1,773** |
| **Other Post Employment Benefits Charged to the Comprehensive Income and Expenditure Statement** | | | | |
| *Remeasurement of the net defined benefit liability comprising:* | | | | |
| Return on plan assets (excluding the amount included in the net interest expense) | 48,686 | (200,475) | - | - |
| Actuarial gains and losses arising from changes in demographic assumptions | - | 14,830 | - | 628 |
| Actuarial gains and losses arising from changes in financial assumptions | (143,175) | 443,049 | (2,619) | 8,566 |
| Other (if applicable) | - | 11,044 | 5 | (1,204) |
| **Total Post Employment Benefits Charged to the Comprehensive Income and Expenditure Statement** | **(35,151)** | **325,095** | **(919)** | **9,763** |
| **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 | (59,338) | (56,647) | (1,695) | (1,773) |
| **Actual amount charged against the General Fund Balance for pensions in the year** | | | | |
| Employers' contributions payable to scheme | 33,444 | 33,363 | 3,456 | 3,413 |
| Retirement Benefits Payable to Pensioners | - | - | 3,456 | 3,413 |

*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 council's obligation in respect of its defined benefit plans is as follows:

| Scheme History | Funded Liabilities | | | | Unfunded Liabilities | | |
|---|---|---|---|---|---|---|---|
| | Islington Council Pension Fund | | London Pensions Fund Authority | | Discretionary Benefits | | Total |
| | 31 March 16 | 31 March 17 | 31 March 16 | 31 March 17 | 31 March 16 | 31 March 17 | 31 March 17 |
| | *£'000* | *£'000* | *£'000* | *£'000* | *£'000* | *£'000* | ***£'000*** |
| Present Value of defined benefit obligation | (1,484,576) | (2,008,009) | (42,983) | (46,910) | (50,838) | (57,188) | **(2,112,107)** |
| Fair Value of Plan Assets | 967,580 | 1,196,943 | 40,478 | 46,742 | | | **1,243,685** |
| **Net liability** | **(516,996)** | **(811,066)** | **(2,505)** | **(168)** | **(50,838)** | **(57,188)** | **(868,422)** |

The total net liability of £868m 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 2016/17 | Funded Liabilities | | Unfunded Liabilities |
|---|---|---|---|
| | Islington Council Pension Fund | London Pensions Fund Authority | Discretionary Benefits |
| | *£'000* | *£'000* | *£'000* |
| **Balance as at 1 April 2016** | **1,484,576** | **42,983** | **50,838** |
| Current service costs | 32,015 | 138 | |
| Interest cost | 54,337 | 1,381 | 1,773 |
| Contributions by scheme participants | 10,639 | 28 | |
| *Remeasurement (gains) and losses:* | | | |
| Actuarial gains and losses arising from changes in demographic assumptions | 16,207 | (1,377) | 628 |
| Actuarial gains and losses arising from changes in financial assumptions | 435,569 | 7,480 | 8,566 |
| Other (if applicable) | 12,594 | (1,401) | (1,204) |
| Past service costs | 460 | 1 | |
| Losses/(gains) on curtailment | 4,298 | | |
| Liabilities assumed on entity combinations | | | |
| Benefits paid | (42,686) | (2,323) | (3,413) |
| Liabilities extinguished on settlements | | | |
| **Balance as at 31 March 2017** | **2,008,009** | **46,910** | **57,188** |

| Reconciliation of present value of the scheme liabilities 2015/16 | Funded Liabilities Islington Council Pension Fund | Funded Liabilities London Pensions Fund Authority | Unfunded Liabilities Discretionary Benefits |
|---|---|---|---|
| | £'000 | £'000 | £'000 |
| **Balance as at 1 April 2015** | **1,568,064** | **46,983** | **55,213** |
| Current service costs | 37,082 | 163 | |
| Interest cost | 49,656 | 1,371 | 1,695 |
| Contributions by scheme participants | 10,567 | 30 | |
| *Remeasurement (gains) and losses:* | | | |
| Actuarial gains and losses arising from changes in demographic assumptions | | | |
| Actuarial gains and losses arising from changes in financial assumptions | (140,225) | (2,950) | (2,619) |
| Other (if applicable) | | | 5 |
| Past service costs | 277 | | |
| Losses/(gains) on curtailment | 2,394 | | |
| Liabilities assumed on entity combinations | | | |
| Benefits paid | (43,239) | (2,614) | (3,456) |
| Liabilities extinguished on settlements | | | |
| **Balance as at 31 March 2016** | **1,484,576** | **42,983** | **50,838** |

## 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 2016/17 | Funded Liabilities Islington Council Pension Fund | Funded Liabilities London Pension Fund Authority | Unfunded Liabilities Discretionary Benefits |
|---|---|---|---|
| | £'000 | £'000 | £'000 |
| **Opening Fair Value of Scheme Assets as at 1 April 2016** | **967,580** | **40,478** | **0** |
| Interest Income | 35,809 | 1,304 | - |
| *Remeasurement gain/(loss)* | | | |
| The return on plan assets, excluding the amount included in the net interest expense | 193,653 | 6,822 | - |
| Other (if applicable) | | 149 | - |
| Business combinations | | | - |
| Settlements | | | |
| Contributions by the employer | 33,025 | 338 | 3,413 |
| Contributions by scheme participants | 10,639 | 28 | - |
| Benefits paid | (42,686) | (2,324) | (3,413) |
| Administration expenses | (1,077) | (53) | |
| **Closing Fair Value of Scheme Assets as at 31 March 2017** | **1,196,943** | **46,742** | **0** |

| Reconciliation of the Movements in the Fair Value of Scheme Assets 2015/16 | Funded Liabilities Islington Council Pension Fund £'000 | Funded Liabilities London Pension Fund Authority £'000 | Unfunded Liabilities Discretionary Benefits £'000 |
|---|---|---|---|
| **Opening Fair Value of Scheme Assets as at 1 April 2015** | **983,833** | **43,118** | **0** |
| Interest Income | 31,480 | 1,260 | - |
| *Remeasurement gain/(loss)* | | | |
| The return on plan assets, excluding the amount included in the net interest expense | (47,105) | (1,581) | - |
| Other (if applicable) | | | - |
| Business combinations | | | - |
| Settlements | | | |
| Contributions by the employer | 33,114 | 330 | 3,456 |
| Contributions by scheme participants | 10,567 | 30 | - |
| Benefits paid | (43,239) | (2,614) | (3,456) |
| Administration expenses | (1,070) | (65) | |
| **Closing Fair Value of Scheme Assets as at 31 March 2016** | **967,580** | **40,478** | **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 March 2016 £000 | Fair value of scheme assets 31 March 2017 £000 |
|---|---|---|---|
| **Equities** | | | |
| UK quoted | Y | 241,747 | 287,289 |
| Private equity | N | 38,679 | 35,911 |
| Global - North America | Y | 106,369 | 155,615 |
| Global - Europe | Y | 48,349 | 83,793 |
| Global - Japan | Y | 9,670 | 11,970 |
| Global - Pacific (ex Japan) | Y | 19,340 | 23,941 |
| Global - Emerging / Other | Y | 48,349 | 71,822 |
| **Sub-total equities** | | **512,503** | **670,341** |
| **Bonds** | | | |
| UK other | Y | 193,397 | 239,407 |
| **Sub-total bonds** | | **193,397** | **239,407** |
| **Property** | | | |
| UK | Y | 145,048 | 155,615 |
| Overseas | N | 9,670 | 23,941 |
| **Sub-total property** | | **154,718** | **179,556** |
| **Alternatives** | | | |
| Class 1 | Y | **87,029** | **107,733** |
| **Cash** | | | |
| Cash accounts | Y | 19,933 | - |
| **Sub-total cash** | | **19,933** | **0** |
| **Total assets** | | **967,580** | **1,197,037** |

| Local Government Pension Scheme Assets (LPFA) | Quoted | Fair value of scheme assets 31 March 2016 £000 | 31 March 2017 £000 |
|---|---|---|---|
| **Equities** | | | |
| Global | Y | 15,300 | 22,900 |
| Investment funds unquoted | N | - | - |
| Private equity | N | 3,521 | 4,907 |
| **Sub-total equities** | | **18,822** | **27,807** |
| **Bonds** | | | |
| LDI | N | 4,088 | - |
| Target return | Y | - | - |
| Alternative debt | N | 1,376 | 1,682 |
| Total return quoted | Y | 2,267 | 4,767 |
| Total return unquoted | N | 2,145 | 2,010 |
| Investment funds and unit trusts quoted | Y | 1,052 | 1,262 |
| Investment funds and unit trusts unquoted | N | 1,781 | 93 |
| **Sub-total bonds** | | **12,710** | **9,814** |
| **Alternatives** | | | |
| Infrastructure | N | 2,186 | 2,430 |
| Property funds | N | 1,457 | 2,383 |
| Commodity funds | Y | 162 | - |
| Cash | Y | 5,464 | 7,851 |
| Cash | N | - | (3,552) |
| Derivatives | N | (324) | - |
| **Sub-total alternatives** | | **8,945** | **9,113** |
| **Total assets** | | **40,477** | **46,735** |

**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 31 March 2016.

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 16 | 31 March 17 | 31 March 16 | 31 March 17 | 31 March 16 | 31 March 17 |
| **Mortality assumptions** | | | | | | |
| Longevity at 65 for current pensioners (in years): | | | | | | |
| Men | 22.6 | 22.9 | 21 | 20.4 | 22.6 | 22.9 |
| Women | 25.3 | 26.1 | 24.5 | 23.5 | 25.3 | 26.1 |
| Longevity at 65 for future pensioners (in years): | | | | | | |
| Men | 24.8 | 25.1 | 23.5 | 22.7 | 0.0 | 0.0 |
| Women | 27.6 | 28.4 | 26.8 | 25.8 | 0.0 | 0.0 |
| Rate of inflation | 2.0% | 2.3% | 2.0% | 2.4% | 2.0% | 2.3% |
| Rate of increase in salaries | 3.8% | 3.8% | 3.8% | 3.9% | 0.0% | 0.0% |
| Rate of increase in pensions | 2.0% | 2.3% | 2.0% | 2.4% | 2.0% | 2.3% |
| Rate of discounting scheme liabilities | 3.7% | 2.5% | 3.3% | 2.2% | 3.4% | 2.5% |

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) | 39,905 | (39,905) | 2,025 | (1,941) |
| Rate of inflation (increase or decrease by 0.1%) | 36,357 | (36,357) | 563 | (556) |
| Rate of increase in salaries (increase or decrease by 0.1%) | 5,896 | (5,896) | 17 | (17) |
| Rate of increase in pensions (increase or decrease by 0.1%) | 36,357 | (36,357) | 563 | (556) |
| Rate for discounting scheme liabilities (increase or decrease by 0.1%) | (35,722) | 35,722 | (574) | (1,941) |

**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 2016.

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 council expects to pay a total of £32m in contributions to the LGPS and LPFA schemes in 2017/18.

The weighted average duration of the defined benefit obligation for scheme members within LGPS is 18 years in 2016/17 (18 years in 2015/16), and within LPFA is 12 years in 2016/17 (14 years in 2015/16).

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**

As at 31 March 2017, the council owed LGPS £1.4m and LPFA £30k in contributions and pension strain. These balances were subsequently settled by June 2017.

## 40. 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 2016/17 the council paid £9.45m to Teacher's Pensions in respect of teachers' retirement benefits, representing 16.48% of pensionable pay. The figures for 2015/16 were £8.9m and 15.49%, respectively. Contributions of £1.2m remained payable at year-end. The contributions due to be paid in the next financial year are estimated to be £9.2m. In addition, the council is responsible for all pension payments relating to added years it has awarded, together with the related increases. In 2016/17 these amounted to £0.8m (£0.8m in 2015/16).

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 39.

**NHS Pension Scheme**

During 2013/14, NHS staff transferred to the council. These staff 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 2016/17, £131k was payable by the council to the NHS Pension Scheme in respect of former NHS staff retirement benefits, representing 14.3% of pensionable pay. The figures for 2015/16 were £139k and 14.3%, respectively.

## 41. Grant Income

The council credited the following grants and contributions to the Comprehensive Income and Expenditure Statement in 2016/17:

| Income from Grants, Contributions and Donations | 2015/16 £'000 | 2016/17 £'000 |
|---|---|---|
| **Credited to Taxation and Non-Specific Grant Income** | | |
| Revenue Support Grant | 66,506 | 52,918 |
| Top-up Grant | 20,380 | 20,550 |
| New Homes Bonus | 13,781 | 15,251 |
| Education Services Grant | 2,322 | 2,110 |
| Housing Benefits Administration Grant | 2,309 | 1,943 |
| Innovation Grant | 2,789 | 1,993 |
| Capital grants | 15,353 | 18,998 |
| Other non-specific grants | 5,290 | 4,900 |
| **Total** | **128,730** | **118,663** |
| **Credited to Services** | | |
| Dedicated Schools Grant | 160,237 | 160,264 |
| Housing Benefit Subsidy | 205,925 | 201,279 |
| Public Health Grant | 25,818 | 27,312 |
| Private Finance Initiative | 32,907 | 32,907 |
| Pupil Premium Grant | 13,869 | 13,728 |
| Sixth Form Funding | 4,059 | 4,413 |
| Free School Grant | - | 4,735 |
| Other grants and contributions | 17,052 | 16,273 |
| **Total** | **459,867** | **460,911** |

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 March 2016 £'000 | Grant Balances | 31 March 2017 £'000 |
|---|---|---|
| | **Grants Receipts in Advance - Short Term** | |
| | **Revenue Grants** | |
| (3,305) | Dedicated Schools Grant | (1,238) |
| (2,260) | Growth Deal for London | - |
| (3,323) | Other government grants balances | (121) |
| - | Other contributions | (144) |
| **(8,888)** | **Total** | **(1,503)** |
| | **Capital Grants** | |
| (998) | Government grants | (1,007) |
| (5,026) | s106 contributions | (5,015) |
| (33) | Third party contributions | (33) |
| **(6,057)** | **Total** | **(6,055)** |
| | **Grants Receipts in Advance - Long Term** | |
| | **Capital Grants** | |
| (161) | Government grants | (350) |
| (25,935) | s106 contributions | (28,888) |
| - | Third party contributions | - |
| **(26,096)** | **Total** | **(29,238)** |

## 42. Dedicated Schools Grant

The council's expenditure on schools is funded primarily by the Dedicated Schools Grant (DSG) provided by the Department for Education. 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 must be accounted for separately. Details of the deployment of DSG receivable for 2016/17 are as follows:

| Schools Budget funded by Dedicated Schools Grant | Central Expenditure | Individual Schools Budget | Total |
|---|---|---|---|
| | *£'000* | *£'000* | *£'000* |
| Final DSG for 2016/17 before Academy recoupment | - | - | 173,539 |
| Academy recoupment 2016/17 | - | - | (15,342) |
| **Total DSG after Academy recoupment for 2016/17** | **0** | **0** | **158,197** |
| Brought forward from 2015/16 | 3,305 | - | 3,305 |
| Carry forward to 2016/17 agreed in advance | - | - | - |
| **Agreed initial budgeted distribution for 2016/17** | **23,353** | **134,806** | **158,159** |
| In-year adjustments | 38 | - | 38 |
| **Final budgeted distribution for 2016/17** | **23,391** | **134,806** | **158,197** |
| less Actual Central Expenditure | (22,153) | - | (22,153) |
| less Actual ISB deployed to schools | - | (134,806) | (134,806) |
| plus local authority contribution for 2016/17 | - | - | - |
| **Carry forward to 2017/18 agreed in advance** | **1,238** | **0** | **1,238** |

## 43. Trust Funds and Other Third Party Funds

The council does not act as sole trustee 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 £27.4m as at 31 March 2017 (£28.4m as at 31 March 2016) and mainly relate to money held for vulnerable individuals living in their own homes or in residential homes.

## 44. Other items

The council did not have any of the following in 2016/17 or 2015/16:

- acquired or discontinued operations
- road charging schemes or workplace charging levies under the Transport Act 2000
- construction contracts on behalf of third parties
- impairment losses charged to the CIES
- capitalisation of borrowing costs

# 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

| 2015/16 £'000 | Housing Revenue Account Income and Expenditure Statement | 2016/17 £'000 |
|---|---|---|
| | **Expenditure** | |
| 30,463 | Repairs and Maintenance | 31,604 |
| 96,038 | Supervision and Management | 94,772 |
| 726 | Rents, Rates, Taxes and Other Charges | 827 |
| 23,039 | Depreciation of non-current Assets | 31,997 |
| 22,326 | Loss on Revaluation of non-current Assets | 44,198 |
| 287 | Debt Management Costs | 291 |
| 498 | Movement in the allowance for bad debts | 935 |
| **173,377** | **Total Expenditure** | **204,624** |
| | **Income** | |
| (153,158) | Dwellings Rents (gross) | (152,047) |
| (2,803) | Non-Dwellings Rents (gross) | (1,823) |
| (33,448) | Charges for Services & Facilities | (36,765) |
| (816) | Transfers from General Fund - Communal Use | (816) |
| (22,855) | PFI Government grant receivable | (22,855) |
| **(213,080)** | **Total Income** | **(214,306)** |
| **(39,703)** | **Net Cost of Services as included in the comprehensive Income and Expenditure Statement** | **(9,682)** |
| 2,891 | HRA services' share of Corporate and Democratic Core | 2,882 |
| **(36,812)** | **Net (Income) / Cost of HRA Services** | **(6,800)** |

| | HRA share of the operating income and expenditure included in the comprehensive Income and Expenditure Statement: | |
|---|---|---|
| (20,668) | Gain or loss on sale of property, plant & equipment | (21,386) |
| 13 | Gain or loss on sale of investment properties | - |
| (1,983) | Gain or loss on revaluation of investment properties | 553 |
| 27,907 | Interest payable and similar charges | 25,650 |
| (3,658) | Capital Grants and Contributions receivable | (4,617) |
| (475) | Interest and investment income | (577) |
| **(35,676)** | **(Surplus)/Deficit for the year on HRA Services** | **(7,177)** |

## 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.

| 2015/16 £'000 | Movement on the HRA Statement | 2016/17 £'000 |
|---|---|---|
| **(13,543)** | **Balance on the HRA at the end of the previous year** | **(14,773)** |
| (35,675) | (Surplus) or Deficit for year on the HRA Income and Expenditure Account | (7,177) |
| 13,157 | Adjustments between accounting basis and funding basis under statute | (13,663) |
| **(22,518)** | **Net (Increase) or decrease before transfers to or from reserves** | **(20,840)** |
| 21,288 | Transfers to / (from) reserves | 18,092 |
| **(1,230)** | **(Increase) or decrease in year on the HRA** | **(2,748)** |
| **(14,773)** | **Balance on the HRA at the end of the current year:** | **(17,521)** |

