

Islington Council – Statement of Accounts 2007/08

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Foreword by Executive Member for Finance

This has been a successful financial year for Islington Council, bringing many improvements for our residents.

The Statement of Accounts for 2007-08 gives an overview of our financial performance and provides a snapshot of our financial position on 31 March 2008. But the numbers alone do not tell the full story of our progress.

In a borough with wide gaps between rich and poor, sound financial management is critical in meeting the challenges of building a stronger community, making Islington a greener and safer place to live, and improving our housing and schools. Our 'One Islington' vision is an ambitious one and delivering it depends on generating huge financial resources.

So I am pleased to report that in the last financial year:

- We delivered over £168 million of capital investment, notably spending nearly £100 million on much-needed housing improvements. We built on our good track record of creating affordable new homes – 405 were delivered by our housing association partners during the year – and we began building the first new council houses in Islington for a generation.
- With excellent market timing we raised a record £100 million from (mainly) commercial property sales in order to re-invest in new schools, housing, and regeneration projects.
- We approved the most comprehensive three-year capital programme in the borough's history, which will bring investment of £548 million over the next three years. Parks and highways will see unprecedented levels of spending, and the complete rebuilding of leisure centres will leave an impressive Olympic legacy.
- We kept our promises to residents on Council Tax, once again ensuring Islington's bills are below the London average. Furthermore 40,000 local taxpayers benefited from our unique £20 discount as a 'thank you' for paying by Direct Debit.
- We improved our Council Tax collection rate again, to a best-ever 94.7 per cent within the financial year. We also achieved £8 million of efficiency savings without impacting on frontline services. Tight control of revenue spending helped us to bring in a small surplus against budget for the year.

We were pleased that during the year the Audit Commission upgraded our Use of Resources assessment from level 2 to level 3, reflecting the progress we have made in delivering value for money for residents.

All this was achieved in a climate when the economy began to slow, and government grant settlements stayed below the level of inflation.

With a deteriorating economy, rising energy costs and further reductions in government grant, all councils in London face difficult times ahead. However I am confident that the reserves we have put aside in better times will help Islington meet those challenges.

Councillor Andrew Cornwell
30 June 2008

Introduction by the Director of Finance

I have great pleasure in presenting the Statement of Accounts for the year ended 31st March 2008. These accounts give a high level overview of the Council's finances and explain what we have done differently this year to improve the flow of information to all our stakeholders.

Basis of these accounts

In compiling these Accounts the Council is required to follow a common format called the Statement of Recommended Practice, otherwise known as the 'SORP'. This enables readers across all local authorities to follow local differences in spending on a comparable basis.

Overview of the Council's finances

The Council spent over one billion pounds last year. 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 Income and Expenditure Account, on the line called 'Net Operating Expenditure', you will see that the gross cost of these services was £1.123bn, and in the Note on Capital Expenditure, you will see that we spent £168m 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 (over £700m) whilst locally for residents their contribution is in the form of Council Tax. In 2007/08 this contribution amounted to £76m. This income resulted in a surplus of approximately £4m (£0.9m General Fund, £3.3m schools) for the year. Financing our investments was new borrowing by the Council of £47m, Grants and other External Contributions amounted to £45m, contributions from the sale of Council Assets totalled £55m and the balance of £21m came from revenue sources such as from Council Tax.

In the Balance Sheet, you will see that, at year-end, the Council had net assets of over £2 billion. The vast majority of this was made up of Fixed Assets, most notably Council Housing and Other Land and Buildings such as schools and administrative buildings.

Feedback and Public Inspection of the Accounts

We would welcome any feedback or comments you may have on the accounts or the presentation of them. In addition, as advertised, the annual public inspection of accounts runs from the 1st of July to the 28th of July.

Mike Curtis
Director of Finance
24th June 2008

Annual Governance Statement

1. Scope of responsibility

- 1.1 Islington Council is responsible for ensuring that its 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. It also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.
- 1.2 In discharging this overall responsibility, Islington is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, which includes arrangements for the management of risk.
- 1.3 In 2007 the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Authority Chief Executives (SOLACE) published "Delivering Good Governance in Local Government: Framework". Following this, the Corporate Governance Group was tasked with drafting Islington's code of governance consistent with the CIPFA/SOLACE Framework. At the time of drafting this Annual Governance Statement (AGS), the draft code of governance is out for consultation with Group members and colleagues. The Code will be finalised and approved by Members during 2008/09 and then made available on the Council's website.
- 1.4 This statement explains how the Council has complied with the requirements expected to be set out in a Local Code of Governance and also meets the requirements of regulation 4(2) of the Accounts and Audit Regulations 2003 as amended by the Accounts and Audit (Amendment) (England) Regulations 2006 in relation to the publication of a statement on internal control.

2. The purpose of the governance framework

- 2.1 The governance framework comprises the systems and processes, and culture and values, by which the authority is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost effective services.
- 2.2 The system of internal control is a significant part of that framework and is designed to manage risks to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of Islington's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.
- 2.3 The governance framework has been in place at Islington for the year ended 31 March 2008 and up to the date of approval of the annual report and statement of accounts.

3. The governance framework

- 3.1 The key elements of Islington's systems and processes that comprise its governance arrangements are as follows:
 - 3.2 **Identifying and communicating the authority's vision of its purpose and intended outcomes for citizens and service users**
 - 3.2.1 Islington's vision was set out in its Corporate Plan 2006-2009, 'One Islington', which states that the Council and its key partners will achieve 'One Islington' by working with residents and businesses to improve public services, the environment and people's health and wellbeing.
 - 3.2.2 It is further developed in the Corporate Strategy, Service and Financial Plan 2007- 10 which states that the Council's overriding aspiration for this period is to achieve excellence in the eyes

of key stakeholders, residents, customers, local businesses and partners. The council aims to achieve this by:

- *Listening to Islington*
We will do even more to consult residents on their views and needs and act on what we hear so that local people have a greater say over what happens in their area.
- *Stronger communities*
Working with the community and partners, we will continue to work to improve the quality of life of all residents and reduce the gap between the most and least deprived. We will actively support minority or disadvantaged groups and take strong steps to ensure that everyone has the chance to make the most of what Islington has to offer.
- *A greener, cleaner and safer borough*
Working with residents, businesses and partners we will take practical action to minimize harmful impacts on the environment and reduce crime and the fear of crime in order to create a greener, cleaner and safer place to live and work now and for future generations.

3.2.3 Islington's priorities are communicated to its citizens and stakeholders in newsletters, on the Council's website and in Council offices. The Residents' Council Tax booklets include information on residents' priorities from the previous and current year and what is being done to achieve them.

3.2.4 Partnerships formed under the Local Area Agreement are underpinned by a common vision and the shared objectives of the partners contribute to the objectives and priorities of the Council. These are embodied in the Sustainable Community Strategy published in 2008. Progress by the strategic partnership is reported to and monitored by the Islington Strategic Partnership Executive quarterly.

3.2.5 The Council produces an annual report which provides an overview of its vision, strategy and plans and how it is performing in its endeavour to achieve them.

3.3 Reviewing the authority's vision and its implications for the authority's governance arrangements

3.3.1 The authority's vision for the local area was last reviewed following the 2006 council elections, when new priorities were set out for Islington. Changes in governance arrangements, when required, are made by the Council to facilitate the achievement of its priorities.

3.4 Measuring the quality of service for users, for ensuring they are delivered in accordance with the authority's objectives and for ensuring that they represent the best use of resources

3.4.1 Islington has a comprehensive performance management system in place. Service, financial and corporate planning processes are linked to ensure that financial aspirations are appropriately based on service commitments and objectives, for the coming year and in the medium-term. Additionally, Directorates report monthly on their key financial, risk and value for money indicators.

3.4.2 The quality of service provided is also regularly monitored with Area Committees maintaining strong links with local communities. Islington also has a complaints process whereby all complaints received are recorded and addressed.

3.4.3 The Audit Commission (Annual Audit and Inspection Letter, March 2007) states that the Council is improving well and has been assessed as a 'three star' authority under the CPA framework. The Council was rated 3 out of 4 for its use of resources, an increase from a rating of 2 out of 4 in 2006.

3.5 Defining and documenting the roles and responsibilities of the executive, non executive, scrutiny and officer functions, with clear delegation arrangements and protocols for effective communication

- 3.5.1 The roles and responsibilities of the executive, non executive, scrutiny and officer functions are clearly stated in the Council's Constitution which was last updated in May 2008. The Council has prepared a regulatory framework in which these responsibilities are also set out.
- 3.5.2 The Executive has overall responsibility for Islington's good governance and all matters reserved for its decision are set out in the Constitution, as are the responsibilities of council committees, the Head of Paid Services, the Monitoring Officer and the Section 151 Officer and other officers. The Constitution also includes the Council's Financial Regulations and procedural rules, which are regularly updated.
- 3.5.3 Changes to the roles and responsibilities of the executive, non executive, scrutiny and officer functions are subject to regular review. Bespoke training workshops or briefings are designed, as appropriate, to communicate these changes.

3.6 Developing, communicating and embedding codes of conduct, defining the standards of behaviour for members and staff

- 3.6.1 High standards of conduct and behaviour are expected in all aspects of Islington's work, including working with partnerships. Human Resource policies and Codes of Conduct promote high standards of behaviour and are re-enforced by appropriate training programmes. Member and officer Codes of Conduct set out the expectations the Council has of its Members and officers and this contributes to setting and maintaining the culture of the authority.
- 3.6.2 Part 5 of the Constitution contains the Member Code of Conduct was adopted by full Council in May 2007; it includes the Protocol on Member/Officers Relations. Members have received training on the new Code of Conduct. Additionally, all officers who advise members directly have received training on the new Code.
- 3.6.3 The Standards Committee is responsible for monitoring the Code and for ensuring that Members exercise leadership in line with it. The Monitoring Officer is responsible for contributing to the promotion and maintenance of high standards of conduct by providing support to the Standards Committee.
- 3.6.4 The Council also operates a robust anti-fraud function and whistle blowing hotline. All complaints raised via this forum are thoroughly investigated.

3.7 Reviewing and updating standing orders, standing financial instructions, a scheme of delegation and supporting procedural notes/manuals, which clearly define how decision are taken and the processes and controls required to manage risks

- 3.7.1 The Monitoring Officer and Section 151 Officer have overall responsibility for ensuring standing orders, standing financial instructions, the scheme of delegation and supporting material are up to date and clearly communicated.
- 3.7.2 Written contract standing orders are set out in the Procurement Rules, which are included in the Constitution and available on the Council's internet site. When the Rules are updated staff are made aware of any changes through internal briefings.
- 3.7.3 The Constitution also includes the Council's Financial Regulations which are reviewed, regularly updated and approved by the Council.
- 3.7.4 Decision making responsibilities are incorporated in the Procurement Rules and Financial Regulations, both of which are designed to minimise risk to the Council.

3.8 Undertaking the core functions of an audit committee, as identified in CIPFA's Audit Committees – Practical Guidance for Local Authorities

- 3.8.1 The terms of reference of the Corporate Services Committee are included in the Constitution and include, what are widely considered, core functions of an audit committee. It receives reports from Internal Audit, the external auditors and risk related reports. We are confident that it operates in accordance with CIPFA's guidance.
- 3.8.2 At the time of drafting this statement, it is anticipated that the Council will re-designate the Corporate Services Committee as its audit committee with effect from September 2008. This will also include broadening the terms of reference and the introduction of independent members to add greater professional expertise.

3.9 Ensuring compliance with relevant laws and regulations, internal policies and procedures and that expenditure is lawful

- 3.9.1 All reports to committees must contain legal, financial and equality implications.
- 3.9.2 The annual Internal Audit plan is risk based and is developed to provide assurance regarding compliance with relevant laws, regulations, internal policies and procedures.
- 3.9.3 Chief Officers are responsible for ensuring their staff operate lawfully and Human Resource policies and the Code of Conduct promote high standards of behaviour and are re-enforced by appropriate training programmes.
- 3.9.4 All internal and external audit reports are available to the Corporate Services Committee. The Counter fraud policy was approved by the Corporate Services Committee and Corporate Management Board. It was initially developed and approved in 2006 and has been updated and approved during 2007.
- 3.9.5 The Council is actively involved in the National Fraud Initiative (NFI), a data matching exercise which cross matches data from a number of participating authorities to identify inaccuracies in data or potential fraud. Various categories of data were included in the exercise during 2007/08, which has resulted in over £300,000 being recovered from housing benefit claimants and nine successful prosecutions. It has also highlighted three cases of pension over-payment, which are currently being pursued.
- 3.9.6 The Council has not had a Public Interest report in recent years.

3.10 Whistle blowing and receiving and investigating complaints from the public

- 3.10.1 Islington has a whistle blowing policy which was widely publicised when launched and is available on the Council's intranet. The Council has ensured the whistle blowing policy is user-focused, encouraging potential whistle-blowers to step forward. This policy is also provided to contractors.
- 3.10.2 The policy provides contact details for individuals internal to the organisation and bodies external to the organisation through which concerned staff and stakeholders can 'blow the whistle'. A free national telephone line provided by 'Public Concern at Work' is available to all staff from which they can get access to free legal advice on whistle blowing matters. The Standards Committee receive quarterly reports on ethical indicators that include whistle blowing activities
- 3.10.3 Islington has a formal process for receiving and handling complaints from the public. All complaints made are recorded and monitored and reported both departmentally and corporately. Complaints statistics are analysed, used to improve service delivery and regularly reported to the Executive. The Standards Committee is responsible for Islington's complaints procedures and receives regular reports on complaints.

3.11 Identifying the development needs of members and senior officers in relation to their strategic roles, supported by appropriate training

- 3.11.1 Islington is committed to the ongoing development of Members and officers. Members are surveyed annually to decide their training needs that Members' Services agrees with each party Chief Whip. There is an ongoing programme of relevant training available to Members as well as mentoring opportunities.
- 3.11.2 Officers attend corporate induction when they join Islington, after which directorate or role specific training is provided as appropriate. There is an annual appraisal process which may be used to identify training needs and officers have individual learning plans which are logged on their personal profile on the intranet.
- 3.11.3 Additionally, the Executive, Corporate Management Board and both political groups have facilitated 'away days' each year which help them to improve their performance collectively.

3.12 Establishing clear channels of communication with all sections of the community and other stakeholders, ensuring accountability and encouraging open consultation

- 3.12.1 The Council's vision of 'One Islington' is founded on the principle of working with its stakeholders and partners. Islington has a Local Area Agreement with many local partners which represent all sections of the community. Area Committees were established to bring the Council closer to each individual area within the borough and public consultations are specifically designed to reach all sections of the community, including those groups considered 'hard to reach'.
- 3.12.2 Islington has a dedicated, professional consultation team, responsible for co-ordinating and supporting consultation and research. There is a 'Citizens Panel', made up of 920 residents aged 16 and above, who have agreed to be consulted by Islington Strategic Partnership about issues and services that affect their lives. It was originally set up in September 2003 and was refreshed in 2005.
- 3.12.3 Over 2,200 people responded to the council's consultation on the budget for 2007-08. Different consultation methods were used, including a face-to-face survey of 1,017 people, questionnaires in the residents' magazine and in-depth interviews with 20 local businesses. A consultation strategy that will set out a clear set of principles and standards to deliver consistent and joined up consultation is currently being developed.

3.13 Incorporating good governance arrangements in respect of partnerships and other group working as identified by the Audit Commission's report Governing Partnerships: Bridging the Accountability Gap, and reflecting these in the Council's overall governance arrangements

- 3.13.1 The Council works closely with its partners through Islington Strategic Partnership, ensuring the priorities of the strategic partnership are aligned with corporate priorities and objectives. During 2007/08 Islington Strategic Partnership (ISP) developed a strategic risk register, which is monitored and updated at partnership meetings. Lead Council Officers are responsible for ensuring risks are appropriately controlled and mitigated, working with their partnership colleagues.
- 3.13.2 The Audit Commission's Corporate Assessment Report (March 2007) found that the Council is innovative in the use of partnerships to deliver community priorities, thus delivering improvements to people's lives. The report also identified the ongoing work to address capacity issues amongst its voluntary sector partners as well as ensuring that ISP's decision making processes are understood and transparent. Overall, managing performance with partners was found to be good, and the process for overseeing achievement of the objectives detailed within the Local Area Agreement was considered clear. Recommendations arising from the report are being addressed.

4. Review of effectiveness

4.1 Islington is required to conduct, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of committees and management who have responsibility for the development and maintenance of the governance environment, the Assistant Director of Finance (ADF) Audit & Risk's annual report, and by work undertaken by the external auditors and other review agencies and inspectorates.

4.2 Throughout 2007/08 the following activities contributed to the Council's review of its governance framework:

Review of governance arrangements

The Council reviewed its governance arrangements against the requirements of the CIPFA/SOLACE Governance Framework and found that its arrangements are largely aligned with its principles and requirements. The small gaps that exist are reflected in this Statement.

Review and update of the Constitution

The Constitution is reviewed and updated at least annually to reflect changes in governance arrangements, such as functioning of a committee or changes in the Financial Procedures.

Review of the effectiveness of Internal Audit by the ADF (Audit & Risk)

Each year the effectiveness of the Internal Audit function is reviewed. For 2007/08, its effectiveness was assessed by:

- achieving delivery of the audit plan: the CIPFA recommended target is 90%; actual delivery for 2007/08 was 98%.
- Implementing Internal Audit recommendations: the CIPFA recommended performance indicator is that 90% of agreed internal audit recommendations are implemented; Islington has exceeded this with 97%.
- CIPFA survey: the survey sought responses from audit clients on their satisfaction with the audit service they receive on a scale of poor (1) to excellent (6). The Council's audit clients assessed the service they receive as good (4).
- Peer review: A reciprocal peer review carried out by the LB Camden identified significant progress in improving quality of the service being delivered.

4.3 We have been advised on the results of the above reviews, in which no significant governance issues were identified. Plans are in place to address weaknesses and ensure continuous improvements of the system.

