



ISLINGTON

AUDIT COMMITTEE AND AUDIT COMMITTEE (ADVISORY)

24 July 2018

SECOND DESPATCH

Please find enclosed the following items:

Item 5 External Auditor Report

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Report of: Corporate Director of Resources

Meeting of	Date	Agenda Item	Ward(s)
Audit Committee	24 July 2018		ALL

STATEMENT OF ACCOUNTS 2017-18 (INCLUDING 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 2017/18. 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 2017/18 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 May 2018 and the details of the Auditor's Annual Governance Report.
- 3.2 The Committee is required to approve the audited Statement of Accounts by 31 July 2018, 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 2017/18

- 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 2017/18 (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 The submission dates this year are a change from previous year, when draft Statement of Accounts were presented to the Auditors at the end of June 2017 and the audit was completed by September 2018. The shorter timescales have required both the Council and its auditors to complete their work in a more intense way.
- 4.2 Between Friday 1st June and Thursday 12th July, 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.
- 4.3 After several years of continuous major changes there were few significant changes in accounting requirements or policies since the previous year. The focus this year was in meeting the shorter timescales. The audit has shown that the Council has successfully implemented these changes without impacting on the quality of the financial information.

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, despite the shorter timescales.

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 July.

5. ANNUAL GOVERNANCE REPORT

- 5.1.1 The auditor's Annual Governance Reports for the year ended 31 March 2018 is attached at Appendix A. It summarises the findings of the 2017/18 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 Resources 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 very minor presentational adjustments were made to the Statements.

Unadjusted Amendments

- 5.5 There was one potential amendment to the Statements of Accounts which the Council had decided not to adjust for on grounds of materiality. The adjustment would have reduced the Council's reported net worth of £2.86bn by only £2.6m.

Recommendations

- 5.6 The auditor has made a number of recommendations to further improve the process and meet the tighter 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 Resources) certifies the statement no later than 31st May 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 31st July (Regulations 9(2) and 10(1)). 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 31 July (regulations 6(2) and 10(1)).

Environmental Implications

6.3 There are no direct environmental implications.

Resident Impact Assessment

6.4 There are no direct equality implications.

7. CONCLUSION

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

Appendices

- A Annual Governance Report 2017/18
- B Letter of Representation
- C Statement of Accounts 2017/18 including Pension Fund Accounts

Background papers:

None



Signed by
	Corporate Director of Resources	Date

Received by
	Head of Democratic Services	Date

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External Audit Report 2017/18

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

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DRAFT: July 2018

Content

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- 3 Audit differences
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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.

Important notice

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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 Council and London Borough of Islington Pension Fund (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

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:

- Completion of whole of government accounts audit; and
- Review of pension fund annual report.

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 31 July 2018, following the Audit Committee adopting them and receipt of the management representations letter.

We anticipate issuing an unqualified audit opinion in relation to the Pension Fund's financial statements for the deadline of 31 July 2018.

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 is one unadjusted audit misstatement of £2.6m. This has not been amended for by the Council as it not material, as explained in Appendix 3.
- 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 2017/18.

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In additional to our routine requests we are asking for management representations over the following, which are explained in section 2:

- Private Finance Initiative contracts
- Fair value hierarchy
- Consolidation
- We reviewed the narrative report and have no matters to raise with you except of those already communicated to you and adjusted.
- We did not receive any queries or objections from local electors this year.
- We are required to give an opinion on the consistency of the financial statements of the pension fund included in the Pension Fund Annual Report with the pension fund accounts included in the financial statements of London Borough of Islington. The Local Government Pension Scheme (Administration) Regulations 2008 require authorities to publish the Pension Fund Annual Report by 1 December following the end of the relevant financial year. As the authority has not yet prepared the Pension Fund Annual Report we have not issued our report on the financial statements included in the Pension Fund Annual Report. Until we have done so, 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 and the Code of Audit Practice.

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 31 July 2018.

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.).

We have a duty to consider whether to issue a report in the public interest about something we believe the Authority should consider, or if the public should know about.

We have not identified any matters that would require us to issue a public interest report. In addition, we have not had to exercise any other audit powers under the Local Audit & Accountability Act 2014.

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 2017/18 financial statements.

We are satisfied that the Authority has addressed the recommendations raised in our ISA260 report in 2016/17. We have made no new recommendations as a result of our 2017/18 work. Delivery of prior year recommendations is shown in appendix 1.

The status of our grants and claim work is summarised below:

- Housing benefits grant claim: This work commences in September 2018 to ensure sign off by 30 November 2018;
- Pooled housing capital receipts: This work commences in October 2018 to ensure sign off by 30 November 2018 and;
- Teachers pension contribution return: This work commences in October 2018 to ensure sign off by 30 November 2018;

The fees for this work is explained in section two.

Section Two

Financial statements audit

We audit your financial statements by undertaking the following:

Work Performed	Accounts production stage		
	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 2017/18 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 no recommendations. 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 that this has resulted in good-quality working papers with clear audit trails.

Section Two

Financial statements audit

4. Accounting standards	<p>We work with you to understand changes to accounting standards and other technical issues. For 2017/18 these changes were minor but included:</p> <ul style="list-style-type: none">• Updates to clarify the reporting requirements for accounting policies and going concern reporting;• The introduction of key reporting principles for the Narrative Report; and• Changes in the Pension Fund accounts to require a new disclosure of investment management transaction costs and clarification on the approach to investment concentration disclosure.
5. Accounts Production	<p>We received complete draft accounts by 30 May 2018 in accordance with the deadline. 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 2017/18.</p> <p>The Authority incorporated measures into its closedown plan to manage this complex process. The Authority recognised the additional pressures which the earlier closedown brought and we engaged with officers in the period leading up to yearend to proactively address issues as they emerge. We consider that the overall process for the preparation of your financial statements is adequate. We consider the Authority's accounting practices to be appropriate.</p> <p>We thank Finance for their cooperation throughout the visit which allowed the audit to progress and complete within the allocated timeframe.</p>
6. Testing	<p>We have summarised the findings from our testing of significant risks and areas of judgement in the financial statements on the following pages. There is one non-material unadjusted misstatement relating to PPE which is detailed in Appendix 3. There were also a minor number of presentational issues which have been adjusted as they have no material effect on the financial statements.</p>
7. Representations	<p>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 13 July 2018. 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:</p> <ul style="list-style-type: none">• Private Finance Initiative contracts;• Fair value hierarchy; and• Non consolidation of the Islington Limited subsidiary.

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 2017/18 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 valuation of land and buildings which was identified as significant risk within 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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Section Two

Financial statements audit

Authority significant audit risks

Those risks requiring specific audit attention and procedures to address the likelihood of a material financial statement error in relation to the Authority.

SIGNIFICANT audit risk	Account balances effected	Summary of findings
<p>Valuation of land and buildings (Council only)</p> <p>In 2017/18 the Council reported Property, Plant and Equipment of £4.04bn. Of this balance, £267m 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. 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.</p> <p>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.</p>	<p>PPE</p> <p>£4,044m</p> <p><i>PY £3,911m</i></p> <p>(NBV)</p>	<p>We have:</p> <ul style="list-style-type: none"> • Reviewed the approach to valuation, the qualifications, reports by the Council's valuers, and judgements made by the Council; • Reviewed the Council's judgement in assessing movements from the valuation date; • Reviewed the disclosures made to ensure they are complete as per the valuations on the financial statements for all assets valued; • Confirmed the information provided to the valuer from the Authority; • Compared the assumptions made by your valuer to benchmarks; • Used our specialist to review the approach taken, the valuations and the assess the reasonableness of the outcomes; • Sampled properties to confirm they exist; • Sampled properties and reviewed the rights and obligations to confirm the Council owns the asset; • Completed testing over new capital additions in year to confirm these are appropriately capitalised and that Authority ownership is evidenced; and • Reviewed disposals made in year and confirm appropriate removal from the PPE balance in 2017-18. <p>We identified a misstatement of £2.69m, where a School asset was double counted. The Council has not adjusted for this as it is not material to the financial statements. There are no further issues that we need to bring to your attention.</p>

Section Two

Financial statements audit

Authority other areas of audit focus

Those risks with less likelihood of giving rise to a material error but which are nevertheless worthy of audit understanding.

Other areas of audit focus	Account balances effected	Summary of findings
Pension liabilities	<p>Liability Related to Defined Benefit Pensions Scheme</p> <p>£803m</p> <p>PY £868m</p> <p>(net liability)</p>	<p>The net pension liability represents a material element of the Authority's balance sheet. The Authority is an admitted body of London Borough of Islington Pension Fund, which had its last triennial valuation completed as at 31 March 2016. This forms an integral basis of the valuation as at 31 March 2018. Valuation of the Local Government Pension Scheme relies on assumptions, most notably actuarial assumptions, and actuarial methodology which results in the Authority's overall valuation.</p> <p>There are financial and demographic assumptions used in the calculation of the Authority's valuation, such as the discount rate, inflation rates, mortality rates etc. Assumptions should reflect the profile of the Authority's employees and should be based on appropriate data. The basis of assumptions is derived on a consistent basis year to year, or updated to reflect any changes. There is a risk that the assumptions and methodology used in the valuation of the Authority's pension obligation are not reasonable. This could have a material impact to net pension liability accounted for in the financial statements.</p> <p>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. We reviewed the assumptions adopted in calculating the pension liability using the work of independent experts engaged by the NAO. We reviewed the competence and experience of the actuary. We have tested the disclosure against CIPFA requirements.</p> <p>There are no issues that we need to bring to your attention.</p>
Faster close	Pervasive	<p>Previously the Authority was required to prepare draft accounts by 30 June and signed accounts by 30 September. For 2017/18 onwards draft accounts are required by 31 May and signed accounts by 31 July. These changes represent a significant change to the timetable that the Authority has previously worked to. The time available to produce draft accounts has been reduced by one month and the time available for audit is two months shorter than in prior years.</p> <p>We liaised with officers in preparation for our audit in order to understand the steps that the Authority was taking in order to ensure it met the revised deadlines. We advanced audit work into the interim visit in order to streamline the year end audit work. We received draft financial statements in advance of the statutory deadline of 31 May 2018. The quality of this draft was consistent with that of prior years.</p> <p>There are no issues that we need to bring to your attention.</p>

Section Two

Financial statements audit

Pension Fund other areas of audit focus

Those risks with less likelihood of giving rise to a material error but which are nevertheless worthy of audit understanding.

Other areas of audit focus	Account balances effected	Summary of findings
Valuation of unquoted investments	<p>Private Equity investments</p> <p>£32.3mm</p> <p><i>PY £26.3m</i></p>	<p>We obtained confirmations from the Fund managers and Custodians, and reconciliations between the two and reviewed ISAE3402 compliance reports on each Fund Manager. For unquoted investments we checked the basis of the valuations and back to audited accounts.</p>
Faster close	Financial statements as a whole	<p>In prior years, the Pension Fund has been required to prepare draft financial statements by 30 June and then final signed accounts by 30 September. For years ending on and after 31 March 2018 however, revised deadlines apply which require draft accounts by 31 May and final signed accounts by 31 July.</p> <p>These changes represent a significant change to the timetable that the Pension Fund has previously worked to. The time available to produce draft accounts has been reduced by one month and the overall time available for completion of both accounts production and audit is two months shorter than in prior years.</p> <p>We liaised with officers in preparation for our audit in order to understand the steps that the Authority was taking in order to ensure it met the revised deadlines. We also advanced audit work into the interim visit in order to streamline the year end audit work.</p> <p>We received draft financial statements in advance of the statutory deadline of 31 May 2018. The quality of this draft was consistent with that of prior years.</p> <p>There are no issues that we need to bring to your attention.</p>

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Section Two

Financial statements audit

Authority and Pension Fund

Professional standards require us to consider two standard risks.

Risks that ISAs require us to assess in all cases	Why	Summary of findings
Management override of controls	Professional standards require us to communicate the fraud risk from management override of controls as significant because management is typically in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.	Our procedures, including testing of journal entries, accounting estimates and significant transaction outside the normal course of business, no instances of fraud were identified. Our audit incorporated the risk of Management override as a default significant risk. In line with our methodology, we carried 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.
Fraud risk from revenue recognition	<p>Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk.</p> <p>Authority: 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.</p> <p>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.</p>	There are no matters arising from this work that we need to bring to your attention.

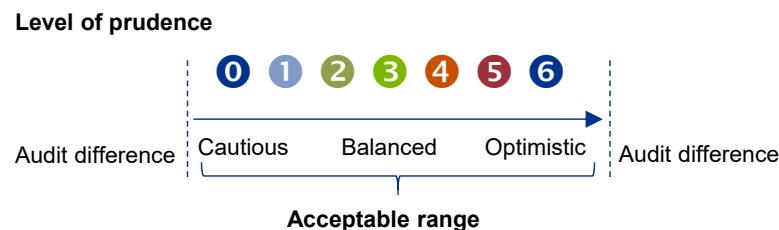
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Section Two

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 RDR)	3	3	£13.8m (PY:£13.5m)	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	£6.4m (PY:£6.0m)	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	£142.3m (PY:£103.5m)	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.
PPE: HRA assets	3	3	£3,241m (PY:£3,057m)	The Authority continues its use of the beacon methodology in line with the DCLG's <i>Stock Valuation for Resource Accounting</i> 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.

Section Two

Financial statements audit

Assessment of subjective areas				
Asset / liability class	Current year	Prior year	Balance (£m)	KPMG comment
PPE: asset lives	3	3	£4,044m (PY:£3,911m)	Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. Useful lives for property assets are provided by a qualified valuer. There is a level of uncertainty around estimating the useful lives of assets but it is anticipated the rolling programme of revaluation and annual review minimises the uncertainty.
Debtors provisioning	3	2	£53.2m (PY:£50.1m)	We reviewed the impairment for debtors and there are no matters arising from this work that we need to bring to your attention. In 2016/17, the Authority was slightly on the cautious side (for certain classes of debt especially relating to individuals) but well within the acceptable range.
Pension liability	3	3	£802m (PY:£868m)	<p>The Authority continues to use Mercer to provide actuarial valuations in relation to the assets and liabilities recognised as a result of participation in the Local Government Pension Scheme. Due to the overall value of the pension assets and liabilities, small movements in the assumptions can have a significant impact on the overall valuation.</p> <p>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.</p>

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Section Two

Financial statements audit

Narrative report of the Authority

We have 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. There are no specific matters to bring to your attention relating to this.

Pension fund annual report

We reviewed the consistency of the Fund's financial statements in the Fund's Annual Report and the financial statements included in London Borough of Islington Council's financial statements. We confirm that the Fund's financial statements are consistent with the pension fund financial statements included in the accounts of London Borough of Islington Council. We read the information in the Fund's Annual Report to identify material inconsistencies with the Fund's financial statements. We can confirm it is not inconsistent with the financial information contained in the audited financial statements. As such we anticipate issuing an unqualified consistency opinion on the pension fund financial statements.

Queries from local electors

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

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Section Two

Financial statements audit

Audit certificate

To issue an audit certificate, we are required to have completed all our responsibilities relating to the financial year. We are not in a position to issue our audit certificate with the audit opinion as the Authority has not provided us with a draft Pension Fund Annual Report. The deadline for the Authority to publish this is 1 December 2018 but we expect to be able to issue our audit report for the Pension Fund Annual Report in August 2018 to allow early publication.

We have not received any objections to the accounts from local electors, therefore we expect to issue our audit certificate in September 2018 following completion of the above.

Whole of Government Accounts (WGA)

We have not completed the review of your WGA consolidation pack at the time of issuing this draft report.

Other grants and claims work

The status of our grants and claim work is presented below:

Housing benefits grant claim: This work commences in September 2018 to ensure sign off by 30 November 2018;

Pooled housing capital receipts: This work commences in October 2018 to ensure sign off by 30 November 2018 and;

• Teachers pension contribution return: This work commences in October 2018 to ensure sign off by 30 November 2018;

Audit fees

Our fee for the audit was £202,830 excluding VAT (£202,830 excluding VAT in 2016/17). The audit fee for the Pension Fund was £21,000 excluding VAT (£21,000 excluding VAT in 2016/17).

This fee was in line with that highlighted in our audit plan approved by the Audit Committee in January 2018.

Our work on the certification of Housing Benefits (BEN01) is planned for October 2018. The planned scale fee for this is £24,975 excluding VAT (£24,975 excluding VAT in 2016/17). 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 2016/17).