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

| 2015/16 £'000 | Note on Reconciling Items for the HRA Balance | 2016/17 £'000 |
|---|---|---|
| | **Adjustments between accounting basis and funding basis under statute** | |
| 3,658 | Capital Grants received transferred to Grants Reserve | 4,617 |
| 6,191 | Repayment of PFI / lease liabilities | 6,727 |
| 20,527 | Gain or loss on sale of HRA non-current assets | 21,384 |
| (22,773) | Gain or loss on revaluation of council dwellings | (44,612) |
| (5,530) | Reversal of charges made for retirement benefits in accordance with IAS 19 | (5,304) |
| (87) | Differences between interest payable and similar charges including amortisation of premiums and discounts | (3) |
| 3,212 | Employer's contributions payable to the Pension Fund and retirement benefits payable direct to pensioners | 4,021 |
| (32) | Difference between any other item of income and expenditure determined in accordance with the Code and determined in accordance with statutory HRA requirements | (141) |
| (461) | Capital Receipts funding of Disposal Costs | (353) |
| (23,039) | Transfer from Capital Adjustment Account equivalent to depreciation | (31,998) |
| - | Capital Expenditure funded by the HRA | - |
| 31,491 | Transfers to/(from) Major Repairs Reserve | 31,998 |
| | **Transfer to / from earmarked reserves** | |
| - | Transfer to/(from) PFI Smoothing Fund | - |
| 563 | Transfer to/(from) Tenants' Heating & Hot Water Reserve | 546 |
| 20,725 | Amounts transferred to/(from) HRA Reserve | 17,546 |
| **34,445** | **Net additional amount required by statute to be debited or credited to the HRA Balance for the year** | **4,428** |

## Notes to the Housing Revenue Account

### 1. Number and Types of Dwellings

The number and types of dwellings in the council's housing stock are shown below.

| 31 March 2016 Nos | Housing stock numbers | 31 March 2017 Nos |
|---|---|---|
| 22,931 | Flats | 22,816 |
| 2,437 | Houses | 2,429 |
| - | Multiple Occupation | - |
| **25,369** | **Total** | **25,245** |

### 2. Value of Dwellings

The value of council dwellings as at 31 March 2017 was £3.0 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% (25% in 2015/16), which means that the vacant possession value of the dwellings within the HRA as at 31 March 2017 is £11.9 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.

| 31 March 2016 £'000 | Housing Stock - Value | 31 March 2017 £'000 |
|---|---|---|
| | **Operational Assets** | |
| 2,880,725 | Council Dwellings | 2,980,384 |
| | **Other** | |
| 24,146 | Other Land & Buildings | 21,310 |
| 19,592 | Infrastructure assets | 19,948 |
| 95 | Vehicles, Plant & Equipment | 992 |
| 87 | Surplus non-operational assets | 40 |
| 3 | Community Assets | 3 |
| 13,013 | Investment Properties | 1,994 |
| 25,533 | Assets under Construction | 31,922 |
| **2,963,194** | **Total** | **3,056,593** |

### 3. Major Repairs Reserve

Expenditure financed from the Major Repairs Reserve amounted to £42.3m in 2016/17 (£37.6m in 2015/16).

| 2015/16 £'000 | Major Repairs Reserve | 2016/17 £'000 |
|---|---|---|
| **(73,983)** | **Balance as at 1 April** | **(67,881)** |
| (23,039) | Transfer from HRA equivalent to HRA depreciation | (31,998) |
| (8,451) | Other transfer to/(from) HRA | |
| 37,592 | Capital Expenditure on Dwellings | 42,276 |
| **(67,881)** | **Balance as at 31 March** | **(57,603)** |

### 4. Capital Expenditure and Capital Receipts

The council spent £77.2m on the housing stock in 2016/17 (£65m in 2015/16). Capital receipts in year amounted to £35.3m of which £3.8m was paid to central government.

| 2015/16 £'000 | HRA Capital Expenditure | 2016/17 £'000 |
|---|---|---|
| 60,513 | Works to HRA Dwellings / Other Properties | 68,582 |
| 4,506 | REFCUS | 8,603 |
| **65,019** | **Total** | **77,185** |

| 2015/16 £'000 | Capital Expenditure by Funding Source | 2016/17 £'000 |
|---|---|---|
| - | Borrowing | - |
| (22,867) | Usable Capital receipts | (30,293) |
| - | Revenue Contributions | - |
| (37,592) | Major Repairs Reserve | (42,276) |
| (4,560) | Other | (4,616) |
| **(65,019)** | **Total** | **(77,185)** |

| 2015/16 £'000 | Summary of Capital Receipts | 2016/17 £'000 |
|---|---|---|
| 32,319 | Usable | 31,518 |
| 3,978 | Paid to the government Housing Capital Receipts Pool | 3,816 |
| **36,297** | **Total** | **35,334** |

## 5. Depreciation

The amount included in the Housing Revenue Account Income and Expenditure Account for depreciation amounted to £32.0m (£23.0m in 2015/16).

| 2015/16 £'000 | Depreciation | 2016/17 £'000 |
|---|---|---|
| 20,181 | Council Dwellings | 29,397 |
| 879 | Other Land & Buildings | 639 |
| 1,124 | Infrastructure Assets | 1,156 |
| 826 | Vehicles, Plant & Equipment | 806 |
| 1 | Surplus non-operational assets and Community Assets | - |
| 28 | Intangible Assets | - |
| **23,039** | **Total Depreciation** | **31,998** |

## 6. Contribution to Pension Reserve

HRA share of the contribution to the Pension Reserve in 2016/17 was £1.3m (£2.3m in 2015/16).

## 7. Rent Arrears

Outstanding rent arrears as at 31 March 2017 were £5.4m. The amounts outstanding as at 31 March 2016 were £5m. During 2016/17, irrecoverable rent arrears of £0.5m were written off. The cumulative bad debt provision for rent arrears within the HRA account is £3.1m. The table below shows rent arrears in 2015/16 and 2016/17.

| 2015/16 £'000 | Rent Arrears | 2016/17 £'000 |
|---|---|---|
| 2,670 | Current tenants | 2,814 |
| 2,327 | Former tenants | 2,637 |
| **4,997** | **Total** | **5,451** |

# 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

| 2015/16 Council Tax £'000 | 2015/16 Non-Domestic Rates £'000 | 2015/16 Total £'000 | Summary of Income and Expenditure Account as at 31st March 2017 | 2016/17 Council Tax £'000 | 2016/17 Non-Domestic Rates £'000 | 2016/17 TOTAL £'000 |
|---|---|---|---|---|---|---|
| | | | **Income** | | | |
| (98,064) | (201,363) | (299,427) | Income collectable from Taxpayers (net of benefits, discounts for prompt payments and reliefs) | (101,519) | (216,059) | (317,578) |
| - | (5,374) | (5,374) | Business Rate Supplement Income | | (5,612) | (5,612) |
| | | | **Transfers from General Fund** | | | |
| - | | - | Council Tax Benefits | | | - |
| | 555 | 555 | Transitional Relief | | 2,366 | 2,366 |
| | | - | Discounts for Prompt Payment | - | | - |
| | | | **Contributions** | | | |
| | | - | Towards previous year's Collection Fund Deficit | - | - | - |
| | | - | Adjustment of previous years' community charge | | | - |
| **(98,064)** | **(206,182)** | **(304,246)** | **Total Income** | **(101,519)** | **(219,305)** | **(320,824)** |
| | | | **Expenditure** | | | |
| | | | **Precepts, Payments & Demands** | | | |
| 15 | | 15 | Lloyd Square | 16 | | 16 |
| 21,240 | 38,192 | 59,432 | Greater London Authority | 20,794 | 38,507 | 59,301 |
| | 5,331 | 5,331 | BRS Payments | | 5,569 | 5,569 |
| 70,634 | 57,288 | 127,922 | London Borough of Islington | 76,858 | 57,760 | 134,618 |
| | 95,481 | 95,481 | Payments with respect to Central Share | | 96,267 | 96,267 |
| **91,889** | **196,292** | **288,181** | **Total Precepts & Demands** | **97,667** | **198,103** | **295,771** |
| | | | **Collection & Admin Costs** | | | |
| | 645 | 645 | Costs of Collection | | 644 | 644 |
| | 42 | 42 | BRS Administrative Costs | | 43 | 43 |
| | | | **Other Transfers to the General Fund** | | | |
| | 60 | 60 | Renewable Energy Schemes | | 62 | 62 |
| | | | **Contributions** | | | |
| | | | Towards previous year's Collection Fund Surplus | | | |
| 3,843 | - | 3,843 | London Borough of Islington | 3,057 | - | 3,057 |
| 1,194 | - | 1,194 | Greater London Authority | 919 | - | 919 |
| - | - | - | Central Government | - | - | - |
| - | - | - | Adjustment of previous years' community charge | - | - | - |
| | | | **Bad and Doubtful Debts / Appeals** | | | |
| 27 | 49 | 76 | Current Year Write Offs | 22 | 104 | 126 |
| | 9,858 | 9,858 | Appeals Provision | | 11,396 | 11,396 |
| 2,043 | 1,027 | 3,070 | Allowance for Bad Debts Provisions | 2,608 | 2,587 | 5,195 |
| **98,996** | **207,973** | **306,969** | **Total Expenditure** | **104,274** | **212,939** | **317,213** |
| **932** | **1,791** | **2,723** | **(Surplus) / Deficit for the Year** | **2,754** | **(6,366)** | **(3,611)** |

| | | | Collection Fund Account Reserves | | | |
|---|---|---|---|---|---|---|
| (6,832) | (1,784) | (8,616) | (Surplus)/Deficit brought forward | (5,900) | 7 | (5,893) |
| 932 | 1,791 | 2,723 | (Surplus)/Deficit for the year | 2,754 | (6,365) | (3,611) |
| **(5,900)** | **7** | **(5,893)** | **Closing Collection Fund Balance** | **(3,146)** | **(6,358)** | **(9,504)** |

| | | | Current Share of (Surplus)/Deficit | | | |
|---|---|---|---|---|---|---|
| (4,644) | 2 | (4,642) | London Borough of Islington | (2,478) | (1,907) | (4,385) |
| (1,256) | 1 | (1,255) | Greater London Authority | (668) | (1,272) | (1,940) |
| | 4 | 4 | Central Government | | (3,179) | (3,179) |
| **(5,900)** | **7** | **(5,893)** | **Total (Surplus)/Deficit c/f** | **(3,146)** | **(6,358)** | **(9,504)** |

## 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 2016/17 council tax income is made up of following adjustments:

| 2015/16 £'000 | Council Tax Income | 2016/17 £'000 |
|---|---|---|
| (144,146) | Gross Opening Charge | (148,130) |
| | Less: Adjustments | |
| 8,696 | Exemptions | 9,128 |
| 56 | Disabled Relief | 71 |
| 12,697 | Discounts | 12,691 |
| - | Other Adjustments | - |
| 24,633 | Council Tax Support | 24,721 |
| **(98,064)** | **Income collectable from Taxpayers** | **(101,519)** |

The above discounts figure include localised discounts £616k; mainly older person discounts £451k and cash back £165k, the cost of which is absorbed by Collection Fund. The £100 council tax discount is awarded to Islington residents, where taxpayer or their partner is 65 or over on 1 April 2016 and are legally responsible for paying council tax at their property.

### C2. Council Tax Base

In 2016/17, there were estimated gross adjusted 100,270 residential properties in Islington (99,172 in 2015/16) which were placed in one of 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 number of band D equivalents dwellings to give a tax base.

The tax base for council tax setting purposes for Islington was 75,340 equivalent Band D properties, (72,001 in 2015/16) and this was used to cover the net expenditure of the authorities that precept the Collection Fund. The table below shows the number of properties in each band and the number of Band D equivalent properties. The 2016/17 band D equivalent council tax including precepts was £1,296.15.

| Bands | 2016/17 Actual Net Chargeable Dwellings as at 31/03/17 No. of dwellings | 2016/17 Council Tax incl precepts £ | 2016/17 Net CTS of Chargeable dwellings at tax setting No. of dwellings | Proportion of Band D Charges % | 2016/17 Band D Equivalent Dwellings at Tax Base for Tax Setting No. of dwellings | 2015/16 Band D Equivalent Dwellings at tax setting. No. of dwellings |
|---|---|---|---|---|---|---|
| A | 1,683 | 864.10 | 1,002 | 66.7% | 668 | 691 |
| B | 5,873 | 1,008.12 | 3,210 | 77.8% | 2,497 | 2,414 |
| C | 28,631 | 1,152.13 | 17,229 | 88.9% | 15,315 | 14,908 |
| D | 30,964 | 1,296.15 | 21,514 | 100.0% | 21,514 | 21,158 |
| E | 17,052 | 1,584.18 | 13,040 | 122.2% | 15,938 | 15,647 |
| F | 8,495 | 1,872.22 | 6,949 | 144.4% | 10,036 | 9,827 |
| G | 6,694 | 2,160.26 | 6,004 | 166.7% | 10,007 | 9,887 |
| H | 878 | 2,592.30 | 848 | 200.0% | 1,695 | 1,659 |
| **Total** | **100,270** | | **69,795** | | | |
| **Total Band D Equivalents Dwellings** | | | | | **77,670** | **76,191** |
| Budgeted Collection Rate | | | | | 97.00% | 94.50% |
| **Net Collection Rate Band D Equivalents Dwellings** | | | | | **75,340** | **72,001** |

## 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 2016/17 is 48.4p and the higher non-domestic rating multiplier is 49.7p.

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 rest with the precepting bodies. Local Authorities were required to estimate the amount of business rates to be collected and paid over to the precepting bodies, Central Government, and the Greater London Authority.

As part of localisation the council also 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 2016/17.

The total non-domestic rateable value as at 31 March 2017 was £500m (£496m as at 31 March 2016). The rateable value of the borough has increased after the revaluation of all commercial properties in 2010 by the Valuation Office. However growth was partly offset by transitional protection arrangements, which limits the increase with a phasing over a period of five years.

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

| 2015/16 £'000 | Business Rates (NDR) | 2016/17 £'000 |
|---|---|---|
| **(242,648)** | **Gross rates and empty rates due at the end of the year** | (250,595) |
| | *Less allowance and adjustments:* | |
| 5,575 | NDR Payable in respect of previous years | 5,660 |
| (555) | Transitional Protection Payments | (2,366) |
| 20,293 | Mandatory Relief | 18,349 |
| 8,948 | Unoccupied Property Relief | 8,045 |
| 2,576 | Retail Relief | 94 |
| 3,489 | Small Business Rate Relief | 3,756 |
| 956 | Discretionary Relief | 998 |
| 2 | Interests | - |
| **41,284** | **Total Reliefs and Adjustments** | **34,536** |
| **(201,364)** | **Net Rates Payable After Reliefs and adjustments** | **(216,059)** |
| 645 | Costs of Collection | 644 |
| 555 | Transitional Protection Payments | 2,366 |
| 60 | Disregarded Renewable Energy | 62 |
| 1,076 | Losses in collection | 2,691 |
| 9,858 | Appeals Provision | 11,396 |
| **(189,170)** | **Actual Non Domestic Rating Income** | **(198,900)** |

## C4. Business Rates Supplement (BRS) - Crossrail.

The BRS is levied by the Greater London Authority on non-domestic properties with a rateable value of £55,000 or more.

The aggregate rateable value of properties liable for BRS on 31 March 2017 was £356m (£356m as at 31 March 2016). The multiplier for the year was 2.0p, giving a possible BRS income of £7.1m.

After allowable adjustments, the collectable income from BRS payers for 2016/17 was £5.612m (£5.374m in 2015/16). The £5.569m (£5.331m in 2015/16) payable to the GLA is net of £0.043m (£0.043m in 2015/16) collection costs and other adjustments retained by the council.

| 2015/16 £'000 | Business Rates Supplement (Crossrail) | 2016/17 £'000 |
|---|---|---|
| **(5,374)** | **BRS Due At Year End** | **(5,612)** |
| | *Less allowance and adjustments:* | |
| - | Refund of overpayments | - |
| 23 | Losses in collection | 27 |
| **23** | **Total** | **27** |
| **(5,351)** | **Income due from Business Ratepayers** | **(5,585)** |
| 20 | Costs of Collection | 16 |
| **(5,331)** | **Total** | **(5,569)** |

## C5. Collection Fund Share of (Surplus)/Deficit

The surplus and deficit within the Collection Fund is 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 in accordance with the tax base declaration. The final balance on NDR account is also paid in the following year, however, apportionment is set with the council precepting partners, Central Government (50%), Greater London Authority (20%) and the rest is retained by 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 Local Government Pension Scheme Regulations 2013 (as amended ( "the 2013 Regulations") and the Local Government Pension Scheme ( Transitional Provisions, Saving and Amendment) Regulations 2014 ("2014 Transitional Regulations") (collectively; "the Regulations" provide the statutory framework from which the administering Authority is required to 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 2016/17 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 Audit Committee and has fully delegated authority to make investment decisions. The Committee obtains and considers advice from the Corporate Director of Resources, 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 £28.2million) and Standard Life (total commitment £48.1 million). The fund also has one fund of funds private global property manager, Franklin Templeton Fund 1 and Fund II (total commitment £50 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:

https://www.islington.gov.uk/about-the-council/apply-for-a-job/council-pension-scheme

Power is given in The Local Government Pension Scheme Regulations 2013 (as amended) ("the 2013 Regulations" and the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 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 |
| Tech City(formerly Stem 6th) | Scheduled Body |
| Elliot Foundation Academy | Scheduled Body |
| Family School Academy | Scheduled Body |
| The Bridge Free School | Scheduled Body |
| Volunteering Matters (formerly CSV) | 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 |
| Engie Services Ltd(Cofely Workplace Ltd) | 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 |
| W J Catering | Admitted Body |
| Isledon Arts CIC | Admitted Body |

There are also thirteen 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

Aquaterra

## 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 2016/17 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 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 2017.

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 as at 31 March 2017.

**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.

The code does not require any breakdown of pension fund administrative expenses. However, in the interests of greater transparency, the council discloses its pension fund management expenses in accordance with the CIPFA guidance accounting for Local Government Pension Scheme Management Costs.

Administrative expenses

All administrative expenses are accounted for on an accrual basis. All staff costs of the pension's administration team are charged direct to the fund. Associated management, central establishment, computer recharges, accommodation and other overheads are apportioned to this activity and charged as expenses to the fund.

Oversight and governance costs

All oversight and governance expenses are accounted for on an accrual basis. All staff costs associated with governance and oversight is charged direct to the fund. Associated management advisory services, accommodation and other overheads are apportioned to this activity and charged as expenses to the fund.

Investment management expenses

All investment management expenses are accounted for an accrual basis.
Fees of the external investment managers and custodian are agreed in the respective mandates governing their appointments. Broadly, these are based on the market value of the investments under their management and therefore increase or reduce as the value of these investments change.

All expenses are recognised on an accrual 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 2016/17 amounted to £106.46 and the value of the fund as at 31 March 2017 was £1.4m.