4.4 Overall, there are no significant weaknesses in the system of internal control; controls are generally in place and operating effectively.

5. Significant governance issues

5.1 From our planning for 2008/09 and work in 2007/08, we are tracking Islington's key risks and governance issues. We do not believe that the council has significance governance issues, but recognise that it needs to further improve its governance arrangements in relation to:

5.2 Embedding of risk management throughout the Council
Islington has made considerable progress in embedding risk management in recent years. All departmental management teams are now required to review their risk registers each month and risk information is now included in the monthly performance monitoring letter considered by the Monthly Performance Panel. The Council will continue to make this a priority. An electronic risk management training package is being evaluated with a view to purchasing an appropriate product in 2008/09.

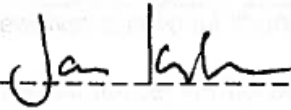
5.3 Partnership governance arrangements
High priority recommendations following a review of Islington's partnership arrangements are currently being implemented and include reviewing the voluntary sector COMPACT and developing protocols to have projects exit strategies.

5.4 Financial Reporting

Following some critical comments from the Audit Commission about the quality of the draft accounts and some of the working papers, the council has put in place a robust improvement plan. Progress of the plan has been monitored closely by senior management and the Corporate Services Committee.

5.5 We propose over the coming year to address the above matters to further enhance our governance arrangements. We are satisfied that the steps outlined above will address our significant governance issues and the need for improvements that were identified in our review of effectiveness. Their implementation and operation will be monitored as part of the next annual review.

Signatures

Signed by  Date 3/7/08
Leader Date

Signed by  Date 3/7/08
Chief Executive Date

Independent auditor's report to the Members of the Islington London Borough Council Opinion on the accounting statements

I have audited the Authority and Group accounting statements, pension fund accounts and related notes of the Islington London Borough Council for the year ended 31 March 2008 under the Audit Commission Act 1998. The Authority and Group accounting statements comprise the Authority and Group Income and Expenditure Account, the Authority Statement of the Movement on the General Fund Balance, the Authority and Group Balance Sheet, the Authority and Group Statement of Total Recognised Gains and Losses, the Authority and Group Cash Flow Statement, the Housing Revenue Account, the Collection Fund and the related notes. The pension fund accounts comprise the Fund Account, the Net Assets Statement and the related notes. The Authority and Group accounting statements and pension fund accounts have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of the Authority in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 36 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission.

Respective responsibilities of the Director of Finance and auditor

The Director of Finance's responsibilities for preparing the financial statements, including the pension fund accounts, in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007 are set out in the Statement of Responsibilities for the Statement of Accounts.

My responsibility is to audit the Authority and Group accounting statements, pension fund accounts and related notes in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the Authority and Group accounting statements and the pension fund accounts present fairly, in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007:

- the financial position of the Authority and its income and expenditure for the year;
- the financial position of the Group and its income and expenditure for the year; and
- the financial transactions of the pension fund during the year and the amount and disposition of the fund's assets and liabilities, other than liabilities to pay pensions and other benefits after the end of the scheme year.

I review whether the governance statement reflects compliance with 'Delivering Good Governance in Local Government: A Framework' published by CIPFA/SOLACE in June 2007. I report if it does not comply with proper practices specified by CIPFA/SOLACE or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered, whether the governance statement covers all risks and controls. Neither am I required to form an opinion on the effectiveness of the Authority's corporate governance procedures or its risk and control procedures

I read other information published with the Authority and Group accounting statements, pension fund accounts and related notes and consider whether it is consistent with the audited Authority and Group accounting statements. This other information comprises the Explanatory Foreword. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the Authority accounting statements, pension fund accounts and related notes. My responsibilities do not extend to any other information.

Basis of audit opinion

I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Authority and Group accounting statements, pension fund accounts and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the Authority and Group accounting statements, pension fund accounts and related notes, and of whether the accounting policies are appropriate to the Authority's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the Authority accounting statements, pension fund accounts and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the Authority and Group accounting statements, pension fund accounts and related notes.

Opinion

In my opinion:

- the Authority financial statements present fairly, in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007, the financial position of the Authority as at 31 March 2008 and its income and expenditure for the year then ended;
- the Group financial statements present fairly, in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007, the financial position of the Group as at 31 March 2008 and its income and expenditure for the year then ended; and
- the pension fund accounts and related notes present fairly, in accordance with the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007, the financial transactions of the Pension Fund during the year ended 31 March 2008, and the amount and disposition of the fund's assets and liabilities as at 31 March 2008, other than liabilities to pay pensions and other benefits after the end of the scheme year.
- Conclusion on arrangements for securing economy, efficiency and effectiveness in the use of resources

Authority's responsibilities

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

Auditor's responsibilities

I am required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Authority for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion in relation to proper arrangements, having regard to relevant criteria specified by the Audit Commission for principal local authorities. I report if significant matters have come to my attention which prevent me from concluding that the Authority has made such proper arrangements. I am not required to consider, nor have I considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Conclusion

I have undertaken my audit in accordance with the Code of Audit Practice and having regard to the criteria for principal local authorities specified by the Audit Commission and published in December 2006, I am satisfied that, in all significant respects, the Authority made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2008.

Best Value Performance Plan

I have issued our statutory report on the audit of the authority's best value performance plan for the financial year 2007/08 on 20 December 2007. I did not identify any matters to be reported to the authority and did not make any recommendations on procedures in relation to the plan.

- **Certificate**

I have carried out the audit of the accounts in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission. However, the audit cannot be formally concluded, and an audit certificate issued, until I have resolved issues arising from correspondence with the public relating to prior years. I am satisfied that the amounts involved will not have a material effect on the statement of accounts.

Independent auditor's report to Members of Islington Council

Issue of audit opinion

In my audit report for the year ended 31 March 2008 issued on 30 September 2008 I reported that, in my opinion, the financial statements presented fairly, in accordance with the Statement of recommended practices on Local Authority Accounting in the United Kingdom 2007, the financial position of the Council and its Group as at 31 March 2008 and its income and expenditure for the year then ended.

Issue of conclusion

As stated in my audit report for the year ended 31 March 2008 issued on 30 September 2008, I report that in my opinion, in all significant respects, Islington Council made proper arrangement to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2008.

Certificate

In my audit report dated 30 September 2008, I explained that the audit could not be formally concluded on that date until consideration of matters brought to my attention by local authority electors relating to prior years had been completed. These matters have now been concluded. No other matters have come to my attention since that date that would have a material impact on the financial statement on which I gave an unqualified opinion and value for money conclusion.

I certify I have completed the audit of the statement of accounts in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.



Andrea White

District Auditor

Audit Commission

First Floor, Millbank Tower
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SW1P 4HQ

22 December 2009

Explanatory Foreword to the Statement of Accounts and Summary of the Council's Financial Performance in the Financial Year 2007/08

This foreword provides an explanation, in overall terms, of the council's financial position and will assist in the interpretation of the accounting statements. It is not the purpose of this foreword to comment on the policies of the Council, rather to explain the financial facts.

Explanation of the format of the statements within these accounts

This Statement of Accounts comprises:

- an Explanatory Foreword
- a Statement of Accounting Policies setting out policies adopted for the preparation of the accounts
- a Statement of Responsibilities for the Statement of Accounts
- Accounting Statements
- Notes to the Accounts (including pension disclosures).

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

The Core Financial Statements comprise

- Income and Expenditure Account – a summary of the resources generated and consumed by the council in the year
- Statement of the Movement on the General Fund Balance – summarises the movement on the General Fund balance by adding to and deducting from to the income and expenditure items required by statute
- Statement of Total Recognised Gains and Losses (STRGL) – shows the total movement in the Council's funds and reserves for the year
- Balance Sheet - highlights the Council's financial position as at 31st March 2008, in particular what we own versus what we owe
- Cash Flow Statement - illustrates the Council's total cash transactions in the financial year, split between revenue (day to day) expenditure, capital (long term investment in assets) expenditure and financing (how we pay for the expenditure) transactions.

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 Group Accounts comprise:

- Group Income and Expenditure Account - a summary of the resources generated and consumed by the Council and Homes for Islington (HFI) in the year
- Reconciliation of the Single Entity Income and Expenditure Account Surplus or Deficit – splits the group income and expenditure deficit between the Council and HFI
- Group Statement of Total Recognised Gains and Losses - shows the total movement in the group (the Council and HFI) funds and reserves for the year
- Group Balance Sheet - shows the Group's financial position as at 31st March 2008
- Group Cash Flow Statement - illustrates the Group's total cash transactions in the financial year, split between revenue (day to day) expenditure, capital (long term investment in assets) expenditure and financing (how we pay for the expenditure) transactions.

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

- Fund Account - a summary of the resources generated and consumed by the fund in the year; and
- Net Assets Statement - shows the fund's financial position as at 31st March 2008.

Significant changes in accounting policies

The 2007 SORP introduced a number of significant changes to local authority accounting, the most significant being the Revaluation Reserve and Financial Instruments. The Revaluation Reserve replaces the old Fixed Asset Restatement Account. The Revaluation Reserve is UK GAAP compliant and only records the gains the Council has achieved in the value of its assets over time. To do this the Council is required to maintain comprehensive asset records including historic and current values. For implementation purposes the SORP allowed councils to use the asset values at 31 March 2007 as its historic values and all revaluations will be measured against those values. Implementation of this new requirement has involved significant officer time and will require enhancements to the Council's financial systems. The other significant change introduced by the SORP has been the incorporation of FRS 25 and FRS 26 (Financial instruments). The SORP requires the Council to record and account for its financial assets and liabilities in line with UK GAAP. This again has involved significant work and the changes as a result of this are summarised in the accounts under note 2 'Prior Period Adjustments'.

Budget 2007/08

On 27 February 2007, the Council set a budget requirement of £223.061m. This resulted in a basic amount of band D Council Tax of £915.52 (£901.99 in 2006/07) and a total amount of band D Council Tax (including GLA) of £1,219.40 (£1,190.60 in 2006/07).

General Fund Outturn 2007/08

At the end of the year, the Council spent £0.9m less than its budget, resulting in working balances of £11.7m following the transfer of £3m to the Climate Change Fund. The Council's schools spent £3.3m less than the budget during the year, leaving schools' balances at £7.6m.

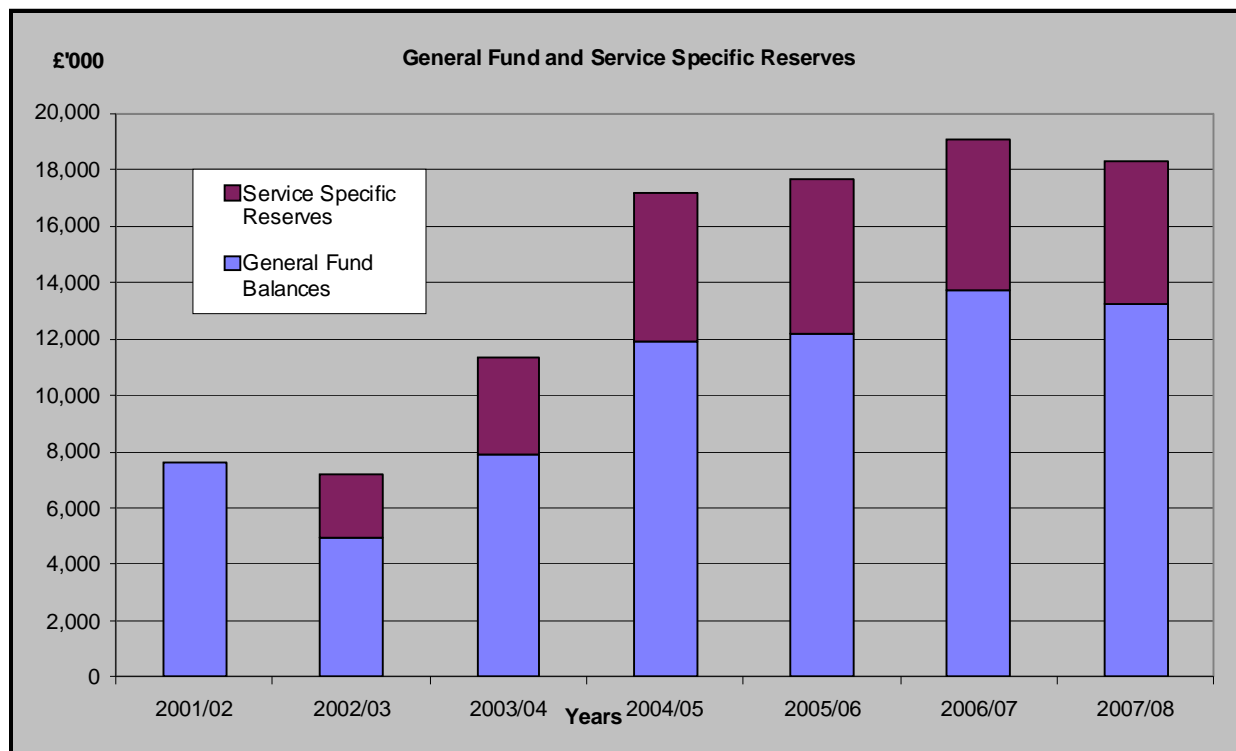
The main variances from the budget were: additional investment interest of £2.3m resulting from the receipt of £69m for the sale of a large part of the commercial property portfolio; a balance of £1.6m remaining unallocated from the contingency budget; and a £0.6m underspend on parking as a result of reduced contract costs and an improvement in the recovery rate on parking control notices. As a result of these variances a contribution of £3.9m into a levies reserve was agreed to assist in funding the anticipated above inflation increase in levies in future years.

A comparison between departmental revenue outturn and budget is given below. The resulting net outturn is analysed over General Fund services.

Service	Gross Expenditure	Gross Income	Net Outturn	Net Budget	Over/(Under spend)
	£000	£000	£000	£000	£000
Frontline Services					
Children's Services	166,626	(198,426)	(31,800)	(31,922)	122
Environment and Regeneration	118,767	(64,094)	54,673	54,678	(5)
Housing & Adult Social Services	163,077	(83,860)	79,217	79,239	(22)
Central Services					
Corporate Services	25,804	(22,336)	3,468	3,461	7
Customer Focus	43,673	(41,274)	2,399	2,925	(526)
Finance	215,869	(216,400)	(531)	(483)	(48)
Central Items	78,960	(74,879)	4,081	4,484	(403)
Total General Fund	812,776	(701,269)	111,507	112,382	(875)
Schools' underspend for the year	147,822	(40,474)	107,348	110,679	(3,330)

Balances

To achieve its ambitions the Council recognises that it has to improve its financial strength and resilience. As part of its medium term financial strategy, the Council aims to maintain the General Fund balances to 5% of the budget requirement over the medium term. At 31 March 2007 balances totalled £13.8m. The Council agreed in setting the 2007/08 budget to transfer £3m from working balances into a Climate Change Fund to support capital projects that would reduce CO2 emissions in Islington. The position at the 31 March 2008, following the General Fund underspend for the year of £875,000, is that General Fund balances (excluding schools) now total £11.7m, achieving the 5% medium term financial strategy objective.



Housing Revenue Account

The Housing Revenue Account (HRA), which has to be kept as a separate account for all the expenses and income relating to Council housing, had a surplus for the year of £0.7m against a gross income of £204m. The HRA reserve as a consequence is now £8.7m (£8.1m in 2006/07).

Significant changes since last year's accounts

Prudential Borrowing

Under the prudential regime, which came into effect on 1 April 2004, the government introduced Supported Capital Expenditure (SCE) allocations to help fund capital expenditure. In addition, the government has given local authorities the power to borrow additional sums to fund capital expenditure, as long as that borrowing is within prudential limits that the council has set to ensure that the borrowing can be affordable, sustainable and prudent. Prudential borrowing made by the council does not attract government support and the cost of that borrowing would fall on the appropriate revenue account (General Fund or HRA). In 2007/08 the Council did not undertake any unsupported borrowing. In 2006/07 the Council undertook unsupported borrowing of £11.9m.

Climate Change Fund

On 27 February 2007 the Council agreed to establish a Climate Change Fund to provide funding for capital projects which would reduce CO2 emissions in Islington. The projects to be funded will achieve significant reductions in carbon emissions either through the generation of renewable energy or through transport projects. The fund was established by transferring £3m from the Council's working balances which at that time were in excess of the Council's medium term financial strategy target level of 5%.

Looking Ahead

Building Schools for the Future

The Building Schools for the Future programme will enable the complete rebuilding or substantial refurbishment of all secondary schools in the borough and will be a major regenerative force in Islington over the next five to ten years.

Council tax and Budget 2008/09

The Council, on 28 February 2008, set a budget requirement of £233.542m for 2007/08. This resulted in a basic amount of band D Council Tax of £938.41 and a total amount of band D Council Tax (including GLA) of £1,248.23.

Capital Expenditure and Funding

Capital expenditure on the provision of new or enhanced assets is largely met from borrowing, capital receipts, government grants and contributions from third parties.

Capital expenditure for the year totalled £168.4m compared with £178.0m in 2006-07. This expenditure was financed by borrowing (£46.5m), grants (£15.6m), major repairs reserve (£21.0m) other third party contributions (£8.4m), revenue (£21.4m) and capital receipts (£55.1m).

Capital expenditure included the following:

Description	£m
Council housing stock	99.7
New Schools, refurbishments and extensions	23.9
Transportation infrastructure and highways, including local safety and street security	17.2
Enhancing and increasing Greenspace	3.7
Social services	5.0

The Council's capital budget continues to be reliant on the generation of significant capital receipts to fund the investment plans. In 2007-08 significant capital receipts were received, including £69m from the sale of a large part of the commercial property portfolio.

The capital budget, set by the Council in February 2008, plans to spend almost £550m from 2008-09 to 2010-11 on delivering vital service improvements and significantly contributing to the regeneration of the borough, including investment in schools (including the Building Schools for the Future programme), new Council housing, and improvements to the existing council housing stock, highways, greenspace and leisure facilities.