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

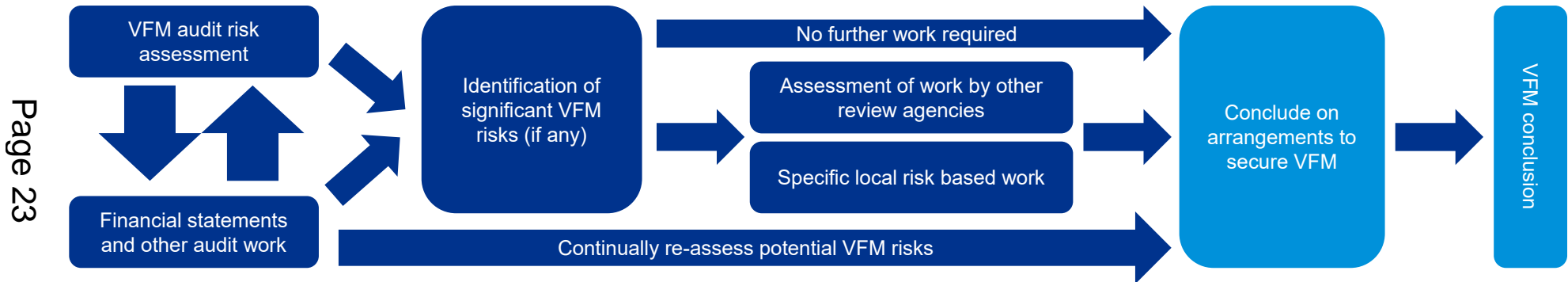
Section Three

Value for money

The Local Audit and Accountability Act 2014 requires auditors of local government bodies to be satisfied that the authority 'has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources'.

This is supported by the Code of Audit Practice, published by the NAO in April 2015, which requires auditors to 'take into account their knowledge of the relevant local sector as a whole, and the audited body specifically, to identify any risks that, in the auditor's judgement, have the potential to cause the auditor to reach an inappropriate conclusion on the audited body's arrangements.'

We follow a risk based approach to target audit effort on the areas of greatest audit risk as 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 2018, based upon the criteria of informed decision making, sustainable resource deployment and working with partners and third parties.

Section Three

Value for money

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	<ul style="list-style-type: none">■ 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.■ 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.■ We reviewed the monitoring process in place for savings plans and deemed this appropriate for the Authority. <p>There are no other matters arising from this work that we need to bring to your attention.</p>

Appendix 1

Recommendations raised and followed up

We have followed up the recommendations from the prior year's audit, in summary:

Total number of recommendations	Number of recommendations implemented	Number outstanding
4	4	0

#	Risk	Recommendation	Management Response / Officer	Status at July 2018
1	2	<p>Whole of government accounts submission</p> <p>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.</p> <p>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.</p>	<p>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.</p> <p>Responsible: Director of Financial Management</p>	<p>Implemented</p> <p>WGA submitted before the deadline in 2018.</p>
2	3	<p>Bank reconciliation review</p> <p>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.</p> <p>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.</p> <p>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.</p>	<p>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</p> <p>Responsible: Director of Financial Management</p>	<p>Implemented</p> <p>A reconciliation is now completed.</p>

Appendix 1

Recommendations raised and followed up

#	Risk	Recommendation	Management Response / Officer	Status at July 2018
3	3	<p>Review of pension payroll starters</p> <p>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.</p> <p>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.</p>	<p>Agreed. The resourcing issue has been resolved and the reconciliation and review will take place.</p> <p>Responsible: Director of Financial Management</p>	<p>Implemented</p> <p>Each month a report is produced by Payroll listing all pension new starters, this is cross-referenced and reconciled with the appropriate pension documentation by a Pensions Team Leader to ensure the validity of the payment.</p>
	3	<p>Preparation for a faster accounts closure</p> <p>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.</p> <p>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.</p>	<p>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.</p> <p>Responsible: Director of Financial Management</p>	<p>Implemented</p> <p>The corporate accountancy team has met regularly in 2017/18 to assess progress with the faster close action plan. We received draft financial statements in advance of the statutory deadline.</p>

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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 used the same planning materiality reported in our External Audit Plan 2017/18, presented to you in January 2018.

Materiality for the Authority's accounts was set at £8.6 million which equates to around 0.8% of gross expenditure.

Materiality for the Pension Fund was set at £10.0 million which equates to around 0.7% 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 £0.50 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.

Appendix 3

Audit differences

Unadjusted audit differences

Under UK auditing standards (ISA (UK&I) 260) we are required to provide the Audit Committee with a summary of unadjusted audit differences (including disclosure misstatements) identified during the course of our audit, other than those which are 'clearly trivial', which are not reflected in the financial statements. In line with ISA (UK&I) 450 we request that you correct uncorrected misstatements. However, they will have no effect on the opinion in our auditor's report, individually or in aggregate.

One audit difference was identified during the course of the audit that has not been adjusted for. This relates to the double counting of the valuation of a School at the 31 March 2018. Details are shown below:

Unadjusted audit differences (£m)				
No.	Detail	CIES Dr/(cr)	BS Dr/(cr)	Comments
Page 28	CR Property, plant and equipment	-	(£2.69m)	A School building was double counted in the year end PPE balance. The Council has not amended the financial statements on the grounds the amendment is not material to the financial statements.
	Dr revaluation increases recognised in the revaluation reserve	-	£1.95m	
	Dr revaluation increases recognised in the provision of surpluses	£0.74m		
Total		£0.74m	(£0.74m)	

Adjusted 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 2017/18 ('the Code') and for consistency within the accounts. These have been amended by management.

Appendix 4

Audit independence

ASSESSMENT OF OUR OBJECTIVITY AND INDEPENDENCE AS AUDITOR OF LONDON BOROUGH OF ISLINGTON COUNCIL AND LONDON BOROUGH OF ISLINGTON PENSION FUND

Professional ethical standards require us to provide to you at the conclusion of the audit a written disclosure of relationships (including the provision of non-audit services) that bear on KPMG LLP's objectivity and independence, the threats to KPMG LLP's independence that these create, any safeguards that have been put in place and why they address such threats, together with any other information necessary to enable KPMG LLP's objectivity and independence to be assessed.

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code of Audit Practice, the provisions of Public Sector Audit Appointments Limited's ('PSAA's') Terms of Appointment relating to independence, the requirements of the FRC Ethical Standard and the requirements of Auditor Guidance Note 1 - General Guidance Supporting Local Audit (AGN01) issued by the National Audit Office ('NAO') on behalf of the Comptroller and Auditor General.

This Statement is intended to comply with this requirement and facilitate a subsequent discussion with you on audit independence and addresses: general procedures to safeguard independence and objectivity; breaches of applicable ethical standards; independence and objectivity considerations relating to the provision of non-audit services; and independence and objectivity considerations relating to other matters.

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 partners, Audit Directors and staff annually confirm their compliance with our ethics and independence policies and procedures. Our ethics and independence policies and procedures are fully consistent with the requirements of the FRC Ethical Standard. 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 are satisfied that our general procedures support our independence and objectivity.

Appendix 4

Audit independence

Independence and objectivity considerations relating to the provision of non-audit services

Summary of fees

We have considered the fees charged by us to the authority and its controlled entities for professional services provided by us during the reporting period. Total fees charged by us for the period ended 31 March 2018 can be analysed as follows:

	2017-18 £	2016-17 £
Audit of the Authority	202,830	202,830
Audit of the Pension Fund	21,000	21,000
Total audit services	223,830	223,830
Allowable non-audit services	-	-
Audit related assurance services	6,000	6,000
Mandatory assurance services	24,975	24,975
Total Non Audit Services	30,975	30,975

We are required by AGN 01 to limit the proportion of fees charged for non-audit services (excluding mandatory assurance services) to 70% of the total fee for all audit work carried out in respect of the Authority under the Code of Audit Practice for the year. The ratio of non-audit fees to audit fees for the year was 0.1:1. We do not consider that the total of non-audit fees creates a self-interest threat since the absolute level of fees is not significant to our firm as a whole. We confirm that all non-audit services were approved by the audit committee.

Appendix 4

Audit independence

Facts and matters related to the provision of non-audit services and the safeguards put in place that bear upon our independence and objectivity, are set out in the table below:

Description of scope of services	Principal threats to independence and Safeguards applied	Basis of fee	Value of services delivered in the year ended 31 March 2018 £	Value of services committed but not yet delivered £
Audit-related assurance services				
Grant Certification – Teachers Pensions Return and Pooling of Housing Capital Receipts Return	The nature of these audit-related services is to provide independent assurance on each of these returns. As such we do not consider them to create any independence threats.	Fixed Fee	6,000	6,000
Mandatory assurance services				
Grant Certification – Housing Benefit Subsidy Return	The nature of this mandatory assurance service is to provide independent assurance on each of the returns. As such we do not consider it to create any independence threats.	Fixed Fee	24,975	24,975

Appropriate approvals have been obtained from PSAA for all non-audit services above the relevant thresholds provided by us during the reporting period.

Contingent fees

We have not agreed any contingent fees with the Authority.

Appendix 4

Audit independence

Independence and objectivity considerations relating to other matters

There are no other matters that, in our professional judgment, bear on our independence which need to be disclosed to the Audit Committee.

Confirmation of audit independence

We confirm that as of the date of this report, in our professional judgment, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Audit Director and audit staff is not impaired.

This report is intended solely for the information of the Audit Committee of the authority and should not be used for any other purposes.

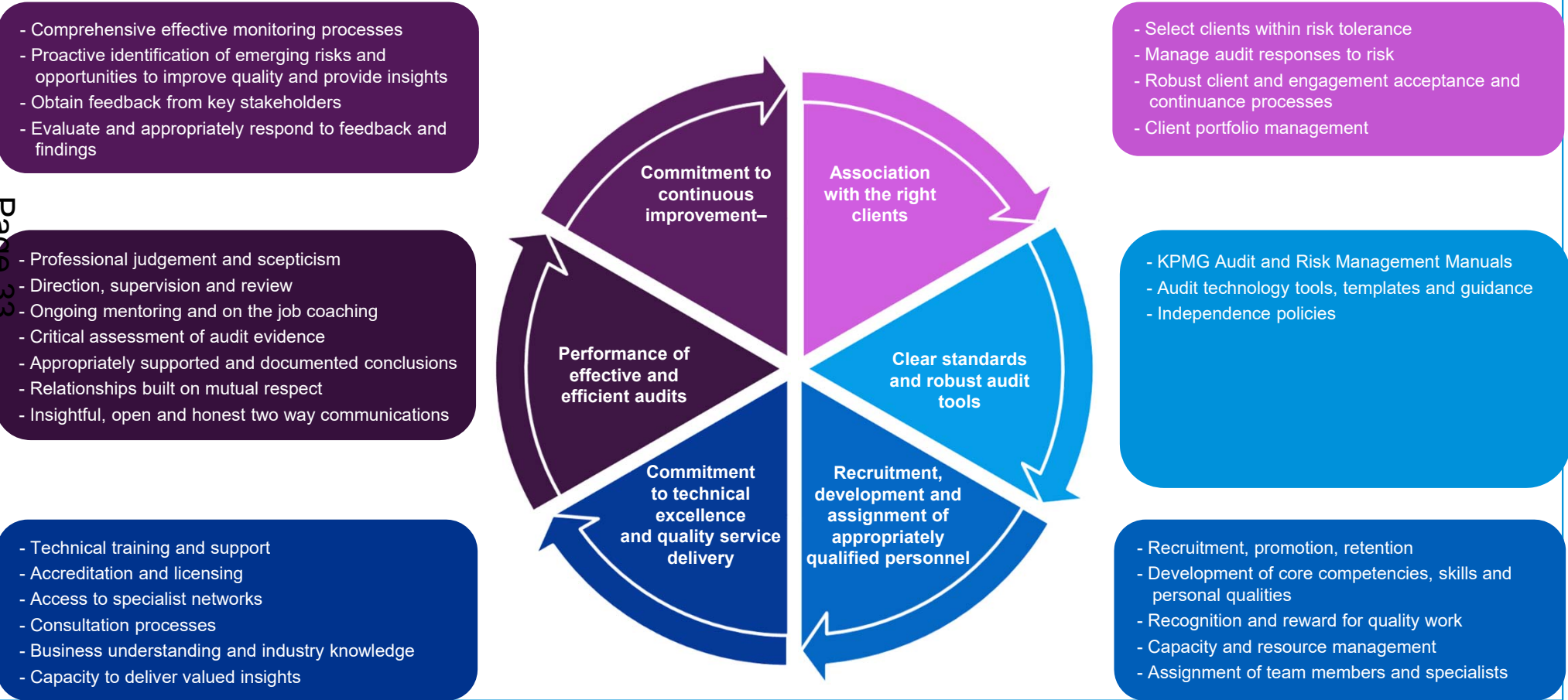
We would be very happy to discuss the matters identified above (or any other matters relating to our objectivity and independence) should you wish to do so.

KPMG LLP
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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

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24 July 2018

Dear Neil

Audit for the year ended 31 March 2018 - London Borough of Islington (to include the Pension Fund)

This representation letter is provided in connection with your audit of the financial statements of London Borough of Islington (“the Authority”), for the year ended 31 March 2018, 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 2018 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 2018 and the amount and disposition of the Fund’s assets and liabilities as at 31 March 2018, other than liabilities to pay pensions and other benefits after the end of the scheme year; and
- 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 2017/18.

These financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure 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 including the Expenditure and Funding Analysis. 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.



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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:

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 2018 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 2018 and the amount and disposition of the Fund's assets and liabilities as at 31 March 2018, other than liabilities to pay pensions and other benefits after the end of the scheme year;
 - iii. have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18. 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.
4. The effects of uncorrected misstatements are immaterial, both individually and in aggregate, to the financial statements as a whole. The summary of uncorrected misstatements is attached in Appendix 1.

Information provided

5. 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.
6. All transactions have been recorded in the accounting records and are reflected in the financial statements.



7. The Authority confirms the following:

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.

8. 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.

9. 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.

10. 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.

11. 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.

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 2017/18.

12. 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.

13. 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.

14. The authority provides the following specific representations as follows:

- a) We confirm that we have provided you with all relevant information relating to PFI arrangements. There were no changes in circumstances which require adjustments in PFI modules.



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b) We confirm that fair value hierarchy disclosed in Note 23 of the Pension Fund financial statements is in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18



- and all financial assets classified as Level 1 are quoted on active markets for identical assets that the Authority can access at the measurement date.
- c) We confirm that the interest in Authority's subsidiary Islington Company is not material and hence the Authority shall not prepare consolidated Group Accounts.

This letter was tabled and agreed at the meeting of the Audit Committee on 24 July 2018.

Yours faithfully,

Chair of the Audit Committee

Interim S151 Officer, Director Financial
Management

If you would like this document in large print or Braille, audiotape or in another language, please telephone 020 7527 2000



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Appendix 1 to the Board Representation Letter: Uncorrected audit differences

The following uncorrected audit differences have been presented as part of the Audit Report to those charged with governance and are considered by management to be immaterial to the London Borough of Islington's financial statements:

Unadjusted audit differences (£k)				
No.	Detail	CIES Dr/(cr)	Balanc e sheet Dr/(cr)	Comments
1	CR Property, plant and equipment Dr revaluation increases recognised in the revaluation reserve Dr revaluation increases recognised in the provision of surpluses	- £0.74m	(£2.69 m) £1.95m	A School building was double counted in the year end PPE balance. The Council has not amended the financial statements on the grounds the amendment is not material to the financial statements.
Total		(£382k)	£382k	



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Appendix 2 to the Board Representation Letter: 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 2017/18.

A housing authority must present:

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

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

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

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

Material Matters

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

IAS 1.7 and IAS 8.5 state that:



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

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”).



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- 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 2017/18

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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 2018. 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 just under £1.1bn. This is made up of the gross cost of the day-to-day services we provide, plus the investments made in your assets and in new facilities for the borough. In the Comprehensive Income and Expenditure Statement, on the line called 'Cost of Services', you will see that the gross cost of these services was £996m, and in the Note on Capital Expenditure and Financing, you will see that we spent £90m 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 2017/18 this contribution amounted to £82m. We financed our investments through external contributions of £24m, contributions from the HRA of £41m, whilst £2m came from revenue sources, £16m from the sale of council assets and we borrowed £7m

This year's Public Inspection of the Accounts period runs from 1st June to 12th July, inclusive. Further details are available from our website.



Mike Curtis
Corporate Director of Resources
29 May 2018

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

The Audit Report 2017/18 will appear here once the audit is completed at the end of July 2018

The Audit Report 2017/18 will appear here once the audit is completed at the end of July 2018

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Narrative Report to the Statement of Accounts and Summary of the Council's Financial Performance in the Year 2017/18

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. This reflects the legal requirement to set a balanced budget, the ability of the Director of Finance to issue a Section 114 notice preventing non-essential expenditure if there is a risk of running out of cash, and the ability of the government to intervene and set an alternative budget if elected members decide to set an unbalanced budget.

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 Policies which sets out policies adopted for the preparation of the accounts).

The financial 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 Council, 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 2018, in particular what it owns versus what it owes
- Cash Flow Statement - illustrates the council's total cash transactions in the financial year, split between revenue expenditure (day-to-day expenditure), capital expenditure (long term investment in assets) and financing transactions (how we pay for the expenditure).

The supplementary financial statements applicable to Islington Council comprise:

- Housing Revenue Account Income and Expenditure Account and Statement of Movement on the Housing Revenue Account Balance – shows transactions relating to council dwellings
- Collection Fund – receipts and payments relating to council tax and business rates.
- The Pension Funds Account and amounts attributable to trust funds are shown separately because they are not part of the 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 2018.

The Expenditure and Funding Analysis (Note 12) gives a clear link between in-year reporting of financial performance and the final outturn set out in the core financial statements.