**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

| 2015/16 £'000 | Pension Fund Account (dealing with members, employers and others directly involved in the scheme) | 2016/17 £'000 | Note |
|---|---|---|---|
| | **Income** | | |
| 34,862 | Employer contributions | 35,920 | 2a |
| 11,159 | Members contributions | 11,609 | 2 |
| 1,917 | Transfers in from other pension funds | 2,785 | 3 |
| 2,623 | Other Income | 2,297 | 4 |
| **50,561** | **Total Income** | **52,611** | |
| | **Expenditure** | | |
| (52,014) | Benefits payable | (52,283) | 5 |
| (1,653) | Payment to and on account of leavers | (2,951) | 6 |
| **(53,667)** | **Total Expenditure** | **(55,234)** | |
| **(3,474)** | **Management Expenses** | **(2,370)** | **7** |
| **(6,580)** | **Net additions/ (withdrawals) from dealing with members** | **(4,993)** | |
| | **Returns on investments** | | |
| 12,762 | Investment income | 8,106 | 8 |
| (9,576) | Change in market value (realised & unrealised) | 167,981 | |
| **3,186** | **Total Returns on investments** | **176,087** | |
| | **Net return on investments** | | |
| (3,394) | Net increase/decrease in fund in year | 171,094 | |
| **1,087,177** | **Opening net assets of the scheme** | **1,083,783** | |
| **1,083,783** | **Closing net assets of the scheme** | **1,254,877** | |

## Net Assets Statement

| 2015/16 £'000 | Net Assets Statement for the year ended 31 March 2015 | 2016/17 £'000 | Note |
|---|---|---|---|
| | **Investments** | | |
| 1,068,813 | Investment assets | 1,222,614 | 9 |
| 14,492 | Other Investment and Cash | 30,995 | 9 |
| **1,083,305** | **Total Investments** | **1,253,609** | |
| | **Current Assets and Liabilities** | | |
| 5,609 | Current assets | 10,942 | 10 |
| (5,131) | Current liabilities | (9,674) | 11 |
| **478** | **Net Current Assets** | **1,268** | |
| **1,083,783** | **Net assets of the scheme at 31 March** | **1,254,877** | |

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 statement of accounts summarises the fund's transactions for the 2016/17 financial year and its positions as at 31 March 2017. The accounts have been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom 2016/17* which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits. The accounts do not take account of future liabilities to pay pensions and other benefits which fall due after the end of financial year.

The actuarial present value of promised retirement benefits, valued on an International Accounting Standard (IAS) 19 basis, is disclosed in Note 14 of these accounts.

The 2016/17 Code introduces a number of minor changes to the format of the Fund Account and the Net Assets Statement, making it consistent with the new 2015 Pensions SORP. The information for 2015/16 in the Fund Account and Net Assets Statement has been restated to reflect the new reporting format, as required by the Code.

## 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* | |
|---|---|---|---|---|---|---|
| | 2015/16 | 2016/17 | 2015/16 | 2016/17 | 2015/16 | 2016/17 |
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| **Administering Authority** | | | | | | |
| Islington Council | 30,769 | 30,038 | - | | 2,267 | 3,324 |
| **Scheduled Bodies** | | | | | | |
| St Mary Magdalene | 244 | 187 | - | - | - | - |
| City of London Academy | 110 | 112 | - | - | - | - |
| New North Community School | 90 | 77 | - | - | - | - |
| William Tyndale School | 67 | 86 | - | - | - | - |
| The Courtyard School | 20 | 20 | - | - | - | - |
| Tech City (Stem 6th form Academy) | 5 | 11 | - | - | - | - |
| Elliot Foundation | 13 | 41 | - | - | - | - |
| The Bridge School Academy | 23 | 11 | | | | |
| Family School Academy | 1 | 9 | | | | |
| Whitehall Park School | 4 | - | - | - | - | - |
| **Admitted bodies** | | | | | | |
| Volunteering Matters(CSV) | 626 | 615 | - | | - | - |
| Aquaterra | - | - | - | - | - | - |
| Circle Anglia | 18 | 6 | - | | - | 810 |
| Camden & Islington NHS Foundation Trust | 135 | 79 | - | - | - | |
| Brunswick | - | 1 | - | - | - | - |
| NCP Services (Islington South) | 22 | 21 | - | - | - | - |
| SSE Contracting Ltd (Islington Lighting) | 20 | 11 | - | - | - | - |
| Southern Housing Group | 6 | 6 | - | - | - | - |
| Braithwaite | 4 | 5 | - | - | - | - |
| Pleydell | 16 | 17 | - | - | - | - |
| Caterlink | 144 | 158 | - | - | - | - |
| Mouchel Parkman | - | - | - | - | - | - |
| Engie Services Ltd(Cofely Workplace Ltd) | 97 | 135 | - | - | - | - |
| R M Education | 9 | 9 | - | - | - | - |
| **Kier support Services | - | - | - | - | | |
| Breyer Group | 18 | 6 | - | - | - | - |
| Mears Ltd | 35 | 31 | - | - | - | - |
| WJ Catering | 5 | 3 | | | | |
| Isledon Arts CIC | 11 | 9 | | | | |
| Greenwich Leisure Ltd | 83 | 82 | - | - | - | - |
| **Totals** | 32,595 | 31,786 | 0 | 0 | 2,267 | 4,134 |

*Note 15 provides further information regarding "Strain Recovery"

* *One off payment owed to Kier as per 2013 valuation

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) | |
|---|---|---|
| | 2015/16 | 2016/17 |
| | £'000 | £'000 |
| **Administering Authority** | | |
| Islington Council | 10,675 | 11,077 |
| **Scheduled Bodies** | | |
| St Mary Magdalene | 130 | 100 |
| City of London Academy | 53 | 56 |
| New North Community School | 26 | 31 |
| William Tyndale School | 16 | 24 |
| The Courtyard School | 11 | 11 |
| Tech City (Stem 6th form Academy) | 5 | 14 |
| Elliot Foundation | 12 | 50 |
| Bridge School Academy | 8 | 10 |
| Family School Academy | - | 4 |
| Whitehall Park School | 2 | - |
| **Admitted bodies** | | |
| Volunteering Matters (CSV) | 21 | - |
| Brunswick | - | 1 |
| Circle Anglia | 1 | - |
| Camden & Islington NHS Foundation Trust | 18 | 24 |
| NCP Services (Islington South) | 9 | 9 |
| SSE Contracting Ltd (Islington Lighting) | 5 | 2 |
| Southern Housing Group | 2 | 1 |
| Braithwaite | 2 | 2 |
| Pleydell | 6 | 7 |
| Caterlink | 54 | 79 |
| Engie Ltd (Cofely Workplace Ltd ) | 36 | 47 |
| R M Education | 5 | 5 |
| Kier Support Services | - | - |
| Breyer Group | 8 | 4 |
| Mears Ltd | 12 | 11 |
| WJ Catering | 1 | 1 |
| Isledon ArtsCIC | 5 | 3 |
| Greenwich Leisure Ltd | 36 | 36 |
| **Totals** | **11,159** | **11,609** |

## 3. Transfers in

| 2015/16 £'000 | Transfers in | 2016/17 £'000 |
|---|---|---|
| - | Group transfers in from other schemes | - |
| 1,917 | Individual transfers in from other schemes | 2,785 |
| **1,917** | **Total transfers in** | **2,785** |

## 4. Other Income

| 2015/16 £'000 | Other Income | 2016/17 £'000 |
|---|---|---|
| 0 | Income from Other Investments | 0 |
| 0 | Interest | 0 |
| 2,623 | Other | 2,297 |
| **2,623** | **Total other income** | **2,297** |

## 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 | |
|---|---|---|---|---|---|---|
| | 2015/16 | 2016/17 | 2015/16 | 2016/17 | 2015/16 | 2016/17 |
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| **Administering Authority** | | | | | | |
| Islington Council | 37,537 | 39,246 | 9,728 | 8,534 | 1,317 | 1,041 |
| **Scheduled Bodies** | | | | | | |
| St Mary Magdalene | 12 | 22 | 80 | 1 | - | - |
| City of London Academy | 28 | 28 | 49 | - | 24 | - |
| William Tyndale School | 5 | 19 | - | - | - | - |
| New North Community School | 9 | 9 | - | - | - | - |
| **Admitted bodies** | | | | | | |
| Volunteering Matters (CSV) | 1,017 | 1,041 | 184 | 206 | | |
| Aquaterra | 223 | 220 | 27 | - | - | - |
| Circle Anglia | 58 | 65 | | 64 | - | - |
| Camden & Islington NHS Foundation Trust | 51 | 51 | - | - | - | - |
| CEA | 807 | 804 | 4 | - | - | - |
| FSST | 5 | 4 | - | - | - | - |
| Kier Islington Ltd (Caxton) | 587 | 585 | - | - | - | - |
| NCP Services (Islington South) | 33 | 33 | | | - | - |
| SSE Contracting Ltd (Islington Lighting) | 36 | 52 | | | - | - |
| Redbrick | 2 | 2 | - | - | - | - |
| Mouchel Parkman | 31 | 31 | - | - | - | - |
| St Lukes | 2 | 2 | - | - | - | - |
| ALA | 17 | 17 | | | - | - |
| Brunswick | 9 | 9 | - | - | - | - |
| Cushman & Wakefield LLP | 7 | 8 | - | - | - | - |
| London Property Maintenance | - | - | - | - | - | - |
| Caterlink | 12 | 14 | 9 | 2 | 22 | |
| Notting Hill Trust | 9 | 8 | - | - | - | - |
| Kier Support Services | 20 | 20 | | 6 | - | - |
| Engie Ltd (Balfour Beatty) | 9 | 13 | | | | |
| Breyers | - | 1 | | | | |
| Mears | - | 8 | | 100 | | |
| Greenwich Leisure Ltd | 16 | 17 | 27 | - | - | - |
| **Totals** | **40,542** | **42,329** | **10,108** | **8,913** | **1,363** | **1,041** |

## 6. Payments to and on Account of Leavers

| 2015/16 £'000 | Payment to and on Account of Leavers | 2016/17 £'000 |
|---|---|---|
| 95 | Refunds of Contributions | 101 |
| 1,558 | Individual Transfer | 2,850 |
| **1,653** | **Total payments to and on account of leavers** | **2,951** |

## 7. Management Expenses

| 2015/16 £'000 | Management Expenses | 2016/17 £'000 |
|---|---|---|
| 1,219 | Administrative Cost (7a) | 1,230 |
| 1898 | Investment Management Expenses (7b) | 824 |
| 357 | Oversight and Governance Cost (7c) | 316 |
| **3,474** | **Total Management Expenses** | **2,370** |

### 7(a) Administrative Expenses

| 2015/16 £'000 | Administrative expenses | 2016/17 £'000 |
|---|---|---|
| 895 | Employee Cost | 890 |
| 320 | Support services | 340 |
| 4 | Other expenses | - |
| **1,219** | **Total administrative expenses** | **1,230** |

All other costs of administration are borne by Islington Council.

### 7(b) Investment Expenses

| 2015/16 £'000 | Investment Expenses | 2016/17 £'000 |
|---|---|---|
| 1,852 | Management Fees | 761 |
| 46 | Custody Fees | 63 |
| **1,898** | **Total investment management expenses** | **824** |

### 7(c) Oversight and Governance Cost

| 2015/16 £'000 | Oversight & Covernance Cost | 2016/17 £'000 |
|---|---|---|
| 32 | Performance Management Services | 5 |
| 77 | Advisory Services Fees | 155 |
| 224 | Operation and Support | 54 |
| 3 | Actuarial Fees | 81 |
| 21 | Audit Fees | 21 |
| - | Legal Fees | - |
| **357** | **Total Oversight & Governance Cost** | **316** |

## 8. Income from Investments

| 2015/16 £'000 | Investment Income | 2016/17 £'000 |
|---|---|---|
| 15,480 | Dividends from equities | 16,797 |
| (5,062) | Income from other investments vehicles | (11,135) |
| 2,357 | Net rents from pooled investment properties | 2,494 |
| (13) | Interest on cash deposits | -50 |
| **12,762** | **Total Investment income** | **8,106** |
| - | Irrecoverable withholding tax | - |
| **12,762** | **Total Investment income** | **8,106** |

## 9. Investments

| Investments | Market value 01 Apr 16 £'000 | Purchases at cost and derivative payments £'000 | Sale proceeds and derivative receipts £'000 | Change in market value £'000 | Value as at 31 Mar 17 £'000 |
|---|---|---|---|---|---|
| Fixed interest securities | 82 | - | - | 2 | 84 |
| Indexed linked securities | 120 | - | - | 11 | 131 |
| Equities | 385,939 | 53,297 | 60,615 | 73,937 | 452,558 |
| Pooled investment vehicles (P.I.V) | 469,810 | 86,549 | 89,922 | 87,556 | 553,993 |
| Other Investment - P.I.V | - | - | - | - | - |
| Properties - P.I.V | 175,551 | 2,548 | - | 5,445 | 183,544 |
| Private Equity - P.I.V | 37,311 | 1,163 | 7,201 | 1,031 | 32,304 |
| Venture Capital | - | - | | - | - |
| **Total** | **1,068,813** | **143,557** | **157,738** | **167,982** | **1,222,614** |
| Other Investment & Cash | 14,492 | | | | 30,995 |
| **Total Investments** | **1,083,305** | | | | **1,253,609** |

*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 thorough 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 | | 2015/16 £'000 | 2016/17 £'000 |
|---|---|---|---|
| **Fixed interest securities (valued at Bid Price)** | | | |
| Fixed interest securities (valued at Bid Price) | | 82 | 84 |
| **Total Fixed interest securities** | | **82** | **84** |
| **Index -linked** | | | |
| UK public sector quoted | | 120 | 131 |
| **Total Index -linked** | | **120** | **131** |
| **Equities (valued at Bid Price)** | | | |
| UK quoted | | 216,072 | 241,930 |
| Overseas quoted | | 169,867 | 210,628 |
| **Total Equities** | | **385,939** | **452,558** |
| **Pooled investment vehicles (valued at Bid Price)** | | | |
| UK Managed Funds | Property | 100,053 | 103,359 |
| | Other : Bond | 220,821 | 244,326 |
| Overseas Managed Funds | Other : Equity | 69,784 | 97,569 |
| | Property | 19,747 | 20,667 |
| | Other : Private Equity | 37,311 | 32,304 |
| UK Unit trusts (valued at Bid Price) | Property | 55,751 | 59,518 |
| | Other | 179,205 | 212,098 |
| **Total Pooled investment vehicles** | | **682,672** | **769,841** |
| **Insurance policies** | | | |
| Insurance policies | | - | - |
| **Other investment balances (valued at Amortised cost)** | | | |
| Outstanding trades | | (2,251) | (2,053) |
| Outstanding dividends & RWT | | 2,638 | 2,659 |
| Cash deposits : Sterling | | 14,105 | 30,389 |
| **Total Other investment balances** | | **14,492** | **30,995** |
| **Total Investment Assets** | | **1,083,305** | **1,253,609** |

| 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. Current Assets

| 2015/16 £'000 | Current Assets | 2016/17 £'000 |
|---|---|---|
| 1,911 | Contributions due from Employers & Employee | 3,643 |
| 101 | Sundry Debtors | (20) |
| 3597 | Cash Balances | 7,320 |
| **5,609** | **Total** | **10,943** |

## 11. Current Liabilities

| 2015/16 £'000 | Current Liabilities | 2016/17 £'000 |
|---|---|---|
| (2,206) | Accrued Benefits | (3,718) |
| (1,956) | **Sundry Creditors | (4,359) |
| (615) | *Receipt in Advance | (208) |
| (354) | Accrued Expenses | (1,390) |
| **(5,131)** | **Total** | **(9,675)** |

* CSV Advance lump sum payment for 2015-17
** Central Recharges & One off IT Cost

## 12. Expenditure

a) Benefits provided by the scheme include:

- Retirement pensions at normal retirement age.

Other Types of Retirement Pension:

- Redundancy and or Efficiency subject to minimum age condition of 55
- Flexible Retirement subject to minimum age condition of 55
- Ill- Health Retirement subject to approval by Council's medical adviser

b) Lump sum payments on retirement or death in service.

| | Service Pre 1 April 2008 | Services Post 31 March 2008 | Service Post 31 March 2014 |
|---|---|---|---|
| **Pension** | Each year worked is worth 1/80 x pensionable salary | Each year worked is worth 1/60 x pensionable salary | Each year worked is worth 1/49 x pensionable salary |
| **Lump sum** | Automatic lump sum of 3 x salary. In addtion, part of the annual pension can be exchanged for a one -off tax -free cash payment. A lump sum of £12 is paid for each £1 of pension given up. | No automatic lump sum. Part of the annual pension can be exhanged for a one -off tax -free cash payment. A lump sum of £12 is paid for each £1 of pension given up. | No automatic lump sum. Part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up. |

c) A contributor who voluntarily leaves with less than two year's membership in the Scheme will receive a refund of their pension contributions unless they choose to transfer their pension out to another pension scheme.

However, if the contributor was in the scheme before 1 April 2014, and leave after then and has have been in the scheme for three or more months but less than two years, they will have the choice of taking a refund of contributions, having a deferred pension or transferring their pension out to another pension scheme

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.

**13. Income**

Income is credited to the Pension Fund consisting mainly of:

a) Employees' contributions ranging between 5.25% and 12.5% 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 2013, effective from 1 April 2014 fixed at 12.5% 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-two years. A lump sum contribution of £10.401m was made in 2016/17.

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

**14. 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.

<u>Pension Fund Triennial Revaluation</u>

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 2016 and the altered new contribution rates become effective from 1 April 2017.

Pension Fund Triennial Revaluation

The Pension Fund Triennial revaluation carried out as at 31 March 2013 came into effect in terms of altered employer contributions from 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 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 of 2.6% 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

## 15. Fund Membership

| Membership of the Fund | Administering Body | | Admitted Bodies | | Scheduled Bodies | | Totals | |
|---|---|---|---|---|---|---|---|---|
| | 2015/16 | 2016/17 | 2015/16 | 2016/17 | 2015/16 | 2016/17 | 2015/16 | 2016/17 |
| | *No's* | *No's* | *No's* | *No's* | *No's* | *No's* | *No's* | *No's* |
| Employees Contributing into the Fund | 5,454 | 5,562 | 146 | 137 | 327 | 327 | 5,927 | 6,026 |
| Pensioners | 4,906 | 5,057 | 377 | 391 | 14 | 15 | 5,297 | 5,463 |
| Widows/ Children's Pensions | 929 | 934 | 46 | 47 | 5 | 4 | 980 | 985 |
| Deferred Benefits | 7,272 | 7,529 | 775 | 773 | 136 | 163 | 8,183 | 8,465 |
| **Totals** | **18,561** | **19,082** | **1,344** | **1,348** | **482** | **509** | **20,387** | **20,939** |

## 16. Additional Voluntary Contributions

| 2015/16 *Market Value £'000* | Additional Voluntary Contribution | 2016/17 *Market Value £'000* |
|---|---|---|
| 1,014 | Prudential | 1,098 |
| 206 | Equitable life | 224 |
| 84 | NPI | 90 |
| **1,304** | **Total Additional Voluntary Contributions** | **1,412** |

## 17. Contingent Assets and Liabilities

There were no contingent assets or liabilities in 2016/17.

## 18. Contractual Commitments

There were no contractual commitments at the period end.

## 19. 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 deferred members of the LGPS.

As at 31 March 2017, the Pension Fund owed Islington Council £0.9m (at 31 March 2016, Islington Council owed the Pension Fund £1.6m). Full contributions from the council for the year are disclosed in table 2a.

## 20. Post Balance Sheet Events

None.