In excess of 40% of this investment will be funded from capital receipts from the disposal of the remaining commercial property portfolio, rationalisation of the office portfolio, and sales of other surplus assets. In addition there will be additional prudential borrowing and contributions from the Housing Revenue Account and General Fund revenue budgets to support the capital programme.

Statement of Accounting Policies

1. General Principles

The Statement of Accounts summarises the Council's transactions for the 2007/08 financial year and its position at the year-end of 31 March 2008. This statement has been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom 2007: A Statement of Recommended Practice* (the "SORP"). The accounting convention adopted is historical cost, modified by the revaluation of certain categories of tangible fixed assets and financial assets.

2. 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:

- Fees, charges and rents due from customers or tenants are accounted for as income at the date the Council provides the relevant goods or services
- Supplies are recorded as expenditure when they are consumed – where there is a material gap between the date supplies are received and their consumption, they are carried as stocks on the balance sheet
- Works are charged as expenditure when they are completed, before which they are carried as works in progress on the balance sheet
- Interest payable on borrowings and receivable on investments is accounted for in the year to which it relates, on a basis that reflects the overall effect of the loan or investment
- Where income 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 it is doubtful that debts will be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected
- Non-HRA income and expenditure is credited and debited to the relevant service revenue account, unless they properly represent capital receipts or capital expenditure.

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

- Utility 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 threshold is £1,000 and for capital £50,000.

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

Estimation Techniques

Estimation techniques are methods adopted by the Council, where required, to arrive at estimated monetary amounts, corresponding to the measurement bases selected, for assets, liabilities, gains, losses and changes to reserves. Individual accounting policies indicate any estimation techniques used by the Council.

3. Provisions

Provisions are made where an event has taken place that gives the Council an obligation that probably requires settlement by a transfer of economic benefits, but where the timing of the transfer is uncertain. For instance, the Council could be involved in a court case that might eventually result in the making of a settlement or the payment of compensation.

Provisions are charged to the appropriate service revenue account in the year that the Council becomes aware of the obligation, based on the best estimate of the likely settlement. When payments are eventually made, they are charged to the provision set up in the balance sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes more likely than not that a transfer of economic benefits will not now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service revenue account. Where some or all of the payment required to settle a provision is expected to be met by another party (e.g. from an insurance claim), this is only recognised as income in the relevant service revenue account if it is virtually certain that reimbursement will be received if the obligation is settled.

Where a material contingent loss cannot be accurately estimated or an event is not considered sufficiently certain, it has not been included in the financial statements, but has been shown as a contingent liability in the disclosure notes. Contingent assets (possible assets that arise from past events and whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the Council's control) are not accrued for within the accounting statements.

4. Reserves

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts in the Statement of Movement on the General Fund Balance. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service revenue account in that year to score against the Net Cost of Services in the Income and Expenditure Account. The reserve is then appropriated back in the Statement of Movement on the General Fund Balance so that there is no net charge against Council Tax for that expenditure. Certain reserves are kept to manage the accounting processes for tangible fixed assets, financial assets and retirement benefits and do not represent usable resources for the Council – these reserves are explained in the relevant policies below.

5. Government Grants and Contributions (Revenue)

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as income at the date that the Council satisfies the conditions of entitlement to the grant/contribution, there is reasonable assurance that the monies will be received and the expenditure for which the grant is given has been incurred. Revenue grants are matched in service revenue accounts with the service expenditure to which they relate. Grants to cover general expenditure (e.g. Revenue Support Grant) are credited to the foot of the Income and Expenditure Account after Net Operating Expenditure.

6. Retirement Benefits

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

- The Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Children, Schools and Families (DCSF).
- 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.

Both 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 mean that liabilities for these benefits cannot be identified to the Council. The scheme is therefore accounted for as if it were a defined contributions scheme. No liability for future payments of benefits, other than those relating to discretionary pension benefits, is recognised in the balance sheet and the education service revenue account is charged with the employer's contributions payable to the scheme in the year.

The Local Government Pension Scheme

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

- The liabilities attributable to this Council of both the Islington Council and LPFA pension schemes are included in the balance sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc. and projections of earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate of 5.4% (based on the indicative rate of return on high quality corporate bonds [Sterling Corporates 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 – mid-market value
 - Unquoted Securities – professional estimate
 - Unitised Securities – average of the bid and offer rates
 - Property – market value.
- The change in the net pensions liability is analysed into seven components:
 - Current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Income and Expenditure Account to the revenue accounts of services for which the employees worked
 - Past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Net Cost of Services in the Income and Expenditure Account as part of Non Distributed Costs
 - Interest cost – the expected increase in the present value of liabilities during the year as they move one year closer to being paid – debited to Net Operating Expenditure in the Income and Expenditure Account

- Expected return on assets – the annual investment return on the fund assets attributable to the Council, based on an average of the expected long-term return – credited to Net Operating Expenditure in the Income and Expenditure Account
- Gains/losses on settlements and curtailments – the result of actions to relieve the Council of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited to the Net Cost of Services in the Income and Expenditure Account as part of Non Distributed Costs
- Actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – debited to the Statement of Total Recognised Gains and Losses
- Contributions paid to the two pension funds – cash paid as employer's contributions to the pension fund.

Statutory provisions limit the Council to raising Council Tax to cover the amounts payable by the Council to the pension funds in the year. In the Statement of Movement on the General Fund Balance this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and any amounts payable to the fund but unpaid at the year-end.

Discretionary Benefits

The Council has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to a member of staff (including teachers) are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

7. Value Added Tax (VAT)

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

8. Overheads and Support Services

The costs of overheads and support services are charged to those services that benefit from the full supply or service in accordance with the costing principles of the CIPFA *Best Value Accounting Code of Practice 2007* (BVACOP). The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core – costs relating to the Council's status as a multi-functional, democratic organisation;
- Non Distributed Costs – costs not associated with current service provision such as disused property and the cost of discretionary benefits awarded to employees retiring early.

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

9. Intangible Fixed Assets

Expenditure on assets that do not have physical substance but are identifiable and controlled by the Council (e.g. software licences) is capitalised when it will bring benefits to the Council for more than one financial year. The balance is amortised to the relevant service revenue account over the economic life of the investment to reflect the pattern of consumption of benefits.

10. Tangible Fixed Assets

Tangible fixed assets are assets that have physical substance and are held for use in the provision of services or for administrative purposes on a continuing basis.

Recognition: expenditure on the acquisition, creation or enhancement of tangible fixed assets is capitalised on an accruals basis, provided that it yields benefits to the Council and the services that it provides for more than one financial year. Expenditure that secures but does not extend the previously assessed standards of performance of an asset (e.g. repairs and maintenance) is charged to revenue as it is incurred. Expenditure below £10,000 is treated as *de minimis* and charged to revenue unless it is on existing assets when it is assumed to increase the value of the asset by the cost.

Measurement: assets are initially measured at cost, comprising all expenditure that is directly attributable to bringing the asset into working condition for its intended use. Assets are then carried in the balance sheet using the following measurement bases:

- Investment properties and assets surplus to requirements – lower of net current replacement cost or net realisable value;
- Dwellings and other land and buildings – lower of net current replacement cost or net realisable value in existing use;
- Vehicles – depreciated historical cost
- Infrastructure assets and community assets – depreciated historical cost.

Dwellings and other land and buildings, included in the balance sheet at current value, are revalued where there have been material changes in the value, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve unless they arise from the reversal of an impairment loss previously charged to a service revenue account, when they are credited to the Income and Expenditure Account.

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: the values of each category of assets and of material individual assets that are not being depreciated are reviewed at the end of each financial year for evidence of reductions in value. Where impairment is identified as part of this review or as a result of a valuation exercise, this is accounted for by:

- Where attributable to the clear consumption of economic benefits – the loss is charged to the relevant service revenue account
- Otherwise – written off against any revaluation gains attributable to the asset in the Revaluation Reserve, with any excess charged to the relevant service revenue account.

Where an impairment loss is charged to the Income and Expenditure Account but there are accumulated revaluation gains in the Revaluation Reserve for that asset, an amount up to the value of the loss is transferred from the Revaluation Reserve to the Capital Adjustment Account.

Assets Under Construction: where works will result in an asset but are not completed by the end of the financial year, the cost is charged to assets under construction which are included in the balance sheet as non-operational assets. 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 generally need to be valued in accordance with the basis relevant to that particular class of assets.

Disposals: when an asset is disposed of or decommissioned, the value of the asset in the balance sheet is written off to the Income and Expenditure Account as part of the gain or loss on disposal. If there is indication that the current value of the asset is no longer representative of the recoverable amount in an arms length transaction the current value will be reviewed prior to writing off. Receipts from disposals are credited to the Income and Expenditure Account 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). Amounts in excess of £10,000 are categorised as capital receipts. A proportion of receipts relating to housing disposals (75% for dwellings, 50% for land and other assets, net of statutory deductions and allowances) is payable to the Government. The balance of receipts is required to be credited to the Usable 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 Statement of Movement on the General Fund Balance.

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. Compensating amounts are appropriated to the Capital Adjustment Account from the Statement of Movement on the General Fund Balance.

Depreciation: depreciation is provided for on all assets with a determinable finite life (except land, investment properties and assets under construction), by allocating the value of the asset in the balance sheet over the periods expected to benefit from their use.

Deprecation is calculated on the following bases:

- Dwellings – an amount equivalent to the Major Repairs Allowance which is recognised as a reasonable estimate for housing dwellings.
- Other buildings – straight-line allocation over the life of the property.
- Vehicles, plant and equipment – a percentage of the value of each class of assets in the balance sheet. Vehicles are valued at depreciated historical cost as this is believed to be an appropriate proxy for current value. Plant and equipment are included in the balance sheet at the lower of net current replacement cost (NCRC) or net realisable value in existing use (NRV)

- Infrastructure – straight-line allocation over 25 years.

Grants and contributions: where grants and contributions are received that are identifiable to fixed assets with a finite useful life, the amounts are credited to the Government Grants Deferred Account. The balance is then written down to revenue to offset depreciation charges made for the related assets in the relevant service revenue account, in line with the depreciation policy applied to them.

11. Charges to Revenue for Fixed Assets

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

- Depreciation attributable to the assets used by the relevant service
- Impairment losses attributable to the clear consumption of economic benefits on tangible fixed assets used by the service
- Amortisation of intangible fixed assets attributable to the service.

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

12. Deferred Charges

Deferred charges represent expenditure that may be capitalised under statutory provisions but does not result in the creation of tangible assets. Deferred charges incurred during the year have been written off as expenditure to the relevant service revenue account in the year. Where the Council has determined to meet the cost of the deferred charges from existing capital resources or by borrowing, a transfer to the Capital Adjustment Account then reverses out the amounts charged in the Statement of Movement on the General Fund Balance so there is no impact on the level of Council Tax.

13. Leases

Finance Leases

The Council accounts for leases as finance leases when substantially all the risks and rewards relating to the leased property transfer to the Council. Rentals payable are apportioned between:

- A charge for the acquisition of the interest in the property (recognised as a liability in the balance sheet at the start of the lease, matched with a tangible fixed asset – the liability is written down as the rent becomes payable) and
- A finance charge (debited to Net Operating Expenditure in the Income and Expenditure Account as the rent becomes payable).

Fixed assets recognised under finance leases are accounted for using the policies applied generally to Tangible Fixed Assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life.

Operating Leases

Leases that do not meet the definition of finance leases are accounted for as operating leases. Rentals payable are charged to the relevant service revenue account on a straight-line basis over the term of the lease, generally meaning that rentals are charged when they become payable. Rentals receivable under operating leases are recorded in the relevant service revenue accounts over the term of the lease and credited to the Income and Expenditure Account.

14. Financial Liabilities

Financial liabilities are initially measured at fair value and carried at their amortised cost. Annual charges to the Income and Expenditure Account for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. For most of the borrowings that the Council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable and interest charged to the Income and Expenditure Account is the amount payable for the year in the loan agreement.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to Net Operating Expenditure in the Income and Expenditure Account 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 Income and Expenditure Account 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 Income and Expenditure Account, regulations allow the impact on the General Fund Balance to be spread over future years. The Council has a policy of spreading the gain/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 Income and Expenditure Account 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 Statement of Movement on the General Fund Balance.

15. 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 initially measured at fair value and carried at their amortised cost. Annual credits to the Income and Expenditure Account 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 interest credited to the Income and Expenditure Account 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 Income and Expenditure Account 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 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 Income and Expenditure Account to the net gain required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Statement of Movement on the General Fund Balance.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the Income and Expenditure Account.

Any gains and losses that arise on the derecognition of the asset are credited/debited to the Income and Expenditure Account.

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 Income and Expenditure Account 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 Income and Expenditure Account when it becomes receivable by the Council.

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

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

Changes in fair value are balanced by an entry in the Available-for-Sale Reserve and the gain/loss is recognised in the Statement of Total Recognised Gains and Losses (STRGL). The exception is where impairment losses have been incurred – these are debited to the Income and Expenditure Account, along with any net gain/loss for the asset accumulated in the Reserve.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the Income and Expenditure Account.

Any gains and losses that arise on the derecognition of the asset are credited/debited to the Income and Expenditure Account, along with any accumulated gains/losses previously recognised in the STRGL.

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

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

Instruments Entered Into Before 1 April 2006

The Council entered into a number of financial guarantees that are not required to be accounted for as financial instruments. These guarantees are reflected in the Statement of Accounts to the extent that provisions might be required or a contingent liability note is needed under the policies set out in paragraph 3 above.

16. Stocks

Stocks are included in the balance sheet at cost.

17. Interests in Companies and Other Entities

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

18. Private Finance Initiative (PFI)

PFI contracts are agreements to receive services, where the responsibility for making available the fixed assets needed to provide the services passes to the PFI contractor. Payments made by the Council under a contract are generally charged to revenue to reflect the value of services received in each financial year.

Prepayments

A prepayment for services receivable under the contract arises when assets are transferred to the control of the PFI contractor, usually at the start of the scheme. The difference between the value of the asset at the date of transfer and any residual value that will return to the Council at the end of the contract is treated as a contribution made to the contractor and is accounted for as a prepayment (it reduces the annual unitary charge from that which would have to be paid if the contractor had provided the asset). The prepayment is written down (charged) to the respective revenue account over the life of the contract to show the full cost and value of services received in each year. However, as the charge is a notional one, under proper practices, it is reversed out in the Statement of Movement on the General Fund Balance to remove any impact on Council Tax or housing rents.

Dowry payments, made at the start of and during the contract, which result in lower unitary payments over the life of the contract are accounted for by setting up the contribution (dowry) as a prepayment for services receivable and writing the balance down to revenue over the life of the contract as services are received to reflect their real cost.

Reversionary Interests

The Council has passed control of certain land and buildings over to the PFI contractor, but they will return to the Council at the end of the scheme. These are known as reversionary interests. An assessment has been made of the net present value that these assets will have at the end of the scheme (unenhanced) and a reversionary interest asset has been created in the Council's balance sheet. As the asset is stated initially at net present value, over the life of the scheme, the discount will need to be unwound by earmarking a (decreasing) part of the unitary payment to ensure the reversionary interest is recorded at current prices when the interests revert to the Council.

Residual Interests

Where assets created or enhanced under the PFI scheme are to pass to the Council at the end of the scheme at a cost less than fair value (including nil), an amount equal to the difference between the fair value and the payment to be made at the end of the contract is built up as a long term debtor over the

contract life by reducing the amount of the unitary payment charged to revenue, to reflect the fact that some of the unitary payment contributes to this asset.

PFI credits

Government Grants received for PFI schemes, in excess of current levels of expenditure, are carried forward as an earmarked reserve to fund future contract expenditure.

19. Local Area Agreement Grant

A local area agreement (LAA) is a three-year agreement between the Government Office (GO) for the area and a local strategic partnership (LSP) representing the local authorities, other public, private, voluntary and community interests for the area. The LAA sets out the priorities for a local area (e.g. a London Borough), in defined areas of activity. The upper-tier local authority for the area, in this case Islington Council, must act as the accountable body for the LAA.

Under an LAA many of the central government grants received by local authorities are 'pooled' in order to give greater flexibility in the use of funding. The pooled grants lose their identities and are paid as LAA Grant. The accountable body receives all the LAA Grant. The grant determination is made to the accountable body, which is responsible for the financial management of the LAA and for ensuring that robust performance management arrangements are in place. An accountable body is responsible for ensuring that appropriate mechanisms are in place to distribute and account for funding passed to other partners. It also sets the terms on which payments are made to partners but the LAA Guidance makes it clear that those terms must mirror those in the grant determination.

The Council accounts for LAA Grant in a way that reflects the substance of the terms of the LAA and the way the LAA operates in practice. The Council as the lead authority receives the grant but how the grant is allocated is outside of the control of the Council and is determined by the Islington Strategic Partnership (ISP). Only that part of LAA grant which is allocated to the Council by the ISP is accounted for as income to the Council.

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 2007. The authority's designated Chief Finance Officer (as defined by Section 151 of the Local Government Act 1972 and Section 112 of the Local Government Finance Act 1988) is the person responsible for the proper administration of the Council's financial affairs.

A) Council's Responsibilities

The Council is required to:

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

B) Chief Finance Officer's Responsibilities

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

In preparing this Statement of Accounts, the Chief Finance Officer has:

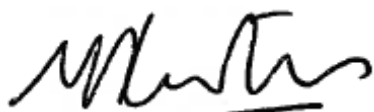
- Selected suitable accounting policies and then applied them consistently;
- Made judgements and estimates that were reasonable and prudent;
- Complied with the Code of Practice.

The Chief Finance Officer has also:

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

C) Certificate

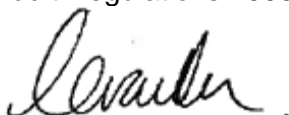
I certify that this Statement of Accounts presents fairly the financial position of Islington Council as at 31st March 2008 and income and expenditure for the year ending on that date.