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 pages.

Budget 2017/18

On 23rd February 2017, the council agreed its 2017/18 budget, setting 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.

General Fund Outturn 2017/18

Within the General Fund there was an in-year overspend, excluding schools, of £3.9m, and was funded by £2m from in year contingency funds and £1.9m from one off contingency, leaving a general fund balance of £8.7m. The most significant overspends were in Children's Services, of £3.7m, Corporate items, £1.46m and E&R, of £0.90m. These were partly offset by underspends in Finance and Resources of £1.66m and Chief Executive of £0.49m.

Schools were underspent by £0.32m.

Departmental income and expenditure (excluding HRA)	Gross Expenditure £'000	Gross Income £'000	Net Budget £'000	Net Outturn £'000	Over / (Under) £'000
Frontline Services					
Children's Services (excluding schools)	178,588	(104,127)	70,753	74,461	3,708
Schools	304,333	(292,127)	12,522	12,206	(316)
Environment and Regeneration	118,757	(86,926)	30,929	31,831	902
Housing & Adult Social Services	164,404	(76,867)	87,608	87,537	(71)
Public Health	29,232	(29,635)	(403)	(403)	0
Central Services					
Chief Executive	3,618	(1,735)	2,369	1,883	(486)
Finance & Resources	264,597	(225,172)	41,086	39,425	(1,661)
Corporate Items					
Corporate Items	15,581	(258,985)	(244,864)	(243,404)	1,460
General Fund Variance	1,079,110	(1,075,574)	0	3,536	3,536
Approved outturn drawdown from earmarked contingency reserve	(3,900)			(3,900)	(3,900)
Net General Fund Variance	1,075,210	(1,075,574)	0	(364)	(364)
Unbudgeted transfer to General Fund Balances (excluding schools)					(48)
Unbudgeted transfer from Schools Balances					(316)
Total					(364)

Departmental income and expenditure (including HRA)	Over / (Under) £'000
General Fund over/(under) spend for the year (including schools)	(364)
Housing Revenue Account over/(under) spend for the year	(0)
Net expenditure	(364)

Explanation of 2017/18 Variances

The General Fund overspend of £3.9m (excluding Schools) was due to overspends of £3.7m in Children's Services, £0.9m in Environment and Regeneration and £1.5m in corporate items. These were partly offset by underspends of £1.7m in Finance and Resources and £0.5m in the Chief Executives department. There was a break even position in Housing and Adults Services and in Public Health. The main variances were due to:

- Children's Services – there were overspends in a number of areas, particularly children looked after, but also youth services, support to disabled children, children in need, early years childcare subsidy and special educational needs transport. These were due to a shortfall in Youth Justice Board and DSG early years grant, increased demand in disabled children's services, legal and agency cover costs for children in need, and increased number and complexity of children looked after cases and special needs transport users. These were offset by underspends in early years and schools support services, youth services commissioning, and services for unaccompanied asylum seeking children. The underspends were due to a procurement freeze in youth services, staff vacancies and additional income in early years and additional asylum seeking children grants.
- Environment and Regeneration – There were significant overspends in Street Environment services due to operating costs and delayed delivery of savings, along with overspends due to agency costs, delays in generating income from the Sobell trampoline park and seasonal events, and the impact of the severe winter weather. These were offset by underspends in maintenance costs, additional income from parking, advertising, sports activities and TFL, alongside parking and depots contract costs savings.
- Chief Executive's department – There were underspends due to savings in running costs, vacant posts and early achievement of 2018-19 savings.
- Finance and Resources – there were underspends relating to delaying building maintenance expenditure, vacant posts and financial management efficiencies, partially offset by overspends due to commercial property income shortfall and housing benefit client costs.
- Housing and Adults – there were overspends in a number of areas including non-delivery of savings (community services, learning disabilities and strategy and commissioning) and placement costs (mental health and community services), along with other pressures including London Living wage and sleep in back pay costs. These were fully offset by underspends due to additional funding in the 2017 national budget, funding streams realignment, section 117 and direct payments surpluses and other service area underspends.
- Public Health – no significant over or underspends
- Corporate items – there were overspends due to additional monies paid into the insurance fund, unachievable cross cutting savings, unbudgeted spend on No Recourse to Public funds and the apprenticeship levy. These were partly offset by underspends arising from effective treasury management and a small underspend on corporate levies.

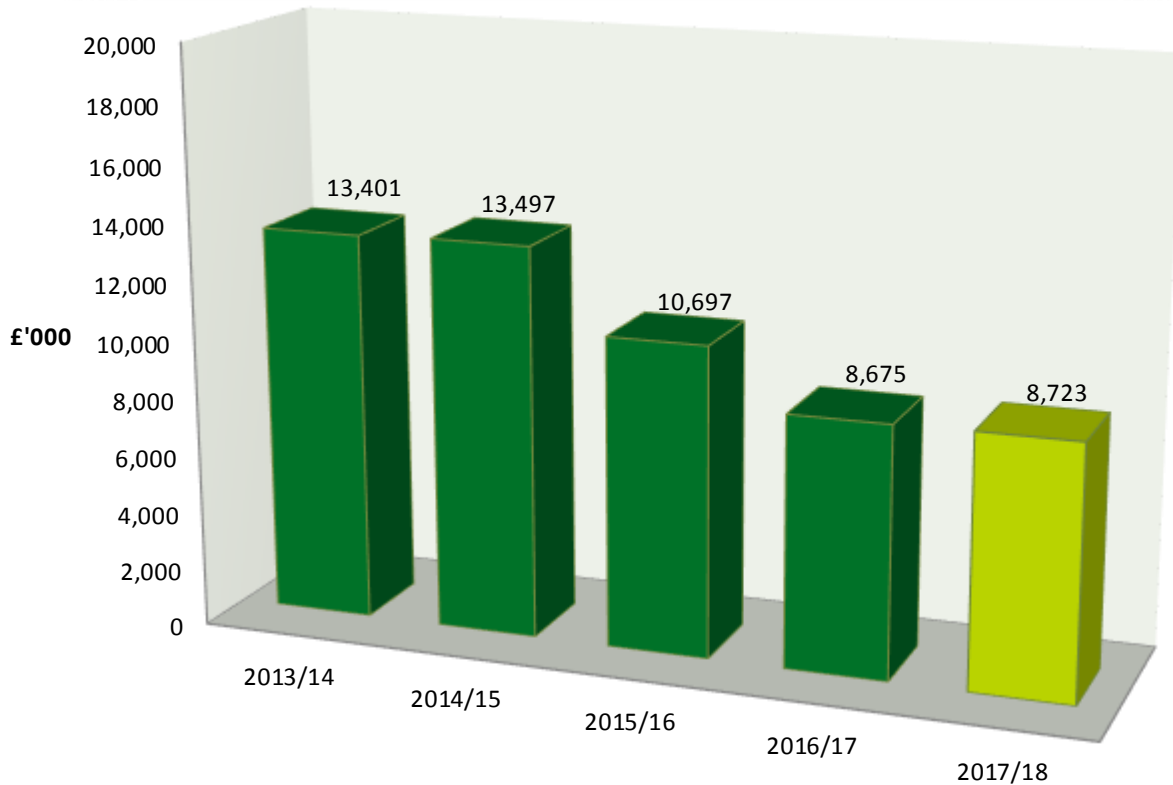
The 2017/18 budget took account of unavoidable cost increases including demographic pressures, mainly in social care, and structural pressures in service budgets. The budget included savings of £22m to cover unavoidable cost increases and reductions in central government funding. Service departments 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 2017/18 Provisional Outturn report on the council's website gives a detailed explanation of the outturn position and variances against budget.

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 2018 the General Fund balance (excluding schools) totalled £8.7m (£8.7m on 31 March 2017), which is 4% of the net budget requirement. The schools balance totalled £9.3m (£9.0m on 31 March 2017).

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



Housing Revenue Account 2017/18

The Housing Revenue Account (HRA) is a separate account for all the expenses and income relating to council housing. The 2017/18 outturn was a break-even position, after planned transfers to earmarked reserves. As at 31 March 2018 the HRA balance totalled £17.5m (£17.5m as at 31 March 2017).

The main in-year variances between budget and outturn included underspends in repairs and maintenance, special services, capital financing, contingency provisions and additional income from dwelling and other rents, leaseholders, service charges and interest. These underspends were due to delays in ICT projects and reduced interest from HRA borrowing.

This was partly offset by overspends in general management, Private Finance Initiative payments and depreciation – these were due to additional adult social care costs to eligible tenants chargeable to the HRA as a landlord, and year-end adjustments to depreciation costs.

The Housing Revenue Account (HRA) section of the accounts discloses HRA income and expenditure, including the HRA share of income and expenditure in the overall statement of accounts plus movements in balances and accounting adjustments. The notes to the HRA include details of types of dwellings, value of dwellings, details of repairs reserve, capital expenditure including funding and details of capital receipts, depreciation, pension costs and rent arrears.

Capital Expenditure and Funding 2017/18

The council delivered £90.1m of capital expenditure in 2017/18, representing 74% of the initial annual programme. The table below sets out this expenditure by department. There was £31.5m of agreed slippage during the year including £20.6m new build (planning and construction delays for complex schemes) and £5.6m major works and improvements (delays in recruitment, contract negotiations and diverting resources to fire safety work post Grenfell).

The funding of the 2017/18 capital programme is shown in the table below.

Net Assets as at 31 March 2018

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 £2.86bn, (made up of £4.32bn of assets and £1.46bn of liabilities). The most significant asset held by the council is its Property, Plant and Equipment portfolio (worth £4.04bn), of which council dwellings make up £3.17bn. The largest liability facing the council is in relation to the Pension Scheme (£803m). 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 £124m relating to the council's PFI and similar schemes and is payable over the next 21 years. Further details can be found in Note 21. There were no individually material assets added this year or significant new liabilities incurred.

Current assets (amounts due within 12 months) include £76.3m of short term debtors (£52.3m 2016/17). £51m 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 £64.4 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 £142.3m (£103.5m 2016/17). A significant proportion of these relate to central government and other public sector bodies, at £81m. Short term PFI creditors amounted to £11.2m.

Borrowing and Investments 2017/18

As at 31 March 2018, the council had £126m of temporary investments and £22m of long term investments which includes £12m due within 12 months. These investments were for periods ranging from overnight to two years at an average interest rate of 0.61%. The total long term debt is now £258.3m (£214.8m from the Public Works Loan Board of which £1.1m is due within 12 months and £43.5m from other local authorities which also includes £11m due within 12 months) compared to £267.8m as at 31 March 2017. The average rate of interest on debt has decreased very slightly from 4.48% in March 2017 to 4.38% in March 2018.

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 2017/18.

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 2017/18.

Significant provisions and contingencies and material write offs

The balance sheet includes provisions of £20.2m as at 31 March 2018 (£19.4m as at 31 March 2017). The most significant provision is the Insurance Provision (£11.6m as at 31 March 2018). 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 35.

Significance of the pensions liability

The estimated pensions liability facing the council is £802.9m at the end of the financial year (£868.4m as at 31 March 2017). This liability shows the underlying commitments that the council has in the long run to pay retirement benefits. The total net liability of £802.9m 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 2018/19, the council is expected to make contributions of £24.3m to the Local Government Pension Scheme and the London Pension Fund Authority.

The council has issued around £0.9m of soft loans, mainly to employees. Further details can be found on page 74.

Looking forward

On 22nd February 2018, the council agreed its budget for 2018/19 and set a budget requirement of £213m. This resulted in a basic amount of band D council tax of £1,135.22 (representing a council tax increase of 2.99% plus a 3% additional precept for social care) and a total amount of band D council tax (including GLA precept) of £1,429.45.

Planned Revenue Expenditure	2018/19
	£m
Departments	
Children's Services	81.7
Environment and Regeneration	14.0
Housing and Adult Social Services	78.4
Other Services	38.9
Net Cost of Services	213.0
Funded by	
Retained Business Rates	120.0
Council Tax	88.8
Prior Year Surplus on Business Rates and Council Tax	4.2
Funding from Taxation	213.0

The council has had to make £194m of savings between 2011 and 2018 to balance its budget and the 2018/19 budget included savings of £32m to help ensure medium term financial sustainability (£12m to cover cuts in government funding and £20m to cover unavoidable cost increases due to inflation and pay restructuring, demographic factors, and service cost pressures). Following the 2018/19 local government finance settlement and indicative funding allocations for future years to 2019/20, the council is expecting to have to make an estimated total savings of £50m in the three years to 2022. 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 have to rely on retained business rates, council tax and other income alone.

As a result of cost pressures in services including social care being significantly in excess of expectations, and savings in the 2017-18 budget not being achieved, there has been an impact on the 2018-19 budget with £16m additional savings required over and above the £16m savings originally planned.

To respond to these challenges, the council is developing an Outcome Based Budgeting approach, where budgeting is based on the relationship between funding and expected results, focusing on the outcomes of funded activities and the quality and effectiveness of services. This means that council spending needs to be linked to council priorities.

The council has a three-year medium term financial strategy (MTFS) covering general fund revenue spend and also the HRA and capital programme, ensuring effective planning for future years and picking up developments likely to affect the budget at an early stage.

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

Housing – The impact of fire safety and other works to ensure the safety of council housing following the Grenfell Tower fire, and wider reviews of social housing.

Welfare – the roll out of Universal Credit in Islington, which is likely to lead to hardship for affected residents and an increase in rent arrears due to payment delays

Business Rates – Changes in the annual uprating of business rates from Retail Prices Index to Consumer Prices Index leading to a significant reduction in income, the continuing impact of business rates revaluation leading to significant increases in business rates bills for local businesses and council properties, more frequent revaluations from 2022, the pooling of all business rates collected in London between London boroughs and the Greater London Authority, and other reforms to modernise the business rates system.

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 2018-19. In addition, the council will receive up to £11m additional Better Care funding by 2020, and further funding of around £6.3m over the next two 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 (£0.7m a year in 2018/19 and 2019/20) 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, leading to funding pressures in high needs and maintained schools. This does not directly affect the few academies in Islington although funding pressures nationally could also affect academy chains.

Corporate finance – the 2018-19 local government finance settlement included the announcement of a fair funding review covering the allocation of needs based government funding, and the increase in the cap above which council tax increases are subject to a local referendum from 2% to 3%. The government is also planning to restrict commercial investment purely for the purposes of revenue yield and has updated the codes of practice for prudential capital finance and treasury management. This could have an impact on the council's financial position

On 22nd February 2018 the council agreed a capital programme of £461m over the three years from 2018/19 to 2020/21 as shown below. This includes the continuation of existing programmes of investment in new homes, housing major works and improvements (£384m), school buildings and children's services (£29m), and environmental services (£48m).

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 (15 square kilometres) – the second smallest London borough
- **Growing population** – 233,200, an increase of 13% or 27,000 since 2011 with an increase of 7% or 15,500 expected over the next ten years
- **Most densely populated** authority in the country with 15,524 people per square kilometre, this is three times the London average and 37 times the national average. Lack of large green open spaces
- **Young** – 65% under 40 years old, only 9% over 65
- **Diverse population** – 32% BME with 48% White British and 20% Other White, 33% born outside the UK.
- Almost 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, with every ward including neighbourhoods among the 20% most deprived in the country. Life expectancy varies significantly across the borough, but average life expectancy in Islington is amongst the lowest in London and significantly lower than the London and national average.
- **Deprivation** - Islington is the 24th most deprived authority in England. It has the third highest rate of child poverty and fourth highest rate of pensioner poverty. Nearly 22% of households are income deprived (including 35% of children) and almost 18% of the population live in households where no one is in work (including 25% of children). 53% and 69% of primary and secondary pupils, respectively receive the deprivation-linked pupil premium.

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

The council's priorities include increasing the supply of and access to suitable affordable homes, reducing homelessness, ensuring effective management of council housing stock and improving conditions for private tenants. Achievements in 2017-18 included over 100 households helped with overcrowding, 85% of repairs right first time and 800 households saved from homelessness or in temporary accommodation (last year 241 affordable homes built, over 1500 households permanently housed or saved from homelessness, 85% of repairs right first time, 374 private sector homes improved)

Employment and skills

The council's priorities include supporting residents into employment, increasing the proportion of people with disabilities into employment, promoting apprenticeships, achieving social value in contracts and promoting employability, skills and lifelong learning. Achievements in 2017-18 include supporting up to 1250 residents into employment, 125 into apprenticeships and 40 into jobs or apprenticeships with contracted suppliers (last year 1150 unemployed residents were helped into paid work, over 500 jobs provided by local employers and over 100 young people placed into apprenticeships).

Cost of living

The council's priorities are supporting families to cope with everyday costs, help people struggling with debt, tackle fuel poverty and reduce energy bills. Achievements in 2017-18 included helping residents save at least £182k a year in energy bills (last year there was 92% take up of universal free school meals, 329 post 16 bursaries, £2.2m of resident support scheme awards and residents saved £321k in energy bills).