## 21. 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.

## 22. 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 31/03/17 £'000 | % Change | Value on Increase £'000 | Value on Decrease £'000 |
|---|---|---|---|---|
| UK Equities | 241,930 | 10.60% | 267,575 | 216,286 |
| Overseas Equities | 406,112 | 10.86% | 450,216 | 362,008 |
| Total Bonds | 244,541 | 6.04% | 259,311 | 229,771 |
| Pooled Multi Asset | 107,232 | 4.37% | 111,918 | 102,546 |
| Cash | 30,995 | 0.01% | 30,998 | 30,992 |
| Property | 183,544 | 2.12% | 187,435 | 179,653 |
| Private Equity | 39,255 | 5.39% | 41,371 | 37,139 |
| **Total Assets** | **1,253,609** | **6.51%** | **1,335,219** | **1,171,999** |

The % change for Total Assets includes the impact of correlation across asset classes

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 below 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 31/03/17 £'000 | % Change | Value on Increase £'000 | Value on Decrease £'000 |
|---|---|---|---|---|
| Overseas Equities-Euro | 76,500 | 3.62% | 79,269 | 73,731 |
| Overseas Equities- Yen | 11,956 | 3.62% | 12,389 | 11,523 |
| Overseas Equities-US Dollar | 100,429 | 3.62% | 104,064 | 96,793 |
| Overseas Equities -global basket | 103,670 | 3.62% | 107,423 | 99,917 |
| Overseas Equities - Emeging Market | 113,557 | 3.62% | 117,668 | 109,446 |
| **Total Assets** | **406,112** | 3.62% | **420,813** | **391,410** |

## 23. 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 2017 | Quoted Market Price Level 1 £'000 | Using Observable Inputs Level 2 £'000 | With Significant Unobservable inputs Level 3 £'000 | Total £'000 |
|---|---|---|---|---|
| **Financial Asests** | | | | |
| Financial assets at fair value through profit and loss | 1,190,310 | 63,299 | - | 1,253,609 |
| Loans and Receivables | - | 10,942 | - | 10,942 |
| **Total Financial Assets** | **1,190,310** | **74,241** | **0** | **1,264,551** |
| **Financial Liabilities** | | | | |
| Financial liabilities at fair value through profit and loss | - | | - | - |
| Financial liabilities at amortised cost | - | (9,674) | - | (9,674) |
| **Total Financial Liabilities** | **0** | **(9,674)** | **0** | **(9,674)** |
| **Net Financial Assets** | **1,190,310** | **64,567** | **0** | **1,254,877** |

| Values at 31 March 2016 | Quoted Market Price Level 1 £'000 | Using Observable Inputs Level 2 £'000 | With Significant Unobservable inputs Level 3 £'000 | Total £'000 |
|---|---|---|---|---|
| **Financial Asests** | | | | |
| Financial assets at fair value through profit and loss | 1,031,502 | 51,803 | - | 1,083,305 |
| Loans and Receivables | - | 5,609 | - | 5,609 |
| **Total Financial Assets** | **1,031,502** | **57,412** | **0** | **1,088,914** |
| **Financial Liabilities** | | | | |
| Financial liabilities at fair value through profit and loss | - | | - | - |
| Financial liabilities at amortised cost | - | (5,131) | - | (5,131) |
| **Total Financial Liabilities** | **0** | **(5,131)** | **0** | **(5,131)** |
| **Net Financial Assets** | **1,031,502** | **52,281** | **0** | **1,083,783** |

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. These instruments include our private equity managers and cash held in the fund.

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.

## 24. Investment Assets by Fund Manager

| Investment Assets by Fund Manager | 2015/16 £'000 | 2016/17 £'000 |
|---|---|---|
| **LBI In House Fund** | | |
| **EQUITIES** | | |
| UK quoted - LBI self managed | 198,162 | 220,905 |
| Overseas quoted - LBI self managed | 41,447 | 52,629 |
| **CASH DEPOSITS** | | |
| Sterling | 9,102 | 2,787 |
| Other | 0 | 10,410 |
| **OTHER INVESTMENT BALANCES** | | |
| Outstanding Dividends/Tax | 1,626 | 1,698 |
| Outstanding trades | *0* | *0* |
| **FIXED INTEREST** | | |
| UK | 82 | 84 |
| INDEX-LINKED | | |
| UK | 120 | 131 |
| **POOLED FUNDS** | | |
| UK | 6,932 | 6,936 |
| **Total LBI In House Fund** | **257,471** | **295,580** |
| **Newton** | | |
| **EQUITIES** | | |
| Overseas quoted - NEWTON | 128,420 | 157,999 |
| UK quoted - NEWTON | 17,910 | 21,025 |
| **CASH DEPOSITS** | | |
| Sterling | 7,812 | 10,029 |
| Other | 0 | 181 |
| **OTHER INVESTMENT BALANCES** | | |
| Outstanding Dividends | 767 | 769 |
| Outstanding trades | -2,251 | -1,156 |
| **Total Newton** | **152,658** | **188,847** |
| **RCM / LONDON CIV** | | |
| **EQUITIES** | | |
| Overseas quoted - RCM | 0 | 0 |
| UK quoted - RCM | 0 | 0 |
| **POOLED FUNDS** | | |
| Other | 75,279 | 97,915 |
| **CASH DEPOSITS** | | |
| Sterling | 116 | 192 |
| Other | 0 | 0 |
| **OTHER INVESTMENT BALANCES** | | |
| Outstanding Dividends | 245 | 191 |
| Outstanding trades | 0 | 0 |
| **Total RCM** | **75,640** | **98,298** |

| Investment Assets by Fund Manager (contd.) | 2015/16 £'000 | 2016/17 £'000 |
|---|---|---|
| **Standard Life Bonds** | | |
| **POOLED INVESTMENT VEHICLES** | | |
| Managed funds | 220,821 | 244,326 |
| **Pantheon** | | |
| **POOLED INVESTMENT VEHICLES** | | |
| Private equity - overseas | 16,405 | 11,640 |
| **Standard Life** | | |
| **POOLED INVESTMENT VEHICLES** | | |
| Private equity - overseas | 20,906 | 20,664 |
| **Aviva Lime Property** | | |
| **UK UNIT TRUSTS** | | |
| Property | 55,751 | 59,518 |
| **Threadneedle Pensions** | | |
| POOLED INVESTMENT: Property | 74,205 | 76,857 |
| **Baring English Growth Fund** | | |
| UK UNIT TRUSTS | 11 | 15 |
| **Thesis** | | |
| POOLED INVESTMENT: Property | 25,847 | 26,502 |
| **BNY Mellon** | | |
| CASH DEPOSITS : Sterling | -2,924 | 6,790 |
| outstanding fx trades | | -896 |
| | | 5,894 |
| **Legal & General** | | |
| **POOLED INVESTMENT VEHICLES** | | |
| Managed funds | 69,784 | 97,569 |
| **Franklin Templeton** | | |
| Pooled Investment Global Property | 19,747 | 20,667 |
| **Schroders** | | |
| Pooled Investment Multi Asset | 96,983 | 107,232 |
| **Total Investment Assets** | **1,083,305** | **1,253,609** |

## 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 of 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.

*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 KPMG LLP, who has 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.

*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.

*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.

*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 currently expressed as 4% of the council's General Fund capital financing requirement.

*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.

*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.

*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.

*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. It includes 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 NDR 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.

*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).

*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.

*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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# Annual Governance Statement 2016-17

## 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 seven principles of the CIPFA/SOLACE framework Delivering Good Governance in Local Government 2016. A copy of the code is on our website, 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 6 (Part 2) of the Accounts and Audit Regulations 2015 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, policies, processes, culture and values by which Islington Council 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 2017 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.* ***Developing codes of conduct which define standards of behaviour for members and staff, and policies dealing with whistleblowing and conflicts of interest and that these codes and policies are communicated effectively.***

3.1.1. 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. The Standards Committee is responsible for considering complaints regarding breach of the Members Code of Conduct. The Audit Committee received an annual report on Member conduct matters on 20 September 2016. In accordance with the Localism Act 2012, the Council has appointed Independent Persons who have statutory functions in relation to the process for dealing with complaints of breach of the Code.

3.1.2. 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.

3.1.3. Part 7 of the Constitution contains the Members' Allowance 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.

3.1.4. An Officer Code of Conduct is reviewed, revised and publicised to staff.

3.1.5. 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.

3.1.6. The whistle blowing policy is publicised to staff via the corporate induction process, internal newsletters and on the Council's intranet

and internet sites. The policy encourages officers to report inappropriate action by fellow employees or Members, also by 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.

3.1.7. Islington Council has a formal two stage process for managing complaints. Our aim is to ensure that when things go wrong, we respond quickly to put things right. The process is set out on the Council website and copies are available from the Central Complaints Team.

3.1.8. The Council has a Corporate Complaints Team responsible for the overall management of complaints. Its aim is to ensure the Council learns and improves its performance as a result of customer feedback. Departmental Complaints Officers record and report on all complaints, and the service response is monitored.

3.1.9. Customers 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.

### *3.2.* ***Ensuring compliance with relevant laws, regulations, internal policies and procedures, and that expenditure is lawful.***

3.2.1. 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, staff 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.

3.2.2. 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.

### *3.3.* ***Documenting a commitment to openness and acting in the public interest.***

3.3.1. The Council's Constitution, through the Local Code of Corporate Governance sets out the Council's commitment to:

- Focus on the purpose of the authority and on outcomes for the community;
- Work effectively with officers to achieve a common purpose, whilst understanding the clearly defined different functions and roles;
- Promote the values of the authority and demonstrate the values of good governance by upholding high standards of conduct and behaviour;
- Take informed and transparent decisions which are subject to effective scrutiny;
- Develop their own capacity and capability;
- Engage with local people and other stakeholders.

3.3.2. The council also sets out its commitment to Freedom of Information, Environmental Information Regulations and Subject Access Requests in its Access to Information Policy.

### *3.4.* ***Establishing clear channels of communication with all sections of the community and other stakeholders, ensuring accountability and encouraging open consultation.***

3.4.1. The Council regularly engages and consults with residents and the wider community on a diverse range of issues. Various communication channels are used, including council-mapped websites, social media channels, public meetings and the quarterly magazine delivered to residents. In 2014, and again in 2015, a survey of 1,000 residents was undertaken to test perceptions of the Council, its services, and the priorities for residents. The findings are used to shape policy and communications.

3.4.2. An annual Voluntary and Community Sector Conference, hosted each year, provides an opportunity for engagement with a wide number of local organisations who work closely with some of the most vulnerable residents.

3.4.3. Through its VCS Partnership Grants Programme the Council has made commitments of £2.7 million per annum until March 2020 to 49 voluntary and community sector organisations. This includes £1.414 million to for advice services ((including Islington Law Centre, Citizens Advice Bureau, Islington People's Rights and Help on Your Doorstep advocacy service), £220,000 to borough-wide infrastructure partners

and networks, £395,000 to delivery partners, £597,000 to community hubs and £35,000 for a borough-wide volunteering offer.

3.4.4. 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.

3.4.5. Ward partnerships provide a means for councillors to engage with residents and organisations in their ward to discuss local issues. Meetings are open to the public.

*3.5.* ***Developing and communicating a vision which specifies intended outcomes for citizens and service users and is used as a basis for planning and translating the vision into courses of action for the authority, its partnerships and collaborations.***

3.5.1. The central aim of the Council's Administration is to make Islington a fairer place. In 2010 the Council set up a Fairness Commission which explored inequalities for residents and set out recommendations for a fairer Islington. This was followed in 2013 by a second commission – the Employment Commission – looking at how to tackle unemployment, a key driver in the poverty and inequality in Islington. In 2016/17 the Council set up a 'Fairer Futures Commission looking at young people's experience of growing up in Islington.

3.5.2. The Council's priorities to achieve 'A Fairer Islington' are set out in the 'Islington Commitment', our Corporate Plan for 2015-19. The five key priorities are:

- Providing more council housing and support private renters
- Helping residents who are out of work to find the right job
- Helping residents cope with the rising cost of living
- Providing residents with good services on a tight budget
- Making Islington a place where our residents have a good quality of life

3.5.3. These priorities and the intended outcomes have been communicated to staff, residents 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 accessible.

3.5.4. The Council has in place a robust Performance Management Framework to ensure effective delivery of services and priorities. elements are:

- Corporate Performance Indicator Suite – performance measures covering key services, priorities and equalities objectives;
- Monthly Performance Panel – an internal mechanism for senior scrutiny of corporate priorities and of council services;

- Performance reporting to scrutiny committees, including more in depth scrutiny of specific topics, and
- Overall monitoring of corporate performance through the Policy and Performance Scrutiny Committee.

3.5.5. The Islington Commitment, Corporate Performance Indicator Suite, and Performance Management Framework are set out on the Performance page of the Council's website.

3.5.6. Housing and Adult Social Services uses feedback from Surveys/complaints in our commissioning strategies and actively engage with Service Users and Carers to co-produce plans for service development and service change.

*3.6.* ***Reviewing the effectiveness of the decision-making framework, including delegation arrangements, decision-making in partnerships, information provided to decision makers and robustness of data quality.***

3.6.1. 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.

3.6.2. 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.

3.6.3. 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 functions and 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.

3.6.4. 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.

3.6.5. 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.

3.6.6. 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.

3.6.7. 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 address the equalities and environmental issues, together with financial and legal implications and risks.

### *3.7.* ***Measuring the performance of services and related projects and ensuring that they are delivered in accordance with defined outcomes and that they represent the best use of resources and value for money.***

3.7.1. 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 Monthly Performance Panel, and the external reporting through scrutiny, both include a focus on the quality of services and on user feedback.

### *3.8.* ***Defining and documenting the roles and responsibilities of members and management, with clear protocols for effective communication in respect of the authority and partnership arrangements.***

3.8.1. 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.

3.8.2. The Constitution also sets out the roles and responsibilities of the Executive, Regulatory, 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.

3.8.3. The Constitution is updated at least annually to reflect any internal or legislative changes. Key amendments coming into effect in 2016/17 included the introduction of 'light touch' procurement processes for procurements under certain financial thresholds to increase efficiency and the inclusion of the terms of reference for the new Joint Health and Wellbeing Board to facilitate across borough boundary working with Haringey.

*3.9.* ***Ensuring that financial management arrangements conform with the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2015) and ensuring that assurance arrangements conform with the governance requirements of the CIPFA Statement on the Role of the Head of Internal Audit (2010)***

3.9.1. The Corporate Director of 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 2016-17. 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, probity and budget and policy framework issues to Councillors

3.9.2. 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 Committee.

3.9.3. The 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 Resources, (the Section 151 Officer) the Director of Law and Governance (the Council's Monitoring Officer) and the Head of Internal Audit. Representatives from each department are also included in the membership of this group.

*3.10.* ***Ensuring effective arrangements are in place for the discharge of the monitoring officer function.***

3.10.1. The roles and responsibilities in respect of the democratic process are set out in detail in the Constitution. The Director of Law and Governance is responsible, in their 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 they consider 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

- 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.

*3.11.* ***Ensuring effective arrangements are in place for the discharge of the head of paid service function.***

3.11.1. 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

*3.12.* ***Providing induction and identifying the development needs of members and senior officers in relation to their strategic roles, supported by appropriate training.***

3.12.1. 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.

3.12.2. Since the local elections in June 2014, training and development has been provided to councillors both on a group and individual basis. This has included personal development skills based work as well as specific knowledge. Councillors have also attended various conferences and away days as well as specific events put on by the LGA and London Councils.

3.12.3. There is an annual performance appraisal scheme for officers, which links targets to service objectives, underpinning the Council's vision. Through these processes, officers are able to identify their development needs, which are logged on individual development plans that they are encouraged to maintain.

3.12.4. Newly employed officers attend the Council's corporate induction programme, in addition to which directorate and role specific training is provided where needed. Information on staff training, development programmes and courses available are regularly publicised on the Council's intranet website, IC Bulletin and News Roundup, which includes an induction training course for all new Islington staff and Managers. There is compulsory training for staff on key issues such as equality, data security and health and safety.

3.12.5. 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.

*3.13.* ***Reviewing the effectiveness of the framework for identifying and managing risks and for performance and demonstrating clear accountability.***

3.13.1. In 2016/17 the risk management framework was refined to define materiality and provide guidelines for risk escalation. Key aspects of the new approach have included the development of a top-down (Corporate Management Board (CMB) owned risks) and bottom-up approach (service-owned risks) to risk management including the identification of key principal risks facing the Council as identified by CMB and senior management across each Department. The CMB risk map has been refined, and there are now departmental risk maps for every department. Going forward, risk workshops will take place to embed refinements to the framework. Risk reviews will take place for each divisional management team every six months to help integrate and embed effective risk management within the culture of the Council.

*3.14.* ***Ensuring effective counter fraud and anti-corruption arrangements are developed and maintained in accordance with the Code of Practice on Managing the Risk of Fraud and Corruption (CIPFA, 2014).***

3.14.1. Islington Council's Anti-Fraud Strategy was enhanced during 2016/17 with the development and implementation of an effective Communications Strategy. The strategy has been constructed with key themes to promote the Council's stand against those who commit fraud. A Fraud Risk and Response Plan has been published on the intranet. This identifies both the fraud risks relevant to individual departments and fraud risks that cut across the Council.

3.14.2. The Council's Fraud Forum has been established as part of the Governance arrangements within the Anti–Fraud Strategy. The Forum is chaired by a Corporate Director. Attendance at the forum has been recently reviewed to ensure that each directorate is represented at a senior level and is attended by relevant officers involved in fraud work. The purpose of the forum is: to monitor the Anti-Fraud framework to ensure that it remains relevant; to consider any new or increased exposures to fraud and corruption; to escalate serious concerns as appropriate and; to ensure that the action taken to address fraud and corruption risks in Council activities is adequate and effective. Fraud reporting continues through Audit Committee and Corporate Governance Group.

3.14.3. The Council investigates reported or suspected fraud, and participates in the National Fraud Initiative. It also is one of the pilot Authorities involved in the proof of concept work for the London Counter-Fraud Hub. The Council's whistle blowing policy provides a mechanism for suspected breaches of law, procedure or policy to be confidentially reported.

3.14.4. Completed anti-fraud work in 2016/17, produced reports in a number of areas Investigation reports with recommendations to strengthen controls and mitigate fraud risk were issued to service management on completion of these investigations.

### *3.15.* ***Ensuring an effective scrutiny function is in place.***

3.15.1. The Policy and Performance Scrutiny Committee and the theme based scrutiny committees enable Councillors to scrutinise the performance of the Council and its partners and decisions made by the Executive.

3.15.2. Scrutiny Committees have responsibility for overseeing performance of the service area within their remit. There are four Scrutiny Committees, closely aligned with Council departments as follows:

- Children's Services Scrutiny Committee;
- Health and Care Scrutiny Committee (to cover Public Health and Adult Social Care);
- Environment and Regeneration Scrutiny Committee, and
- Housing Scrutiny Committee.

3.15.3. Policy and Performance Scrutiny Committee will act as the Scrutiny Committee for those areas not covered above i.e. Crime, Employment, Finance and Resources and is initially responsible for all Councillor Calls for Action.

3.15.4. Each Executive Member is required to report annually to the relevant scrutiny committee on delivery of services and priorities within their portfolio. The Executive Member is accompanied by the relevant Corporate Director. Details are set out in the performance management framework.

3.15.5. 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.

3.15.6. The Council's scrutiny committees can undertake more in depth research into particular challenges or concerns, and request evidence from other service providers.

*3.16.* ***Undertaking the core functions of an audit committee, as identified in Audit Committees: Practical Guidance for Local Authorities (CIPFA, 2013).***

3.16.1. 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 governance activities and promoting high standards of member conduct.

3.16.2. 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.

3.16.3. 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.

3.16.4. The regular training of the Audit Committee's members helps ensure the Committee is able to effectively discharge its responsibilities.

3.16.5. The Audit Committee has independent members suitably qualified and trained to support the committee in an advisory capacity.