Mike Curtis
Director of Finance
30th September 2008

Approval of the accounts

I certify that the draft Statement of Accounts has been approved by resolution of the Corporate Services Committee of the London Borough of Islington in accordance with the Accounts and Audit Regulations 2003 (as amended).



Councillor Laura Willoughby
Chair - Corporate Services Committee
30th June 2008

Income and Expenditure Account

This account is a summary of the resources generated and consumed by the Council in the year. It shows the Net Cost of Services – spending and charges for the main services operated by the Council – to which is added other relevant sums – such as interest and capital receipts – and, finally, how this net spending is financed by central and local taxes.

2006/07 Expenditure £'000	Income & Expenditure Account	2007/08 Expenditure £'000	2007/08 Income £'000	2007/08 Net Expenditure £'000
	<i>Frontline Services</i>			
64,005	Children's Services	300,216	(227,004)	73,212
49,943	Environment & Regeneration	103,510	(48,907)	54,603
75,715	Housing & Adult Social Services	136,828	(58,814)	78,014
	<i>Central Services</i>			
(1,840)	Corporate Services	11,451	(8,009)	3,442
6,898	Customer Focus	36,129	(34,124)	2,005
(1,329)	Finance	178,991	(180,079)	(1,088)
23,331	Central Items	34,002	(20,791)	13,211
(97,358)	Housing Revenue Account Services	206,448	(218,585)	(12,137)
119,365	Net Cost of Services	1,007,575	(796,313)	211,262
(767)	Gain or Loss on Disposal of Fixed Assets	6,250		6,250
58,804	Interest Payable & Similar Charges	55,059	(113)	54,946
15,931	Amounts payable into Housing Capital Receipts Pool	14,280		14,280
(7,272)	Interest and Investment Income		(11,650)	(11,650)
6,901	Pensions Interest Cost and Expected Return on Pensions Assets	43,669	(39,028)	4,641
192,962	Net Operating Expenditure	1,126,833	(847,104)	279,729
(73,181)	Income from the Collection Fund			(75,619)
(23,705)	General Government Grants			(21,757)
(119,926)	Distribution from non-domestic rate pool			(125,684)
(23,850)	(Surplus)/Deficit for the year			56,669

The reason for the deficit for the year is attributable to impairment charges to the HRA, refer to page 61 for further details.

Statement of Movement on the General Fund Balance

The Income and Expenditure Account shows the Council's actual financial performance for the year, measured in terms of the resources consumed and generated over the last twelve months. However, the Council is required to raise Council Tax on a different accounting basis, the main differences being:

- Capital investment is accounted for as it is financed, rather than when the fixed assets are consumed
- The payment of a share of housing capital receipts to the Government scores as a loss in the Income and Expenditure Account, but is met from the usable capital receipts balance rather than Council Tax
- Retirement benefits are charged as amounts become payable to pension funds and pensioners, rather than as future benefits are earned.

The Statement of Movement on the General Fund Balance compares the Council's spending against the Council Tax that it raised for the year, taking into account the use of reserves built up in the past and contributions to reserves earmarked for future expenditure.

2006/07 £'000	Statement of Movement on the General Fund Balance	2007/08 £'000
(23,850)	(Surplus)/Deficit for the year on the Income & Expenditure Account	56,669
<u>22,649</u>	Net additional amount required by statute and non-statutory proper practices to be debited or credited to the General Fund Balance for the year	<u>(57,873)</u>
(1,201)	Increase in General Fund Balance for the Year	(1,204)
<u>(16,920)</u>	General Fund Balance brought forward	<u>(18,121)</u>
(18,121)	General Fund Balance carried forward	(19,325)
(4,318)	Amount of General Fund Balance held by schools under local management schemes	(7,648)
<u>(13,803)</u>	Amount of General Fund Balance generally available for new expenditure	<u>(11,677)</u>
<u>(18,121)</u>		<u>(19,325)</u>

Statement of Total Recognised Gains and Losses

This account is a summary of the main elements of movement in the Council's financial activities for the year. It reconciles spending on services (Surplus/Deficit on the Income and Expenditure Account) to the Council's Balance Sheet at the year-end – movement in Net Worth.

2006/07 £'000	Statement of Total Recognised Gains and Losses	2007/08 £'000
(23,850)	(Surplus)/Deficit on the Income & Expenditure Account for the year	56,669
(15,697)	(Surplus)/Deficit arising on revaluation of Fixed Assets	(171,700)
(49,034)	Actuarial gains/losses on Pension Fund Assets and Liabilities	119,161
2,363	(Surplus)/Deficit on the Collection Fund	193
(5,475)	Other gains and losses required to be included	0
<u>(91,693)</u>		<u>4,323</u>

Balance Sheet

This account brings together all accounts that have a balance at the year-end. It also demonstrates the Council's net worth – equivalent to shareholders' equity in a company.

31 March 2007	Balance Sheet	31 March 2008	Notes
£'000		£'000	
1,487	Intangible Fixed Assets	1,825	
	Tangible Fixed Assets		
	<i>Operational Assets</i>		
1,853,386	Council Dwellings	1,864,685	
519,164	Other Land and Buildings	632,963	
2,631	Vehicles, Equipment & Plant	6,894	
91,762	Infrastructure Assets	113,515	
12,515	Community Assets	13,409	
	<i>Non-Operational Assets</i>		
54,978	Fixed Assets Under Construction	4,381	
75,696	Investment Properties	45,336	
4,747	Surplus Non-operational Assets	5,202	
2,616,366	Total Fixed assets	2,688,210	
373,960	Long Term Debtors & Prepayments	398,636	
9,548	Deferred Premiums		
2,999,874	Total Long-Term Assets	3,086,846	
	Current Assets		
368	Stock and Work-in-Progress	820	
143,501	Sundry debtors	118,656	
113,115	Investments	263,120	
3,256,858	Total Assets	3,469,442	
	Current Liabilities		
143,795	Creditors	169,775	
15,985	Short-term Borrowing	8,695	
13,870	Cash and Bank Overdrawn	16,733	
3,083,208	Total Assets Less Current Liabilities	3,274,239	
(696,043)	Long -Term Borrowing	(768,700)	
(189)	Deferred Capital Receipts	(4,165)	
(13,190)	Provisions	(14,853)	
(104,475)	Government Grants - Deferred	(108,003)	
(2,647)	Deferred Liabilities	(2,136)	
(209,029)	Liability related to defined benefit pension scheme	(332,592)	
(1,014)	Deferred Discount		
2,056,621	Total Assets Less Liabilities	2,043,790	
	Financed by:		
0	Revaluation Reserve	107,688	
2,135,809	Capital Adjustment Account	2,110,760	
0	Financial Instruments Adjustment	(5,512)	
74,196	Capital Receipts Reserve	101,004	
18,120	General Fund Balance	19,326	
(209,029)	Pensions Reserve	(332,592)	
1,494	Major Repairs Reserve	0	
28,227	Earmarked Reserves	34,992	
8,174	Housing Revenue Account	8,687	
(370)	Collection Fund	(563)	
2,056,621	Total Net Worth	2,043,790	

Cash Flow Statement

This account presents the Council's accounts purely in terms of cash movements for the financial activities for the year.

2006/07 £'000	Cash Flow Statement	2007/08 £'000
73,627	Net Revenue Activities	191,240
	Returns on Investments and Servicing of Finance	
	<i>Cash Outflows</i>	
(58,666)	Interest Paid	(59,587)
	<i>Cash Inflows</i>	
11,646	Interest Received	8,562
(47,020)	Net Servicing of Finance	(51,025)
	Capital Activities	
	<i>Cash Outflows</i>	
(145,288)	Purchase of Fixed Assets	(138,758)
(19,473)	Other Capital Cash Payments	(11,311)
0	Net Capital Grants Used	(20,814)
(2,273)	Increase in Long Term Investments	0
	<i>Cash Inflows</i>	
42,835	Sale of Fixed Assets	99,255
51,097	Capital Grants Received	0
3,648	Other Capital Cash Receipts	10,977
(69,454)	Net Capital Activities	(60,651)
(42,847)	Net Cash (Inflow) / Outflow Before Financing	79,564
	Management Of Liquid Resources	
37,140	Increase / (Decrease) in Short Term Deposits	(148,182)
	Financing	
	<i>Cash Outflows</i>	
(105,830)	Repayments of Amounts Borrowed	(13,797)
	<i>Cash Inflows</i>	
115,999	New Loans Raised	79,164
10,169	Financing Net Cash Flow	65,367
4,462	Increase / (Decrease) In Cash	(3,251)

Notes to the Accounts (including pension disclosures)

1a BVACOP analysis

The following table shows the analysis of Council spending within Net Cost Services as defined by the Best Value Accounting Code of Practice (BVACOP).

2006/07 Net Expenditure £'000	Income & Expenditure Account	2007/08 Gross Expenditure £'000	2007/08 Gross Income £'000	2007/08 Net Expenditure £'000
2,821	Central Services to the Public	34,241	(32,333)	1,908
47,396	Cultural, Environmental and Planning Services	96,382	(43,675)	52,707
2,174	Highways, Roads and Transport Services	42,623	(43,776)	(1,153)
10,699	Housing Services	187,375	(172,326)	15,049
(97,358)	Housing Revenue Account (HRA)	203,640	(218,585)	(14,945)
67,286	Adult Social Care	88,902	(24,199)	64,703
59,839	Children & Education	301,931	(240,023)	61,908
11,808	Corporate and Democratic Core	13,760	(2,929)	10,831
661	Non Distributed Costs	6,369	0	6,369
13,447	Levies	13,895	0	13,895
592	(Surpluses) / Deficits on Trading Undertakings	18,457	(18,467)	(10)
<u>119,365</u>	Net Cost of Services	<u>1,007,575</u>	<u>(796,313)</u>	<u>211,262</u>

1. Acquired and Discontinued Operations

There were no acquired or discontinued operations during 2007/08 (none also in 2006/07). These would normally arise following geographic changes to an authority's boundary or from legislation. Neither of these affected Islington Council during 2007/08. Therefore, all operations are classified as '*continuing operations*'.

2. Exceptional Items/Extraordinary items/Prior Period Adjustments

There were no Exceptional or Extraordinary Items during 2007/08. (In 2006/07, there was one extraordinary item: £8.3m arose from the land swap with Hyde Housing Association that enabled an estate to be regenerated and redeveloped.)

Two prior period adjustments have taken place in 2007/08 which have resulted in changes to the 2006/07 comparators:

1) As part of the transition to the Revaluation Reserve (RR) and Capital Adjustment Account (CAA) the FARA and CFA merge to form the CAA. The opportunity was taken by the Council to review entries posted to the FARA under the heading 'Capital Expenditure not deemed to have added value at the time'. As Housing stock is revalued each year only entries posted in 2006/07 were analysed. However as Other Land & Buildings are revalued on a five year rolling cycle these entries were analysed back to 2003/04.

The exercise has deemed that £102m relating to Housing and £28.5m relating to non Housing should be added back to the Councils Net Worth. The Housing amount of £102m has been analysed by a qualified surveyor and is deemed to have only added £26.9m of value to the balance sheet. Consequently an impairment of £75.1m has been incurred. As this impairment is not due to a clear consumption of benefits SORP 2006 required these to be debited to the FARA.

Effect: Net Worth of the Authority is increased by £55.4m (£28.5m and £26.9m).

2) Investments previously classified as Long Term Investments have been reclassified as Short Term. The Council has determined that investments managed externally are actually short term as they are 'held for trading' and have a nominal or expected maturity date of less than one year.

Effect: Nil effect on Net Worth of authority, but short term investments have increased by £68.93m and long term investments reduced by the same amount.

The restated balance sheet is shown below:

Restated Balance Sheet at 31st March 2007	Original £'000	Revised £'000
Intangible Fixed Assets	1,487	1,487
Tangible Fixed Assets		
<i>Operational Assets</i>		
Council Dwellings	1,826,436	1,853,386
Other Land and Buildings	496,336	519,164
Vehicles, Equipment & Plant	2,631	2,631
Infrastructure Assets	90,112	91,762
Community Assets	11,904	12,515
Surplus Operational Assets	0	0
<i>Non-Operational Assets</i>		
Assets Under Construction	55,002	54,978
Investment Properties	74,185	75,696
Surplus Non-operational Assets	3,089	4,747
Total Fixed assets	2,561,182	2,616,366
Long Term Debtors and prepayments	373,960	373,960
Deferred Premiums	9,548	9,548
Long Term Investments	68,930	0
Total Long-Term Assets	3,013,619	2,999,874
Current Assets		
Stock and Work-in-Progress	368	368
Sundry debtors	143,501	143,501
Investments	44,186	113,115
Total Assets	3,201,673	3,256,858
Current Liabilities		
Creditors	143,795	143,795
Short-term Borrowing	15,985	15,985
Cash and Bank Overdrawn	13,870	13,870
Total Assets Less Current Liabilities	3,028,024	3,083,208
Long -Term Borrowing	(696,043)	(696,043)
Deferred Capital Receipts	(189)	(189)
Provisions	(13,190)	(13,190)
Government Grants - Deferred	(104,475)	(104,475)
Deferred Liabilities	(2,647)	(2,647)
Deferred Discount	(1,014)	(1,014)
Liability related to defined benefit pension scheme	(209,029)	(209,029)
Total Assets Less Liabilities	2,001,437	2,056,621
Financed by:		
Fixed Asset Restatement Account	1,190,657	1,245,841
Capital Financing Account	889,968	889,968
Revaluation Reserve	0	0
Capital Adjustment Account	0	0
Financial Instruments Adjustment Account	0	0
Usable Capital Receipts	74,196	74,196
General Fund Balance	18,120	18,120
Pensions Reserve	(209,029)	(209,029)
Major Repairs Reserve	1,494	1,494
Earmarked Reserves	28,227	28,227
Housing Revenue Account	8,174	8,174
Collection Fund	(370)	(370)
Total Net Worth	2,001,437	2,056,621

3. Undischarged obligations arising from long term contracts

Private Finance Initiative Projects

The Council has entered into Private Finance Initiative (PFI) projects in respect of cleansing services, street lighting and the refurbishment and improvement of a number of Council housing properties (two projects).

Details of the schemes are as follows:

	Start Date	End Date	Total Value £ million
Cleansing	June 1998	June 2013	255
Street Lighting	June 2003	June 2028	65
Housing (1)	March 2003	March 2032	352
Housing (2)	Sept 2006	Sept 2022	477

The projected payments under the PFI agreements are as follows:

	Cleansing £ million	Street Lighting £ million	Housing (1) £ million	Housing (2) £ million
Contracted payments due within 1 year	17.396	2.067	9.284	20.896
Contracted payments due within the next 5 years	86.980	10.335	39.251	120.137
Contracted payments due after 31 March 2013	2.899	31.350	312.749	356.863

4. Profits and losses for significant trading operations

The Council operates commercial investment properties, comprising of a mixture of 236 retail, offices and workspaces situated across the Borough (469 at 31st March 2007). There are also three Council managed street markets within the Borough – at Chapel Street, Whitecross Street and Exmouth Market.

2006/07		External Trading Operations	2007/08	
(Surplus) /Deficit £'000	Turnover £'000		(Surplus) / Deficit £'000	Turnover £'000
(102)	(85)	Industrial Estates / Commercial Properties	40	(347)
87	(582)	Street Markets	(43)	(607)
<u>(14)</u>	<u>(667)</u>		<u>(3)</u>	<u>(954)</u>

5. Expenditure under Section 137, Local Government Act 1972

Section 137 of the Local Government Act 1972, as amended, empowers local authorities to make contributions to certain charitable funds, not-for-profit bodies providing a public service in the United Kingdom and mayoral appeals. During 2007/08, this Council did not incur any expenditure under this power (*None* in 2006/07).

6. Expenditure on Publicity under Section 5, Local Government Act 1986

In accordance with the requirements of Section 5(1) of the Local Government Act 1986, the Council's spending on publicity amounted to £2.06m – details of which are provided in the table below.

2006/07 £'000	Publicity Expenditure	2007/08 £'000
633	Communications Unit	822
847	Staff Advertising	598
265	Other Advertising	203
577	Publicity	441
2,322	Total Expenditure	2,064

7. Building Control Account

The Building (Local Authority Charges) Regulations 1998 require the disclosure of information regarding the setting of charges for the administration of the building control function. Islington Council sets charges for work carried out in relation to building regulations with the aim of covering all costs incurred. However, certain activities performed by the Building Control Unit cannot be charged for, such as providing general advice and liaising with other statutory authorities. The statement below shows the total cost of operating the building control unit divided between the chargeable and non-chargeable activities.

2006/07 £'000	Building Control Account	2007/08 £'000	
Total	Chargeable	Non Chargeable	Total
	Expenditure		
1,242	Employee Expenses 706	501	1,207
1	Premises 0	0	0
117	Supplies and services 5	179	184
13	Transport 2	6	8
506	Recharges 240	164	404
1,879	Total Expenditure 953	850	1,803
	Income		
(1,438)	Miscellaneous Income (890)	(387)	(1,277)
(1,438)	Total Income (890)	(387)	(1,277)
441	(Surplus) / Deficit for Year 63	463	526

8. Significant Agency Income and Expenditure

The Council has an agency agreement with Transport for London (TfL) whereby the Council undertakes some highways works on their behalf. TfL reimburses the Council for this work, including a contribution towards administrative costs. A summary of expenditure incurred in respect of the activity, which is not included in the Income and Expenditure Account, is as follows:

2006/07 £'000	Agency Income and Expenditure	2007/08 £'000
(7,088)	Highways Income	(2,523)
7,227	Highways Expenditure	1,328
139	Total	(1,195)

9. Schemes under the Transport Act 2000

This note covers the responsibility that authorities have, under Schedule 12 of the Transport Act 2000, to include, in the Statement of Accounts, details of income and expenditure in relation to road charging schemes and workplace charging levies. It does not cover any other expenditure under the Acts, such as that relating to bus schemes.