Council services

The council's priorities include optimising income collection, improving customer access to and experience of services through appropriate channels, fair and effective workforce management, and increased representation of BME and disabled staff at senior level. Achievements in 2017-18 included collecting 96.7% of council tax and 99% of business rates due, and 99% of calls to Contact Islington handled correctly (last year we generated £630k income from selling legal expertise, collected 96.5% of council tax due and 99.1% of business rates).

Quality of life

The council's priorities cover crime and community safety, adults and children's services, environment and regeneration and public health. Priorities and achievements in these areas in 2017-18 included the following:

- Crime and community safety – aim to reduce youth crime and reoffending, supporting offenders into employment, effective response for victims, and tackle domestic violence and hate crime. The main achievement in 2017-18 was enabling up to 35 offenders to move into employment (last year £500k was included in the budget to tackle gangs and crime).
- Adult social services – aim to support older people and disabled people to live independently, help people who are unable to live independently, and address service user social isolation. The main

achievement in 2017-18 was that 95% of older and disabled people discharged from hospital into enablement were able to live independently (last year 89% of those discharged into enablement were able to live independently)

- Children's services – aim to improve access to and uptake of good quality early years provision (including among disadvantaged groups), supporting families with multiple challenges and disadvantages, safeguarding vulnerable children, ensuring a good education for all, supporting attainment for under performing groups and school leaver pathways. The main achievement in 2017-18 was 357 families in the stronger families programme achieving successful outcomes (the highlight last year was 91% of families with under-fives registered with children's centres).
- Environment and regeneration – aim to ensure effective waste disposal and recycling, deal with planning applications promptly and promote use of leisure centres. Achievements in 2017-18 included 1.8 million visits to leisure centres in the first nine months of the year
- Public Health – aims include ensuring early years wellbeing, identifying and reducing key health risks, tackle mental health issues, effective treatment for substance misuse and improve sexual health. The main achievement in 2017-18 was 93% of new births receiving a visit from a health visitor. (Last year over 5300 people with mental health issues were supported).

The council will continue to focus on and monitor these priorities in 2018/19. The 2018-19 budget also includes particular priorities including £57m investment in new council housing, £14m investment in schools improvement (Tufnell Park Primary School) and scrapping council tax for all registered foster carers in Islington.

Staffing

The council's employee headcount is 4422, a reduction of 59 people in the last year.

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 or decreasing in terms of likelihood or impact; others are an increasing or emerging concern. The latter includes financial strategy and the risk of a serious information breach or non-compliance with data protection legislation, plus new risks including welfare reforms or a major housing related health and safety incident. The former includes general health and safety, emergency response and resilience, IT delivery and transformation, adult safeguarding (decreasing), child safeguarding, services to schools

(decreasing), violence against young people and youth crime, health and social care integration (decreasing), serious fraud and cyber breaches

Specific risks on the risk register (covered in the 2017-18 principal risks update report) include the following – more details at the following link:

<http://democracy.islington.gov.uk/ieListDocuments.aspx?CId=128&MId=3239&Ver=4>

Financial strategy (key risk) – this includes failure to balance the budget and medium term financial strategy and achieve the cash savings required. In particular, it reflects £50m of estimated savings needed between 2019 and 2022 on top of over £194m savings since 2010 and service pressures in social care only partly mitigated by additional government funding for adult social care. Also, £16m additional savings have had to be found on top of the existing £16m savings planned for 2018-19, with general fund reserves already reduced to 4% of the budget and only £15m other reserves available to cope with pressures. Emerging issues include increasing costs of homelessness, the historic child abuse enquiry, the rollout of universal credit and the benefit cap leading to increased rent arrears, the impact of business rates increases on the local economy, and the impact of Brexit on the local economy, public spending and inflation. Actions to mitigate the impact include close monitoring of the 2017-18 budget, development of Outcome Based Budgeting, and review of services to young people including commissioning and tailoring of care services.

Serious information breach (key risk)– this includes not keeping personally identifiable data secure leading to a serious information breach. This is being addressed through meeting the requirements of General Data Protection regulations, working groups covering information audits, asset registers, privacy and consents, contracts and information sharing, cyber security, meeting with departments, internal audits, further work on data protection, contract review and due diligence and shared digital policies.

Housing related health and safety incidents (new risk) – this covers the risk of a serious incident in council housing stock causing multiple fatalities. This will be addressed through ensuring compliance with all health and safety regulations, review of fire safety measures, new contract for detection and warning systems in street properties and older properties, replacing unsafe cladding, liaison with CLG on remedial works and fire risk assessments for blocks of six storeys or more.

Welfare reforms (new risk) – this covers the risk that the council will not effectively collect rent following the rollout of Universal Credit paid directly to claimants, leaving vulnerable residents exposed to hardship. This is a major challenge to the council with a significant impact on our poorest residents leading to rent arrears and hardship. This will be addressed by identifying affected residents, helping them get into work, arranging for benefits to be paid direct to the landlord, and reducing the waiting period from six weeks to three weeks. In addition, the council will work with existing Universal Credit pilot areas, reducing officer caseload, work with the voluntary sector to provide budgeting / employment / foodbank support, promote direct debit options, train staff digital champions, provide support at council offices, set up member / officer group, plus develop a cross council response including messaging, benchmarking, reorganisation, training and liaison.

Other risks affecting the council include the following:

- IT delivery and transformation – risk of non-delivery of IT projects that enable and optimise service transformation.
- Safeguarding Adults –failure to fulfil statutory obligations and to respond to incidents causing preventable harm.
- Safeguarding Children – failure to follow procedures leading to ineffective child protection and significant harm.
- Decline in services to schools –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.
- Violence against young people / youth crime –failure to respond to or prevent rising crime affecting young people.
- Health and Social Care integration –risk that new health and social care models will not be financially sustainable given the financial challenges faced by providers with a possible loss of focus on commissioning, and that we will be unable to provide adequate adult social care.

- Serious fraudulent activity – this includes 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.
- Cyber breach –risk of system controls and information being compromised, with specific risks around cyber-attacks including attacks on mobile services, network protection, loss of agency staff expertise and issues with home grown applications
- Health and safety –risk of a significant health and safety incident affecting the safety and wellbeing of service users, the wider public and council staff.
- Response and resilience – including recovery of key systems and processes following an incident and emergency response.

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 2017/18 (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.

The Authority's responsibilities

The Authority is required to:

- Make arrangements for the proper administration of its financial affairs and to secure that one of its officers (the Chief Financial Officer) has responsibility for the administration of those affairs;
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets; and
- Approve the Statement of Accounts.

The Chief Financial Officer's responsibilities

The Chief Financial Officer is responsible for the preparation of the Statement of Accounts (which includes the financial statements) in accordance with proper practices as set out in the *CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom ('the Code')*. In preparing this Statement of Accounts, the Chief Financial Officer has:

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

I certify that the Statement of Accounts gives a true and fair view of the financial position of the Authority at 31 March 2018 and of its income and expenditure for the year then ended.

Alan Layton, Director Financial Management
24th July 2018

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 Nick Wayne, Chair of the Audit Committee
24th July 2018

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 2017/18	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 2017 carried forward	17,678	60,796	17,521	53,041	71,018	57,603	0	277,657	2,353,905	2,631,562
Movement in reserves during 2017/18										
Total Comprehensive Income and Expenditure	(102,175)		45,612					(56,563)	283,194	226,631
Adjustments between accounting basis & funding basis under regulations (Note 14)	107,164		(25,800)		(2,093)	(6,145)	1,259	74,385	(74,385)	0
Net Increase/Decrease before Transfers to Earmarked Reserves	4,989	0	19,812	0	(2,093)	(6,145)	1,259	17,822	208,809	226,631
Transfers to/(from) Earmarked Reserves (Note 28)	(4,625)	4,625	(19,812)	9,368	-	-	-	(10,444)	10,444	0
Increase/ (Decrease) in 2017/18	364	4,625	0	9,368	(2,093)	(6,145)	1,259	7,378	219,253	226,631
Balance at 31 March 2018 carried forward	18,042	65,421	17,521	62,409	68,925	51,458	1,259	285,035	2,573,158	2,858,193

The General Fund carried forward balance of £18,042k as at 31 March 2018 comprises £8,723k General Fund balances and £9,319k of school reserves, as shown in the Expenditure and Funding Analysis (note 12).

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 14)	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 28)	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 £17,678k as at 31 March 2017 comprises £8,675k General Fund balances and £9,003k of school reserves, as shown in the Expenditure and Funding Analysis.

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 (note 12) and the Movement in Reserves Statement.

2016/17 Gross Expenditure £'000	2016/17 Gross Income £'000	2016/17 Net Expenditure £'000	Comprehensive Income and Expenditure Statement	2017/18 Gross Expenditure £'000	2017/18 Gross Income £'000	2017/18 Net Expenditure £'000
139,367	(74,121)	65,246	Children's Services (excluding schools)	146,443	(71,982)	74,461
172,341	(148,517)	23,824	Schools	147,991	(136,151)	11,840
82,793	(68,040)	14,753	Environment and Regeneration	96,373	(64,581)	31,792
135,611	(40,946)	94,665	Housing and Adult Social Services	135,061	(47,523)	87,538
29,590	(30,059)	(469)	Public Health	29,018	(29,421)	(403)
2,592	(352)	2,240	Chief Executive	2,258	(375)	1,883
246,622	(208,535)	38,087	Finance and Resources	243,155	(203,962)	39,193
20,732	(799)	19,933	Corporate Items	22,383	(1,158)	21,225
207,506	(214,306)	(6,800)	Housing Revenue Account (HRA)	173,304	(215,701)	(42,397)
1,037,154	(785,675)	251,479	Cost of Services	995,986	(770,854)	225,132
24,844	(35,699)	(10,855)	Other operating expenditure	78,465	(31,953)	46,512
45,354	(783)	44,571	Financing and investment income and expenditure	51,532	(7,526)	44,006
-	(256,143)	(256,143)	Taxation and non-specific grant income	-	(259,087)	(259,087)
1,107,352	(1,078,300)	29,052	(Surplus) or Deficit on Provision of Services	1,125,983	(1,069,420)	56,563
		(176,628)	(Surplus) or deficit on revaluation of Property, Plant and Equipment assets			(175,796)
		276,438	Actuarial (gains) or losses on pension assets / liabilities			(107,398)
		99,810	Other Comprehensive Income and Expenditure			(283,194)
		128,862	Total Comprehensive income and Expenditure			(226,631)

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 2017 £'000	Balance Sheet	31 March 2018 £'000	Notes
3,911,002	Property, Plant & Equipment	4,044,359	18
487	Heritage Assets	487	
26,984	Investment Property	31,227	19
37,709	Long Term Investments	10,696	23
6,871	Long Term Debtors & Prepayments	16,433	26
3,983,053	Total Long-Term Assets	4,103,202	
53,418	Short Term Investments	122,695	23
851	Inventories	760	
52,300	Short Term Debtors	76,321	26
11,036	Cash and Cash Equivalents	16,663	30
117,605	Total Current Assets	216,439	
(103,487)	Short Term Creditors	(142,346)	25
(32,003)	Short Term Borrowing	(67,347)	23
(20,631)	Cash and Bank Overdrawn	(22,458)	30
(7,440)	Short Term Provisions	(8,114)	27
(7,558)	Short Term Grants Receipts in Advance	(12,185)	38
(171,119)	Total Current Liabilities	(252,450)	
(11,975)	Long Term Provisions	(12,119)	27
(253,334)	Long Term Borrowing	(246,222)	23
(868,422)	Liability Related to Defined Benefit Pensions Scheme	(802,883)	36
(135,008)	Other Long Term Liabilities	(123,899)	23
(29,238)	Long Term Grants Receipts in Advance	(23,875)	38
(1,297,977)	Total Long Term Liabilities	(1,208,998)	
2,631,562	Net Assets	2,858,193	
277,657	Usable Reserves	285,035	MIRS
2,353,905	Unusable Reserves	2,573,158	29
2,631,562	Total Reserves	2,858,193	

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.

2016/17 £'000	Cash Flow Statement	2017/18 £'000
(29,052)	Net surplus or (deficit) on the provision of services	(56,563)
137,181	Adjustments to the net surplus or deficit on the provision of services for non-cash movements	164,940
(39,572)	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	(56,857)
68,557	Net cash flows from Operating Activities (Note 31)	51,520
(84,175)	Investing Activities (Note 32)	(76,629)
12,755	Financing Activities (Note 33)	28,909
(2,863)	Net increase or (decrease) in cash and cash equivalents	3,800
(6,732)	Cash and Cash equivalents at the beginning of the reporting period	(9,595)
(9,595)	Cash and cash equivalents at the end of the reporting period (Note 30)	(5,795)

Notes to the Accounts

1. Accounting Policies

i. General Principles

The Statement of Accounts summarises the council's transactions for the 2017/18 financial year and its financial position at the year-end of 31 March 2018. 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 2017/18 (the Code), supported by International Financial Reporting Standards (IFRS).

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

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. Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments 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.

iv. 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.

v. 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.

vi. 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 contribution 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.

vii. Council Tax and Non-Domestic Rates

Islington Council (as a Billing authority) 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.

viii. Employee Benefits

Benefits Payable during Employment

Short-term employee benefits are those due to be settled wholly within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits for current employees and are recognised as an expense for services in the year in which employees render service to the council. An accrual is made for the cost of holiday entitlements (or 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 service 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 2.7% (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 (scheme amendment or curtailment) 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 (asset) – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure
 - Actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure
- Contributions paid to the 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 transfers 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.

ix. 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.

x. Financial Instruments

Financial Liabilities

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

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

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

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

Financial Assets

Financial assets are classified into two 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.

Loans and Receivables

Loans and receivables 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 subsequently 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 derecognition 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 derecognition 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).

xi. Foreign Currency Translation

Where the council has entered into a transaction denominated in a foreign currency, the transaction is converted into sterling at the exchange rate applicable on the date the transaction was effective. Where amounts in foreign currency are outstanding at the year-end, they are reconverted at the spot exchange rate 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.

xii. Government Grants and Contributions

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

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

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

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

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

Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied reserve.

Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

xiii. 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 proportion of the charges may be used to fund revenue expenditure.

xiv. 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.

xv. 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.

xvi. Joint Operations

Joint operations are arrangements where the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities relating to the arrangement. The activities undertaken by the authority in conjunction with other joint operators involve the use of the assets and resources of those joint operators. In relation to its interest in a joint operation, the authority as a joint operator recognises:

- its assets, including its share of any assets held jointly
- its liabilities, including its share of any liabilities incurred jointly
- its revenue from the sale of its share of the output arising from the joint operation
- its share of the revenue from the sale of the output by the joint operation
- its expenses, including its share of any expenses incurred jointly.

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 and increases the value of the asset, 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 – current 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 current 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).

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

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

There have been no material prior period adjustments to the Statement of Accounts. No material errors have been identified in the 2016/17 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 2017/18 (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 2017/18 Code. The most pertinent ones are listed below and will apply to local authorities from 1 April 2018:

IFRS 9 Financial Instruments

IFRS 9 has made important changes to the accounting for local authority investments which include collective investment vehicles. The new standard will introduce a new model of classification of financial assets and the earlier recognition of any impairments to financial assets.

The reclassification changes introduced by this standard are not expected to have a material impact on the financial statements as the majority of the council's financial assets will retain the same measurement basis. The council has already elected to present changes in the fair value of the following equity investments in other comprehensive income as permitted by IFRS9 (although currently values are immaterial to be included on balance sheet):

1. Islington Limited
2. Transform Islington Phase 1 Holdings Limited
3. Transform Islington Phase 2 Holdings Limited

IFRS9 also changes the impairment loss model (bad debt provision) from one based on incurred losses to expected losses, making it forward looking.

The council does not expect the impairment changes to have a material impact on the financial statements. The impairment charge for treasury management assets such as loans and deposits is expected to be minimal, because the council opts for high-security, high-quality financial instruments where the risk of default is low. The council already makes a provision for doubtful debts on its service assets such as trade receivables.

IFRS 15 Revenue from Contracts with Customers

This standard adopts a new methodology for determining when and how income from providing goods and services should be recognised in the Comprehensive Income & Expenditure Statement.

It introduces the concept of contract assets and contract liabilities to account for timing differences between the obligation to deliver goods or services and the unconditional right to receive payment. Once the right to receive payment is unconditional, save for the passage of time, a trade receivable is recognised.

Although the council has yet to revisit all its contracts in relation to this standard, it is envisaged there would not be a material impact on the financial statements as its current accounting policy is based on principles already in the new Code.

Amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses

The amendments relate to changes in tax (mainly corporation tax) status of an entity or its shareholders when it comes to income. They do not relate to accounting for VAT, council tax or non-domestic rates, which are covered elsewhere in the Code. The standard is not expected to be relevant to Islington Council's single entity financial statements. It is applicable to group entities although currently the council does not prepare group accounts.

Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative

The additional cash flow disclosure enables users of the council's financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

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 2018 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 £41.4m.

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 £127m.

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 £6.9m 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 31 leases for Property, Plant & Equipment and has classified them as either finance or operating leases. The impact of deeming 14 of these as finance leases is that £20m of assets have been included in the Balance Sheet. A further 17 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 21.