*3.17.* ***Ensuring that the authority provides timely support, information and responses to external auditors and properly considers audit findings and recommendations.***

3.17.1. The External Audit is factored into the work plan of the Finance Department and adequate resources are devoted to this. The authority's support and co-operation with External Audit has been commended in the annual ISA260.

3.17.2. Internal Audit closely monitors the implementation of recommendations and reports bi-annually to CMB, Corporate Governance Group and Audit Committee where actions remain outstanding and/or where assurance has not increased from limited or no assurance on follow up.

### *3.18. Incorporating good governance arrangements in respect of partnerships and other joint working and ensuring that they are reflected across the authority's overall governance structures.*

3.18.1. The Council works in partnership with a wide range of organisations 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.

3.18.2. The governance arrangements vary depending on the nature of partnership working but are designed to ensure that the partnership remains appropriate, effective and fit for purpose. In addition, the Council's Financial Regulations provide guidance on best practice in managing partnership arrangements.

3.18.3. 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.

3.18.4. 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.

3.18.5. 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.

3.18.6. Where a partnership is a mandatory requirement, e.g. the Safer Islington Partnership and Children's Trust Boards, 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.

3.18.7. Over the past decade, the Council has worked closely with its partners through the Islington Partnership Board (IPB) and its precedents. The IPB discusses 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.

3.18.8. Where the partnership involves sharing data then either a contract of an Information Sharing Agreement will be in place

3.18.9. 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.

## 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, our own Service Assurance Statements (completed by all Corporate Directors) and also by comments made by the external auditors and other review agencies and inspectorates.

4.2. **Service Assurance Statements**

A "Service Assurance Statement" process was undertaken for 2016/17 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.

4.2.1. **Chief Executive's** – self-assessment assurance rating Good, with specific risks identified relating to induction process and policies and procedures.

4.2.2. **Finance and Resources** - self-assessment assurance rating Good, with specific risks relating to General Data Protection Regulation, Cyber security and Shared Digital.

4.2.3. **Children's Services** – self assessment assurance rating Good, with specific risks relating to budget management and corporate policies.

4.2.4. **Environment and Regeneration** - self assessment assurance rating Good, with specific risks identified including: securing sufficient funding; project management; key partners (GLL, NSL), future waste management; financial control and monitoring and; data security.

4.2.5. **HASS** – self assessment assurance rating Good, with actions being taken relating to customer feedback on services to advise and support homeless residents, business continuity and TMO IT management

## 4.3. External Audit and Inspectorates

4.3.1. The annual external audit of the Statement of Accounts has consistently produced an unqualified opinion with little or no material or immaterial adjustments. The same also applies to the audit of grant claims.

4.3.2. Adult Social Care is subject to a regular Peer Review which functions as an external audit of departmental effectiveness. This is coordinated by London ADASS and the LGA and carried out by peers from other London Authorities.

4.3.3. Children's Services are subject to the statutory inspection regime from Ofsted.

## 4.4. Internal Audit

4.4.1. The Public Sector Internal Audit Standards (PSIAS) require that the Head of Internal Audit provides an annual audit opinion and report that can be used by the organisation to inform its governance statement.

4.4.2. 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.

4.4.3. The audit plan is delivered by the in-house team across the Cross Council Shared Audit Service (with Camden) and our internal audit contractor, PWC. Key messages arising from Internal Audit's work in the 2016/17 year regarding areas where the Council's controls and governance need to be strengthened are included in section 5 below. The full summary of the work that Internal Audit has

undertaken during the financial year 2016/17 which provides detail on the high risk and priority issues which could impact on the effectiveness of the internal control environment across the Authority is provided in the Internal Audit Annual Report 2016/17 to the September 2017 Audit Committee.

4.4.4. All planned audits from 2016/17 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.

4.4.5. **Head of Internal Audit's Annual Opinion**

The annual opinion categories range from No assurance, Limited Assurance, Moderate Assurance to Substantial Assurance. The annual opinion given for 2015/16 was Moderate Assurance.

The Head of Internal Audit is satisfied that the work undertaken during 2016/17 has enabled him to form a reasonable conclusion on the Council's control framework, risk and governance arrangements. For the year ended 31st March 2017, it is the Head of Internal Audit's opinion that the adequacy and effectiveness of the Council's arrangements is Moderate Assurance – overall the Council's systems for control, risk and governance are generally adequate with some improvement required. Weaknesses identified in individual assignments (including those rated as critical) are not significant in aggregate to the system of internal control; high/critical risk rated weaknesses identified in individual assignments are isolated to specific systems or processes. Where we have concluded "no assurance" in 2016/17, robust action plans have been agreed with services and we are expecting a high level of implementation of recommendations. Revision to assurance ratings and residual risks will be closely monitored through follow ups in 2017/18. Further detail on audit outputs is provided in the Internal Audit Annual Report.

4.4.6. Section 6 (Part 2) of The Accounts and Audit Regulations 2015 require that relevant bodies conduct, at least once in each year, a review of the effectiveness of the system of internal control. 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.

4.4.7. In 2016/17, as requested by the Head of Internal Audit, Croydon Council carried out an external quality assessment of the Camden and Islington Council's Shared Internal Audit Service. The principal objectives of the external quality assessment were to assess the

internal audit function's conformance to the UK Public Sector Internal Audit Standards and following a specific request, the effectiveness of the partnership delivery model. Based on the work carried out the conclusion of this review is that the Camden and Islington Shared Internal Audit Service **fully conforms** with the Public Sector Internal Audit Standards.

4.5. **Anti-Fraud**

4.5.1. During 2016/17, the Anti-Fraud Strategy has been strengthened by an internal Communications and Publicity campaign which concentrates on key themes and demonstrates the Council's commitment to identifying and preventing fraud. This underpins a message to staff that fraud has to be taken seriously, as it takes money and services away from people who need it and that where fraud is identified; we have a duty to report it in order to protect the Council's assets, funds and reputation.

4.5.2. The Fraud Response and Risk Plan has been published. This sets out the fraud risks for each department and identifies all the fraud risks that cut across the Council and includes Schools and Tenancy Management Organisations. The document gives direction of where and to whom fraud referrals should be made. This document is to be reviewed annually to ensure that new risks are added. The Fraud Forum has continued to enhance Governance arrangements to ensure that Fraud and Risk in different areas of the business is reported and acted upon.

## 5. Significant Governance Issues during 2016/17 and Areas for Improvement

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. There were not considered to be any significant governance issues which meet this criteria during 2016/17, however, there are some areas which will be monitored during 2017/18 to ensure appropriate governance is effected to optimise outcomes, including business continuity arrangements, compliance with the General Data Protection Regulation requirements, the development of the Shared Digital service, the Outcome Based Budgeting initiative, the evolving developments in partnership work e.g. with Health and the implications of any new post-election legislation, as well as the emerging implications of Brexit.

### Information Assurance

5.3. The council is continuing its work to prepare for the General Data Protection Regulation which becomes enforceable in May 2018. The Information Roadmap is being updated to reflect these new requirements. This regulation will shape the council's approach to Information Assurance over the coming few years.

## 6. Other areas of Governance and Assurance:

### Finance & Resources

6.1. The Council has a sound process to setting its budget that ensures that estimates are robust and in particular savings proposals are fully scrutinised to ensure political, managerial and financial deliverability. The Council's budget monitoring process during the year routinely monitors service financial performance and key risks against budget and looks to put management action in place to deliver the council's financial outturn within the overall budget.

6.2. Since 2010 the Council's budget has been subject to major funding cuts. The Council has had to make £170m in savings over the past seven years. Following the Local Government Finance Settlement 2017-2018 the Council is faced with making a further £47m of savings over the coming three years. Detailed planning during 2016 identified £21m of savings to balance the budget for 2017/18 and work is ongoing on the options to find the forecast £26m of savings needed through to 2019/20. Aside from cuts to services, the council budget for 2017-18 included an increase in council tax by the 1.99% maximum permissible without a local referendum and by the governments 3% social care precept.

6.3. The Chancellor's budget 2017 announced a much needed additional £2bn of national funding for social care over the next three years however that money will come with stringent conditions. There was no detail in the budget on the further £3.5bn of government departmental spending cuts for 2019/20 previously announced. The impact of Brexit on Islington and London remains uncertain.

6.4. In the context of such unprecedented cuts it is a testament to the robustness of the budget setting and monitoring processes and control framework that in each financial year since 2010, the council has delivered its overall spending within budget. This feat is getting progressively harder to achieve each year. Cuts to financial management resources of around 50% since 2010 has add more risk to the process, however processes and the organisation of those resources have been reviewed to mitigate the risk as much as is possible and focus the reduced resource where they are needed.

6.5. The Council's Housing Revenue Account has benefited over a number of years from a robust and funded 30-year business plan. Since the 2015 General Election, the Government has passed two pieces of legislation which will have a significant impact on the Housing Revenue Account in Islington. The Housing and Planning Act 2016 and the Welfare Reform and Work Act 2016. The key financial impacts have been the requirement on local authorities to dispose of high value vacant council houses and the reduction of social housing rents by 1% a year for four years. The Housing Revenue Account business plan is estimated to be balanced over the medium-term, accommodating the impact of the Housing Act and the Welfare Reform and Work Act. The mitigations principally involve rescheduling current borrowing over the term of the 30-year business plan, ending the subsidy for the New Build Capital Programme though revenue contributions and instead, funding primarily from open market sale receipts, Right-to-Buy receipts and other receipts from disposals and finally a robust programme of savings.

## Children's Services

6.6. The current structures and organisational arrangements provide a strong accountability scrutiny, leadership and management grip on 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.

6.7. 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 reported at these meetings.

6.8. 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, and this has led to an Innovation Grant from the DfE on Motivational Social Work, Doing What Counts, Measuring What Matters.

6.9. 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 early findings indicate good impact. Only evidence based programmes are in use.

6.10. The Islington Safeguarding Children Board (ISCB) has an independent chair who meets periodically with the Corporate Director as part of the accountability framework outlined in paragraph 5.4.7. The ISCB annual report is discussed by the Health and Wellbeing Board (HWB), Children and Families Board (CFB) and the Children and Families' Scrutiny Committee. Both the HWB and CFB reflect on the learning and build ISCB recommendations into their respective strategies. There continues to be a strong focus on Child Sexual Exploitation through the ISCB's sub group that leads the partnership on this work, complemented by the Council's elected member working group on CSE. The ISCB also oversees multi-agency audits of practice, training and compliance with safeguarding requirements set out in legislation The Children and Families' Scrutiny Committee have looked at the impact of early help, new arrangements for children with special educational needs and the annual report on learning and education standards.

6.11. The Joint Strategic Needs Assessment 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.

6.12. 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.

**Housing and Adult Social Care**

6.13. HASS Corporate Director is the statutory DASS for Islington. DASS is responsible for providing professional leadership for all local authority staff involved in delivering the council's social services functions for adults and across local networks and partnerships involved in the provision of adult social care services. DASS is also accountable for ensuring that relevant

professional and occupational standards and standards of conduct are maintained across adult social care services provided by, or commissioned by the local authority.

6.14. The Corporate Director of Housing and Adults Social Services reports directly to the Chief Executive and the span of control allows Adult Social Care to be given due priority. Assurance checks are integral to the decision making processes of the Council. Professional leadership is challenged by the Chief Executive and Leader of the Council who hold the Corporate Director of Housing and Adult Social Services, the Deputy Leader (who is also Lead Member for Health and Social Care) and the independent Chair of the Safeguarding Adults Partnership Board to account on a quarterly basis. Progress on themes arising from audit and performance data is reported at these meetings.

6.15. Islington has a Safeguarding Adults Partnership Board that meets the current and new requirements for its scope and inclusiveness, chaired by an independent expert in the field.

6.16. 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, outcome focused, 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. These arrangements have been strengthened in the light of the Better Care Fund and greater inter-dependency of health and social care funding. The partnership agreements have been reviewed, and the council and the CCG have reviewed their respective commissioning structures to ensure better integration and accountability on both sides. These arrangements have been formally agreed by the Health and Wellbeing Board in line with national guidance. In light of the requirements by NHS England to develop and implement a sustainability and Transformation plan(STP) across North Central London with effect from April 2017. Islington NHS Clinical Commissioning group have re-offered their commitment to joint commissioning with the Council.

6.17. HASS is responsible for managing council tenancies and council leasehold properties in the borough, either directly or by clienting Partners for Improvement (PFI). A Homes and Estates Safety Board, with an independent chair, oversees the particular fire and property-related risks to people in these dwellings. This is part of the overall corporate health and safety arrangements.

6.18. HASS Property Services have effective arrangements in place to monitor equipment and stock. Arrangements are in place to actively

manage the risk of fraud through prevention and detection techniques. Stock control within the repairs service has been audited with a moderate assurance rating. Improvements have been implemented and a follow up audit is due in March 2017.

6.19. Islington also has two long term PFI contracts to manage street council housing. The contract is managed by a clienting team with governance via senior management meetings with the PFI board and scrutiny via a range of annual audits carried out by the council's Internal Audit. In the last year performance has improved and penalties have been applied where properties have not been up to standard.

6.20. The relationship with the 23 Tenant Management Organisations in the borough is managed by the TMO compliance team supported by internal audit who run an annual programme auditing TMO financial and governance controls.

6.21. Residents are involved in the prioritisation and governance of the housing service via reference groups and representation on housing scrutiny.

**Transformation**

6.22. At a strategic level the Corporate Management Board (CMB) owns the change management process for the Council. The council's change programme is being reviewed to better align with the organisation's key change priorities and the focus on building resilience through prevention and early intervention.

6.23. Project and programme governance is established proportionate to the complexity, impact and risk profile of the initiative. CMB will sign off all the key outcomes to be delivered by the refreshed change programme, and assigns ownership to a Project Sponsor at Service Director level or higher; an SRO will also be assigned from the Corporate Management Board. Each has appropriate governance arrangements which report to CMB on progress, issues and risks. Departmental Management Teams review projects falling within their service area to ensure delivery.

6.24. The Strategy and Change team, in the Chief Executive's Department, will provide project support to these change initiatives and maintain an overview of key areas of change to ensure that appropriate progress is made and linkages and dependencies between projects are picked up. This draws on a wider support network, including financial, ICT, HR and risk management advice to ensure that barriers to success are identified and addressed.

6.25. The project planning process has a strong emphasis on return on investment and service managers are asked to sign off on the level of savings potentially achievable before committing them into spending plans.

These are then monitored following project completion to ensure they are delivered.

Signed by: _____ _____

Leader Date

Signed by: _____ _____

Chief Executive Date

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ISLINGTON

**Law and Governance**
**Town Hall, Upper Street, London N1 2UD**

**Draft Report of: (Acting) Returning Officer**

| **Meeting of:** | **Date** | **Agenda item** | **Ward(s)** |
|---|---|---|---|
| Audit Committee | 19 September 2017 | | All |

| **Delete as appropriate** | ~~Exempt~~ | Non-exempt |
|---|---|---|

# SUBJECT: Review of Polling Districts and Polling Places

## 1. Synopsis

1.1 This report sets out proposed changes to polling districts and polling places following a consultation process carried out in accordance with the Electoral Administration Act 2006.

1.2 This change will take effect with the publication of the revised Register of Electors on 1 December 2017 and for all elections for four years thereafter.

## 2. Recommendations

2.1 To agree to the changes set out in this report in relation to Highbury West and Barnsbury wards

2.2 To decide which of the three potential buildings identified at paragraph 3.8 should be adopted as the polling place for Polling District NHEC in Highbury East ward

2.3 To note the comments regarding St George's ward and that all other wards remain unchanged.

## 3. Background

### Introduction

3.1 The Electoral Registration and Administration Act 2013 introduced a change to the timing of compulsory reviews of UK parliamentary polling districts and polling places. The compulsory review must be started and completed between 1 October 2013 and 31 January 2015 inclusive. Subsequent compulsory reviews must be started and completed within the period of 16 months that starts on 1 October of every fifth year after 1 October 2013. However, interim reviews may be carried out if needed. Following each election officers review the running of the election and specifically look at any issues that have arisen to do with polling places or polling districts.

3.2 The substantive review took place last in October 2013 and the new polling scheme was approved by the Audit Committee on 30 January 2014. An interim review took place in January 2015 which noted a further interim review would be needed later in the year. This fuller further review took place in Sept 2015 and took effect from 1 December 2015. This report seeks approval to the proposed changes set

out in the report which shall have affect at the forthcoming Local Council elections in May 2018 (and any other elections after 1 December 2017 for a period of 4 years). The steps required for a review have been undertaken, including the publication of proposals and consultation on them.

3.3 Section 18B (4) of the Representation of the People Act 1983 states that in conducting a review of polling places the authority must:

a) seek to ensure that all the electors in the constituency have such reasonable facilities for voting as are practicable in the circumstances
b) seek to ensure that so far as is reasonable and practicable, the polling places they are responsible for are accessible to all electors, including those who are disabled, and when considering the designation of a polling place, must have regard to the accessibility needs of disabled persons.

3.4 Additionally, the polling place for a polling district must be within the area of the district unless special circumstances make it desirable to designate an area either wholly or partly outside of the polling district

3.5 Electorate and property figures are as at 1 August 2017.

**PROPOSED CHANGES**

3.6 **Highbury West Ward**

There have been issues in this ward over several years in identifying a suitable venue for the residents to the immediate south of the Emirates stadium. A venue has been available for the last 2 years, the Arsenal Hub, at the junction of Queensland Road and Benwell Road. However, this venue's security policy is not compatible with the needs of a polling station so we again need to find an alternative.

The Great Hall at London Met on Holloway Road is the only alternative venue in the Polling District. It is accessed via Holloway Road and will be well known in the area. The Hall itself is accessed via a flight of stairs but also has a working lift for those that need it.

It is regrettable that Arsenal Hub can no longer be used as it was an excellent venue. However, an elector's right to cast their vote should not be conditional and any enforced bag checks could leave the Returning Officer exposed to accusations of impeding the democratic process.

| Polling District | Proposed Polling Place | Properties | Electorate | Polling Stations |
|---|---|---|---|---|
| **NHWE** | **The Great Hall, London Metropolitan University, Holloway Road, London N7** | **1440** | **2003** | **1** |

The review in 2015 where the new Polling District above (NHWE) was created, omitted some properties from the new PD in error and they remained in NHWD voting at Hind House. This has now been corrected the properties concerned are in the table below.

| **Road Name/Numbers** | **Previous Polling District** | **Properties** | **Electors** |
|---|---|---|---|
| 30-48a Hornsey Road (inc Branston House and Rollit House) | NHWD | 118 | 161 |
| 134A – 234A Holloway Road | NHWD | 74 | 59 |
| NHWE new Total | | 1632 | 2223 |

**Comments received to initial proposal**

The Islington Green Party commented to this proposal in the initial draft as follows:

*"the Arsenal Hub is an excellent, central venue for the PD, and we are very disappointed at the decision by the club. The move will inconvenience voters in the north of the PD and will nudge even more to postal or not voting, neither of which are in our opinion good for democracy. We would like the council to impress upon the Club that if "Arsenal in the community" is to be more than a PR figleaf, it could start by genuinely making club facilities – which successive councils have bent over backwards to create - genuinely serve the community. Some flexibility on their part is surely not impossible".*

3.7 **Barnsbury Ward**

| Polling District | Proposed Polling Place | Electorate | Properties | Polling Stations |
|---|---|---|---|---|
| **SBAA** | **New River College Cloudesley Square** | **2614** | **1771** | **2** |

This venue is now rebuilt and voting can take place again here in future. Access to the new building is via Cloudesley Square, which is where voters have accessed polling for the last couple of years at the Celestial Church of Christ which was used as a temporary measure whilst the school was being rebuilt. **It is therefore highly recommended that New River College is once again adopted as the designated polling place for SBAA polling district.**

**Comments received to initial proposal**

**No comments have been received to this proposal.**

3.8 **Highbury East Ward**

For many years the Highbury Quadrant School has been used as the Polling Place for Mildmay Ward Polling District NMIC, within which it is located. However, it has also been used for Polling District NHEC which is in Highbury East ward.