2006/07 £'000	Parking Control	2007/08 £'000
26,144	Expenditure	25,089
(32,820)	Income	(31,406)
(6,676)	Surplus	(6,317)
3,255	Concessionary Fares	0
490	Road Safety	481
607	Transport Planning	584
	Highway Improvements	
824	Parking Improvements Capital Expenditure	725
411	Highway Improvements Capital Expenditure	4,423
89	Lighting Improvements Capital Charges	104
5,676	Total expenditure defrayed from Income Parking Surplus	6,317
(1,000)	(Surplus) / Deficit	0

10. BID Schemes including BID project revenue accounts

The Council is the billing authority for one Business Improvement District (BID). The Angel BID is run by Angel BID Ltd. The Council collects a levy from business ratepayers in the area of the BID on behalf of the BID body and pays the funds to the body to carry out those services for which the BID was established. The Angel BID started on 1 April 2007 and the aim of the BID is to make the area a Safer, Cleaner and Brighter place to work, live, shop and socialise.

2006/07 £'000s	Business Improvement District	2007/08 £'000s
	Income	
0	BID levy income	(316)
0	Crime Squad contribution	(200)
0	Council voluntary contribution	(59)
0	Bid cost of collecting levy grant	(5) *
0	Other income	(73)
0	Total Income	(653)
	Expenditure	
0	Payments for crime squad services	200
0	Bid cost of collecting levy	5 *
0	Other expenditure	209
0	Total Expenditure	414
0	Surplus carried forward	(239)

* The cost of collection is borne by the council. Therefore this is treated as expenditure in the BID accounts that is financed by additional grant income from the council.

11. Local Authorities (Goods and Services) Act 1970

The Council is empowered by this Act to provide goods and services to other public bodies. The Council has a contract with the London Borough of Camden to supply a Cemetery

Management and Burial Service. Income from these services amounted to £1.798m in 2007/08 (2006/07 £1.93m) and the related expenditure was £1.882m (2006/07 £1.78m).

12. Partnership Schemes

The Council is involved with two different categories of partnership – the first, with Islington PCT and other health providers, derives from Section 31 of the Health Act 1999, and the other from an agreement with central government on a Local Area Agreement.

1) Section 31 of the Health Act 1999 and the NHS Bodies and Local Authorities Partnership Arrangements Regulations 2000 enable 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.

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 2007/08, six 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. 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.
- 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. 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.
- 5) *Mental Health Commissioning Substance Misuse Care Pooled Fund*: to improve the services received by people with substance misuse issues in the community by integrating the service delivery and commissioning arrangements between health and social care. 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.
- 6) *Mental Health Care Trust Pooled Fund*: to integrate the provision of health and social services for people with mental health needs in the London Borough of Islington. The fund will cover the provision of services for the following Client Groups: Adult MH Services Client group, Mental Healthcare of Older People Client group and Substance Misuse Services Client group. 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.

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 Income & Expenditure Account.

	Gross Expenditure £'000	Islington Council Contribution £'000	Islington PCT Contribution £'000	Whittington Hospital NHS Trust £'000	London Borough of Haringey £'000	Total Contri- butions £'000
Learning Disabilities Pooled Fund	22,497	(14,171)	(8,326)			(22,497)
Intermediate Care Pooled Fund	1,499	(987)	(461)	(31)	(20)	(1,499)
Integrated Community Equipment Services Pooled Fund	819	(622)	(197)			(819)
Commissioning Adult Mental Health Care Pooled Fund	4,478	(2,616)	(1,862)			(4,478)
Commissioning Substance Misuse Care Pooled Fund	9,055	(290)	(8,765)			(9,055)
Mental Health Care Trust Pooled Fund	25,531	(3,807)	(21,724)			(25,531)
Totals	63,879	(22,493)	(41,335)	(31)	(20)	(63,879)

2) The Islington Strategic Partnership (ISP) is a statutory body that brings together a range of partners including Islington Council, the Metropolitan Police, Islington PCT, Fire Service and various community and voluntary groups, businesses and local communities to share expertise, ideas and resources to make Islington a better place to live, work and visit. The Council is the lead body and also the accountable body. The ISP is responsible for developing and delivering the Council's Sustainable Community Strategy (SCS) – the long-term vision of what Islington will be like in 10/15 years and the issues we need to address to achieve it. The delivery plan for the SCS is the Local Area Agreement (LAA).

The Local Area Agreement (LAA) is a 3-year agreement between Central Government and the Islington Strategic Partnership. It is the delivery mechanism for the SCS and sets out the priorities for a local area.

The development process for the LAA has produced a set of medium term priorities to focus the activities of the Partnership over the next three to five years:

- improving learning and attainment
- improving health
- improving safety
- improving liveability
- improving employment and prosperity.

There is also a crosscutting priority – the creation of a stronger and more sustainable community in which all can participate.

Four 'Blocks' of funding are made available for the following areas of activity:

- Children and Young People
- Healthier Communities and Older People
- Safer and Stronger Communities
- Economic Development.

The table below sets out LAA income and expenditure for 2007-08, which is included in the Income and Expenditure Account. As the Partnership is not a legal entity, it has not been included in the Group Accounts.

Islington's Local Area Agreement 2007/08	£'000	£'000
Government Grants		
Pump Priming Grant	(310)	
Neighbourhood Renewal Fund	(8,581)	
Safer Stronger Communities Fund	(2,781)	
Children & Young People	(5,784)	(17,456)
Carryforward from 2006/07		(177)
		(17,633)
LAA Blocks		
Children & Young People	7,112	
Economic Development & Enterprise	2,220	
Healthier Communities and Older People	1,650	
Safer, Stronger Communities	6,451	17,433
Carry forward		(200)

13. Members' Allowances

The totals of Members' Allowances paid in 2007/08 amounted to £1,041,849 (£1,004,814 in 2006/07), comprising Basic Allowances of £526,961 and Special Responsibility Allowances of £514,888. Details of amounts paid to individual Councillors were published in the June 2008 edition of 'IslingtonNow' – the Council's monthly newspaper.

14. Officers' Remuneration

The number of employees whose remuneration, excluding pension contributions, was £50,000 or more, in bands of £10,000 were:

Remuneration Band	2006/07		2007/08	
	Schools	Other	Schools	Other
£50,000 - £59,999	52	48	69	63
£60,000 - £69,999	28	11	32	19
£70,000 - £79,999	15	14	17	13
£80,000 - £89,999	4	8	4	14
£90,000 - £99,999	2	2	4	6
£100,000 - £109,999	1	5	1	0
£110,000 - £119,999	1	2	1	4
£120,000 - £129,999	0	0	0	1
£130,000 - £139,999	0	1	0	0
£140,000 - £149,999	0	0	0	1
£150,000 - £159,999	0	0	0	0
£160,000 - £169,999	0	0	0	0
£170,000 - £179,999	0	0	0	0
£180,000 - £189,999	0	0	0	0
£190,000 - £199,999	0	0	0	0
£200,000 - £209,999	0	0	0	0
£210,000 - £219,999	0	0	0	1
TOTAL	103	91	128	122

15. Material transactions with related parties

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

Central government has effective control over the general operations of the Council – it is responsible for providing the statutory framework within which the Council operates, provides the majority of 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. housing benefits). Details of transactions with government departments are set out in a note relating to the Cash Flow Statement.

Members of the Council have direct control over the Council's financial and operating policies. During 2007/08, no works and services were commissioned from companies in which members had an interest.

Officers – during 2007/08, no officer declared any pecuniary interest in accordance with section 117 of the Local Government Act 1972.

Other public bodies – no disclosures required.

Pension Fund – During the financial year, the council lent the pension fund an accumulated sum of £3.45 million. The lump sum contribution of £8.74million owed to the pension fund was paid in the second half of the year and therefore the net interest accrued to the fund was £104,000.

Assisted organisations – the Council did not provide material financial assistance to any organisations that comprised more than 50% of their funding, on terms that gave the Council effective control over their operations.

Management contracts – no disclosures required.

Companies and joint ventures – the Council has substantial interests in companies and relevant transactions are disclosed in the note to the balance sheet about such interests.

Related Party Transactions

The following table lists the organisations that have significant transactions with the Council where Councillors and Senior Officers have a direct interest. The table discloses that relationship and the material payments (above £25,000) the Council has made to those organisations.

Organisation	Name of Councillor / Officer	Relationship	Payment to Organisation £'000
Homes for Islington	Cllr Richard Greening	LBI Appointment / Nomination	119,403
	Cllr Jyoti Vaja	LBI Appointment / Nomination	
	Louise Round	LBI Appointment / Nomination	
	Cllr John Gilbert	LBI Appointment / Nomination	
	Cllr Barbara Sidnell	LBI Appointment / Nomination	
Kier Islington Ltd	Cllr Terry Stacy	LBI Appointment / Nomination	45,517
ICSL Accord	Cllr George Allan	LBI Appointment / Nomination	13,315
Camden & Islington NHS Foundation Trust	Cllr George Allan	LBI Appointment / Nomination	6,851
	Cllr Emily Fieran-Reed	LBI Appointment / Nomination	
	Cllr John Gilbert	Governor	
	Cllr Martin Klute	Governor	
North London Waste Authority	Cllr George Allan	LBI Appointment / Nomination	5,818
	Cllr Lucy Watt	LBI Appointment / Nomination	
Islington Primary Care Trust	Cllr John Gilbert	LBI Nominee	4,912
	David Worlock	Wife / Director	
	Gwen Ovshinsky	General Control / Management	
City of London	Cllr John Gilbert	Partner: Elected Member	1,434
	Cllr Laura Willoughby	Partner: Corporation Board Member	
Circle Anglia	Cllr Terry Stacy	Board Member	1,241
Audit Commission	Cllr Terry Stacy	Tenant Inspection Adviser/ Inspector	779
	Cllr Laura Willoughby	Inspector	
	Cllr James Kempton	Inspector	
Cripplegate Foundation	Cllr Lucy Watt	Voluntary Management Committee	690
	Cllr John Gilbert	Voluntary Management Committee	
London Councils	Cllr James Kempton	LBI Appointment / Nomination	677
	Cllr Lucy Watt	LBI Appointment / Nomination	
	Cllr Donna Boffa	LBI Appointment / Nomination	
	Cllr John Gilbert	LBI Appointment / Nomination	
	Cllr Marisha Ray	LBI Appointment / Nomination	
	Cllr Terry Stacy	LBI Appointment / Nomination	
	Cllr Ursula Woolley	LBI Appointment / Nomination	
	Cllr Jyoti Vaja	LBI Appointment / Nomination	
	Cllr Ruth Polling	LBI Appointment / Nomination	
	Cllr Emily Fieran-Reed	LBI Appointment / Nomination	
	Cllr Tracy Ismail	LBI Appointment / Nomination	
	Cllr Laura Willoughby	Employee	

Related Party Transactions, continued:

Circle 33	Cllr Terry Stacy	Tenant & General Control / Management	650
Groundwork North London	Cllr Anna Berent	LBI Appointment / Nomination	624
	Cllr Martin Klute	LBI Appointment / Nomination	
Islington Age Concern	Cllr Mouna Hamitouche	Board Member	596
Whittington Hospital NHS Trust	Cllr Marisha Ray	General Control / Management	326
	Cllr Laura Willoughby	Relative: Board Member	
Angel Town Centre	Cllr James Kempton	LBI Appointment / Nomination	265
Lee Valley Regional Park Authority	Cllr George Allan	General Control / Management	251
Hanley Crouch Community Association	Cllr Richard Watts	General Control / Management	238
Unison	Cllr Natasha Chatterjee	Member	221
	Cllr Theresa Debono	Member	
	Cllr Barry Edwards	Member	
	Cllr Richard Greening	Member	
	David Daniels	Member	
	Rosemary Doyle	Member	
	Sean McLaughlin	Member	
	Cllr Emily Fieran-Reed	Member	
Transport for London & Transport for London Street Management	Cllr Rhodri Jamieson-Ball	Transport for London Employee	213
Whittington Park Community Association	Cllr Wally Burgess	Trustee/Board Member	192
	Cllr Janet Burgess	General Control/Management	
	Cllr Ursula Woolley	General Control/Management	
Finfuture	Cllr Barbara Sidnell	LBI Appointment / Nomination	188
St Mary Magdalene Academy	Cllr James Kempton	Governor	182
Mildmay Community Partnership	Cllr Anna Berent	Voluntary Management Committee	177
	Cllr Rhodri Jamieson-Ball	Voluntary Management Committee	
	Cllr Meral Ece	Joint Chair of the MCP Steering Group	
Islington Victim Support Scheme	Cllr Wally Burgess	Wife is a Trustee	171
	Gina Clarke	General Control	
	Cllr Janet Burgess	Trustee	
	Cllr Marisha Ray	Management Committee	

Related Party Transactions, continued:

City & Islington College	Cllr Ursula Woolley Lela Kogbara	Governor Governor/Committee Member	168
London Borough of Tower Hamlets	Cllr Emily Fieran-Reed Cllr Lisa Spall	Employee Community Safety Investigation Officer	115
Old Ford	Cllr Terry Stacy	Chair	113
Coram Family	Paul Curran	General Control/Management	110
London Authorities Mutual Limited	Mike Curtis	Board Member	100
City University	Cllr Marisha Ray	Audit Committee Member	79
Action First	Cllr Kelly Peasnell	Employee	77
Moreland Primary School	Cllr Jyoti Vaja Cllr Ruth Polling	Governor Governor	76
SCOPE	Cllr Natasha Chatterjee	Employee	69
Elizabeth Garrett Anderson School	Cllr Marisha Ray Cllr Phil Kelly	Governor	68
Peabody Trust	Cllr Lisa Spall	Employee	65
St Lukes Parochial Trust	Cllr Paul Convery Cllr Jyoti Vaja	Trustee	63
Mitford under 5 Centre	Cllr Catherine West	Chair	62
GMB	Cllr Wally Burgess Cllr Gary Doolan Cllr Jilani Chowdhury Jan Hart Mehmet Mazhar Cllr Joan Coupland Cllr Shelley Coupland	Member Member Member Member Member Member Member	53
Local Government Association	Cllr James Kempton Cllr Lucy Watt Cllr Terry Stacy Cllr Paul Convery Cllr Catherine West Cllr Richard Greening Cllr Laura Willoughby Cllr Andrew Cornwell Cllr Emily Fieran-Reed	LBI Appointment / Nomination LBI Appointment / Nomination LBI Appointment / Nomination LBI Appointment / Nomination LBI Appointment / Nomination LBI Appointment / Nomination Relative is Board Member General Control or Management General Control or Management	52
Home Connections	Sean McLaughlin	LBI Nominated Board Member	45

Related Party Transactions, continued:

Sadlers Wells	Cllr Barbara Smith	General Control / Management	37
	Cllr George Allan	General Control / Management	
Solace - Society of Local Authority Chief Executives	Helen Bailey	Board Member	32
Arsenal FC Club	Cllr Laura Willoughby	LBI Appointment / Nomination to the Steering Committee	31
	Cllr Barry Edwards	LBI Appointment / Nomination to the Steering Committee	
	Cllr Theresa Debono	LBI Appointment / Nomination to the Steering Committee	
	Cllr Terry Stacy	LBI Appointment / Nomination to the Steering Committee	
Hugh Myddleton Primary School	Cllr Marisha Ray	Governor	28
Central London Partnership	Cllr James Kempton	LBI Appointment / Nomination	26

The following table lists other bodies where the Council has material transactions that are not disclosed elsewhere within this Statement.

2006/07 £'000	Material Transactions With Other Bodies Not Disclosed Elsewhere	2007/08 £'000
2,892	Aquaterra	1,009
707	SERCO	439
25,547	Cambridge Education Associates (CEA)	22,509
<u>29,146</u>	Total Expenditure	<u>23,957</u>

The following table lists the amount of Grants paid to Voluntary Organisations.

2006/07 £'000	Grants To Voluntary Organisations	2007/08 £'000
2,173	Regeneration	1,774
2,523	Childrens' Service	2,897
3,320	Adult Social Services	3,258
4,505	Other Services	4,701
<u>12,521</u>	Total Expenditure	<u>12,630</u>

London Housing Consortium

The Council, in partnership with other councils and housing associations is involved in the London Housing Consortium (LHC). The LHC provides specialist architectural services and bulk procurement arrangements for the public sector. Further details are provided in note 57.

16. Fees payable to the Audit Commission

In 2007/08, Islington Council incurred fees relating to external audit and inspection.