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 £64.1m 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 £1.32m 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 £1.476m for this arrangement in 2017/18 (£1.437m in 2016/17).

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 2017/18, 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.

9. Members' Allowances

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

2016/17 restated £'000	Members' Allowances	2017/18 £'000
503	Basic Allowance	511
353	Special Responsibility Allowance	360
2	Other Allowances	3
858	Total	874

Following the latest guidance, 2016/17 figures have been restated to include the Mayor's Allowance and Deputy Mayor's Allowance.

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 in 2017/18 and 2016/17.

Senior officers remuneration for 2017/18	Salary (Including fees & allowances)	Compensation for loss of employment	Total Remuneration excluding pension contributions	Employers Pension contributions	Total Remuneration including pension contributions
Post	£	£	£	£	£
Chief Executive - Lesley Seary	163,215	-	163,215	21,544	184,759
Corporate Director of Children's Services	144,802	-	144,802	19,114	163,916
Corporate Director of Environment & Regeneration *	139,327	-	139,327	16,925	156,252
Corporate Director of Housing & Adult Social Services	132,716	-	132,716	17,518	150,234
Corporate Director of Resources	137,089	-	137,089	-	137,089
Director of Public Health **	115,134	-	115,134	16,556	131,690
Head of Strategy & Change	69,882	-	69,882	9,224	79,106
Head of Communications & Change	63,892	-	63,892	8,434	72,326
Total	966,057	-	966,057	109,316	1,075,373

* The Corporate Director of Environment & Regeneration postholder went from full time to 0.7 full time equivalent with effect from 20/2/18. The postholder received £6,789 from NLWA for duties carried out on behalf of that Authority.

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

Senior officers remuneration for 2016/17	Salary (Including fees & allowances)	Compensation for loss of employment	Total Remuneration excluding pension contributions	Employers Pension contributions	Total Remuneration including pension contributions
Post	£	£	£	£	£
Chief Executive - Lesley Seary	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	1,078,420	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

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.

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	
	2016/17	2017/18	2016/17	2017/18	2016/17	2017/18	2016/17	2017/18
							£'000	£'000
£0 - £20,000	21	21	90	45	111	66	806	425
£20,001 - £40,000	1	6	26	10	29	16	775	437
£40,001 - £60,000	1	2	5	3	4	5	186	222
£60,001 - £80,000	-	2	4	4	4	6	296	430
£80,001 - £100,000	1	-	1	1	2	1	170	86
£100,001 - £150,000	-	-	2	2	2	2	223	239
Over £150,000	3	-	3	-	6	-	1,497	-
Total	27	31	131	65	158	96	3,953	1,839
Other costs associated with termination benefits							519	453
Total termination benefits							4,472	2,292

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 school employees.

The 2017/18 cost of termination benefits of £2.3m includes £322k 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 £0.45m other costs associated with termination benefits in 2017/18 relate to additional costs incurred relating to 2016/17 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 2017/18 and grant balances held in receipts in advance are shown in Note 38.

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.

There are a number of organisations which are independent from the council, but have an impact on its service areas. In order that the council can maintain effective partnerships with a number of these

organisations, representatives of the council, usually elected councillors, sit on the various committees, boards and forums that are responsible for them. Details of these appointments are available online at <http://democracy.islington.gov.uk/mgListOutsideBodies.aspx?bcr=1>. They are included in the table below.

Members' allowances paid in 2017/18 are disclosed in Note 8.

Significant related party transactions are detailed in the following table:

Related Parties		Income 2017/18	Expenditure 2017/18	Amounts owed (by)/to Islington Council 31 March 2018
Organisation	Nature of Relationship	£'000	£'000	£'000
Members/Senior officers				
Voluntary organisations, charities and community groups	One senior officer, 25 members and two close relatives are involved in management of voluntary organisations, charities and community groups which transact with Islington Council	214	2,836	27
Housing Associations	One close relative of a senior officer is involved in the management of a housing association which transacts with the council.	-	20	-
Universities, Colleges & Schools	Three members are involved in the management of universities, colleges or schools which transact with Islington Council	1	217	(40)
Other Public Bodies				
NHS organisations	Three members and 3 senior officers are involved in the management of NHS organisations which transact with the council. Note 7 shows the transactions and balances relating to partnerships with local NHS bodies under Section 75 of the National Health Service Act 2006 (Pooled Budgets).	28,341	17,307	3,178
Local authorities - Camden Council	Islington Council transacts with other local authorities. Camden Council is the main authority that Islington Council transacts with.	4,786	2,844	10
North London Waste Authority	Two members are board members of this organisation.	800	7,708	178
Other Public Bodies	Twelve members are appointed to the board and committees of two public organisations which transact with Islington Council	170	40	-
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.	-	13,911	5
Angel BID Ltd and the Bee Farringdon & Clerkenwell BID	Two members sit on the boards of the Business Improvement Districts in Angel and Farringdon & Clerkenwell. Islington Council facilitates the collection of the BID levy annually on behalf of the two BIDs. The BID levy is not included in this table.	525	-	219
Subsidiaries	Islington Ltd is a wholly owned subsidiary of the council. One member and four senior officers are on the board of this organisation.	463	-	66
Other Related Parties				
Islington Council Pension Fund	As administrator of the pension fund, the council has direct control of the fund. The related party figures shown here differ from those reported in the Pension Fund financial statements due to timing differences.	2,733	34,688	29,042

12. Fees payable to the Appointed Auditor

In 2017/18, Islington Council incurred the following fees relating to external audit:

13. 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.

2016/17			2017/18		
Net Expenditure Chargeable to the General Fund and HRA Balances	Adjustments between the Funding and Accounting Basis	Net Expenditure in the Comprehensive Income and Expenditure Statement	Net Expenditure Chargeable to the General Fund and HRA Balances	Adjustments between the Funding and Accounting Basis	Net Expenditure in the Comprehensive Income and Expenditure Statement
£'000	£'000	£'000	£'000	£'000	£'000
Expenditure and Funding Analysis					
61,598	3,648	65,246	65,529	8,932	74,461
3,013	20,811	23,824	(5)	11,845	11,840
1,473	13,280	14,753	7,165	24,627	31,792
84,367	10,298	94,665	76,461	11,077	87,538
(589)	120	(469)	(740)	337	(403)
2,054	186	2,240	1,459	424	1,883
47,317	(9,230)	38,087	44,916	(5,723)	39,193
(187,913)	207,846	19,933	(199,774)	220,999	21,225
(20,842)	14,042	(6,800)	(19,813)	(22,584)	(42,397)
(9,522)	261,001	251,479	(24,802)	249,934	225,132
-	(222,427)	(222,427)	-	(168,569)	(168,569)
(9,522)	38,574	29,052	(24,802)	81,365	56,563
(139,514)			(149,036)		
(9,522)			(24,802)		
(149,036)			(173,838)		

31 Mar 16	31 Mar 17	General Fund and HRA Balances	31 Mar 17	31 Mar 18
(10,697)	2,021	(8,675)	(8,675)	(8,723)
(67,565)	6,769	(60,796)	(60,796)	(65,421)
(11,530)	2,528	(9,003)	(9,003)	(9,319)
(14,773)	(2,748)	(17,521)	(17,521)	(17,521)
(34,949)	(18,092)	(53,040)	(53,040)	(62,409)
(139,514)	(9,522)	(149,036)	(149,036)	(163,393)

*£10.4m was adjusted from HRA Earmarked Revaluation Reserve to the CAA

Details of the adjustments between the funding basis and the accounting basis are given below.

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)	2,926	5,930	-	76	8,932
Schools	6,301	6,220	-	(676)	11,845
Environment and Regeneration	18,778	5,839	-	10	24,627
Housing & Adult Social Services	7,956	3,116	-	5	11,077
Public Health	-	325	-	12	337
Chief Executive	-	413	-	11	424
Finance & Resources	1,792	(7,491)	-	(24)	(5,723)
Corporate	33,821	22,656	165,354	(832)	220,999
Housing Revenue Account	4,460	4,851	3,215	(35,110)	(22,584)
Net Cost of Services	76,034	41,859	168,569	(36,528)	249,934
Other Income and Expenditure	-		(168,569)	-	(168,569)
(Surplus) or Deficit	76,034	41,859	0	(36,528)	81,365

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

Adjustments to reclassify items which the Code dictates must sit outside Cost of Services in the Comprehensive Income and Expenditure Statement but which are reported and managed internally under Corporate services and the HRA. Notes 15, 16 and 17 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:

2016/17 £'000	Expenditure and Income Analysed by Nature	2017/18 £'000
Expenditure		
357,801	Employee expenses	362,725
564,664	Other service expenses	565,110
62,474	Depreciation	60,931
46,950	Revaluation (Gains) / Losses & Impairments	7,832
50,618	Interest expenses	50,636
7,081	Precepts & levies	7,061
3,816	Payments to the government Housing Capital Receipts Pool	17,634
13,948	Disposal of assets	54,054
1,107,352	Total Expenditure	1,125,983
Income		
(326,735)	Fees, charges and other service income	(324,223)
(783)	Interest and investment income	(1,552)
(35,699)	Proceeds from the sale of assets	(32,248)
(135,509)	Income from council tax and non-domestic rates	(165,841)
(579,574)	Government grants and contributions	(545,556)
(1,078,300)	Total Income	(1,069,420)
29,052	(Surplus) or Deficit on the Provision of Services	56,563

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.

2017/18	Usable Reserves					Capital Movement in Unusable Reserves £'000
	General Fund £'000	Housing Revenue Account £'000	Capital Receipts Reserve £'000	Major Repairs Reserve £'000	Capital Grants Unapplied £'000	
Adjustments between Account Basis and Funding Basis under Regulations						
Adjustments primarily involving the Capital Adjustment Account						
Charges for depreciation and impairment of non current assets	(28,550)	(32,381)				60,931
Revaluation losses on Property Plant and Equipment	(814)	(7,018)				7,832
Movement in the fair value of Investment Properties	3283	250				(3,533)
Amortisation of intangible assets						0
Capital grants and contributions applied	18,588	4,999				(23,587)
Income in relation to donated assets						0
Revenue expenditure funded from capital under statute	(9,025)					9,025
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	(44,229)	(9,825)				54,054
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement						
Statutory provision for financing of capital investment	1,227					(1,227)
Repayment of lease / PFI liabilities	2,517	7,560				(10,077)
Capital expenditure charged against the General Fund and HRA	1,761					(1,761)
Adjustments primarily involving the Capital Grants Unapplied Account						
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	1,259				(1,259)	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	45	32,203	(32,248)			0
Use of the Capital Receipts Reserve to finance new capital expenditure				16,458		(16,458)
Use of capital receipts to fund disposal costs		(248)	248			0
Contribution from the Capital Receipts Reserve to finance the payments to the government Housing Capital Receipts Pool	(17,635)			17,635		0
Transfer from Deferred Capital Receipts Reserve upon receipt of cash						0

2017/18	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		32,382		(32,382)		0
Additional Contributions from the HRA		2,698		(2,698)		0
Use of the Major Repairs Reserve to finance new capital expenditure				41,225		(41,225)
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						
Adjustments primarily involving the Pensions Reserve						
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	(67,617)	(8,948)				76,565
Employer's pensions contributions and direct payments to pensioners payable in the year	30,608	4,098				(34,706)
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	832					(832)
Adjustment primarily involving the Unequal Pay Back Pay Adjustment Account						
Amount by which amounts charged for Equal Pay claims to the Comprehensive Income and Expenditure Statement are different from the cost of settlements chargeable in the year in accordance with statutory requirements	-	-	-	-	-	0
Adjustment primarily involving the Accumulated Absences Account						
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	586	30				(616)
Total Adjustments	(107,164)	25,800	2,093	6,145	(1,259)	74,385

16. Other Operating Expenditure

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

2016/17 Gross Expenditure £'000	2016/17 Gross Income £'000	2016/17 Net Expenditure £'000	Other Operating Expenditure	2017/18 Gross Expenditure £'000	2017/18 Gross Income £'000	2017/18 Net Expenditure £'000
7,081	-	7,081	Levies	7,061		7,061
3,816	-	3,816	Payments to the Government Housing Capital Receipts Pool	17,634		17,634
13,947	(35,699)	(21,752)	Gains/Loss on the disposal of non-current assets	53,770	(31,953)	21,817
24,844	(35,699)	(10,855)	Total	78,465	(31,953)	46,512

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.

2016/17 Gross Expenditure £'000	2016/17 Gross Income £'000	2016/17 Net Expenditure £'000	Financing and Investment Income and Expenditure	2017/18 Gross Expenditure £'000	2017/18 Gross Income £'000	2017/18 Net Expenditure £'000
30,239		30,239	Interest payable and similar charges	29,923		29,923
20,378	-	20,378	Net interest on the net defined benefit liability	20,713		20,713
-	(783)	(783)	Interest Receivable and similar Income		(1,552)	(1,552)
(5,263)	-	(5,263)	Income and expenditure in relation to investment properties and changes in the fair value	612	(5,679)	(5,067)
-	-	0	Gains/Loss on the disposal of investment properties	284	(295)	(11)
45,354	(783)	44,571	Total	51,532	(7,526)	44,006

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.

2016/17	Taxation and Non Specific Grant Income	2017/18
Gross Income		Gross Income
£'000		£'000
(77,749)	Council Tax Income	(82,799)
(52,918)	Revenue Support Grant	(40,818)
(59,732)	Business Rates Retained	(83,115)
(20,550)	Top-up Grant	(2,637)
(26,196)	Non-ringfenced government grants	(24,872)
(237,145)	Taxation and Non-Specific Revenue Grant Income	(234,241)
(18,998)	Capital grants and contributions	(24,846)
(256,143)	Total	(259,087)

19. Property, Plant and Equipment

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.

As at 31 March 2018, 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 £111m. Similar commitments as at 31 March 2017 were £80m. The commitments are:

Capital Commitments	31 March 2018 <i>£'000</i>
Housing Commitments:	
Major Works	35,000
New Builds	63,000
Other Commitments:	
Schools	13,000
Total	111,000

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:

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:

Fair value measurements

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

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 fourteen assets acquired under such leases carried on the Balance Sheet at the following net amounts:

31 March 2017 £'000	Leased Assets	31 March 2018 £'000
	Property, Plant and Equipment:	
8,951	- Other Land and Buildings	8,697
2,257	- Community Assets	2,257
975	- Vehicles, Plant, Furniture and Equipment	1,240
5,260	Investment Properties	7,680
17,443	Total	19,874

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 2017 £'000	Minimum lease payments	31 March 2018 £'000
	Finance lease liabilities (net present value of minimum lease payments):	
232	- Payable within one year	306
876	- Payable after one year	1,062
1,071	Finance costs payable in future years	1,107
2,179	Total minimum lease payments	2,475

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

Minimum Lease Payments	Finance Lease Liabilities		Minimum Lease Payments	
	31 March 2017 £'000	31 March 2018 £'000	31 March 2017 £'000	31 March 2018 £'000
Not later than one year	232	306	282	375
Later than one year and not later than five years	507	643	644	824
Later than five years	369	419	1,253	1,275
Total	1,108	1,368	2,179	2,475

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 2017/18 contingent rents payable by the council in respect of finance leases totalled £0.43m (£0.34m in 2016/17).

Operating Leases

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

31 March 2017 £'000	Operating Leases (Lessee)	31 March 2018 £'000
789	Not later than one year	382
2,792	Later than one year and not later than five years	694
2,761	Later than five years	1,318
6,341	Total	2,394

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 2017 £'000	Operating Leases (Lessor)	31 March 2018 £'000
912	Not later than one year	1,835
2,563	Later than one year and not later than five years	6,099
1,678	Later than five years	7,547
5,154	Total	15,482

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:

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

The projected payments under the agreements are as follows:

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.

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 20
- Private Finance Initiative contracts detailed in Note 21
- 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.

1) 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

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

- equity investments in Islington Limited, a wholly owned subsidiary

Balances on fixed term deposits as at 31 March 2018 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 transaction 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		Short-term	
	31 March 2017 £'000	31 March 2018 £'000	31 March 2017 £'000	31 March 2018 £'000
Financial Assets				
Loans and receivables:				
- <i>Principal at amortised cost</i> *	37,709	10,696	53,013	122,017
- <i>Accrued interest</i>	-		405	678
Total investments	37,709	10,696	53,418	122,695
Loans and receivables:				
- <i>cash</i>			336	663
- <i>cash equivalents at amortised cost</i>			10,700	16,000
Total Cash and Cash Equivalents			11,036	16,663
Loans and receivables:				
- <i>Trade receivables</i>			9,585	11,641
- <i>Loans made for service purposes</i>	6			
Included in Debtors**	6	0	9,585	11,641
Total Financial Assets	37,715	10,696	74,039	150,999

* Short term principal repayments (£122m) include the repayment of £37m of long-term investments within the next 12 months (31 March 2016: £15m).