Two potential alternative venues have been identified within NHEC which would alleviate the pressure on Highbury Quadrant school which gets very busy due to hosting four polling stations. The Returning Officer is aware that political party tellers can sometimes find the current situation at Highbury Quadrant School challenging. A new Polling Place for NHEC would mean voters would be voting within the boundary of the polling district.

No changes are proposed to Mildmay district NMIC which would continue to vote at Highbury Quadrant School.

3.81 Option 1.

| Polling District | Potential Polling Place | Electorate | Properties | Polling Stations |
|---|---|---|---|---|
| **NHEC** | **Highbury Grove 6th Form Centre, Highbury New Park** | **3020** | **2012** | **2** |

This is located at the far south of the polling district and is accessible from Highbury New Park. It has a separate entrance which means it does not impact on the school which can remain open as it can be entirely segregated.

This is offered as an option as it satisfies the requirement of having a venue within the polling district.

However, it would be a significant distance walk for most of the polling districts population who tend to be at the north or centre of the district which could have an impact on voter turnout.

**Comments received to initial proposal**

Islington Green Party have commented as follows:

*"there are pluses and minuses here – but we calculate that around 2/3 of the voters in the PD will end up walking more, with the consequences for voter turnout noted above. We are therefore opposed to this change, on balance".*

Cllr Russell also commented

*"The proposed polling station (H Grove School) means most residents in polling district C will have to walk quite a lot further to go and vote. Highbury Grove School is at the furthest corner of the polling district and the area is not at all permeable to walking. Highbury Quadrant School is not in the polling district but it is very convenient for people living in Parkview estate and Crowfield House and the Chestnuts and Taverner and Peckett Sq on Highbury Grange. People in Aberdeen Park can cut through Seaforth Cresc to get there".*

3.82 Option 2

| Polling District | Potential Polling Place | Electorate | Properties | Polling Stations |
|---|---|---|---|---|
| **NHEC** | **St Joan of Arc Community Centre, Kelross Road** | **3020** | **2012** | **2** |

Since the publication of the initial review a further venue has come to the Returning Officers attention as a potential polling place. The St Joan of Arc Community Centre on Kelross Road is situated just within Polling District NHEB and would mean a very minor tweaking of the polling district boundary which would essentially just need to be lifted to include 19 further electors into NHEC from NHEB. This venue sits more at the population centre than Option 1 and therefore would mean much less of a walk for voters. The venue itself meets all the necessary criteria for us to and is happy to be used.

3.83 However, consideration should be given to issues of continuity and the potential impact on voter turnout if polling were to move from the long-established existing location notwithstanding its being located slightly outside of the ward (See paragraph 4.2.3 below). Members of the committee are therefore invited to choose between the existing place Highbury Quadrant School or Option 1 or Option 2 above.

3.9 **St George's Ward**

St George's Church Centre is the venue for NSGA and NSGB due to no suitable location being available in NSGA. Comments have been made previously around adequate signage and challenges for party workers/tellers on polling day being able to successfully note who has/hasn't voted and the increased likelihood of these being missed at these stations leading to residents being wrongly called upon later in the day and reminded to go and vote having already done so.

Whilst it is acknowledged this is a challenge for parties, there have been no complaints made by voters in relation to this issue. Given that this has been a long-standing arrangements and there is still no suitable alternative within NSGA polling district it is recommended leaving arrangements as they are at present.

**Comments received to initial proposal**

Islington Green Party commented:
"*we recognise the trade-offs being made here, and while the current arrangement is far from ideal, we*

*agree that the status quo is acceptable*".

## 4. Implications

4.1 **Financial implications:**
The costs of the polling districts and polling places review will be met from within existing budgets.

4.2 **Legal Implications:**

4.2.1 The Representation of the People Act 1983 section 18D requires that local authorities designate the polling places within their Parliamentary constituencies. Under Representation of the People Act 1983, Returning Officers have the right to use certain public buildings (including schools that receive public funds) for use as polling stations at elections.

4.2.2 Section 18B (4) of the RPA 1983 states that in conducting a review of polling places the authority must:

a) seek to ensure that all the electors in the constituency have such reasonable facilities for voting as are practicable in the circumstances

b) seek to ensure that so far as is reasonable and practicable, the polling places they are responsible for are accessible to all electors, including those who are disabled, and when considering the designation of a polling place, must have regard to the accessibility needs of disabled persons.

4.2.3 In addition the polling place for a polling district must be within the area of the district unless special circumstances make it desirable to designate an area either wholly or partly outside of the polling district.

4.3 **Resident Impact Assessment:**

4.3.1 Electoral Services considered a review of all possible polling places and used a suitability and access checklist. This was drawn largely from the recommendations in Scope's Poll Report 4 published following the 2005 General Election. One checklist has been completed for each existing poll place and all proposed new polling places.

4.3.2 All polling staff receives equalities training as part of the induction for working on the election.

## 5. Conclusion and reasons for recommendations

5.1 The Electoral Registration & Administration Act 2013 requires all authorities to keep polling districts and polling places in its area under review.

5.2 Representations have been sought from political groups and the report takes into account informal conversations held with members and party agents.

**Appendices:** None

**Background papers:** None.

Final report clearance:

**Signed by:**

Director of Law and Governance Date

**Received by:**

Date

Report Author: Andrew Smith, Head of Registration & Electoral Services
Tel: 020 7527 3085
Fax:
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ISLINGTON

**Resources Department**
**7 Newington Barrow Way**
**London N7 7EP**

| | |
|---|---|
| **Report of:** | **Director of Law and Governance** |

| **Meeting of** | **Date** | **Ward(s)** |
|---|---|---|
| Audit Committee | 19 September 2017 | All |

| | | |
|---|---|---|
| Delete as appropriate | | **Non-exempt** |

## Subject: ANNUAL REPORT ON STANDARDS AND MEMBER CONDUCT

## 1. Synopsis

In accordance with the Audit Committee Terms of Reference, the Monitoring Officer is required to submit to the committee an annual report concerning standards of member conduct, including a summary of complaints received under the Code of Conduct Complaints Procedure and their outcome. The complaints received in the municipal year 2016-17 are detailed below. This report also includes information on member training and development and declarations of interest.

## 2. Recommendation

2.1 To note the contents of the report.

## 3. Details

3.1 **Member Training and Development**

3.2 Councillors have attended a number of conferences and training courses over the last year, including the LGA Annual Conference. Training has covered Licensing, Treasury Management and Presentation Skills and attendance at a number of subject specific conferences and courses has supported Executive Members to gain a greater understanding of emerging practice and new approaches within their remits.

3.3 A more strategic approach to ensuring that Members make the most of opportunities for development has been established for future years.

3.4 Updates on development opportunities that are provided by London Councils and the Local Government Association are regularly circulated to Members and many of these events are either free or subsidised.

3.4 Members have been provided with specific briefings on conduct or governance issues. Areas covered have included Voluntary and Community Sector roles and relationships; councillors personal safety, civic emergencies and data protection.

3.6 Staff and councillors who routinely login to the councils' network receive a series of pop up compliance messages which give information on a number of areas such as data protection and security, personal data and sharing documents. The number of councillors able to access the network has been significantly increased with the roll out of In-Tune during March 2017.

3.7 **Financial Declarations**

3.8 All Members reviewed, confirmed and where necessary updated, their register of interests, including their financial declarations, in March 2017. The Members Register of Interests is available on the Council's website.

3.9 Members were also advised that the question on the financial declarations form relating to licences to occupy land in the borough should include rented garages or parking permits for specific spaces on estates.

3.10 The Members interests and any declarations of interest made at meetings, declarations regarding gifts and hospitality and the councillors' attendance record at committee meetings are all available on the Council's website.

**Complaints**

3.12 All complaints under the Members Code of Conduct are referred to the Monitoring Officer (the Director of Law and Governance). Following consideration of the complaint, the Monitoring Officer decides whether it is appropriate to seek an informal resolution. Where there is no informal resolution, the Monitoring Officer may:

- decide not to investigate further;
- decide that the matter requires investigation.
- decide to refer the decision as to whether or not there is to be an investigation to the Standards Committee.

3.13 No formal complaints have been received against Members during 2016-17 relating to breaches of the Members Code of Conduct, although some issues have been raised which have not reached that stage.

| Members involved | Complainant | Topic | Formal complaint | Outcome |
|---|---|---|---|---|
| 1 | Members of the public | Various | N | Outside of Monitoring Powers to investigate. |
| 1 | Member of the public | Rudeness | N | Awaiting further information |
| 1 | Member of the public | Tweet | N | Informal resolution by way of apology |

## 4. Implications

4.1 **Financial Implications**

Included in Point 3.7 of this report.

4.2 **Legal Implications**

Included in the body of this report.

4.3 **Resident Impact Assessment**

No resident impacts arise directly from this report.

**Background papers:**
None.

Final Report Clearance

Signed by

Director of Financial and Asset Management  Date

Report author  Philippa Green
Democratic Services Manager
Contact:  Tel:  020 7527 3184
Email: Philippa.green@islington.gov.uk

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ISLINGTON

**Resources Department**
**7 Newington Barrow Way, London N7 7EP**

**Report of:** **Corporate Director of Resources**

| **Meeting of** | **Date** | **Agenda Item** | **Ward(s)** |
|---|---|---|---|
| Audit Committee | 19th September 2017 | | |

| **Delete as appropriate** | ~~Exempt~~ | Non-exempt |
|---|---|---|

## SUBJECT: Market Supplements

### 1. Synopsis

1.1 In January 2015 the Audit Committee adopted a market supplements policy with effect from 1st March, 2015 with a view to addressing the difficulties being experienced in recruiting to a number of specific technical and professional roles. This report provides an update on the effectiveness of market supplements in attracting the skills required by the council and whether they have proved more cost effective than engaging agency workers.

### 2. Recommendations

2.1 To note the update provided in this paper.

### 3. Background

3.1 The Policy and Performance Scrutiny Committee undertook a review of the council's use of agency workers and presented its report to the Executive in May 2014. Recommendations arising out of that review included one that the council should consider the use of market supplements for 'hard to fill posts' as part of a strategy for reducing the use of agency workers.

3.2 The policy sets quite stringent requirements in respect of evidence of the need for a supplement and requires that markets supplements are approved by the Chief Executive, or if they meet specified criteria, are considered by the Audit Committee itself.

3.3 The policy requires that a business case is prepared before a market supplements can be agreed. The business case is required to address the following issues:

(a) The anticipated detrimental impact on the operation of the council and its services of failing to recruit to, or retain, suitable employees in the post;

(b) Alternatives available to the use of market supplements (e.g. use of agency workers);

(c) The outcome of previous attempts to recruit to the post and/or difficulties in retaining employees in the post due to its remuneration, including exit interview information;

(d) Evidence of steps taken to maximise the attractiveness of the role and the likelihood of recruiting to it;

(e) Detailed information about the local labour market relevant to the post concerned using specific comparator jobs or survey information where sufficiently detailed and relevant;

(f) This information to cover at least 3 comparator roles and include the job descriptions (including management span and budget responsibilities), person specifications and overall remuneration and benefits package (including annual leave entitlement and other benefits) of roles cited as comparators;

(g) The calculation of the proposed supplement based on the median of the comparators used;

(h) Confirmation that the cost of the market supplement if applied can be met from the service's existing budget.

## 4. Use of market supplements

4.1 The following market supplements have been implemented since the policy was introduced and the posts were filled:

| Department | Service | Job title | Period | Amount per annum |
|---|---|---|---|---|
| Finance and Resources | Digital Services and Transformation | Information Security Adviser | 27/05/15 - 03/05/16 | £8175 |
| Finance and Resources | ICT Strategy and Transformation | Business Engagement Manager | 29/06/15 - 30/11/15 | £4995 |
| HASS | Housing Property Services | Principal Lift Engineer | From September 2017 | £5,000 |
| HASS | Housing Property Services | Senior Electrical Engineer | From September 2017 | £8,000 |
| HASS | Housing Property Services | Electrical Engineer | From 30/05/17 | £7,000 |

4.2 The following market supplements have been approved but it has not been possible to fill all the posts:

| Department | Service | Job title | Period | Amount per annum | Comments |
|---|---|---|---|---|---|
| HASS | Housing Property Services | Mechanical Engineer | From September 2017 | £11,000 | 1 of 2 posts filled |
| HASS | Housing Property Services | Mechanical Inspector | From September 2017 | £10,000 | 1 of 2 posts filled |
| HASS | Housing Property Services | Electrical Inspector | From September 2017 | £10,000 | 1 of 2 posts filled |

4.3 The following market supplements have been approved but it has not been possible to fill any of the posts:

| Department | Service | Job title | Amount per annum | Comments |
|---|---|---|---|---|
| HASS | Housing Property Services | Group Lead, Mechanical and Electrical Team x 1 | £9,000 | Attempts to recruit on two occasions have been unsuccessful despite offer of market supplement |
| HASS | Housing Property Services | Lead Domestic Gas Engineer x 2 | £6,870 | |

4.4 The following market supplement has been approved recently and recruitment has just begun:

| Department | Service | Job title | Amount per annum |
|---|---|---|---|
| E&R | Street Environment Services | Corporate Fleet and Transport Manager | £9,819 |

4.5 An application for the following market supplement was submitted at the end of August and is currently being considered:

| Department | Service | Job title | Amount per annum |
|---|---|---|---|
| E&R | Highways and Energy Services | Energy Conservation Officer | £3,285 - £4.785 |

4.6 An application is also expected for the post of Senior Mechanical Engineer.

## 5. Effectiveness and cost of using market supplements

5.1 Feedback from managers in HASS demonstrates that markets supplements have been essential in enabling recruitment to these technical and specialist roles. Even so, only approximately 50% of the posts have been filled. It will be necessary to re-advertise the ones that remain vacant and there is no guarantee of a successful outcome to the campaigns. Candidates have commented that market supplements are not the same as a permanent salary, as they are reviewed annually and could in theory be withdrawn. When posts are advertised, the market supplement has to be shown separately and this may also deter potential candidates. For the roles in HASS set out above, somewhere in the region of £15,000 has already been spent on advertising, due to the need to use specialist media.

5.2 Managers in a range of services where there are specialist roles which require lengthy study and high-level qualifications, and for which there is often competition with more generous salaries in the private sector, find that they struggle to recruit. The evidence shows that market supplements provide a solution, at least in part, but that it would be beneficial to look into the problems in recruiting to these posts in greater detail, including reviewing recruitment processes and ensuring that the full benefits packages are explained. Human Resources colleagues will work closely with managers to do this.

5.3 Examples of roles for which market supplements have been agreed, with the costs of permanent employees compared to agency workers are listed here:

| Job title | Islington grade/ salary | Market supplement | Approximate on-costs (c 20%) | Total cost of employee |
|---|---|---|---|---|
| Principal Lift Engineer | PO5<br><br>£42,651 - £45,438 | £5,000 pa<br><br>(£47,651 - £50,438) | £9,530 - £10,088 | £57,181 - £60,525 |
| Senior Electrical Engineer | P04/P05<br><br>£39,855 - £45,438 | £8,000 pa<br><br>(£47,855 - £53,438) | £9,571 - £10,688 | £57,426 - £64,126 |
| Mechanical Engineer | P02/P03<br><br>£35,070 - £39,855 | £11,000 pa<br><br>£46,070 - £50,855 | £9,214 - £10,171 | £55,284 - £61,026 |
| Mechanical Inspector | S01/S02<br><br>£29,424 - £33,627 | £10,000 pa<br><br>£39,424 - £43,627 | £7,885 - £8,725 | £47,309 - £52,352 |
| Electrical Inspector | S01/S02<br><br>£29,424 - £33,627 | £7,000 pa<br><br>£36,424 - £40,627 | £7,285 - £8,125 | £43,709<br>£48,752 |

| Job title | Day Rate (Contractor) | Day Rate (including agency fee) | Annual contract cost (48 weeks) |
|---|---|---|---|
| Principal Lift Engineer | £260.00 | £286.00 | £68,640 |
| Senior Electrical Engineer | £250.00 | £275.00 | £66,000 |
| Mechanical Engineer | £180.00 | £198.00 | £47,520 |
| Mechanical Inspector | £200.00 | £220.00 | £52,800 |
| Electrical Inspector | £200.00 | £220.00 | £52,800 |

5.4 One of the reasons that managers engage agency workers is because they experience difficulties in recruiting to posts permanently due to the salaries the council offers for jobs which may typically attract better pay in the private sector. As can be seen from the examples listed above, the cost of engaging an agency worker is generally greater than the cost of hiring a permanent employee. However, there are broader issues, with less easily quantifiable costs which should be noted and which, when taken into consideration alongside the costs, mean that offering market supplements in order to recruit on a permanent basis to hard-to-fill posts is the preferable option. These issues are as follows:

- The council wishes to act as a responsible and ethical employer, providing opportunities which offer people stability and security for them and their families and contribute to making Islington a fairer place;
- Unless used in conjunction with planned knowledge transfer, a high use of agency workers undermines efforts to build organisational and individual capability and does not allow for effective succession planning;
- An extensive use of agency workers carries significant risk in view of the speed at which workers can terminate contracts;
- A more transient workforce will be less motivated and less committed to working to achieve the council's vision and values;
- Some agency workers may have chequered work histories, which are very difficult to

identify in advance due to the fact that they work through agencies.

## 6. Implications

### 6.1 Financial implications:

As part of the process to approve market supplements, managers must assess where the funding will come from and ensure that sufficient funds are available to pay for the supplements from within their existing budgets.

### 6.2 Legal Implications:

Where a supplement is paid on top of the evaluated grade of a post the potential for equal pay claims arises. The council needs to demonstrate that there is a “material factor” which is neither directly nor indirectly sex discriminatory to avoid or defend such claims. The state of the employment market, which may lead an employer to increase the pay of a particular job in order to attract candidates, may constitute an objectively justified economic ground for a pay disparity. Having a robust market supplements policy in place, which has been equality impact assessed, is kept under review and which requires the market conditions and recruitment difficulties to be evidenced, mitigates the risks of using supplements.

### 6.3 Environmental Implications:

There are no environmental implications arising from this report.

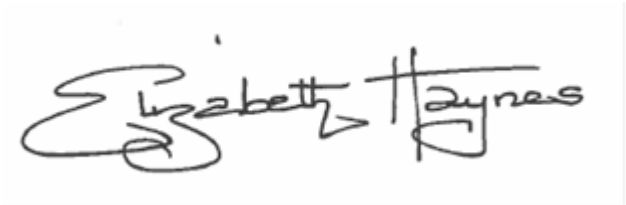
### 6.4 Resident Impact Assessment:

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.

A resident impact assessment was undertaken in respect of the Market Supplement policy. The policy itself is not considered likely to have an adverse impact on any particular group but as the policy gives discretion to managers the use of the policy by managers will be monitored to ensure it is being fairly applied.