2006/07 £'000	Audit Costs	2007/08 £'000
551	Fees payable to the Audit Commission with regard to external audit services carried out by the appointed auditor	564
147	Fees payable to the Audit Commission in respect of statutory inspection	27
240	Fees payable to the Audit Commission for the certification of grant claims and returns	148
10	Fees payable in respect of other services provided by the appointed auditor	0
<u>948</u>	Total Audit Cost in Year	<u>739</u>

17. Breakdown for items of proper practice

The analysis of the items included in the Statement of Movement on the General Fund Balance is shown in the table:

2006/07 £'000	Note of reconciling items for the Statement of Movement on the General Fund	2007/08 £'000
	Amounts included in the Income and Expenditure Account but required by statute to be excluded when determining the Movement on the General Fund Balance for the year	
(497)	Amortisation of intangible fixed assets	(250)
(9,701)	Depreciation of fixed assets	(15,415)
(287)	Excess of HRA depreciation over the Major Repairs Allowance	(398)
(311)	Impairment of fixed assets	(105,516)
2,098	Government Grants Deferred amortisation	19,547
379	Government Grants Deferred amortisation HRA	526
(1,776)	Write downs of deferred charges to be financed from capital resources Public Finance Initiative (PFI) arrangements	(10,969)
264	- Street Lighting	264
11,956	- PFI 1 (Housing)	6,980
10,966	- PFI 2 (Housing)	22,665
767	Net gain or loss on the sale of fixed assets	(5,693)
0	Amortisation of premiums and discounts	3,024
0	DCLG loan principal repayment	13,797
(25,876)	Net charges made for the retirement benefits in accordance with FRS 17	(27,508)
(12,018)		(98,946)
	Amounts not included in the Income and Expenditure Account but required to be included by statute when determining the Movement on the General Fund Balance for the year	
2,561	Statutory provision for the repayment of debt	3,187
18,352	Capital expenditure charged to the General Fund Balance	21,379
(15,931)	Transfer from Usable Capital Receipts Pool equal to the amount payable into the Housing Receipts Pool	(14,280)
22,085	Employer's contributions payable to the LGPS & LPFA Pension Funds and retirement benefits payable direct to pensioners	23,166
27,066		33,452
	Transfers to or from the General Fund Balance that are required to be taken into account when determining the Movement on the General Balance for the year	
566	Housing Revenue Account balance	713
878	Voluntary provision for repayment of debt	633
0	Amounts transferred to or (from) Reserves	(200)
6,157	Net transfer to or (from) earmarked reserves	6,475
7,601		7,621
22,649	Net additional amount required to be credited to the General Fund balance for the year	(57,873)

18. Creditors and Receipts in Advance

2006/07 £'000's	Creditors and Receipts in Advance	2007/08 £'000's
	<i>Taxpayers</i>	
1,202	Council Tax	2,294
13,703	Non-Domestic Rates	19,601
7,658	<i>Central Government</i>	19,590
	<i>Public Sector</i>	
3,653	Local Authority	4,504
5,390	NHS	2,231
1,287	Other Public Sector	2,005
	<i>Other</i>	
16,459	Interest on borrowing	16,674
18	Housing Rents	18
67,091	Other Creditors	54,137
<u>116,461</u>	Total Creditors	<u>121,054</u>
27,696	Total Receipts in Advance	48,721
<u>144,157</u>	Total Creditors and Receipts in Advance	<u>169,775</u>

19. Debtors, Provisions for Bad and Doubtful Debts, and Prepayments

2006/07 £'000's	Debtors, Provisions for Bad and Doubtful Debts, and Prepayments	2007/08 £'000's
	<i>Taxpayers</i>	
17,095	Council Tax	20,057
35,128	Non-Domestic Rates	26,554
28,059	<i>Central Government</i>	19,857
	<i>Public Sector Organisations</i>	
3,921	Local Authority	5,649
5,034	NHS	2,166
3,489	Other Public Sector	4,180
	<i>Other</i>	
13,754	Housing Rents	11,102
2,785	Interest	6,358
87,117	Other Debtors	76,044
	<i>Provisions for Bad and Doubtful Debts</i>	
(23,243)	Taxpayers	(19,867)
(9,300)	Housing Rents	(6,813)
(20,927)	General Debtors	(27,773)
<u>142,911</u>	Total Debtors	<u>117,514</u>
589	Total Prepayments	1,142
<u>143,501</u>	Total Debtors and Prepayments	<u>118,656</u>

20. Capital Expenditure and Capital Financing

The table below summarises total capital expenditure for the year over the main service areas.

2006/07 £'000	Capital Expenditure	2007/08 £'000
108,228	Housing	99,698
34,102	Childrens Services	26,479
22,903	Environment & Regeneration	27,804
4,800	Adult Social Services	4,858
7,990	Other Services	9,569
<u>178,023</u>	Total Capital Expenditure	<u>168,408</u>

The table below summarises the Capital Financing Requirement for that capital expenditure.

2006/07 £'000	Sources of Capital Financing	2007/08 £'000
688,047	Opening Capital Financing Requirement	738,506
	<i>Capital Investment</i>	
5,952	Intangible Assets	1,404
168,868	Tangible Assets	157,400
3,544	Deferred Charges	9,604
	<i>Sources of Finance</i>	
(55,133)	Usable Capital Receipts	(55,110)
(18,890)	Capital Grants	(15,568)
(28,764)	Major Repairs Reserve	(21,027)
(3,981)	Other Contributions	(8,417)
(17,698)	Capital Expenditure charged in-year to the General Fund Balance	(21,379)
	<i>Debt Repayment</i>	
(3,439)	Statutory provision for the repayment of debt	(3,820)
0	PWLB loans repaid by DCLG	(13,797)
<u>738,506</u>	Closing Capital Financing Requirement	<u>767,796</u>
	<i>Explanation of Movements in Year</i>	
(41,960)	Increase in underlying need to borrow (supported by government financial assistance)	(11,673)
(11,938)	Increase in underlying need to borrow (unsupported by government financial assistance)	0
3,439	Debt repayment	(17,617)
<u>(50,459)</u>	Increase in Capital Financing Requirement	<u>(29,290)</u>

Details of the changes in Tangible Assets, arising from Capital Expenditure in 2007/08 are shown in the two tables in Note 23.

21. Deferred Charges

Deferred Charges are capital expenditure incurred by the council on assets of other entities. In 2007/08 the Council incurred £9.604m of such deferred charges (plus £1.365m of deferred charges incurred in previous years). The Council is required to write these deferred charges down in the year in which the expenditure is incurred (2007/08).

22. Commitment under capital contracts

The following table sets out the significant elements of Capital Commitments in the Council Capital Programme 2008/11.

Capital Commitments	£'000
<i>HRA Commitments</i>	
C15 Elthorne Estate - Decent Homes Works	2,894
C20 New River Green - Decent Homes Works	5,865
C23 St Lukes Estate - Decent Homes Works	2,128
C23b Gambier House - Decent Homes Works	2,518
C42c Kitchens and Bathrooms - Decent Homes - Clerkenwell West	920
C43a Whitbread Estate - Decent Homes Works	585
Six Acres Phase 4 Tollington - Cyclical Maintenance and Environmentals	3,132
Digital TV Upgrade - Borough Wide Upgrade Works	1,638
PFI 2 Dowry Payment	31,119
PFI 2 Leaseholder Costs - Capital Expenditure on Leaseholder Properties	9,285
<i>Non-HRA Commitments</i>	
Hugh Myddleton Primary School - Extension and Refurbishment	2,217
Total	62,301

23. Information on Tangible Fixed Assets

The following table analyses Tangible Fixed Assets by type.

2006/07	Analysis of Fixed Assets By Type	2007/08
	<i>Operational Assets</i>	
22,152	Council Dwellings	21,517
10	Libraries	10
3	Leisure Centres with Pools	3
6	Leisure Centres without Pools	6
72	Community Centres, Flats & Halls	72
2	Leisure & Amenities Miscellaneous	2
1	Town Halls	1
34	Administrative Buildings	34
2	Cemeteries	2
1	Crematoria	1
1	Depots	1
1	Waste Recycling Centre	1
11	Vehicles	11
2	Public Conveniences	2
15	Car Parks	15
	<i>Residential Homes</i>	
8	- Children	8
5	- Older People	5
12	- Mentally Ill & Physically Disabled	12
	<i>Day Centres</i>	
2	- Youth Justice	2
4	- Older People	4
5	- Mentally Ill & Physically Disabled	5
1	- Other	1
1	- Education	1
	<i>Schools</i>	
32	- Primary	32
8	- Secondary	8
10	- Nursery	10
6	- Special	6
7	- Under Fives establishments	7
	<i>Infrastructure</i>	
5	Bridges	5
40	Principal Roads (Kilometres)	40
203	Borough Roads (Kilometres)	203
	<i>Community Assets</i>	
135	- Parks & Open Spaces - Number	135
85	- Parks & Open Spaces - Area (Hectares)	85
	<i>Non Operational Assets</i>	
469	Commercial Properties	236
21	Sites	21
2	Historical Assets - Clock	2

The following table sets out movement in year of gross values and depreciation for Operational Assets.

Operational Assets	Council Dwellings	Other Land and Buildings	Vehicles, Plant and Equipment	Infra-structure Assets	Community Assets	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Gross Book Value at 1 April 2007	1,853,386	519,164	2,631	91,762	12,515	2,479,458
Adjustments						-
Additions	87,039	35,618	4,675	25,812	1,860	155,004
Impairment	(98,691)	(4,407)	-	-	-	(103,098)
Revaluations	60,598	66,200	-	-	-	126,798
Transfers	2,943	41,738	1	-	-	44,682
Disposals	(20,994)	(15,047)	-	-	-	(36,041)
Gross Book Value at 31 March 2008	1,884,281	643,267	7,307	117,574	14,375	2,666,802
Depreciation at 1 April 2007	-	-	-	-	-	-
Depreciation	19,596	10,303	413	4,059	966	35,337
Revaluations	-	-	-	-	-	-
Reclassifications	-	-	-	-	-	-
Disposals	-	-	-	-	-	-
Other movements	-	-	-	-	-	-
Depreciation at 31 March 2008	19,596	10,303	413	4,059	966	35,337
Net Book Value as at 31 March 2007	1,853,386	519,164	2,631	91,762	12,515	2,479,458
Net Book Value as at 31 March 2008	1,864,685	632,963	6,894	113,515	13,409	2,631,466

The following table sets out movement in year of gross values and depreciation for Non-Operational Assets.

Non-Operational Assets	Investment Properties	Surplus Non Operational Assets	Assets Under Construction	Total
	£'000	£'000	£'000	£'000
Gross Book Value at 1 April 2007	75,696	4,747	54,978	135,421
Adjustments	-	0	(2,931)	(2,931)
Additions	2,171	-	4,929	7,100
Impairment	(2,483)	-	-	(2,483)
Revaluations	44,982	470	-	45,452
Transfers	103	-	(52,595)	(52,492)
Disposals	(75,133)	-	-	(75,133)
Gross Book Value at 31 March 2008	45,336	5,217	4,381	54,934
Depreciation at 1 April 2007				0
Depreciation		15		15
Disposals				0
Reclassifications				0
Revaluations				0
Other movements				0
Depreciation at 31 March 2008	-	15	-	15
Net Book Value as at 31 March 2007	75,696	4,747	54,978	135,421
Net Book Value as at 31 March 2008	45,336	5,202	4,381	54,920

24. Leases – as Lessee

Operating Leases

The Council has a number of operational leases for buildings. During 2007/08 operating lease rentals of £1,278k were charged to services.

Payments of £1,238k due in 2008/09 are analysed as follows:

Operating Leases	At 31 March 2008
	£'000
Commitment Expires	
Within 1 year	318
Within 2 to 5 years	542
After 5 years	378
Total payments in 2008/09	1,238

Finance Leases

Included within the total for Land and Buildings are 9 assets that have been acquired under finance leases.

Their values are as follows:

Finance Leases	At 31 March 2008 £'000
Gross Book Value	3,877
Depreciation charge for 2007/08	(79)
Value as at 31 March 2008	3,798

Aggregate finance charges allocated for the period up to the 31 March 2008 are £0.302m in respect of finance leases.

An exercise was conducted in the year to review the Council's leases and ensure all had been accounted for as required. As a consequence a number of leases were identified which had not been disclosed in the prior year accounts.

25. Leases – as Lessors

The Council has 236 properties that it leases out to a number of lessees. The aggregate rentals receivable during 2007/08, relating to operating leases, amounted to £2.069m.

26. Valuation of Fixed Assets

The following statement shows the progress of the Council's rolling programme for the revaluation of fixed assets. The valuations were carried out by Paul Lidgley BSc (Hons) MRICS, Director of Erinaceous, formerly Dunlop Haywards. The basis for valuation is set out in the statement of accounting policies.

Financial Year	Council Dwellings	Other Land & Buildings	Investment Properties	Surplus Non Operational Assets	Total Fixed Assets
	£'000	£'000	£'000	£'000	£'000
<i>Valued at current value in:</i>					
2007/08	1,734,771	169,052	15,809	2,113	1,921,745
2006/07		59,443	25,947	811	86,201
2005/06	-	45,965	-	539	46,505
2004/05	129,914	45,656	2,117	-	177,687
2003/04	-	312,847	1,463	1,738	316,048
Total	1,864,685	632,963	45,336	5,201	2,548,186
<i>Valued at Historic Cost:</i>					
Vehicles, Plant & Equipment					6,894
Infrastructure Assets					113,515
Community Assets					13,409
Assets Under Construction					4,381
Intangible Assets					1,825
Grand Total					2,688,210

27. Depreciation of Fixed Assets

The amount of depreciation of fixed assets is shown in the table shown at Note 23.

28. Changes in Depreciation

There have been no material changes in the policy used for the depreciation of Tangible Fixed Assets in 2007/08. Infrastructure assets are now depreciated over 25 years (previously 20 years) and enhancement expenditure is depreciated from the following year, unless material.

29. Intangible Assets

The table below shows how expenditure on Intangible Assets, such as purchased licences and developed software, in 2007/08 has been amortised to the Income and Expenditure account.

Intangible Assets	Total £'000
Balance at 31st March 2007	1,487
Reclassifications	(811)
Expenditure in Year	1,404
Written off to revenue in year	(255)
Balance at 31 March 2008	1,825

30. Change in Amortisation

There has been no significant change in amortisation policy from the previous year. Intangible assets are amortised over four years.

31. Net Assets employed

The following table splits the ownership of Tangible Fixed Assets between HRA and Non-HRA.

Net Assets Employed	31st March 2007 £'000	31st March 2008 £'000
General Fund	714,522	730,520
Housing Revenue Account	1,843,500	1,956,018
Trading Operations	1,672	1,672
Total	<u>2,559,694</u>	<u>2,688,210</u>

32. Interest in Related Companies

The Code of Practice on Local Authority Accounting requires the provision of specific information of any companies in which the Council holds shares but does not regulate, influence or control the financial or operating policies of these companies.

a) Enterprise (including ICSL Accord.)

- i) In September 2007, Enterprise (a company formed by 3i plc) completed the purchase of the entire Accord PLC issued share capital, which included the proportion applicable to ICSL Accord, who formerly carried out activities for the London Borough of Islington.
- ii) Public Sector Services is the largest division within the Enterprise group and provides maintenance services to local authorities and central government including housing, ground maintenance, property services and streetscene. The services provided to Islington include refuse collection, street cleansing, fleet management and vehicle maintenance. These services are carried out mainly through a long-term contract with the London Borough of Islington.
- iii) Enterprise was incorporated on 31st October 2006 and remained dormant until its acquisition of Enterprise plc on 11th May 2007 and of Accord plc on 20th September 2007. Their financial statements run from 31st October 2006 until 31st December 2007. There are no comparative figures.

- iv) The total assets of the group as at 31st December are £1,264.7m with total liabilities as at the same date of £1,292.8m. The loss before taxation was £45.7m.
- v) Copies of the latest accounts can be obtained from Enterprise, Lancaster House, Centurion Way, Leyland, Lancaster, PR26 6TX.

b) Kier Islington Ltd.

- i) The principal activities of the Company are housing maintenance, gas servicing and repair, and building cleaning. The majority of the company's activities are performed on behalf of the London Borough of Islington under a ten-year partnering contract.
- ii) On 10th June 2005, the name of the company was changed from Caxton Islington Limited to Kier Islington Limited. It is a private company with a share capital of £300,000 divided into 299,999 ordinary shares of £1 each and 1 special share of £1. Kier Islington Limited holds the ordinary shares and the London Borough of Islington holds the one special share. The special share does not entitle the Council to any dividend or bonus shares.
There are also no commitments on the authority to meet any deficit.
- iii) The Council has one vote, the right to attend and speak at general meetings of members, and the right to appoint a Director.
- iv) The net assets of the Company for year ended 30th June 2007 totalled £2.551m (£2.602m for the previous year).
- v) The Company made a profit before taxation in 2006/07 of £6.088m (£3.195m in previous year), and profit after tax in 2006/07 of £4.203m (£2.233m in the previous year).
- vi) The company currently has contingent liabilities, in that at the 30th June 2006 it had entered into a Performance Bond to the value of £2.150m and a Local Government Pension Scheme Bond to the value of £1.800m, both in favour of the Council.
- vii) Copies of the latest accounts can be obtained from Tempsford Hall, Sandy, Bedfordshire, SG19 2BD.

33. Capital Instruments

During 2007/08, the Council did not issue any instrument as a means of raising finance, including shares, debentures, loans and debt instruments, options and warrants that give the holder the right to subscribe for or obtain capital instruments.

34. Long Term Borrowing

Details of the Council's borrowing by lender are set out in the table below.

31 March 2007 £'000	Borrowing - by Lender	31 March 2008 £'000
	<i>Long Term Borrowing</i>	
(692,447)	Public Works Loans Board	(765,104)
(3,596)	Stocks	(3,596)
(696,043)		(768,700)

Details of the Council's borrowing by maturity are set out in the table below.

31 March 2007 £'000	Borrowing - Maturity	31 March 2008 £'000
	<i>Long Term Borrowing</i>	
(8,869)	Maturing in 1 to 2 years	(8,203)
(192,331)	Maturing in 2 to 5 years	(200,002)
(156,341)	Maturing in 5 to 10 years	(147,562)
(338,502)	Maturing in over 10 years	(412,933)
(696,043)		(768,700)

35. Insurance Provision

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

- Officers' Indemnity, Libel and Slander, Motor (Third Party), Employer's Liability, Public Liability – up to a limit of £183,300 for any one claim;
- Fire – up to a limit of £100,000 for any one claim;
- Theft, Motor – own damage and Flood risks are self-funded.

Each year, the Council takes actuarial advice on the value of outstanding claims with a prediction when these will be paid. Assumptions are made allowing for inflation, time to process, and claims which may be received in the future. The actuary's recommended provision at full value for all years up to 2007/08 is £13.716m (present value £12.087m), at December 2007. The difference between actual provision made by the Council and the recommended provision represent the exposure/cover if all claims are paid to their estimated values.

External policies cover claims in excess of these limits. In 2007/08, £1.350m was paid in premiums (£1.119m in 2006/07).