** The debtors lines on the balance sheet include £64.6m (31 March 2017: £42.7m) short-term debtors that do not meet the definition of a financial asset. See note 1.x for further information

Categories of Financial Instruments	Long-term		Short-term	
	31 March 2017 £'000	31 March 2018 £'000	31 March 2017 £'000	31 March 2018 £'000
Financial Liabilities				
Loans at amortised cost:			-	
- Principal sum borrowed *	253,334	246,222	28,442	64,112
- Accrued interest			3,561	3,235
Total borrowings	253,334	246,222	32,003	67,347
Loans at amortised cost:				
- Bank overdrawn			20,631	22,458
Total Cash Overdrawn			20,631	22,458
Liabilities at amortised cost:				
- PFI and finance lease liabilities	135,002	123,899	10,474	11,548
- Other	6	-		
Total Other Long Term Liabilities	135,008	123,899	10,474	11,548
Liabilities at amortised cost:				
- Trade payables			19,111	20,858
Included in Creditors**	0	0	19,111	20,858
Total Financial Liabilities	388,342	370,121	82,219	122,211

* Short-term borrowing of £64.1m includes the repayment of £12m of long-term borrowing within the next 12 months (31 March 2017: £14.4m).

** The creditors lines on the balance sheet include £121.5m (31 March 2017: £84.4m) short-term creditors that do not meet the definition of a financial liability. See note 1.x for further information.

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 2018/19.

Soft Loans

Where loans are advanced at below market rates they are classed as 'Soft Loans'. The 2017/18 Code of Practice sets out specific accounting requirements for soft loans. The main soft loans consist of season ticket loans £268k, gym membership loans £125k and home computer loans £428k, whilst other minor soft loans total £50k 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 the following companies at cost, and because the values are in insignificant even on a fair value basis, they are not included on the Balance Sheet.

- Islington Limited
- Transform Islington Phase 1 Holdings Limited
- Transform Islington Phase 2 Holdings Limited

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 2017/18	Financial Liabilities	Financial Assets		Total
	Amortised cost	Loans & Receivables	Unquoted equity at cost	
	£'000	£'000	£'000	
Interest expense	(27,393)	-	-	(27,393)
Total expense in Surplus or Deficit on the Provision of Services	(27,393)	0	0	(27,393)
Interest income	-	1,060	-	1,060
Dividend income	-	-	22	22
Total income in Surplus or Deficit on the Provision of Services	0	1,060	22	1,082
Net gain/(loss) for the year	(27,393)	1,060	22	(26,311)

Income, Expense, Gains and Losses 2016/17	Financial Liabilities	Financial Assets		Total
	Liabilities measured at amortised cost	Loans & Receivables	Unquoted equity at cost	
	£'000	£'000	£'000	
Interest expense	(28,958)	-	-	(28,958)
Total expense in Surplus or Deficit on the Provision of Services	(28,958)	0	0	(28,958)
Interest income	-	783	-	783
Dividend income	-	-	10	10
Total income in Surplus or Deficit on the Provision of Services	0	783	10	793
Net gain/(loss) for the year	(28,958)	783	10	(28,165)

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 2018 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.x).

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 £60m 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 2017/18 approved by Full Council on 23 February 2017. The 2017/18 Treasury Management and Investment Strategy can be found via the following web link:

<http://democracy.islington.gov.uk/documents/g2875/Public%20reports%20pack%2023rd-Feb-2017%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 2017/18 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 2018, and confirms that all investments were made in line with the council's approved credit rating criteria:

Credit Rating	31 March 2018		31 March 2017	
	Long-term	Short-term	Long-term	Short-term
	£'000	£'000	£'000	£'000
AA		16,000		10,700
AA-		15,000	15,000	
Unrated local authorities	10,000	107,000	22,000	53,000
Total Investments	10,000	138,000	37,000	63,700

The above analysis shows that all deposits outstanding as at 31 March 2018 met the council's credit rating criteria on the 31 March 2018.

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.

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:

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 2018 was as follows:

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 risk in terms of its exposure to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the authority. For instance, a rise in interest rates would have the following effects:

- borrowings at variable rates – the interest expense will rise
- borrowings at fixed rates – the fair value of the liabilities borrowings will fall
- investments at variable rates – the interest income credited will rise
- investments at fixed rates – the fair value of the assets will fall.

Investments classed as “loans and receivables” and loans borrowed are not carried at fair value, so changes in their fair value will have no impact on Comprehensive Income and Expenditure. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Surplus or Deficit on the Provision of Services. Movements in the fair value of fixed rate investments classed as “available for sale” will be reflected in Other Comprehensive Income and Expenditure.

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 2018, 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 has insignificant investment in equity shares and therefore is not subject to material 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:

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

28. Debtors

31 March 2017			Debtors	31 March 2018		
Gross Debt	Impairments for Doubtful Debt	Net Debt		Gross Debt	Impairments for Doubtful Debt	Net Debt
£'000	£'000	£'000		£'000	£'000	£'000
13,057	(7)	13,050	Central Government bodies	12,541	(2)	12,539
3,034	(35)	2,999	Local authorities	3,495	(110)	3,385
3,343	(10)	3,333	NHS bodies	4,430	(205)	4,225
3,402	(6)	3,396	Public corporations and trading funds	30,733	-	30,733
90,366	(53,973)	36,392	Other entities and individuals	105,956	(64,084)	41,872
113,202	(54,031)	59,170	Total Debtors	157,155	(64,401)	92,754
		52,300	Short term debtors			76,321
		6,870	Long term debtors			16,433
		59,170				92,754

29. Inventories

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

30. Provisions

Provisions 2017-18	Insurance	Business Rate Appeals	Social Services Charges	Disrepair claims	Other minor	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 1 April 2017	10,465	5,952	1,681	464	853	19,415
Additional provisions made in 2017/18	5,650	3,716	34	530	536	10,466
Amounts used in 2017/18	(4,465)	(3,265)	-	(363)	(732)	(8,825)
Unused amounts reversed in 2017/18	-	-	(620)	(157)	(46)	(823)
Balance at 31 March 2018	11,650	6,403	1,095	474	611	20,233

Analysis of Balance at 31 March 2018

Settled within 12 months	3,464	3,265	300	473	611	8,114
More than 12 months	8,185	3,139	795	-	-	12,119
						20,233

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 specific limit 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)	6,700
Claims settled prior to 1992/93 (2)	1,800
Provision for claims incurred but yet to be settled prior to 1992/93 (3)	900
Provision for claims yet to be received for events prior to 1992/93 (4)	3,300
Allowance for limited abuse recoveries from MMI (4)	500
Total Insurance exposure at 31 March 2018	13,200

- 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 £6.7m 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". 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 (£1.8m), to allow for additional claw-backs in future years.
- 3) The Council is holding a provision of £0.9m 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 £4.3m over the next 10 to 20 years. The Council, on actuarial advice, has provided for 75% of these potential claims, so c£3.3m. In addition, a further allowance of £0.5m has been provided, on actuarial advice, for limited abuse recoveries from MMI.

The closing balance of the insurance fund as at 31 March 2018 was £13.0m, including £1.4m held in imprest accounts by the council's claims handlers. Actuarial advice is that the fund has a deficit of £0.2m as at 31 March 2018.

It is the Actuary's opinion that the fund balance (including imprest accounts) of £13.0m sits comfortably within a reasonable range of undiscounted liabilities of £8m-£20m as at 31 March 2018, and so is a reasonable provision for these uncertain liabilities as at 31 March 2018, based on information available as at the date of the signing of the actuarial report. The Actuary's opinion is caveated to limit the Insurance Fund's exposure to future abuse (civil) claims, as the Council has agreed that, in the event of there being more future abuse (civil) claims than allowed for in the valuation basis, those additional claims would be funded outside of the Insurance Fund.

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 2017/18.

Transfers to/from Earmarked Reserves	Balance at 1 April 2017	Transfers Out 2017-18	Transfers in 2017-18	Balance at 31 March 2018
	£'000	£'000	£'000	£'000
General Fund				
Invest to Save	(7,210)	4,669	(2,114)	(4,655)
Services Specific (Corporate)	(14,180)	13,336	(13,121)	(13,965)
Capital Reserve	(15,103)	3,660	(2,023)	(13,466)
Cemetery Trading Account	(953)	-	(140)	(1,093)
Housing Benefit Reserve	(7,667)	366	(159)	(7,460)
BSF PFI 1 Reserve	(2,123)	-	(963)	(3,086)
Contingency Reserve	(3,010)	1,932	(1,700)	(2,778)
CIL Neighbourhood Reserve	(4,925)	1,735	-	(3,190)
S106 Reserve	(5,281)	1,868	(1,554)	(4,967)
Islington 2020 Reserve	-	-	(6,148)	(6,148)
NNDR Smoothing Reserve	-	-	(4,250)	(4,250)
Street Market Reserves	(344)	-	(18)	(363)
General Fund Total	(60,796)	27,566	(32,191)	(65,421)
HRA				
PFI - Housing PFI I	(5,510)	-	-	(5,510)
HRA Tenants' H&HW r-f Reserve	(1,109)	-	(274)	(1,383)
HRA Risk Equalisation Reserve	(35,977)	-	(19,539)	(55,516)
Revaluations Smoothing Reserve	(10,445)	10,445	-	(0)
HRA Total	(53,041)	10,445	(19,813)	(62,409)

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.

Islington 2020: earmarked funding for future IT and premises modernisation projects.

NNDR Smoothing Reserve: Earmarked to help smooth the budgetary impact of risks around the Council's retained business rates income.

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 2017 £'000	Unusable Reserves	31 March 2018 £'000
983,012	Revaluation Reserve	1,121,511
2,241,120	Capital Adjustment Account	2,254,889
-	Financial Instruments Adjustment Account	-
(868,422)	Pensions Reserve	(802,883)
4,386	Collection Fund Adjustment Account	5,217
(6,190)	Accumulated Absences Account	(5,574)
2,353,906	Total Unusable Reserves	2,573,158

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.

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

2016/17 £'000	Capital Adjustment Account	2017/18 £'000
(2,231,518)	Balance as at 31 March	(2,241,120)
(30,293)	Capital Expenditure Financed from Usable Capital Receipts	(16,458)
(42,276)	Capital Expenditure Financed from the Major Repairs Reserve	(41,225)
(15,403)	Capital Expenditure Financed from Revenue Resources	(1,761)
(18,998)	Capital Expenditure funded by Grant	(23,587)
8,690	REFCUS funded by Capital Receipts	9,025
-	Amortisation of Intangible Assets	-
47,365	Losses on revaluation and impairment of non-current assets	7,832
62,475	Depreciation of PPE non-current Assets	60,931
(4,084)	Minimum Revenue Provision	(1,227)
(9,665)	Repayment of Obligations arising from PFI Contracts/Lease liabilities	(10,077)
(3,669)	Write out of Gains relating to Revalued Disposed Assets	(25,493)
13,947	Current Value of Disposed Assets	54,054
(11,874)	Write out of depreciation on revalued amounts (HCA)	(11,803)
(5,816)	Gains and losses on Fair Value of Investment Properties	(3,533)
-	Change in Fair Value of Investments	1
-	Historic HRA Non dwellings Revaluation Gains written out	(10,444)
(9,601)	Total Increase / (Decrease) in Amounts Set Aside to Finance Capital	(13,769)
(2,241,120)	Balance as at 31 March	(2,254,889)

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.

2016/17 £'000	Financial Instruments Adjustment Account	2017/18 £'000
3	Balance as at 1 April	-
(3)	Proportion of premiums and discounts incurred in previous financial years charged against the General Fund Balance 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.

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.

2016/17			Collection Fund Adjustment Account	2017/18		
Council Tax	Non-Domestic Rates	Total		Council Tax	Non-Domestic Rates	Total
£'000	£'000	£'000		£'000	£'000	£'000
4,644	(2)	4,642	Balance at 1 April	2,478	1,907	4,385
(3,057)		(3,057)	Contribution to General Fund for previous year's (surplus) / deficit	(2,184)	(1,860)	(4,044)
891	1,909	2,800	Current year's council tax surplus / (deficit)	103	4,772	4,876
2,478	1,907	4,385	Balance at 31 March	397	4,819	5,217

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.

2016/17		Accumulated Absences Account	2017/18	
£'000	£'000		£'000	£'000
	4,503	Balance at 1 April		6,190
	-	Business combinations		
(4,503)		Settlement or cancellation of accrual made at the end of the preceding year	(6,190)	
6,190		Amounts accrued at the end of the current year	5,574	
	1,687	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		(616)
	6,190	Balance at 31 March		5,574

33. Cash and Cash Equivalents

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

31 March 2017 £'000	Cash and Cash Equivalents	31 March 2018 £'000
(20,631)	Cash and Bank Overdrawn	(22,458)
10,700	Liquid investments	16,000
79	Cash held by the authority	72
257	Bank accounts	591
11,036	Cash and Cash Equivalents	16,663
(9,595)	Total Cash and Cash Equivalents	(5,795)

Further information on liquid investments is included in note 23.

34. Cash Flow Statement – Operating Activities

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

2016/17 £'000	Operating Activities Adjustments	2017/18 £'000
(29,052)	Net Surplus or (Deficit) on the Provision of Services	(56,563)
Adjust net surplus or deficit on the provision of services for non cash movements		
62,475	Depreciation	60,930
47,503	Impairment and downward valuations	7,834
(6,440)	Increase/Decrease in Creditors	26,626
2,406	Increase/Decrease in Debtors	(23,739)
(45)	Increase/Decrease in Inventories	91
21,645	Pension Liability	41,859
1,506	Contributions to/(from) Provisions	818
13,947	Carrying amount of non-current assets sold [property plant and equipment, investment property and intangible assets]	54,054
(5,816)	Movement in Investment Property Values	(3,533)
137,181	Total	164,940
Adjust for items included in the net surplus or deficit on the provision of services that are investing or financing activities		
(18,998)	Capital Grants credited to surplus or deficit on the provision of services	(24,866)
14,772	Net adjustment from the sale of short and long term investments	9
(35,346)	Proceeds from the sale of property plant and equipment, investment property and intangible assets	(32,000)
(39,572)	Total	(56,857)
68,557	Net Cash Flows from Operating Activities	51,520

The cash flows for operating activities include the following items:

2016/17 £'000	Operating Activities (Interest)	2017/18 £'000
547	Interest Received	1,278
(30,120)	Interest Paid	(30,248)

35. Cash Flow Statement – Investing Activities

2016/17 £'000	Investing Activities	2017/18 £'000
(97,574)	Purchase of property, plant and equipment, investment property and intangible assets	(79,700)
(37,000)	Purchase of short-term and long-term investments	(42,000)
(9,584)	Other payments for investing activities	(14,476)
35,924	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	31,657
24,059	Other receipts from investing activities	27,890
(84,175)	Net cash flows from investing activities	(76,629)

36. Cash Flow Statement – Financing Activities

2016/17 £'000	Financing Activities	2017/18 £'000
230,000	Cash receipts of short- and long-term borrowing	148,500
(9,592)	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	(10,563)
(217,117)	Repayments of short- and long- term borrowing	(119,942)
9,464	Council Tax and NDR adjustments	10,914
12,755	Net cash flows from financing activities	28,909

37. Contingent Liabilities and Assets

Legal claims pending settlement

The Council is involved in 4 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 has potential liability for damages and costs arising out of ongoing disrepair claims estimated at £0.5m. The Council is also dealing with two ongoing building construction claims with a potential maximum liability of £8m, although it does not expect it to be that much.

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.

In addition, the Council is involved in a number of historic child abuse and other adult cases which are being dealt with its' insurers and a liability is reflected in the Insurance Provision.

Termination Benefits

Due to the unprecedented cuts to the council's funding from central government, the council will have delivered savings of £193m over the eight years 2010-18 and has built a further £32m of savings into its 2018-19 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 £50m. A significant number of posts have been cut from the council workforce and the financial impact of these is set out in Note 9. There will inevitably be some 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 for a number of years used an earmarked reserve as a prudent measure to meet termination costs that realise budget savings. This reserve is now exhausted, and there are not sufficient surplus funds to replenish it. The process for managing future termination costs is for service departments to meet the costs as and when they occur.

Contractual claims pending

None pending.

Guarantees given

The council has given a guarantee to its trading subsidiary, ICo Limited. In ICo Limited's audited financial statements, for 2016/17, the company's net liabilities as at 31 March 2017 totalled £96k.

Contingent Assets

None known.

38. Events After the Balance Sheet Date

The draft Statement of Accounts 2017/18 was authorised for issue on 25th May 2018 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 2018, 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 Hungerford School converted into an academy and as a result the school buildings will be transferred out of the council's Balance Sheet.