Final report clearance:

**Signed by:**



Liz Haynes
Director of Human Resources

Date: 4th September, 2017

**Received by:**

| | | |
|---|---|---|
| | Head of Democratic Services | Date |

Report Author: Liz Haynes, Director of Human Resources
Tel: 020 7527 3523
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ISLINGTON

**Resources**
**Newington Barrow Way, London N7 7EP**

**Report of:** **Head of Internal Audit**

| **Meeting of** | **Date** | **Agenda Item** | **Ward(s)** |
|---|---|---|---|
| Audit Committee | 19th September 2017 | | |

| | | |
|---|---|---|
| **Delete as appropriate** | | Non-exempt |

**SUBJECT: Internal Audit Annual Report 2016/17**

## 1. Synopsis

1.1. The provision of a continuous internal audit service assists the Council in providing assurance on the control environment that supports the delivery of the Council's Strategy.

1.2. This report summarises the work that Internal Audit has undertaken during the financial year 2016/17, identifies the key themes that we have identified across the authority, and also highlights how responsive management have been in implementing recommendations.

## 2. Recommendations

2.1. To note the content of this report and the information provided in Appendices A to D.

## 3. Background

3.1. The Internal Audit Programme for 2016/17 (Annual Plan) was approved by Audit Committee in March 2016. The findings from the execution of that work programme are attached as Appendix A.

3.2. The Public Sector Internal Audit Standards (PSIAS) require that the Head of Internal Audit provides an annual audit opinion and report that can be used by the organisation to inform its governance statement. As such, this report also presents the annual opinion in respect of the adequacy and effectiveness of the organisation's system of internal control, risk management and governance.

3.3. This report summarises the work that Internal Audit has undertaken during the financial year 2016/17 and provides details on the high risk and priority issues which could impact on the effectiveness of the internal control environment across the Authority. The Internal Audit Charter is also included at Appendix D.

## 4. Implications

4.1. **Financial implications**

There are no specific financial implications associated with this report. The financial implications of individual audit and investigation reports are discussed with managers through the audit reporting protocols

4.2. **Legal Implications**

The requirement for an internal audit function in local government is detailed within the Accounts and Audit (England) Regulations 2015, 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.

4.3. **Resident Impact Assessments**

There are no direct Resident Impact Assessment implications arising from the recommendations in this report.

## 5. Conclusion and reasons for recommendations

This report indicates the level of work being undertaken by Internal Audit in order to provide assurance over Islington's control environment.

**Appendices**

Appendix A: Internal Audit Annual Report 2016/17
Appendix B: Definitions
Appendix C: Annual Opinion Categories
Appendix D: Internal Audit Charter

Final Report Clearance

| | | |
|---|---|---|
| **Signed by** | ……. | ……. |
| | Corporate Director of Finance | Date |
| **Received by** | ……. | ……. |
| | Head of Democratic Services | Date |

Report author: Nasreen Khan, Head of Internal Audit
E-mail: nasreen.khan@islington.gov.uk

Appendix A

# London Borough of Islington

# Internal Audit Annual Report

# 2016/17

# 1. Introduction

## 1.1. Purpose of this report

This report summarises the work that Internal Audit has undertaken during the financial year 2016/17 and provides details on the high risk and priority issues which could impact on the effectiveness of the internal control environment across the Authority.

## 1.2. The Role of Internal Audit

The role of Internal Audit is to provide management with an objective assessment of the adequacy and effectiveness of internal control, risk management and governance arrangements. Internal Audit is therefore a key part of the Council's assurance cycle and is just one of the sources of assurance available to the Council and Audit Committee.

Each year, we seek to adapt and enhance our approach in order to take in to account the Council's risk profile and changes in the system of internal control to ensure that our work remains focused on the areas of high risk and seeks to avoid duplication of effort, where there are other sources of assurance in operation, for example, external audit and Ofsted. Our Internal Audit Charter can be found at Appendix D.



## 1.3. Overview of the Internal Audit Approach

The Public Sector Internal Audit Standards (PSIAS) require that the Head of Internal Audit provides an annual audit opinion and report that can be used by the organisation to inform its governance statement. As such, this report also presents the annual opinion in respect of the adequacy and effectiveness of the organisation's system of internal control. The opinions provided in this report are based on the work completed by the in-house team across the Cross Council Shared Audit Service (with Camden) and our internal audit contractor, PWC.

We generally undertake individual projects with one of two objectives in mind:

- **Assurance Reviews:** The majority of projects are geared towards providing assurance to management on the operation of the Authority's system of internal control. This includes establishment audits (e.g. Schools, Tenant Management Organisations) and grant certifications (of which there were four undertaken during 2016/17).
- **Specific Advice reports:** Other projects are geared more towards the provision of specific advice and support to management to enhance the efficiency, effectiveness and economy of the services and functions for which they are responsible.

We also undertake:

- **Proactive Anti-fraud and Forensic Reviews:** The internal audit work covers investigations into "internal" instances of suspected fraud, proactive anti-fraud work, such as CAATs analysis, National Fraud Initiative (NFI) support, and training and awareness. The work delivered supplements investigative work undertaken by dedicated housing benefit and blue badge fraud teams in the council.

All audit reports include recommendations and actions agreed with management that will, if implemented, further enhance the control environment and the operation of the controls in practice. We formally follow up all of our work to monitor the levels of implementation of agreed actions.

## 1.4. Overview of work done in the year

The original Audit Plan for 2016/17 was approved by the Audit Committee in March 2016. We have continued to communicate closely with senior management to ensure that the audit reviews undertaken represent a focus on high risk areas, in the light of new and ongoing developments to ensure the most appropriate use of our resources. The final number of projects delivered was 57 (25 audit reviews and 32 follow ups) after taking into account projects which were cancelled or deferred to 2017/18, requests for new (unplanned) projects by service management, provision of internal audit service to London Waste Ltd (10 days) and ad hoc support given to Fraud and Risk colleagues.

## 1.5. Internal Audit Opinion

The Head of Internal Audit is satisfied that the work undertaken during 2016/17 enabled a reasonable conclusion to be formed on the Council's control framework, risk and governance arrangements. For the year ended 31st March 2017, it is the Head of Internal Audit's opinion that the adequacy and effectiveness of the Council's arrangements is as follows:

| | |
|---|---|
| **OVERALL OPINION** | **Moderate Assurance** – overall the Council's systems for control, risk and governance are generally adequate with some improvement required. Medium risk rated weaknesses identified in individual assignments are not significant in aggregate to the system of internal control, high risk rated weaknesses identified in individual assignments are isolated to specific systems or processes, and none of the individual assignment reports have an overall classification of critical risk. This opinion has been derived from consideration of the detail below. This is consistent with the moderate assurance rating provided for 2015/16. |
| **CONTROL** | Generally, the Council has sound systems of control in place. Seven (41%) of the 17 audits undertaken in the year with an assurance rating opinion, provided positive messages with 'substantial' or 'moderate' levels of assurance as to the adequacy and effectiveness of the internal control environment, while the number or reports providing a 'limited' or 'no' assurance was 10 (59%). Eight management letters were also issued, where an assurance statement is not created.<br><br>Whilst in comparison, our 2015/16 annual report gave positive assurance in 59% of reports, and negative assurance in 41%, it should be noted that nine of these reviews with no or limited assurance related to individual establishments and it is therefore not considered significant in aggregate to the system of internal control across the Council.<br><br>In addition, follow up reviews undertaken during 2016/17 confirmed that of the 50 critical/high priority recommendations made in 2015/16, all have been either fully or partially addressed and controls improved where appropriate. Out of 32 follow ups undertaken, five related to reports which were no assurance and two related to a report which was originally rated as limited assurance. Out of these seven reports, audit follow up testing concluded that due to the high level of implementation of recommendations, the indicative assurance level could be increased to moderate for five reports, which suggests that the control environment, only in relation to the specific areas covered by the follow up audit, has improved on follow up. The reports where assurance could not be raised is outlined at section 3. |
| **RISK** | In 2016/17 the risk management framework was refined to define materiality and provide guidelines for risk escalation. Key aspects of the new approach have included the development of a top-down (CMB-owned risks) and bottom-up approach (service-owned risks) to risk management including the identification of key principal risks facing the Council as identified by CMB and senior management across each Department. The CMB risk map has been refined, and there are now departmental risk maps for every department. Going forward, risk workshops will take place to embed refinements to the framework. Risk reviews will take place for each divisional management team every six months to help integrate and embed |

| | |
|---|---|
| | effective risk management within the culture of the Council |
| **GOVERNANCE** | Some areas will be continue to be monitored during 2017/18 to ensure appropriate governance is effected to optimise outcomes, including business continuity arrangements, compliance with the General Data Protection Regulation requirements and the development of the Shared Digital service. |

## 1.6. Report Assurance Ratings by Service Area

| Service Area | Substantial Assurance | Moderate Assurance | Limited Assurance | No Assurance | Not Rated (Mgmnt Letters) | Total |
|---|---|---|---|---|---|---|
| Cross-Cutting/Corporate Review | | | | | 3 | 3 |
| Environment and Regeneration | 1 | 1 | | | | 2 |
| Housing and Adult Social Services (HASS) | | | 1 | 2 | 1 | 4 |
| Children's Services (Non-Schools) | | 2 | | 1 | 2 | 5 |
| Children's Services (Schools) | | 1 | 4 | 2 | | 7 |
| Resources | 1 | 1 | | | 2 | 4 |
| **Total** | **2** | **5** | **5** | **5** | **8** | **25** |

# 2. Key themes identified in 2016/17

## 2.1. Fundamental and Key Financial Systems

Each year Internal Audit carries out reviews of the Council's fundamental financial systems. Through discussion with senior management, the 2016/17 scope was revised to focus on those systems which are the most important financially and carry the highest inherent risk of error. These priorities have been agreed with management based on the results of previous reviews. Additional controls have also been added to a number of key systems at the request of management, where issues have been identified in the period since the 2015/16 results were reported. In 2016/17, the approach was updated to utilise data analytics to support the testing over a number of key financial processes. Data analytics was employed to identify all exceptions within a given population. Detailed testing was then performed on a sample of exceptions to provide further insight.

The key financial systems reviewed during this audit were: Cash Management; Accounts Payable; Accounts Receivables – Sundry Income; Treasury Management; Housing Rents; Housing Benefits and; Parking.

These were agreed with management on the basis that Cash, Treasury, Accounts Payable and Accounts Receivable represent the Council's core financial systems. Housing Rents and Housing Benefits were not reviewed in the prior year and so were selected for testing. Systems which had few or no issues in the prior year, and senior management therefore consider them at low risk of error, were not retested in 2016/17. These included: Council Tax, NNDR and Estates Parking. ControCC (previously Abacus) was subject to separate internal audit review in 2016/17 and a separate review of Payroll has been deferred to 2017/18 and therefore were not reviewed as part of this work.

The 2016/17 overall opinion rating for the fundamental systems was 'moderate' assurance, which is consistent with the assurance rating provided in 2015/16. The key controls in the Council's financial systems continue to operate effectively based on the sample testing performed. In three of the seven systems tested (Housing Benefits, Housing Rents and Accounts Receivable), substantial assurance was given. In two of the seven systems tested, Cash and Treasury Management, the control environment has deteriorated. This is due to an increase in the number of control design issues noted in relation to the access to online banking. The remaining areas have remained consistent with findings in the prior period.

The direction of travel across the systems can be summarised as follows (**Testing last performed in 2014/15*):

| System | Rating 2016/2017 | Rating 2015/2016 | Direction of Travel |
|---|---|---|---|
| Cash Management | Limited ● | Substantial ● | ↓ |
| Accounts Payable | Moderate ● | Moderate ● | ↔ |
| Accounts Receivable | Substantial ● | Substantial ● | ↔ |
| Treasury Management | Moderate ● | Substantial ● | ↓ |
| Housing Rents | Substantial ● | N/A | ↔ * |
| Housing Benefits | Substantial ● | N/A | ↔ * |
| Parking | Moderate ● | Moderate ● | ↔ |

## 2.2. No Assurance Reports

### a) Foster Care Payments

The review was limited to reviewing the system for managing and processing foster care payments only and did not evaluate adoption or residence/guardianship order payments or consider the service's financial/performance monitoring controls. However, it is in the opinion of Internal Audit that the findings and recommendations raised surrounding the management of foster care payments, may relate to and could equally be applied to adoption and residence/guardianship order payments. Going forward, Internal Audit will discuss with management the possibility of including a review of adoption and residence/guardianship order payments within planned follow-up work.

Four high priority and one medium priority findings were identified. The four high priority findings relate to: validation of payment runs; system reconciliations; processing and authorisation of payments to carers; and expense / one-off payments. It should be noted that management had already begun to implement systems and controls to address the issues highlighted, and Internal Audit plan to conduct a follow-up review during Quarter 3 2017/18.



### b) Laycock School

Six high priority and six medium priority findings were identified. The high priority findings related to: payment and use of self-employed individuals; staff reimbursements; petty cash; purchasing arrangements; collection and management of income and; lettings.

### c) St John's Highbury Vale School

Six high priority findings were identified within the following areas: management of petty cash expenditure; purchasing controls; management of income collection records; payments to self-employed individuals; management of school lettings; and management of school assets.

### d) Dixon Clarke TMO

Internal Audit identified four high risk issues relating to: HR, use of debit card, payment of staff bonuses and bank accounts.

### e) Arch Elm TMO,

Internal Audit identified four high risk issues relating to: data security; HR; Safe Gas and; petty cash.

## 2.3. Business Continuity

A Business Continuity Internal Audit report was issued in November 2015, which raised four recommendations (two high and two medium priority) and provided a 'limited assurance' opinion. In response to the report, Management identified the actions that would be undertaken by the Business Continuity / Emergency Planning functions and

also highlighted where input from Corporate Directors was required in order to fully address and action the weaknesses identified within the report. An interim follow-up review was undertaken in May 2016, which identified that the Business Continuity / Emergency Planning function had made good progress towards implementing the recommendations, by fully implementing one recommendation and partially implementing three recommendations. The three partially recommendations were identified as requiring input from Corporate Directors in order to oversee their full implementation.

In March 2017 Internal Audit completed a final follow-up assessment, which identified that overall little progress has made since the interim follow-up, and as a result the three recommendations assessed as partially implemented in May 2016 remain outstanding in the following areas: Business Continuity Arrangements for Partners / Suppliers, Alignment with ICT Disaster Recovery Plan(s), Completion of BIAs and Business Continuity Plans and Corporate Support Arrangements.

As identified in the original Internal Audit report and the interim follow-up completed in May 2016, the Business Continuity / Emergency Planning function has implemented a corporate business continuity framework; however there continues to be a number of issues across the Council regarding the general compliance and conformance with this. To this end, during the course of other Internal Audit activities conducted during 2016/17, where relevant, we have reviewed and assessed the completeness of service-level business continuity plans; and in a number of instances this highlighted that whilst plans were in place, they were not fit-for-purpose.

It is in the opinion of Internal Audit that owing to a number of developments and changes to the Council, and the external environment, since the original Internal Audit report was issued, the Council's exposure to business continuity related risks may have increased.

## 2.4. Information Governance

In 2016/17 Internal Audit performed a gap analysis over the Council's key documentation in relation to General Data Protection Regulation, ahead of its enforcement from May 2018. The following key themes were identified:

- Risk based prioritisation of the action plan
- Clear, simple, communicated vision for data privacy
- Senior stakeholder sponsorship and commitment
- Alignment to GDPR requirements

Management actions in these areas are already underway.

Several other audit reviews during 2016/17 may also impact on the Council's ability to comply with GDPR:

- Box - The Council commissioned a piece of work to review the security arrangements of the Box application. Subsequently, E&R accepted that Office365 would be the corporate document management and sharing offering. The existing Box contract finished in July 2017 and work is underway to migrate all the content from Box to SharePoint Online as part of the Shared Digital Office365 project.
- TMO IT Arrangements - The critical finding related to IT Support and data security. The four high priority findings related to information asset register and document retention; policies and procedures; access control management and legal and regulatory compliance and governance.
- Role of SIRO - TBC
- Cyber Security - TBC
- Findings arising from individual establishment audits, such as schools.

Internal Audit works closely with the Information Governance team, appraising them of emerging findings. The risk is also monitored through the Council's Principal Risk Report.

## 2.5. Shared Digital

The formation of the Shared Digital Service in 2016/17 brings together IT provision for Camden, Haringey and Islington. Audit work in this area in 2016/17 has included:

- Cyber Security
- Role of SIRO
- O365

Whilst Haringey have their own Internal Audit provision, the Role of SIRO and O365 reviews were undertaken across all three boroughs by the same auditor to provide adequate assurance and overview to the Chief Information and Digital Officer.

## 2.6. Schools - key themes identified in 2016/17

Through the completion of the school audit work undertaken in the financial year 2016/17, we identified a number of key themes and common findings across schools, which were also consistent with the findings we identified within the school audit work completed within the financial years 2014/15 and 2015/16:



a) Purchasing and Expenditure Systems

b) Vetting and Payment of Self-Employed Individuals

c) Business Continuity Arrangements

d) Data Protection

e) Review of System of Internal Control

## 2.7. TMOS - key themes identified in 2016/17

a) Financial Management/Purchasing and Expenditure Systems

b) Income

c) HR

d) Vetting and Payment of Self-Employed Individuals

e) Business Continuity Arrangements

f) Asset Management

g) Governance

h) Data Security

i) Review of System of Internal Control

## 3. Management's response to implementing audit recommendations

Progress in implementation of recommendations made in 2015/16 reports has been monitored by completion of follow up audits on all high risk recommendations made. This exercise has confirmed that of the 50 critical/high priority recommendations made in 2015/16, all have been either fully or partially addressed and controls improved where appropriate.

Out of 32 follow ups undertaken, five related to reports which were no assurance and two related to a report which was originally rated as limited assurance. Out of these seven reports, audit follow up testing concluded that due to the high level of implementation of recommendations, the indicative assurance level could be increased to moderate which suggests that the control environment, only in relation to the specific areas covered by the follow up audit, has improved on follow up for five reports:

- Personal Budgets
- Harry Weston TMO
- Canonbury Shool
- The Factory Children Centre
- Sunnyside



The following reviews remained at limited assurance:

| Department | Audit Title | *Original Assurance Rating* | Revised Assurance Rating | Outstanding Recommendations |
|---|---|---|---|---|
| Cross-Cutting | Operational Business Continuity | *Limited* | Limited | As detailed above |
| HASS | Holbrook TMO | *Limited* | Limited | In the previous report seven recommendations (three high and five medium priority) were made. Based on the evidence presented, our follow up audit revealed that: four recommendations (two high priority and two medium priority) have been fully implemented, two recommendations (both medium) have not been implemented and; one high recommendation has been superseded. One outstanding recommendation relates to the block charges return and the other relates to the repairs IT module. In addition, a further high priority finding was identified with Holbrook TMC failing to follow protocols in their procurement for works. |

As previously reported, Planning/S106/ Building Control remains at limited assurance. Originally 31 recommendations were made in reports originally issued in 2011/12, of which 15 were high priority, 13 medium and three low. All three areas remain limited, with the following remaining outstanding: five high priority recommendations; two medium priority; two low priority. The outstanding recommendations relate to, or are associated with, the M3 system in place preventing adequate management information

allowing effectiveness in the process and monitoring of planning/building control applications. Internal Audit understands that management have put manual work-arounds in place to counteract the issues with M3 and mitigate the risks. The effectiveness of these controls have not yet been independently verified by Internal Audit.