London Authorities Mutual Limited

The Council's long term agreements with external insurance providers come to an end on 30th June 2008. With this in mind, the Council has joined a consortium of 10 London Authorities (London Authorities Mutual Limited) to pool insurance purchasing and reduce costs. In 2006/07, the Council made a 'Paid Capital Contribution' of £160,500 which it deposited with LAML. This amount is shown under Short Term Investments as at 31st March 2008. When the Council places insurance risks with LAML in July 2008, it will be required to give a 'Guaranteed Capital Contribution' of £605,000. This will not be paid to LAML but kept by the Council in an Insurance Reserve. In the event of a deficiency in Mutual's finances, the Council will be required to pay a 'Supplementary Call' – the maximum amount that could be levied would be 100% of its 'Gross Written Premium'. If this proves to be insufficient, the Council would need to make payment to the Mutual of its 'Guaranteed Capital Contribution' and finally its 'Paid Capital Contribution'. However, financial modelling indicates that only in an exceptional set of circumstances would such a call be made.

Municipal Mutual Insurance (MMI)

In 1992-93, the Council's insurers, MMI, ceased taking new business and are now being managed under a "scheme of arrangement". The amount paid to the Council plus the amount outstanding under this arrangement is £2.3m. It is possible that a proportion of this may need to be repaid by the Council if the scheme of arrangement is triggered by insolvency, but the amount cannot be quantified at this stage. The Chairman of the Board of Directors still predicts a solvent run off.

36. Provisions

Legal claims outstanding

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 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.

Contractual claims outstanding

The Council has signed a single status agreement with the trade unions. There remains a liability in relation to home carers which is awaiting a ballot on the proposed resolution. This provision represents the calculation of the amounts that will be paid in 2008/09 once agreement has been ratified.

Provisions	£000's	Note	1 April 2007	Payments	Receipts	31 March 2008
Insurance		(a)	11,280	(2,773)	3,706	12,213
Social Services Charges		(b)	550	-	306	856
Single Status		(c)	1,360	-	255	1,615
Other minor		(d)	-	-	169	169
Totals			13,190	(2,773)	4,436	14,853

37. Movement in Reserves

The Council keeps a number of reserves in the Balance Sheet. Some are required to be held for statutory reasons, some are needed to comply with proper accounting practice and others have been set up voluntarily to earmark resources for future spending plans. The following table tracks the movement in Net Worth (the bottom half of the Balance Sheet) and provides more detail of the movements than contained in the Statement of Total Recognised Gains and Losses.

Reserve	Balance 01 April 2007	Net Movement in Year	Balance 31 March 2008	Purpose of Reserve	Further Detail of Movements
	£'000	£'000	£'000		
Revaluation Reserve	0	(107,688)	(107,688)	Store of gains on revaluation of fixed assets not yet realised through sales	(a) below
Capital Adjustment Account	(2,135,836)	25,076	(2,110,760)	Store of capital resources set aside to meet past expenditure	(b) below
Available-for-Sale Financial Instruments Reserve	0	0	0	Store of gains on revaluation of investments not yet realised through sales	(c) below
Financial Instruments Adjustment Reserve	8,536	(3,024)	5,512	Balancing account to allow for differences in statutory requirements and proper accounting practices for borrowings and investments	(d) below
Capital Receipts Reserve	(74,196)	(26,808)	(101,004)	Proceeds of fixed asset sales available to meet future capital investment	(e) below
Pensions Reserve	209,029	123,563	332,592	Balancing account to allow for inclusion of Pensions Liability in the Balance Sheet	Page 56
Housing Revenue Account	(8,174)	(513)	(8,687)	Resources available to meet future running costs for council houses	Page 61
Major Repairs Reserve	(1,494)	1,494	0	Resources available to meet capital investment in council housing	Page 63
General Fund	(18,121)	(1,205)	(19,326)	Resources available to meet future running costs for non-housing services	Page 18
Earmarked Reserves	(28,227)	(6,765)	(34,992)		
Collection Fund	370	193	563		
Net Worth	(2,048,113)	4,324	(2,043,790)		

- a) Revaluation Reserve: is used to record the revaluation of Fixed Assets and adjustments where capital expenditure does not result in an increase in asset value.

2006/07 £'000	Store of unrealised gains on revaluation of Fixed Assets - Revaluation Reserve	2007/08 £'000
0	Balance as at 1 April	0
0	Gains on Revaluations 2007/08	(168,240)
0	Less Depreciation on Revalued Amounts	3,150
0	Less Impairments written off to previous gains	0
0	Less gains written out for disposed assets	57,402
0	Balance as at 31 March	(107,688)

- b) Capital Adjustment Account: is used to record movements in Fixed Assets, other than those that arise from revaluation and the financing of capital expenditure.

Summary 2006/07 £'000	Capital Adjustment Account	Summary 2007/08 £'000
(599,133)	Balance as at 1 April: Old Capital Financing Account	(889,969)
0	Balance as at 1 April: Old FARA	(1,245,867)
(599,133)	Balance Brought Forward: CAA	(2,135,836)
	<i>Financing of Capital Expenditure</i>	
(54,793)	Usable Receipts Applied	(55,110)
(28,764)	Capital Expenditure Financed from the Major Repairs Reserve	(21,027)
(18,352)	Capital Expenditure Financed from Revenue	(21,379)
	<i>PFI arrangements</i>	
(11,956)	PFI 1	(6,980)
(10,966)	PFI 2	(22,665)
(264)	Street lighting Reversionary Asset	(264)
(183,257)	PFI 2 Prepayment	0
(238)	PFI 2 Dowry	0
	<i>Amounts charged to Revenue Accounts</i>	
1,776	Write Down of Deferred Charges	10,969
496	Amortisation of Intangible Assets	250
311	Impairment of Assets	105,795
9,700	Depreciation of Tangible Assets	15,813
20,687	Transfer from Major Repairs Reserve Equivalent to HRA Depreciation	19,533
(3,439)	Minimum Revenue Provision	(3,820)
	<i>Amounts credited to Revenue Accounts</i>	
(11,777)	Government Grants Deferred written out to Revenue	(3,365)
0	Government Grants Deferred written out to CAA	(16,708)
0	Write out of Depreciaton relating to Revalued Disposed Assets	(57,402)
0	Disposal of Assets	104,252
0	Repayment of loan	(13,797)
0	Land Swap transaction adjustments	(5,869)
0	Write out of current value depreciaton	(3,150)
(290,836)	Total Increase / (Decrease) in Amounts Set Aside to Finance Capital	25,076
(889,969)	Balance as at 31 March	(2,110,760)

c) Capital Receipts: represents the unapplied value resulting from the disposal of assets and long term debtors, such as mortgages.

Capital Receipts	Movements in Realised Capital Resources		Capital Receipts
2006/07 £'000			2007/08 £'000
(59,756)	Balance as at 1 April		(74,196)
(85,162)	Amounts Receivable	(100,244)	
15,929	Contribution to Housing Pooled Capital Receipts	14,281	
54,793	Amounts Applied to Finance New Capital Investment	55,110	
0	Derecognition of previous receipt	4,045	
(14,100)	Total (Increase) / Decrease in Realised Capital Resources		(26,808)
(74,196)	Balance as at 31 March		(101,004)

d) Other Reserves are revenue resources (see further details below).

Earmarked Reserves	Balance at 31 March 2007	Income & Expenditure	Trfs to/from Reserves	Balance at 31 March 2008
	<i>Movements</i>	<i>Movements</i>	<i>Movements</i>	
	£'000	£'000	£'000	£'000
Invest To Save	(1,339)	(1,681)	0	(3,020)
PFI - ICSL Joint Venture	(5,248)	190	0	(5,058)
PFI - ICSL Contract Renegotiation	(997)	0	0	(997)
PFI - Housing PFI I	(5,724)	(61)	0	(5,785)
PFI - Street Lighting	(3,007)	(1)	0	(3,008)
Services Specific	(5,382)	3	0	(5,379)
CEA Penalties	(311)	0	0	(311)
Capital Reserve	(726)	(637)	0	(1,363)
Software Licences	(170)	108	0	(62)
Pensions Reserve	(1,150)	523	0	(627)
Cemetery Trading Account	(196)	84	0	(112)
Area Committee	(56)	0	0	(56)
PSA Grant	(1,300)	1,300	0	0
Children's Serv Start up costs	(125)	90	0	(35)
Building Schools for the Future	(904)	(224)	0	(1,128)
PF11 Dowry	(583)	(999)	0	(1,582)
Highway Maintenance	(1,000)	1,000	0	0
Climate Change Fund	-	(2,523)	0	(2,523)
Levies Reserve	-	(3,940)	0	(3,940)
Total	(28,219)	(6,768)	0	(34,987)
Street Market Reserves	(9)	4	0	(5)
Grand Total	(28,228)	(6,764)	0	(34,992)

Invest to Save: provides the opportunity for services to receive one-off funding to generate future efficiencies.

PFI Smoothing Reserves (ICSL, Housing PFI 1/2, Street Lighting): the government provides support for PFIs via PFI credits. It is the Council's policy to appropriate the PFI Credits to an earmarked PFI smoothing Reserve. When required the amount of government funds required to support the PFI contract for a particular year is then appropriated back to the Income and Expenditure Account.

Services Specific Reserves: any carry forward of underspendings, agreed by the Executive, are held in departmental earmarked reserves and may be used for projects that are focussed on the corporate priorities as set out in "One Islington".

Cambridge Education Associates (CEA) Penalties Reserve: the CEA Penalties Reserve has been earmarked to fund educational activities and this has included initiatives such as Education Week and ICT provision in schools.

Capital Reserve: the capital reserve contains revenue contributions set aside with the intention of funding projects within the capital programme.

Software Licences: the Council is undergoing Federation against Software Theft (FAST) accreditation. This reserve will help fund any costs arising from the need to purchase licences.

Pensions Reserve: this reserve has been established to mitigate the effects of adverse revaluations of the Pension Fund.

Cemetery Reserve: the Council has a contract with LB 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.

Area Committee Reserve: the four area committees are allocated £320,000 from the Council's budget to be spent on local initiatives. The balance on this reserve represents approved allocations that were not spent by the end of the financial year.

Public Service Agreement (PSA) Earmarked Reserve: this reserve held £1.3m of a reward grant received for achieving stretch targets under its Public Service Agreement with central government. The Council agreed in February 2008 to transfer this sum into the Invest to Save Reserve.

Children Services Start Up Costs Reserve: the new Children's Service Department was established in 2005. To assist in the early development of management and support services, a reserve has been created from revenue resources and will be used to support and develop the Children's Partnership Initiative.

Building Schools for the Future (BSF): the reserve is to be used to progress the BSF programme within Islington. The funding will be spent on professional fees and associated costs.

Highway Improvements: this reserve was established in 2006/07 for funding schemes under the Transport Act 2000 and was fully utilised as planned in 2007/08.

Climate Change Fund: the Council agreed on 27 February 2007 to establish a Climate Change Fund to fund capital projects which would achieve significant reductions in carbon emissions in Islington, either through generation of renewable energy, or through transport projects. The fund was established by transferring £3m from the council's General Fund balances.

Levies Reserve: the levies reserve has been established to hold sums set aside to meet the expected significant increases in levies in future years.

38. Contingent Liabilities and Assets

Legal claims pending settlement

The Council is involved in approximately 31 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 £4.5m.

Over the next 3 years, there are a number of leases expiring where there may be an obligation on the Council to make good any assessed dilapidations. The most significant of these is the lease of 159/166 Upper Street which expires in December 2008.

Contractual claims pending

None pending.

Guarantees given

None given.

Contingent Assets

None known.

39. Accounts authorised

The draft Statement of Accounts 2007/08 was authorised for issue on 24th June 2008 by Mr M Curtis CPFA.

40. Post Balance Sheet events

The Council is committed to transforming all the schools within its secondary schools estate through the Building Schools for the Future initiative. A Local Education Partnership (a joint venture between the Council and a private sector partner) has been formed and it will refurbish, rebuild and maintain the Council's secondary schools and also provide ICT services to those

schools. Construction on the first phase of schools began in early 2008 under Early Works agreements with financial close taking place on 8 July 2008. The value of the capital works across the 4 projects in phase 1 is £75m and approximately £140m across all 3 phases of the programme.

The Council is also involved with a developer to regenerate various locations within the Borough such as Hornsey Road. This will involve new civic offices and a new depot as well as social housing. The overall development is deemed to be worth approximately £20m.

The Council agreed on 27th March 2008 to dispose of 85 commercial properties. The disposal is expected to be completed in October 2008.

41: Trust Funds and other Third Party Funds

The Council does not act as sole or custodian trustee for any trust funds, nor is it a trustee for any other funds. However the Council is responsible for the administration of a number of third party funds. These funds do not represent assets of the Council and, therefore, they have not been included in the Council's Balance Sheet. These funds totalled £1,702,962 at 31st March 2008 (£663,000 at 31st March 2007) and mainly relate to money held for vulnerable individuals living in their own homes or in residential homes.

42. Schools balances

The amount of unspent budgets by maintained schools are also usable revenue reserves and form part of the General Fund Balance. At 31st March 2008, these amounted to £7.648m (£4.318m 31st March 2007). This consists of 55 schools with surplus balances amounting to £8.258m. These amounts are committed to fund future schools expenditure. However, there are 6 schools with deficit balances totalling £0.610m. These schools have to bring their accounts back into balance within 3 years of being in deficit. There is also an amount of £0.316m of funds still to be allocated to individual schools but is correctly recorded as school balances.

43. Amounts due to and from related parties, including provisions for doubtful debts

No amount was due to or from any related party at 31st March 2008.

44. Pensions Defined Benefit

Participation in Pensions Schemes

As part of the terms and conditions of employment of its employees, the Council offers retirement benefits. Although these benefits will not actually be payable until employees retire, the Council has a commitment to make the payments that needs to be disclosed at the time that employees earn their future entitlement.

The Council participates in two pension 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;
- the Teachers' Pension Scheme for teachers – this is an unfunded scheme, meaning that there are no investment assets built up to meet the pensions liabilities, and cash has to be generated to meet actual pensions payments as they eventually fall due.

Transactions Relating to Retirement Benefits

The Council recognises the cost of retirement benefits in the Net 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 retirement benefits is reversed out in the Statement of Movement in the General Fund Balance.

The following transactions have been made in the Income and Expenditure Account and Statement of Movement in the General Fund Balance during the year:

31 March 07 £'000	Cost Of Retirement Benefits in Income & Expenditure	31 March 08 £'000
	<i>Net Cost of Services</i>	
18,222	Current service costs	17,448
586	Curtailment costs	4,459
167	Past service costs	960
18,975		22,867
	<i>Net Operating Expenditure</i>	
39,953	Interest cost	43,669
(33,052)	Expected return on assets in the scheme	(39,028)
25,876	<i>Net Charge to the Income & Expenditure Account</i>	27,508
	<i>Statement of Movement in Genral fund Balance</i>	
(25,876)	Reversal of net charges made for retirement benefits in accordance with FRS 17	(27,508)
	<i>Actual amount charged against the General Fund Balance in accordance with the pensions in year</i>	
22,085	Employers' contributions payable to scheme	23,165

Assets and Liabilities in Relation to Retirement Benefits

The underlying assets and liabilities for retirement benefits attributable to the authority at 31 March are as follows:

	Islington Council Pension Fund		London Pensions Fund Authority		Teachers Pension Scheme		Total
	31 March 07 £'000	31 March 08 £'000	31 March 07 £'000	31 March 08 £'000	31 March 07 £'000	31 March 08 £'000	31 March 08 £'000
Estimated liabilities in scheme	(763,254)	(848,776)	(38,586)	(35,405)	(10,349)	(12,882)	(897,063)
Estimated assets in scheme	572,857	532,018	30,303	32,453	0	0	564,471
Net liability	(190,397)	(316,758)	(8,283)	(2,952)	(10,349)	(12,882)	(332,592)

The liabilities show the underlying commitments that the Council has in the long run to pay retirement benefits. The total net liability of £333m has a substantial impact on the net worth of the authority as recorded in the balance sheet. However, statutory arrangements for funding the deficit mean that the financial position of the 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.

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 and salary levels. The local government scheme liabilities have been assessed by Mercer, an independent firm of actuaries, being based on the latest full valuation of the scheme as at 31st March 2007.

The main assumptions used in their calculations have been:

	Islington Council Pension Fund		London Pensions Fund Authority		Teachers Pension Scheme	
	31 March 07	31 March 08	31 March 07	31 March 08	31 March 07	31 March 08
Rate of inflation	3.10%	3.60%	3.20%	3.60%	3.10%	3.60%
Rate of increase in salaries	4.85%	5.35%	4.70%	5.10%		
Rate of increase in pensions	3.10%	3.60%	3.20%	3.60%	3.10%	3.60%
Rate of discounting scheme liabilities	5.40%	6.10%	5.40%	6.90%	5.40%	6.10%

The Teachers' Scheme has no assets to cover its liabilities. Assets in the local government scheme are valued at fair value, principally market value for investments, totalling £564m for the Fund as a whole at 31st March 2008 (£603m at 31st March 2007). The Fund's assets consist of the following categories, by proportion of the total assets held by the Fund:

The following tables show these values for the Islington Council Pension Fund.

31 March 2007			31 March 2008		
Proportion	Expected Return	Islington Council Pension Fund	Proportion	Expected Return	
70.70%	7.50%	Equities	68.00%	7.50%	Equities
9.40%	4.70%	Government Bonds	7.00%	4.60%	Government Bonds
10.50%	5.40%	Other Bonds	15.00%	6.10%	Other Bonds
3.70%	6.50%	Property	4.00%	6.50%	Property
1.10%	5.25%	Cash/Liquidity	2.00%	5.25%	Cash/Liquidity
4.60%	7.50%	Other	4.00%	7.50%	Other
<u>100.00%</u>			<u>100.00%</u>		

The second table shows these values for the London Pensions Fund Authority.