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:

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	(56,647)	(75,180)	(1,773)	(1,385)

* 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		Total 31 March 18 £'000
	Islington Council Pension Fund		London Pensions Fund Authority		Discretionary Benefits		
	31 March 17 £'000	31 March 18 £'000	31 March 17 £'000	31 March 18 £'000	31 March 17 £'000	31 March 18 £'000	
Present Value of defined benefit obligation	(2,008,009)	(1,992,451)	(46,910)	(43,833)	(57,188)	(54,117)	(2,090,401)
Fair Value of Plan Assets	1,196,943	1,243,169	46,742	46,280		-	1,289,449
Impact of Asset Ceiling				(1,931)			(1,931)
Net liability	(811,066)	(749,282)	(168)	516	(57,188)	(54,117)	(802,883)

The total net liability of £803m 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 2015/16	Funded Liabilities		Unfunded Liabilities
	Islington Council Pension Fund	London Pensions Fund Authority	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	
<i>Remeasurement (gains) and losses:</i>			
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 2015/16	Funded Liabilities		Unfunded Liabilities
	Islington Council Pension Fund	London Pension Fund Authority	Discretionary Benefits
	£'000	£'000	£'000
Opening Fair Value of Scheme Assets as at 1 April 2015	983,833	43,118	0
Interest Income	31,480	1,260	-
<i>Remeasurement gain/(loss)</i>			
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

Reconciliation of Asset Ceiling

The asset ceiling is the present value of any future cash savings of not having to contribute to the scheme as it is in surplus. The actuary has reduced the surplus on the LPFA scheme to the asset ceiling, and the effect is shown in the table below. The asset ceiling has been determined by the actuary by taking the total projected current service cost over the period of expected remaining active membership of the Fund, less any employer contributions certified to be paid until 31 March 2020, discounted at the IAS19 discount rate as at 31 March 2018.

Reconciliation of Asset Ceiling 2017/18		London Pension Fund Authority
		£'000
Opening impact of Asset Ceiling		0
Actuarial (loss) gain		(1,931)
Closing impact of Asset Ceiling as at 31 March 2018		(1,931)

Local Government Pension Scheme assets

The Fund's assets consist of the following categories:

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 and Barnett Waddingham, independent firms 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:

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 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 £24.3m in contributions to the LGPS and LPFA schemes in 2018/19.

The weighted average duration of the defined benefit obligation for scheme members within LGPS is 18 years in 2017/18 (18 years in 2016/17), and within LPFA is 12 years in 2017/18 (12 years in 2016/17).

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 price 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 2018, the council owed LGPS £0.73m and LPFA £33k in contributions and pension strain.

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 2017/18 the council paid £8.7m to Teacher's Pensions in respect of teachers' retirement benefits, representing 16.48% of pensionable pay. The figures for 2016/17 were £9.45m and 16.48%, respectively. Contributions of £1.1m remained payable at year-end. The contributions due to be paid in the next financial year are estimated to be £8.7m. In addition, the council is responsible for all pension payments relating to added years it has awarded, together with the related increases. In 2017/18 these amounted to £0.8m (£0.8m in 2016/17).

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.

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 2017/18, £136.8k was payable by the council to the NHS Pension Scheme in respect of former NHS staff retirement benefits, representing 14.38% of pensionable pay. The figures for 2016/17 were £131k and 14.3%, respectively.



41. Grant Income

The council credited the following grants and contributions to the Comprehensive Income and Expenditure Statement in 2017/18:

Income from Grants, Contributions and Donations	2016/17	2017/18
	<i>£'000</i>	<i>£'000</i>
Credited to Taxation and Non-Specific Grant Income		
Revenue Support Grant	52,918	40,818
Top-up Grant	20,550	2,637
New Homes Bonus	15,251	11,973
Education Services Grant	2,110	610
Business Rates Relief	1,761	4,490
Capital grants	18,998	24,846
Other non-specific grants	7,075	7,799
Total	118,663	93,173
Credited to Services		
Dedicated Schools Grant	160,264	153,232
Housing Benefit Subsidy	201,279	193,649
Public Health Grant	27,312	26,607
Private Finance Initiative	32,907	32,907
Pupil Premium Grant	13,728	12,793
Additional Better Care Fund	-	6,070
Asylum Seeker Grant	1,703	2,207
Flexible Homelessness	-	2,064
Sixth Form Funding	4,413	3,685
Free School Grant	4,735	-
Other grants and contributions	14,570	19,169
Total	460,911	452,383

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 2017 £'000	Grant Balances	31 March 2018 £'000
Grants Receipts in Advance - Short Term		
Revenue Grants		
(1,238)	Dedicated Schools Grant	(1,560)
(121)	Other government grants balances	(699)
(144)	Other contributions	(99)
(1,503)	Total	(2,358)
Capital Grants		
(1,007)	Government grants	(1,278)
(5,015)	s106 contributions	(8,500)
(33)	Third party contributions	(48)
(6,055)	Total	(9,826)
Grants Receipts in Advance - Long Term		
Capital Grants		
(350)	Government grants	(350)
(28,888)	s106 contributions	(23,525)
(29,238)	Total	(23,875)

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 2017/18 are as follows:

Schools Budget funded by Dedicated Schools Grant	Central Expenditure	Individual Schools Budget	Total
	£'000	£'000	£'000
Final DSG for 2017/18 before Academy recoupmnt			176,764
Academy recoupmnt 2017/18			23,210
Total DSG after Academy recoupmnt for 2017/18			153,554
Brought forward from 2016/17	1,238		1,238
Agreed initial budgeted distribution for 2017/18	20,640	132,914	153,554
Final budgeted distribution for 2017/18	21,878	132,914	154,792
less Actual Central Expenditure	(20,318)		(20,318)
less Actual ISB deployed to schools		(132,914)	(132,914)
Carry forward to 2018/19 agreed in advance	1,560	0	1,560

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 £29.0m as at 31 March 2018 (£27.4m as at 31 March 2017) 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

2016/17 £'000	Housing Revenue Account Income and Expenditure Statement	2017/18 £'000
Expenditure		
31,604	Repairs and Maintenance	32,308
94,772	Supervision and Management	98,090
827	Rents, Rates, Taxes and Other Charges	760
31,997	Depreciation of non-current Assets	32,382
44,198	Gain or loss on Revaluation of non-current Assets	7,017
291	Debt Management Costs	301
935	Movement in the allowance for bad debts	772
204,624	Total Expenditure	171,630
Income		
(152,047)	Dwellings Rents (gross)	(151,771)
(1,823)	Non-Dwellings Rents (gross)	(1,461)
(36,765)	Charges for Services & Facilities	(35,779)
(816)	Transfers from General Fund - Communal Use	(816)
(22,855)	PFI Government grant receivable	(22,855)
-	Contributions towards Expenditure	(3,835)
(214,306)	Total Income	(216,517)
(9,682)	Net Cost of Services as included in the Comprehensive Income and Expenditure Statement	(44,887)
2,882	HRA services' share of Corporate and Democratic Core	2,490
(6,800)	Net (Income) / Cost of HRA Services	(42,397)
HRA share of the operating income and expenditure included in the comprehensive Income and Expenditure Statement:		
(21,386)	Gain or loss on sale of property, plant & equipment	(22,367)
-	Gain or loss on sale of investment properties	(11)
-	Income and expenditure in relation to investment properties	(187)
553	Gain or loss on revaluation of investment properties	(250)
25,650	Interest payable and similar charges	25,246
(4,617)	Capital Grants and Contributions receivable	(4,999)
(577)	Interest and investment income	(647)
(7,177)	(Surplus)/Deficit for the year on HRA Services	(45,612)

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.

2016/17 £'000	Movement on the HRA Statement	2017/18 £'000
(14,773)	Balance on the HRA at the end of the previous year	(17,521)
(7,177)	(Surplus) or Deficit for year on the HRA Income and Expenditure Account	(45,612)
(13,663)	Adjustments between accounting basis and funding basis under statute	25,800
(20,840)	Net (Increase) or decrease before transfers to or from reserves	(19,812)
18,092	Transfers to / (from) reserves	19,812
(2,748)	(Increase) or decrease in year on the HRA	-
(17,521)	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.

2016/17 £'000	Note on Reconciling Items for the HRA Balance	2017/18 £'000
Adjustments between accounting basis and funding basis under statute		
4,617	Capital Grants received transferred to Grants Reserve	4,999
6,727	Repayment of PFI / lease liabilities	7,560
21,384	Gain or loss on sale of HRA non-current assets	22,378
(44,612)	Gain or loss on revaluation of council dwellings	(7,017)
(5,304)	Reversal of charges made for retirement benefits in accordance with IAS 19	(8,948)
(3)	Differences between interest payable and similar charges including amortisation of premiums and discounts	-
4,021	Employer's contributions payable to the Pension Fund and retirement benefits payable direct to pensioners	4,098
(141)	Difference between any other item of income and expenditure determined in accordance with the Code and determined in accordance with statutory HRA requirements	30
-	Gain or loss on revaluation of investment properties	250
(353)	Capital Receipts funding of Disposal Costs	(248)
(31,998)	Transfer from Capital Adjustment Account equivalent to depreciation	(32,382)
31,998	Transfers to/(from) Major Repairs Reserve	35,080
Transfer to / from earmarked reserves		
546	Transfer to/(from) Tenants' Heating & Hot Water Reserve	274
17,546	Amounts transferred to/(from) HRA Reserve	19,538
34,445	Net additional amount required by statute to be debited or credited to the HRA Balance for the year	45,612

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.

2. Value of Dwellings

The value of council dwellings as at 31 March 2018 was £3.166 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 2016/17), which means that the vacant possession value of the dwellings within the HRA as at 31 March 2018 is £12.7 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.

3. Major Repairs Reserve

Expenditure financed from the Major Repairs Reserve amounted to £41.2m in 2017/18 (£42.3m in 2016/17).

4. Capital Expenditure and Capital Receipts

The council spent £63.7m on the housing stock in 2017/18 (£77.2m in 2016/17). Capital receipts in year amounted to £32.2m of which £17.6m is due to be paid to central government.

2016/17 £'000	Capital Expenditure by Funding Source	2017/18 £'000
-	Borrowing	(6,572)
(30,293)	Usable Capital receipts	(10,930)
(42,276)	Major Repairs Reserve	(41,225)
(4,616)	Other	(4,999)
(77,185)	Total	(63,727)



5. Depreciation

The amount included in the Housing Revenue Account Income and Expenditure Account for depreciation amounted to £32.4m (£32.0m in 2016/17).

2016/17 £'000	Depreciation	2017/18 £'000
29,397	Council Dwellings	29,699
639	Other Land & Buildings	682
1,156	Infrastructure Assets	1,216
806	Vehicles, Plant & Equipment	785
31,998	Total Depreciation	32,382

6. Contribution to Pension Reserve

HRA share of the contribution to the Pension Reserve in 2017/18 was £4.8m (£1.3m in 2016/17).

7. Rent Arrears

Outstanding rent arrears as at 31 March 2018 were £5.9m. The amounts outstanding as at 31 March 2017 were £5.4m. During 2017/18, irrecoverable rent arrears of £0.3m were written off. The cumulative bad debt provision for rent arrears within the HRA account is £3.5m. The table below shows rent arrears in 2017/18 and 2016/17.

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

2016/17			Summary of Income and Expenditure Account as at 31st March 2018			2017/18		
Council Tax	Non- Domestic Rates	Total				Council Tax	Non- Domestic Rates	TOTAL
£'000	£'000	£'000				£'000	£'000	£'000
Income								
(101,519)	(216,059)	(317,578)	Income collectable from Taxpayers (net of benefits, discounts for prompt payments and reliefs)	(107,037)	(257,076)	(364,113)		
-	(5,612)	(5,612)	Business Rate Supplement Income	-	(8,302)	(8,302)		
Transfers from General Fund								
-	2,366	2,366	Transitional Relief	-	(37,171)	(37,171)		
(101,519)	(219,305)	(320,824)	Total Income	(107,037)	(302,549)	(409,586)		
Expenditure								
Precepts, Payments & Demands								
16	-	16	Lloyd Square	17	-	17		
20,794	38,507	59,301	Greater London Authority	21,620	96,532	118,152		
-	5,569	5,569	BRS Payments	-	8,228	8,228		
76,858	57,760	134,618	London Borough of Islington	82,696	78,269	160,965		
-	96,267	96,267	Payments with respect to Central Share	-	86,096	86,096		
97,668	198,103	295,771	Total Precepts & Demands	104,333	269,125	373,458		
Collection & Admin Costs								
-	644	644	Costs of Collection	-	704	704		
-	43	43	BRS Administrative Costs	-	73	73		
Other Transfers to the General Fund								
-	62	62	Renewable Energy Schemes	-	74	74		
Contributions								
3,057	-	3,057	Towards previous year's Collection Fund Surplus					
			London Borough of Islington	2,184	1,860	4,044		
919	-	919	Greater London Authority	591	1,240	1,831		
-	-	-	Central Government	-	3,099	3,099		
Bad and Doubtful Debts / Appeals								
22	104	126	Current Year Write Offs	18	33	51		
-	11,396	11,396	Appeals Provision	-	12,386	12,387		
2,608	2,587	5,195	Allowance for Bad Debts Provisions	2,555	4,247	6,802		
104,274	212,939	317,213	Total Expenditure	109,681	292,841	402,523		
2,755	(6,366)	(3,611)	(Surplus) / Deficit for the Year	2,644	(9,708)	(7,063)		
Collection Fund Account Reserves								
(5,900)	7	(5,893)	(Surplus)/Deficit brought forward	(3,146)	(6,358)	(9,504)		
2,754	(6,365)	(3,611)	(Surplus)/Deficit for the year	2,645	(9,708)	(7,063)		
(3,146)	(6,358)	(9,504)	Closing Collection Fund Balance	(501)	(16,066)	(16,567)		
Current Share of (Surplus)/Deficit								
(2,478)	(1,907)	(4,385)	London Borough of Islington	(397)	(4,820)	(5,217)		
(668)	(1,272)	(1,940)	Greater London Authority	(104)	(5,944)	(6,048)		
-	(3,179)	(3,179)	Central Government	-	(5,302)	(5,302)		
(3,146)	(6,358)	(9,504)	Total (Surplus)/Deficit c/f	(501)	(16,066)	(16,567)		

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 2017/18 council tax income is made up of following adjustments:

2016/17 £'000	Council Tax Income	2017/18 £'000
(148,130)	Gross Opening Charge	(155,268)
	Less: Adjustments	
9,128	Exemptions	9,633
71	Disabled Relief	55
12,691	Discounts	13,289
-	Other Adjustments	3
24,721	Council Tax Support	25,251
(101,519)	Income collectable from Taxpayers	(107,037)

The above discounts figure includes localised discounts £890k; mainly older person discounts £647k, cash back £171k, and care leavers' allowance £72k, 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 2017 and are legally responsible for paying council tax at their property.

C2. Council Tax Base

In 2017/18, there were estimated gross adjusted 100,451 (100,270 - 2016/17) residential properties in Islington which were placed in one of eight valuation bands depending on their capital value. The total for each bands are converted by use of appropriate multipliers and expressed in terms of number of band D equivalent dwellings to give a tax base.

The tax base for council tax setting purposes for Islington was 77,210 equivalent Band D properties, (75,340 - 2016/17) 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 2017/18 band D equivalent council tax including precepts was £1,351.08.

Bands	2017/18 Actual Net Chargeable Dwellings as at 31/03/18	2017/18 Council Tax incl precepts	2017/18 Net CTS of Chargeable dwellings at tax setting	Proportion of Band D Charges	2017/18 Band D Equivalent Dwellings at Tax Base for Tax Setting	2016/17 Band D Equivalent Dwellings at tax setting.
	No. of dwellings	£	No. of dwellings	%	No. of dwellings	No. of dwellings
A	1,706	900.72	1,175	66.7%	783	668
B	5,880	1,050.84	3,299	77.8%	2,566	2,497
C	28,676	1,200.96	17,596	88.9%	15,641	15,315
D	30,986	1,351.08	21,960	100.0%	21,960	21,514
E	17,106	1,651.32	13,417	122.2%	16,398	15,938
F	8,502	1,951.56	7,148	144.4%	10,325	10,037
G	6,714	2,251.80	6,131	166.7%	10,219	10,007
H	881	2,702.16	853	200.0%	1,706	1,695
Total	100,451		71,579			
Total Band D Equivalents Dwellings					79,598	77,670
Budgeted Collection Rate					97.00%	97.00%
Net Collection Rate Band D Equivalents Dwellings					77,210	75,340

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 2017/18 is 46.6p and the higher non-domestic rating multiplier is 47.9p.

On 1 April 2013 the Government introduced a new local government funding regime, the Business Rates Retention Scheme. This removed the national pool and instead allows Islington to retain a proportion of business rates and share the rests with the precepting bodies. Local Authorities were required to estimate the amount of business rates to be collected and paid over to the precepting bodies, Central Government and Greater London Authority, and its own share.

As part of the localisation, the Council also had to finance appeals made in respect of rateable values as defined by the VOA and a provision for these amounts has been estimated in 2017/18.

The total non-domestic rateable value at 31st March 2018 was £717m (£500m at 31st March 2017). The rateable value of the borough has increased significantly after the revaluation of all commercial properties in 2017 by the Valuation Office and increase in net NNDR income to £303m (£219m at 31st March 2017), reflects the increase in rateable value. However, growth was partly offset by transitional protection arrangements, which limits the increase with a phasing over a period of 5 years.