An audit review of Planning/S106 and Building Control has subsequently been deferred to 2018/19 by management due to the changes being made to M3. Internal Audit considers there little value in continuing to monitor these outstanding actions and instead will look at the current risks and environment in 2018/19.

## 4. Service Summaries: 2016/17 Final Reports

### 4.1. Cross-Cutting Reviews

| Report Title | Assurance Rating | Critical | High | Medium | Low | Key issues arising |
|---|---|---|---|---|---|---|
| Cross Council Savings | n/a – management letter | 0 | 4 | 1 | 0 | The high priority findings related to: savings proposals; validity and detail of savings plan; setting of savings targets; RAG risk assessment; monitoring of savings; post review and evaluation of savings. |
| Information Governance – GDPR Readiness | n/a – management letter | 0 | 4 | 1 | 0 | A gap analysis was performed over the Council's key documentation in relation to GDPR and the following key themes were identified: risk based prioritisation of the action plan; clear, simple, communicated vision for data privacy; senior stakeholder sponsorship and commitment; and alignment to GDPR requirements. |
| Box (addition to plan) | n/a – management letter | 0 | 8 | 3 | 0 | The Council commissioned a piece of work to review the security arrangements of the Box application It is understood that the proposed future rollout of O365 will largely supersede the recommendations made in relation to Box. |



Cyber Security due to be finalised September 2017. Voluntary Organisations was deferred to 2017/18 at management's request. Health and Safety and Equalities (Resident Impact Assessments) were deferred to 2017/18 with management agreement.

### 4.2. Children's Services

| Report Title | Assurance Rating | Critical | High | Medium | Low | Key issues arising |
|---|---|---|---|---|---|---|
| East West Nursery (Addition to Plan) | n/a – management letter– findings indicative of no assurance | 2 | 0 | 0 | 0 | As a result of the inability to access key financial records for the Nursery, the audit concluded that no assurance could be provided that further Council funding would be used as intended and/or that the nursery has complied with Data Protection Act requirements. |
| Foster Care & Adoption Payments | No | 0 | 4 | 1 | 0 | Four high priority and one medium priority findings have been identified. The four high priority findings relate to: validation of payment runs; system reconciliations; processing and authorisation of payments to carers; and expense / one-off payments. |

| Report Title | Assurance Rating | Critical | High | Medium | Low | Key issues arising |
|---|---|---|---|---|---|---|
| Hornsey Road Children's Centre | Moderate | 0 | 0 | 5 | 0 | The audit highlighted five medium risk issues, including budgetary control, income and expenditure statements, purchasing, arrears and risk register. Follow up completed June 2017 and revealed that: four recommendations have been fully implemented and; one recommendation has been partially implemented. |
| Education Health Care Plans (previously SEN) | Moderate | 0 | 0 | 1 | 5 | The medium priority finding relates to Education Health Care (EHC) plans; sample testing highlighted that expected events in the process had been skipped without reasons provided. Internal audit had noted action taken to review operational procedures establishing closer links between Children Services and Adult Social Services by updating transition policies and processes with a view to establishing a smooth transition between the two services, related to client who have been assessed and will require continued care support.<br>In addition, one high, two medium and one low priority findings highlighted in the previous audit have been assessed and concluded as implemented. |
| Stronger Families | Internal Audit have provided on-going assurance during 2016/17 regarding the grant claim and have been satisfied that the proposed claims were accurate based on the sample testing performed and the provisional number of claims identified. | | | | | |



chool Monitoring was deferred with management agreement. Personal Budgets was undertaken as a follow up.

## 4.3. Children's Services (Schools)

| School | Assurance Rating | Critical | High | Medium | Low | Key issues arising |
|---|---|---|---|---|---|---|
| Laycock | No | 0 | 6 | 6 | 3 | Six high priority and six medium priority findings have been identified. The high priority findings relate to: payment and use of self-employed individuals; staff reimbursements; petty cash; purchasing arrangements; collection and management of income and; lettings |
| St John's Highbury Vale | No | 0 | 6 | 6 | 1 | Six high priority findings have been identified within the following areas: management of petty cash expenditure; purchasing controls; management of income collection records; payments to self-employed individuals; management of school lettings; and management of school assets. |
| St Marks C of E | Limited | 0 | 2 | 6 | 3 | Two high priority findings have been identified within the following areas: payments to staff; and payments to self-employed individuals |

| School | Assurance Rating | Critical | High | Medium | Low | Key issues arising |
|---|---|---|---|---|---|---|
| Hannover | Limited | 0 | 2 | 10 | 1 | Two high risk issues were identified relating to: information governance and the school's debit card. |
| Central Foundation | Limited | 0 | 2 | 5 | 4 | Two high priority findings have been identified within the following areas: payments to staff; and payments to self-employed individuals |
| The Bridge | Limited | 0 | 3 | 4 | 5 | Three high priority recommendations have been identified in the following areas: HR and Payroll; Payment of Self-Employed Individuals; Starters and Leavers |
| St Aloysius | Moderate | 0 | 1 | 2 | 3 | One high priority recommendation was identified relating to HR. A separate review relating to HR and Payroll was also undertaken. |



## 4.4. Environment and Regeneration

| Report Title | Assurance Rating | Critical | High | Medium | Low | Key issues arising |
|---|---|---|---|---|---|---|
| Street Trading | Moderate | 0 | 1 | 7 | 1 | A high priority issue was identified relating to where arrears recovery action had not been taken in line with expected practice. |
| Leisure Centre Contract Arrangements | Substantial | 0 | 0 | 1 | 2 | The medium priority recommendation related to contract monitoring. |

SES Savings due for completion September 2017. Commercial Waste deferred to 2017/18 due to resourcing issues. Planning/S106 and Building Control deferred to 2018/19 by management due to the changes being made to M3.

## 4.5. Housing and Adult Social Services

| Report Title | Assurance Rating | Critical | High | Medium | Low | Key issues arising |
|---|---|---|---|---|---|---|
| TMO IT Arrangements (addition to the plan) | n/a – management letter – findings indicative of no assurance | 1 | 4 | 0 | 0 | The critical finding related to IT Support and data security. The four high priority findings related to information asset register and document retention; policies and procedures; access control management and legal and regulatory compliance and governance. |
| TMO: Dixon Clarke | No | 0 | 4 | 8 | 0 | Internal Audit identified four high risk issues relating to: HR, use of debit card, payment of staff bonuses and bank accounts. |
| TMO: Arch Elm | No | 0 | 4 | 7 | 1 | Internal Audit identified four high risk issues relating to: data security, HR, Safe Gas and Petty Cash. |
| Islington Law Centre (addition to plan) | Limited | 0 | 3 | 5 | 1 | Three high priority findings were identified relating to financial management, separation of duties, and financial procedures. |

Bemerton TMO was undertaken in May 2017 and is due to be finalised in September 2017; two further TMO's were deferred to 2017/18. Support for Carers and Responsive Repairs cancelled with management agreement.

## 4.6. Resources

| Report Title | Assurance Rating | Critical | High | Medium | Low | Key issues arising |
|---|---|---|---|---|---|---|
| Continuous Auditing/KFS Audits | Moderate – overall | The key controls in the Council's financial systems continue to operate effectively based on the sample testing performed. In three of the seven systems tested, substantial assurance has once again been given. In two of the seven systems tested, Cash and Treasury Management, the control environment has deteriorated. This is due to an increase in the number of control design issues noted, including in relation to the access to online banking. The remaining areas have remained consistent with findings in the prior period.<br><br>In prior periods, design issues were noted with four controls, which had not been previously implemented. One of these remains high priority, relating to: Invoice validation through a three-way match - there is still scope to strengthen both preventative and detective controls in this areas, including developing the Fiscal data analytics tool, which enables a set of analytics and tests to be designed which will help mitigate the risk exposures in relation to payments and suppliers. Three design issues (two medium and one low priority) were previously noted in the controls within parking. These require further action to implement the agreed recommendations. | | | | |
| Abacus/Controcc | Substantial | 0 | 0 | 1 | 1 | The Council has previously used "ABACUS" to manage the means-testing of service users to establish their client contribution and to pay care home providers. The Council recently moved from ABACUS to a similar system, "ContrOCC". The transition was undertaken in August 2016 and went live 5th September 2016. The design of the controls was assessed in a first phase of work in October 2016. A management letter was issued as attached in Appendix 2. The second phase of work undertook an assessment of the operation of these controls, and followed up on the recommendations made in phase one. One medium and one low risk finding were raised. The medium risk finding relates to the lack of reconciliation between the care management system, "LAS" and ContrOCC. |
| Supplier Bank Detail Amendments<br><br>(addition to plan) | n/a - management letter | 0 | 2 | 0 | 0 | Following an attempted mandate fraud, the Investigations team carried out an immediate investigation into the fraud and Internal Audit also reviewed the controls around supplier bank detail amendments, in line with the recent Continuous Auditing outcome and a follow up of a management letter issued in August 2015 relating to the same area. Investigations presented their findings in a separate management letter. Internal Audit raised two high priority recommendations relating to establishing the veracity of supplier details and documenting procedures.<br><br>Follow Up completed March 2017 - based on the evidence presented, our follow up audit revealed that both recommendations have been fully implemented. |

| Report Title | Assurance Rating | Critical | High | Medium | Low | Key issues arising |
|---|---|---|---|---|---|---|
| DBS Checks (addition to plan) | n/a - management letter | 0 | 2 | 0 | 0 | High priority findings related to the definition and communication of roles and responsibilities; setting of formal protocols; and the management of DBS renewals for agency staff.<br>Follow Up completed May 2017 – based on the evidence presented, our follow-up has concluded that: one recommendation has been implemented; and one recommendation has been partially implemented. The partially implemented recommendation relates to the publishing and communicating of the Council's DBS renewals policy. |

Payroll and Gifts and Hospitality/Declarations of Interest were deferred from 2016/17 and will be undertaken in 2017/18.

## 4.7. Shared Digital

Work in Progress due for completion September 2017: Role of SIRO, 3rd Party Arrangements and O365



## 4.8. Public Health

Review of Transforming Public Health programme was cancelled at management's request. Alternative review of Public Health Evidence Hub was deferred to 2017/18.

## 5. Review of the Effectiveness of Internal Audit

The internal audit service operates in line with the PSIAS and the service is measured against a number of key performance indicators as reported below. Our Internal Audit Charter can be found at Appendix D.

Key Performance Indicators used to demonstrate the effectiveness of the internal audit function in 2016/17 highlighted the following:

| KPI Target | Results |
|---|---|
| % of the annual audit plan completed compared to what was planned.<br>Target 90% (draft reports)by 31st March 2017; 100% (final reports) by 30th April 2017 | **Draft Report stage:**<br>For those audits in our control - 97%<br>Result when taking Principal Auditor vacancy in to account (8 audits affected): 78%<br>Result when taking client delays in to account (a further 7 audits affected): 66%<br><br>**Final Report stage (as at 30th April)**<br>For those audits in our control – 85%<br>Result when taking client delays in to account: 64%<br><br>On track for 100% completion by 30th September 2017. |
| % of applicable audit reports followed up within financial year. Target 100% | For those audits within our control: 81% achieved (25/31 follow ups were completed by 30th April 2017)<br>Result when taking client delays in to account: 74% achieved (25/34 follow ups completed by 30th April 2017)<br><br>On track for 100% completion by 30th September 2017. |
| Audit areas where the level of assurance has risen at the follow-up stage: 90%. | 71% achieved. For the seven no/limited assurance follow ups completed, the assurance level for five reviews improved from 'no' or 'limited' to indicative 'moderate'. |
| Customer Satisfaction results | Customer survey not widely used in 2016/17 due to delays in implementation of new system. However, of the customer surveys received, ratings of excellent or good were recorded. Feedback from other sources has also been positive. |

## Appendix B

## Key to Assurance Levels: Individual Reports

| Level of Assurance | |
|---|---|
| **Substantial** ● | There is a sound control environment with risks to key service objectives being reasonably managed. Any deficiencies identified are not cause for major concern. Recommendations will normally only be Advice and Best Practice. |
| **Moderate** ● | An adequate control framework is in place but there are weaknesses which may put some service objectives at risk. There are Medium priority recommendations indicating weaknesses but these do not undermine the system's overall integrity. Any Critical recommendation will prevent this assessment, and any High recommendations would need to be mitigated by significant strengths elsewhere. |
| **Limited** ● | There are a number of significant control weaknesses which could put the achievement of key service objectives at risk and result in error, fraud, loss or reputational damage. There are High recommendations indicating significant failings. Any Critical recommendations would need to be mitigated by significant strengths elsewhere. |
| **No Assurance** ● | There are fundamental weaknesses in the control environment which jeopardise the achievement of key service objectives and could lead to significant risk of error, fraud, loss or reputational damage being suffered. |

## Recommendations

| Risk rating | |
|---|---|
| **Critical** ● | Life threatening or multiple serious injuries or prolonged work place stress. Severe impact on morale & service performance. Mass strike actions etc<br>Critical impact on the reputation or brand of the organisation which could threaten its future viability. Intense political and media scrutiny i.e. front-page headlines, TV. Possible criminal, or high profile, civil action against the Council, members or officers.<br>Cessation of core activities, Strategies not consistent with government's agenda, trends show service is degraded. Failure of major Projects – elected Members & SMBs are required to intervene<br>Major financial loss – Significant, material increase on project budget/cost. Statutory intervention triggered. Impact the whole Council; Critical breach in laws and regulations that could result in material fines or consequences |
| **High** ● | Serious injuries or stressful experience requiring medical many workdays lost. Major impact on morale & performance of staff.<br>Significant impact on the reputation or brand of the organisation ; Scrutiny required by external agencies, external audit etc. Unfavourable external media coverage. Noticeable impact on public opinion<br>Significant disruption of core activities. Key targets missed, some services compromised. Management action required to overcome med – term difficulties<br>High financial loss Significant increase on project budget/cost. Service budgets exceeded. Significant breach in laws and regulations resulting in significant fines and consequences |
| **Medium** ● | Injuries or stress level requiring some medical treatment, potentially some workdays lost. Some impact on morale & performance of staff.<br>Moderate impact on the reputation or brand of the organisation ; Scrutiny required by internal committees or internal audit to prevent escalation. Probable limited unfavourable media coverage.<br>Significant short-term disruption of non-core activities. Standing Orders occasionally not complied with, or services do not fully meet needs. Service action will be required.<br>Medium financial loss - Small increase on project budget/cost. Handled within the team. Moderate breach in laws and regulations resulting in fines and consequences |
| **Low** ● | Minor injuries or stress with no workdays lost or minimal medical treatment. No impact on staff morale<br>Internal Review, unlikely to have impact on the corporate image. Minor impact on the reputation of the organisation<br>Minor errors in systems/operations or processes requiring action or minor delay without impact on overall schedule. Handled within normal day to day routines.<br>Minimal financial loss – Minimal effect on project budget/cost. Minor breach in laws and regulations with limited consequences |

## Appendix C

## Annual opinion categories

| Type of opinion | When to use this type of opinion |
|---|---|
| **Substantial** | • generally only low risk rated weaknesses found in individual assignments; and<br>• none of the individual assignment reports have an overall report classification of either high or critical risk. |
| **Moderate** | • medium risk rated weaknesses identified in individual assignments that are *not significant in aggregate* to the system of internal control; and/or<br>• high risk rated weaknesses identified in individual assignments that are *isolated* to specific systems or processes; and<br>• none of the individual assignment reports have an overall classification of critical risk. |
| **Limited** | • medium risk rated weaknesses identified in individual assignments that are *significant in aggregate but discrete parts* of the system of internal control remain unaffected; and/or<br>• high risk rated weaknesses identified in individual assignments that are *significant in aggregate but discrete parts* of the system of internal control remain unaffected; and/or<br>• critical risk rated weaknesses identified in individual assignments that are *not pervasive* to the system of internal control; and<br>• a *minority* of the individual assignment reports may have an overall report classification of either high or critical risk. |
| **No** | • high risk rated weaknesses identified in individual assignments that *in aggregate are pervasive* to the system of internal control; and/or<br>• critical risk rated weaknesses identified in individual assignments that are *pervasive* to the system of internal control; and/or<br>• *more than a minority* of the individual assignment reports have an overall report classification of either high or critical risk. |

## Appendix D

## Internal Audit Shared Service

## Internal Audit Charter

### 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 2015, 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, including the Head of Audit 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, including the Head of Audit:

- 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.

ISLINGTON

**Internal Audit**
**Resources**
**7 Newington Barrow Way,**
**London N7 9EP**

**Report of:** **The Corporate Director of Resources**

| | | |
|---|---|---|
| **Audit Committee** | **Date: 19th September 2017** | **Ward(s): N/A** |

| | | |
|---|---|---|
| **Delete as appropriate** | Exempt | |

Part of the report is not for publication because it contains exempt information under Schedule 12A of the Local Government Act 1972) Paragraphs 1, 2, 7 Schedule 12A of the Local Government Act 1972, namely: Information relating to an individual. Information which is likely to reveal the identity of an individual and Information relating to any action taken or to be taken in connection with the prevention, investigation or prosecution of crime.

## THE APPENDIX TO THIS REPORT IS NOT FOR PUBLICATION

## SUBJECT: Whistleblowing Report April 2017 to August 2017

## 1. Synopsis

1.1 The report confirms that whistleblowing arrangements are in place and operating effectively, and that investigating fraud is an integral part of the Council's Anti-Fraud Strategy.

Whistleblowing arrangements are a key element of the Council's overall governance arrangements. It is the mechanism to "empower the honest majority" in the fight against fraud and corruption and is an integral part of the Council's Anti-Fraud Strategy.

Whistleblowing allows employees, members, contractors and others, to raise concerns about fraud and corruption. There are separate reporting mechanisms for adult and child protection allegations. Whistleblowing information is located within the Human Resources policies and procedures section of the Council's intranet.

A review of the Council's Whistleblowing arrangements and policy was undertaken in March 2014, by the Council's Monitoring Officer. A review of the policy is due in 2017.

The Council's Whistleblowing Officer is the Head of Internal Audit.

## 2. Recommendations

2.1 Committee is asked to note the contents of the report

## 3. Background

3.1 Effective whistleblowing arrangements are a key element of effective governance arrangements within the Council. The Council's Whistleblowing Policy details how referrals can be made to the Council.

## 4. Implications

**Financial implications:**

4.1 None arising from the content of this report.

**Legal Implications:**

4.2 None arising from the content of this report.

**Environmental Implications**

4.3 None arising from the content of this report.

**Resident Impact Assessment:**

4.4 There are no direct Resident Impact Assessment implications arising from this report.

## 5. Reasons for the recommendations / decision:

5.1 The report presents an update on whistleblowing received from April to August 2017 .

5.2 The Council is obliged under the Public Interest Disclosure Act to maintain a Whistleblowing Policy, designed to encourage staff, members, contractors and others to raise concerns without fear of reprisal.

| | | |
|---|---|---|
| **Signed by** | ……. | …….. |
| | Corporate Director of Resources | Date |
| **Received by** | ……. | …….. |
| | Head of Democratic Services | Date |

**Appendices**

- Appendix A - Whistleblowing Report: April to August 2017

**Background papers:**

- Anti-Fraud Strategy

Report author: Nasreen Khan, Head of Internal Audit
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By virtue of paragraph(s) 2 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

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