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

2016/17 £'000	Business Rates (NDR)	2017/18 £'000
(250,595)	Gross rates and empty rates due at the end of the year	(347,520)
<i>Less allowance and adjustments:</i>		
5,660	NDR Payable in respect of previous years	7,809
(2,366)	Transitional Protection Payments	37,171
18,349	Mandatory Relief	23,224
8,045	Unoccupied Property Relief	9,849
94	Retail Relief	3
3,756	Small Business Rate Relief	5,849
-	Revaluation Relief	5,010
-	Supporting Small Business Relief	311
-	Pub Relief	124
998	Discretionary Relief	1,092
34,536	Total Reliefs and Adjustments	90,444
(216,059)	Net Rates Payable After Reliefs and adjustments	(257,076)
644	Costs of Collection	704
2,366	Transitional Protection Payments	(37,171)
62	Disregarded Renewable Energy	74
2,691	Losses in collection	4,280
11,396	Appeals Provision	12,386
(198,900)	Actual Non Domestic Rating Income	(276,803)

The BRS was levied by GLA on non-domestic properties with a rateable value of £70,000 or more.

The aggregate rateable value of properties liable for BRS on 31st March 2018 was £539m (£356m at 31st March 2017). The multiplier for the year was 2.0p, giving a possible BRS income of £10.8m.

After allowable adjustments, the collectable income from BRS payers for 2017/18 was £8.302m (£5.612m in 2016/17). The £8.228m (£5.569m in 2016/17) payable to GLA is net of £0.074m (£0.043m in 2016/17) collection costs and other adjustments retained by the Council.

2016/17 £'000	Business Rates Supplement (Crossrail)	2017/18 £'000
(5,612)	BRS Due At Year End	(8,302)
	<i>Less allowance and adjustments:</i>	
27	Losses in collection	56
27	Total	56
(5,585)	Income due from Business Ratepayers	(8,246)
16	Costs of Collection	18
(5,569)	Total	(8,228)

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 (33%), Greater London Authority (37%) and the rest is retained by Islington (30%).

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 2016 (as amended ("the 2016 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 2016, cover fund management and suitable investments. The Pension Fund Accounts have been drawn up in accordance with the 2017/18 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 Investment Strategy Statement, 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 2016 (as amended) (“the 2016 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
Bridge Academy	Scheduled Body
Bridge Satellite	Scheduled Body
Highbury Grove	Scheduled Body
Primary Academy	Scheduled Body
Clerkenwell Parochial School	Scheduled Body
Highgate Hill Primary	Scheduled Body
Volunteering Matters (formerly CSV)	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
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
Pabulum	Admitted Body

There are also fifteen 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
Kier Support Services
Circle Anglia

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 2017/18 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 2018.

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 2018.

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 are 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 2016. Total contribution paid by members during 2017/18 amounted to £128k and the value of the fund as at 31 March 2018 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

2016/17 £'000	Pension Fund Account (dealing with members, employers and others directly involved in the scheme)	2017/18 £'000	Note
Income			
35,920	Employer contributions	33,327	2a
11,609	Members contributions	11,883	2
2,785	Transfers in from other pension funds	4,156	3
2,238	Other Income	2,662	4
52,552	Total Income	52,028	
Expenditure			
(52,283)	Benefits payable	(51,183)	5
(2,951)	Payment to and on account of leavers	(5,714)	6
(55,234)	Total Expenditure	(56,897)	
(2,370)	Management Expenses	(2,698)	7
(5,052)	Net additions/ (withdrawals) from dealing with members	(7,567)	
Returns on investments			
8,230	Investment income	14,347	8
167,981	Change in market value (realised & unrealised)	45,755	
176,211	Total Returns on investments	60,102	
Net return on investments			
171,159	Net increase/decrease in fund in year	52,535	
1,083,727	Opening net assets of the scheme	1,254,886	
1,254,886	Closing net assets of the scheme	1,307,421	

Net Assets Statement

2016/17 £'000	Net Assets Statement for the year ended 31 March 2018	2017/18 £'000	Note
Investments			
1,222,614	Investment assets	1,319,901	9
30,995	Other Investment and Cash	14,084	9
1,253,609	Total Investments	1,333,985	
Current Assets and Liabilities			
10,942	Current assets	5,176	10
(9,674)	Current liabilities	(31,740)	11
1,268	Net Current Assets	(26,564)	
1,254,877	Net assets of the scheme at 31 March	1,307,421	

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 2017/18 financial year and its positions as at 31 March 2018. The accounts have been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom 2017/18* 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.

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*	
	2016/17 £'000	2017/18 £'000	2016/17 £'000	2017/18 £'000	2016/17 £'000	2017/18 £'000
Administering Authority						
Islington Council	30,038	30,011	-	-	3,324	1,385
Scheduled Bodies						
St Mary Magdalene	187	203	-	-	-	-
City of London Academy	112	134	-	-	-	-
New North Community School	77	85	-	-	-	-
William Tyndale School	86	91	-	-	-	-
The Courtyard School	20	15	-	-	-	-
Tech City (Stem 6th form Academy)	11	11	-	-	-	-
Elliot Foundation	41	85	-	-	-	-
Bridge Free School	11	21	-	-	-	-
Family School Academy	9	14	-	-	-	-
Bridge Academy	-	428	-	-	-	-
Highbury Grove School	-	49	-	-	-	-
Highgate Hill	-	45	-	-	-	-
Brigde Satellite	-	5	-	-	-	-
Islington Primary academy	-	14	-	-	-	-
Clerkenwell Parochial academy	-	22	-	-	-	-
Admitted bodies						
Volunteering Matters(CSV)	615	149	-	-	-	-
Circle Anglia	6	-	-	-	810	-
Camden & Islington NHS Foundation Trust	79	77	-	-	-	-
Brunswick	1	18	-	-	-	-
NCP Services (Islington South)	21	-	-	-	-	-
SSE Contracting Ltd (Islington Lighting)	11	12	-	-	-	-
Southern Housing Group	6	4	-	-	-	-
Braithwaite	5	5	-	-	-	-
Pleydell	17	16	-	-	-	-
Caterlink	158	154	-	-	-	-
Engie Services Ltd(Cofely Workplace Ltd)	135	133	-	-	-	-
R M Education	9	6	-	-	-	-
Breyer Group	6	5	-	-	-	-
Mears Ltd	31	29	-	-	-	-
WJ Catering	3	2	-	-	-	-
Isledon Arts CIC	9	8	-	-	-	-
Greenwich Leisure Ltd	82	82	-	-	-	-
Pabulum	-	9	-	-	-	-
Totals	31,786	31,942	0	0	4,134	1,385

*Note 15 provides further information regarding "Strain Recovery"

b) Members' Contributions

The following table sets out an analysis of the contributions made by employees of the council and its admitted bodies.

Contributions receivable - Members contributions	Normal Contributions (inc Added Years Contributions)	
	2016/17	2017/18
	£'000	£'000
Administering Authority		
Islington Council	11,077	11,148
Scheduled Bodies		
St Mary Magdalene	100	104
City of London Academy	56	65
New North Community School	31	33
William Tyndale School	24	26
The Courtyard School	11	10
Tech City (Stem 6th form Academy)	14	10
Elliot Foundation	50	97
Bridge Free School	10	12
Family School Academy	4	6
Bridge Academy	-	127
Highbury Grove School	-	16
Highgate Hill	-	16
Brigde Satellite	-	3
Islington Primary academy	-	5
Clerkenwell Parochial academy	-	7
Admitted bodies		
Volunteering Matters (CSV)	-	-
Brunswick	1	6
Circle Anglia	-	-
Camden & Islington NHS Foundation Trust	24	12
NCP Services (Islington South)	9	9
SSE Contracting Ltd (Islington Lighting)	2	3
Southern Housing Group	1	5
Braithwaite	2	2
Pleydell	7	6
Caterlink	79	52
Engie Ltd (Cofely Workplace Ltd)	47	48
R M Education	5	3
Breyer Group	4	3
Mears Ltd	11	9
WJ Catering	1	1
Isledon ArtsCIC	3	3
Greenwich Leisure Ltd	36	34
Pabulum	-	2
Totals	11,609	11,883



3. Transfers in

4. Other Income

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	
	2016/17	2017/18	2016/17	2017/18	2016/17	2017/18
	£'000	£'000	£'000	£'000	£'000	£'000
Administering Authority						
Islington Council	39,246	41,499	8,534	5,114	1,041	1,337
Scheduled Bodies						
St Mary Magdalene	22	23	1	14	-	-
The Courtyard	-	3	-	7	-	-
City of London Academy	28	29	-	-	-	-
William Tyndale School	19	19	-	-	-	-
New North Community School	9	9	-	-	-	-
Admitted bodies						
Volunteering Matters (CSV)	1,041	1,099	206	54	-	-
Aquaterra	220	220	-	-	-	-
Circle Anglia	65	68	64	-	-	-
Camden & Islington NHS Foundation Trust	51	52	-	-	-	-
CEA	804	809	-	-	-	-
FSST	4	3	-	-	-	-
Kier Islington Ltd (Caxton)	585	570	-	-	-	-
NCP Services (Islington South)	33	4	-	-	-	-
SSE Contracting Ltd (Islington Lighting)	52	53	-	-	-	-
Redbrick	2	2	-	-	-	-
Mouchel Parkman	31	31	-	-	-	-
St Lukes	2	2	-	-	-	-
ALA	17	22	-	3	-	-
Brunswick	9	9	-	-	-	-
Cushman & Wakefield LLP	8	8	-	-	-	-
Caterlink	14	15	2	-	-	-
Notting Hill Trust	8	8	-	-	-	-
Kier Support Services	20	20	6	-	-	-
Engie Ltd (Balfour Beatty)	13	19	-	-	-	-
Breyers	1	-	-	-	-	-
Mears	8	15	100	-	-	-
Greenwich Leisure Ltd	17	21	-	22	-	-
Totals	42,329	44,632	8,913	5,214	1,041	1,337

6. Payments to and on Account of Leavers

7. Management Expenses

7(a) Administrative Expenses

All other costs of administration are borne by Islington Council.

7(b) Investment Expenses

7(c) Oversight and Governance Cost

8. Income from Investments

9. Investments

Transaction costs are included in the cost of purchases and sale proceeds. Transaction costs include costs charged directly to the scheme such as fees, commissions, stamp duty and other fees. In addition, indirect costs are incurred through bid-offer spread on investments within pooled investment vehicles. The amount of indirect costs is not separately provided to the scheme.

10. Current Assets

11. Current Liabilities

2016/17 £'000	Current Liabilities	2017/18 £'000
(3,718)	Accrued Benefits	(601)
(4,359)	**Sundry Creditors	(11,249)
(208)	*Receipt in Advance	(8,920)
(1,390)	Accrued Expenses	(2,107)
(9,675)	Total Current liabilities	(22,877)
2016/17 £'000	Non-Current Liabilities	2017/18 £'000
-	*Receipt in Advance	(8,863)
0	Total Non-Current Liabilities	(8,863)
(9,675)	Total Liabilities	(31,740)

12. Benefits

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.

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. Contributions

Contributions are credited to the Pension Fund consisting mainly of:

a) Employees' contributions ranging between 5.5% 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 2016, effective from 1 April 2017 fixed at 14.6% of pensionable payroll costs phased over 3 years (13.2% in 17/18). 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 £8.97m was made in 2017/18 (a discounted amount due to payment in advance in April 2017)

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 2016.

The Pension Fund Triennial revaluation carried out as at 31 March 2016 came into effect in terms of altered employer contributions from 1 April 2017 to 31 March 2020. Under this revaluation the Fund assets were valued at £1,084m and, a deficit of £299m. The funding level has improved to 78% compared to 70% at 31 March 2013.

The actuary has defined a common employer contribution rate of 14.7% of pensionable pay per annum, and an average additional contribution of 6% of pensionable pay for 22 years to eliminate the deficit. This would imply an average employer contribution rate of 20.7% 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 3.7% 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 (2016 valuation) were as follows for future service:

Rate of return on investments	4.95% per annum
Rate of general pay increases	3.7% per annum
Rate of increases to pensions in payment (in excess of Guaranteed Minimum Pensions)	2.2% 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.

The figure is prepared for the purposes of IAS 26 and has no validity in other circumstances. It is not relevant for calculations undertaken for funding purposes and setting contributions payable to the Fund, which is carried out on a triennial basis.

Actuarial Present Value of Promised Retirement Benefits for the Purposes of IAS 26

IAS26 requires the present value of the Fund's promised retirement benefits to be disclosed, and for this purpose the actuarial assumptions and methodology used should be based on IAS 19, rather than the assumptions and methodology used for funding purposes.

To assess the value of the benefits on this basis, we have used the following financial assumptions as at 31 March 2018 (the 31 March 2017 assumptions are included for comparison):

	31 March 2017	31 March 2018
Rate of return on investments (discount rate)	2.5% per annum	2.6% per annum
Rate of CPI Inflation / Care Revaluation	2.3% per annum	2.1% per annum
Rate of pay increases *	3.8% per annum	3.6% per annum
Rate of increases in pensions in payment (in excess of GMP) / deferment	2.3% per annum	2.2% per annum

* Includes a corresponding allowance to that made in the latest formal actuarial valuation for short-term public sector pay restraint.

During the year, corporate bond yields rose slightly, resulting in a higher discount rate being used for IAS 26 purposes at the year-end than at the beginning of the year (2.6% p.a. versus 2.5% p.a.). The expected long-term rate of CPI inflation decreased during the year, from 2.3% p.a. to 2.1%. Both of these factors combined served to decrease the liabilities over the year.

The value of the Fund's promised retirement benefits for the purposes of IAS 26 as at 31 March 2017 was estimated as £2,101 million. Interest over the year increased the liabilities by c.£53 million, and allowing for net benefits accrued/paid over the period also increased the liabilities by c£19 million (after allowing for any increase in liabilities arising as a result of early retirements/augmentations). There was then a decrease in liabilities of £82 million due to "actuarial gains" (i.e. the effects of changes in the actuarial assumptions used, referred to above).

The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2018 is £2,091 million.

15. Fund Membership

16. Additional Voluntary Contributions

17. Contingent Assets and Liabilities

There were no contingent assets or liabilities in 2018/19.

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 2018, the Pension Fund held in receipt for Islington Council a net amount of £28.3m (£2.9m 31 March 2017), which includes employers lump sum of £17.8m for periods 2018/19 to 2019/20. Full contributions from the council for the year are disclosed in Note 2

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 its 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

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(by asset class)	Final Market Value as at 31/03/18	% Change	Value on Increase	Value on Decrease
	£'000		£'000	£'000
Overseas Equities	520,657	6.00%	552,066	489,248
Overseas Private Equity	26,287	6.00%	27,872	24,701
Overseas property	18,833	6.00%	19,969	17,697
Total Assets	565,777	6.00%	599,907	531,646

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.

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	2016/17 £'000	2017/18 £'000
LBI In House Fund		
EQUITIES		
UK quoted - LBI self managed	220,905	126,485
Overseas quoted - LBI self managed	52,629	37,244
CASH DEPOSITS		
Sterling	2,787	1,853
Other	10,410	2,817
OTHER INVESTMENT BALANCES		
Outstanding Dividends/Tax	1,698	1,174
Outstanding trades	-	-
FIXED INTEREST		
UK	84	80
INDEX-LINKED		
UK	131	125
POOLED FUNDS		
UK	6,936	5,605
Total LBI In House Fund	295,580	175,383
Newton		
EQUITIES		
Overseas quoted - NEWTON	157,999	-
UK quoted - NEWTON	21,025	-
POOLED FUNDS		
UK	-	190,907
CASH DEPOSITS		
Sterling	10,029	109
Other	181	439
OTHER INVESTMENT BALANCES		
Outstanding Dividends	769	411
Outstanding trades	(1,156)	-
Total Newton	188,847	191,866
RCM / LONDON CIV		
POOLED FUNDS		
Other	97,915	106,770
CASH DEPOSITS		
Sterling	192	279
Other	-	7
OTHER INVESTMENT BALANCES		
Outstanding Dividends	191	101
Outstanding trades	-	-
Total RCM	98,298	107,157

Investment Assets by Fund Manager (contd.)	2016/17 £'000	2017/18 £'000
Standard Life Bonds		
POOLED INVESTMENT VEHICLES		
Managed funds	244,326	248,487
Pantheon		
POOLED INVESTMENT VEHICLES		
Private equity - overseas	11,640	6,488
Standard Life		
POOLED INVESTMENT VEHICLES		
Private equity - overseas	20,664	19,799
Aviva Lime Property		
UK UNIT TRUSTS		
Property	59,518	64,316
Threadneedle Pensions		
POOLED INVESTMENT: Property	76,857	84,778
Baring English Growth Fund		
UK UNIT TRUSTS	15	-
Thesis		
POOLED INVESTMENT: Property	26,502	27,674
BNY Mellon		
CASH DEPOSITS : Sterling	6,790	6,896
Outstanding FX trades	(896)	(2)
Total BNY Mellon	5,894	6,894
Legal & General		
POOLED INVESTMENT VEHICLES		
Managed funds	97,569	147,199
Franklin Templeton		
Pooled Investment Global Property	20,667	18,833
Schroders		
Pooled Investment Multi Asset	107,232	128,530
BMO		
Pooled Investment Managed Funds	-	74,776
LGIM		
Pooled Investment Managed Funds	-	31,805
Total Investment Assets	1,253,609	1,333,985

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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