31 March 2007			31 March 2008		
Proportion	Expected Return	London Pensions Fund Authority	Proportion	Expected Return	
84.00%	4.50%	Cash flow Matching	86.00%	4.50%	Cash flow matching
14.00%	7.80%	Equity	12.00%	7.70%	Equity
2.00%	4.90%	Cash	2.00%	4.80%	Cash
<u>100.00%</u>			<u>100.00%</u>		

Actuarial Gains and Losses

The actuarial gains identified as movements on the Pensions Reserve in 2007/08 can be analysed into the following categories, measured as absolute amounts and as a percentage of assets or liabilities at 31st March 2008.

The following tables show these values for the previous years.

Movement on Pension Reserve	Islington Council Pension Fund				London Pensions Fund Authority				Islington Council Pension Fund				London Pensions Fund Authority			
	2004/05				2005/06				2005/06				2005/06			
	£'000		%		£'000		%		£'000		%		£'000		%	
Differences between the expected and actual return on assets	14,363	3.30	160	0.50	73,277	13.80	1,154	3.80								
Differences between actuarial assumptions about liabilities and actual experience	12,810	1.9	(5,338)	(14.20)	(10,819)	(1.40)	(32)	(0.10)								
Changes in the demographic and financial assumptions used to estimate liabilities	(109,221)	16.1	(10,252)	(27.20)	(59,849)	(7.80)	(3,610)	(6.00)								
Total Surplus / (Deficit)	<u>(82,048)</u>		<u>(15,430)</u>		<u>2,609</u>		<u>(2,488)</u>									

Movement on Pension Reserve	Islington Council Pension Fund				London Pensions Fund Authority				Islington Council Pension Fund				London Pensions Fund Authority			
	2006/07				2007/08				2007/08				2007/08			
	£'000		%		£'000		%		£'000		%		£'000		%	
Differences between the expected and actual return on assets	7,510	1.30	1	0.00	71,947	13.50	257	0.80								
Differences between actuarial assumptions about liabilities and actual experience	0	0.00	1,773	4.60	1,720	0.20	3,388	9.60								
Changes in the demographic and financial assumptions used to estimate liabilities	38,039	(5.00)	1,412	3.66	48,777	5.70	2,177	6.14								
Total Surplus / (Deficit)	<u>45,549</u>		<u>3,186</u>		<u>122,444</u>		<u>5,822</u>									

Defined Benefit Scheme-Accrued Pensions Contributions

At 31 March 2008, the Council owed the Local Government Pension Scheme £1.2m for employer and employee contributions. These were subsequently settled in April 2008.

45. Pensions - defined contribution

The Council does not participate in any 'defined contribution' pension scheme.

46. Teachers' Pensions

Teachers employed by the Council are members of the Teachers' Pension Scheme, administered by Capita Teachers' Pensions. It provides teachers with defined benefits upon their retirement, and the Council contributes towards the costs by making contributions based on a percentage of members' pensionable salaries. Although the scheme is unfunded, Teachers' Pensions use a notional fund as the basis for calculating the employers' contribution rate paid by local education authorities. However, it is not possible for the Council to identify a share of the underlying liabilities in the scheme attributable to its own employees. For the

purposes of this Statement of Accounts, it is, therefore, accounted for on the same basis as a defined contribution scheme. The Council is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the teachers' scheme.

In 2007/08 the Council paid £7.25m to Teachers' Pensions in respect of teachers' retirement benefits, representing 14.1% of pensionable pay. The figures for 2006/07 were £6.73m and 13.65% respectively. In addition the Council is responsible for all pension payments relating to added years it has awarded, together with the related increases. In 2007/08 these amounted to £0.69m (£0.67m in 2006/07).

The Council owed £0.9m in contributions to the Teachers' Pension Scheme at the year-end.

47. Reconciliation between Income & Expenditure to Cash Flow Statement

This note shows the reconciliation of the net surplus/deficit on the Income and Expenditure Account to the Revenue Activities net cash flow on the Cash Flow Statement.

Reconciliation of the Surplus/(Deficit) to Net Cash Inflow/(Outflow) from Operating Activities	2007/08 £'000	2007/08 £'000
Surplus/(Deficit) for the year		(56,669)
Non Cash Transactions		
Depreciation & Impairment	121,579	
Revaluation decreases written off to I&E during the year	0	
Deferred Grants amortised in year	(3,365)	
Grants funding Deferred Charges amortised/written off during the year	1,365	
Deferred capital grants written off in year	(16,708)	
Amortisation of Concessionary Loan fair value reductions	0	
Net PFI debtor adjustments	29,909	
Pension Fund adjustments	4,342	
Impairment losses on Loans & advances debited to I+E Account in year	0	
Losses or Gains on derecognition of loans & advances in year charged or credited to Service Revenue Account/(s)	0	
Reductions in fair value of Soft Loans (excluding Soft Loans to Subsidiaries) made in the year, resulting from discounted interest rates	0	
Other non cash Financial Instrument adjustments	0	
Provision for equal pay	0	
Increase/decrease in provision for impairments/doubtful debts re: Loans & Advances	0	
Contributions to Provisions	1,663	
		138,785
Adjustment for items reported separately on Cashflow		
Interest and Investment Income		(11,650)
Dividends from Companies		0
Interest payable and similar charges (including gains or losses on the repurchase or early settlement of borrowing taken to revenue & amortisation of gains or losses on repurchase or early settlement of borrowings c/fwd in accordance with the SORP)		54,946
Interest element of finance lease rental payments		0
Deferred charges		9,604
Gain or loss on the disposal of Fixed Assets		3,265
Gain or loss on the disposal of Long Term Investments		0
Items on an Accrual Basis		
(Increase)/Decrease in Stock		(452)
(Increase)/Decrease in Debtors		21,058
Increase/(Decrease) in Creditors		32,353
Net Cash Inflow/(outflow) from operating activities		191,240

48. Reconciliation of the movement in Cash to the movement in Net Debt

This note shows the movement in cash reconciled to the movement in net debt.

Analysis of Net Debt	Cash	Temporary Investments & Short term deposits	Total	Loans due within one year	Loans due after more than one year	Deferred Liabilities	Net Debt
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
	Balance at 1 April 2007	(13,482)	114,938	101,456	(15,985)	(696,043)	(2,647)
Cashflow/changes in year	(3,251)	148,182	144,931	7,290	(72,657)	511	80,076
Other Non Cash changes				0	0	0	0
Balance at 31 March 2008	(16,733)	263,120	246,387	(8,695)	(768,700)	(2,136)	(533,143)

49. Reconciliation of items of Liquid Resources to the Balance Sheet

This note shows the reconciliation of items under the Financing and Management of Liquid Resources sections to the opening and closing Balance Sheets.

Analysis of changes in cash and liquid resources during the year	2008	2007	Change In Year
	£'000	£'000	£'000
Temporary Investments	263,120	114,938	148,182
Short Term Deposits	0	0	0
Cash	0	0	0
Bank overdraft	(16,733)	(13,482)	(3,251)
Increase/(Decrease) in year	246,387	101,456	144,931

50. Grants in cash flow

This note shows the analysis of other revenue Government Grants received during 2007/08.

Grants	2006/07 £'000s	2007/08 £'000s
Standard Fund - Education	58,051	29,510
PFI - Street Lighting	3,862	1,025
Asylum Seekers	3,269	7,524
Supporting People	16,331	14,699
Neighbourhood Renewal Fund	920	0
LAA	0	17,147
Miscellaneous	17,561	67,556
	<u>99,994</u>	<u>137,460</u>

51. Dedicated Schools Grant

The Council's expenditure on schools is funded by the Dedicated Schools Grant (DSG), provided by the Department for Children, Schools and Families. DSG is ring-fenced and can only be applied to meet expenditure properly included in the Schools Budget. The Schools Budget includes elements for a restricted range of services provided on an authority-wide basis and for the Individual Schools Budget, which is divided into a budget share for each school. Over- and under- spending on the two elements are required to be accounted for separately. Details of the deployment of DSG receivable for 2007/08 are as follows:

Schools Budget funded by Dedicated Schools Grant	Central Expenditure £'000	Individual Schools Budget £'000	Total £'000
Original grant allocation to Schools Budget for the current year in the authority's budget	20,765	102,479	123,244
Adjustment to finalised grant allocation	(216)	0	(216)
DSG receivable for the year	20,549	102,479	123,028
Actual expenditure for the year	20,549	99,150	119,699
(Over) / Under spending for the year	0	3,329	3,329
Schools balances brought forward	0	4,319	4,319
(Over) / Under spend carried forward to 2008/09	0	7,648	7,648

52. Long Term Debtors and Prepayments

The note shows the analysis of Long term Debtors and Prepayments – the amounts owed to the Council that are not fully recoverable in the 12 months following the balance sheet date, together with amounts resulting from Private Finance Initiative schemes.

Long Term Debtors and Prepayments	Balance at 31 March 2007 £'000	Movement £'000	Balance at 31 March 2008 £'000
Long Term Debtors			
Private Finance Initiative			
Reversionary interest in assets	40,578	179,680	220,258
Residual interest in assets	91,638	(27,426)	64,212
Leaseholder Works	0	1,707	1,707
Right To Buy Mortgages	189	(78)	111
Disposal of Assets	10,977	(10,977)	-
Long Term Prepayments			
Private Finance Initiative			
Assets transferred	218,048	(133,886)	84,162
Dowry payments	12,530	15,656	28,186
Total	373,960	24,676	398,636

53. Stocks and Work-in-Progress

The following note shows the analysis between Stocks and Work-in-Progress.

31 March 07	Stocks and Work in Progress	31 March 08
342	Stocks	820
26	Work in Progress	0
368		820

54. London Housing Consortium

London Housing Consortium (LHC) was set up by the London Boroughs of Barnet, Brent, Camden, Ealing, Hackney, Haringey, Hillingdon, Islington and Tower Hamlets and the Anchor Trust. It exists to provide specialist architectural services and bulk procurement arrangements for the public sector. The major source of income is a levy on companies supplying goods for the public sector users through the LHC arrangements. Under the current membership Islington has 10% of the voting rights. Revenue surpluses are shared between members on a formula basis. In 2007/08, Islington share of the surplus was £218,000.

Copies of London Consortium's Statement of Accounts 2007/08 can be obtained from London Housing Consortium, Building Components & Services, 464 Uxbridge Road, Hayes, Middlesex, UB40 0PT.

55. Financial Instruments

Categories of Financial Assets & Liabilities:

No financial assets have been reclassified between the headings of costs, amortised cost and fair value. However the council's external investments have been remeasured using bid price rather than mid price. In addition accrued interest has been added to the value of the investments rather than shown separately under Debtors.

The Assets & Liabilities disclosed in the balance sheet are made up of the following categories of financial instrument:

Categories of Financial Assets and Liabilities	2007/2008	
	Long Term £000	Current £000
Liabilities		
Financial liabilities at amortised cost	(768,700)	(201,245)
Assets		
Loans and receivables	398,636	344,398
Financial Assets at Fair Value through Profit and Loss	-	43,420

The council has reviewed its portfolio of borrowings, investments and other financial instruments at 1 April 2007 and identified the following issues:

- Most of its borrowings (£696.0m at 1.4.07) are from the Public Works Loan Board at fixed and variable rates, for which amortised cost is the same as principal outstanding recorded in the Balance Sheet at 1 April 2007.
- The Council has long term investments (£68.99m at 1.4.07), placed with two fund managers who actively manage the funds to achieve the Council's objectives of return and risk minimisation.
- The Council has advanced 'soft loans' (£162,000 at 1.4.07) to employees, mainly in the form of season ticket loans. Repayments are deducted from salary and no interest is charged for these loans.
- At 1 April 2007, the Balance Sheet includes unamortised premiums of £9.55m on the early redemption of debt relating to three loan repayments in 2003/04. Of these three loan repayments one loan was not replaced, one was replaced but has been repaid since and the final premium relates to a loan that was replaced and is still active. This loan has been reassessed and fails the modification test.
- The Balance Sheet included unamortised discounts of £1.014m. These relate to three loan transactions in 2006/07 and have been deemed to be extinguishments.
- The council gave no financial guarantees in 2006/07.

The accounting treatments at 1 April 2007 will be as follows:

PWLB Loans

No adjustments required to amounts in the opening Balance Sheet as the figure does not include any premiums or discounts and the effective interest rate would be equal to the nominal rate. Interest chargeable to I+E Account remains amounts payable under the loan agreements.

Soft loan

The £162k advance carried in the Balance Sheet should be re-measured to fair value. However it is deemed that the effect of this (reduction of around £20k) is immaterial to the Council's accounts and the balance will continue to be carried at the nominal amount.

Premiums

The £9.55m balance relates to three transactions in 2003/04. One of these transactions did not lead to a replacement loan whilst the second did lead to a replacement loan but has been subsequently repaid. The third premium is linked to a replacement loan but has been deemed to have been as a result of an extinguishment rather than a modification. Thus all three premiums need to be derecognised in the Balance Sheet and charged to the Statement of Movement on the General Fund / HRA Balance. The statutory provisions will then be effected and the debit to the Statement of Movement will be neutralised by an appropriation to the Financial Instruments Adjustment Account.

The balance of the premiums will then be posted back to the Statement of Movement in Balances in 2007/08 and subsequent years according to the schedule of amortisation plotted under the regulations.

Effect: Take out the premiums from Current Assets and charge to SMGFB; then appropriate to the FIAA. Net Worth of the council reduces by £9.55m with a charge to balances.

Discounts

The £1.014m relates to three loan transactions in 2006/07 which have been deemed to be extinguishments and not modifications. Consequently the discounts need to be derecognised in the Balance Sheet and charged to the Statement of Movement on the General Fund / HRA Balance. The statutory provisions will then be effected and the debit to the Statement of Movement will be neutralised by an appropriation to the Financial Instruments Adjustment Account.

Effect: Take out the discounts from Liabilities and charge to SMGFB; then appropriate to the FIAA. Net Worth of the council increases by £1.014mm with a credit to balances.

Summary

Transition to Financial Instruments	Premia £'000	Discount£'00 0	Revenue £'000	FIAA £'000
Balance c/f 31 March 2007	9,549	(1,014)		
New SORP 1 April 2007 Deferred premia to Revenue	(9,549)		9,549	
New SORP 1 April 2007 Deferred discount to Revenue		1014	(1,014)	
New Regulations 1 April 2007 – Deferred premia to FIAA			(9,549)	9,549
New Regulations 1 April 2007 – Deferred discounts to FIAA			1,014	(1,014)
Total Effect	(9,549)	1,014	0	8,536

Investments

The two investments are currently held at market value (book cost plus movements in the price since purchase). After advice from the fund managers these have been deemed to be assets held at 'fair value through profit and loss'. These assets need to be held at fair value, which would include any accrued interest on the investments.

In addition all accrued interest needs to be added to the assets by bringing it out of debtors. Accrued interest totalled £1.822m

Effect: Accrued interest is moved from Debtors and added to the value of the investment.

Debtors

This includes the accrued interest relating to long term investments to reflect fair value.

Effect: Move accrued interest to investments. No effect on the Net worth of the Council.

Items of Income, Expense, Gains or Losses

The gains and losses recognised in the Income and Expenditure account and STRGL in relation to financial instruments are as follows:

Income, Expense, Gains and Losses recognised in the I&E and STRGL	Financial Liabilities	Financial Assets
	Liabilities measured at amortised cost	Loans & Receivables
Interest payable and similar charges	54,910	
Interest and Investment Income		11,640

A comparison of the carrying amounts of financial assets and liabilities in the balance sheet with their fair value is made in the table below

Fair Value Comparison	Carrying Amount	Fair Value
Liabilities Financial Liabilities at amortised cost	777,395	907,662
Assets Loans and receivables	279,083	279,083
The fair value is higher than the carrying amount because the authority's portfolio of debts include a number of historic fixed rate loans where the interest rate payable is higher than the rates available for similar loans at balance sheet date.		

Nature and Extent of Risks arising from Financial Instruments and how the authority manages those risks

The following disclosures set out the risks to which the authority is exposed in its dealings with financial instruments. 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 its 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, foreign currency exchange rates.

The authority's approach to risk is set out in 2007/08 Investment Strategy and Prudential Indicators 2007/08 – 2009/10 as presented to Cabinet in February 2007. The Treasury Management Practices document provides written principles for overall risk management as well as detailed policies covering investment and borrowing.

Credit Risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the authority's customers. Deposits are made with a defined list of institutions with the generic criteria, as follows:

Minimum Ratings

Category 1 - £10m up to 36 months - AA-, F1+, B, 2

Category 2 - £10 m up to 12 months - A, F1, B, 3

Category 3 - £10 up to 12 months (Moody's) A3, P-1, C

Category 4 £50m up to 3 months (DMADF) N/A

The authority does not lend more than 5% of its balances (other than its bankers overnight, by default) to any institution. Counterparties are assessed in accordance with parameters set by and reviewed by the Council.

Liquidity Risk

As the authority has ready access to borrowings from the Public Works Loan Board, there is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments. Current borrowing levels and PWLB maturities are within the Prudential limits agreed by full council.

Market Risk

This risk has been defined by the SORP as the possibility that the value of an instrument will fluctuate because of changes in interest rates, market prices, foreign currency exchange rates.

All of the authority's borrowings are at fixed rates. The possibility that the value will fluctuate is therefore nil.

The authority has no financial assets or liabilities in foreign currencies and therefore have no exposure to loss arising from movements in exchange rates.

Gains and Losses

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

	Financial Liabilities		Financial Assets		Total
	Liabilities measured at amortised cost		Loans and receivables	F.V through P&L assets	
	£s	£s	£s	£s	
Interest expense	54,889,529			0	54,889,529
Losses on derecognition	0			0	0
Provision for unrealised gains / losses	0			20,753	20,753
Interest payable and similar charges	54,889,529		0	20,753	54,910,282
Interest income			8,927,233	2,713,122	11,640,354
Gains on derecognition			0		0
Interest and investment income	0	8,927,233	2,713,122		43,269,927

Credit Risk Exposure

The following analysis summarises the authority's potential maximum exposure to credit risk, based on experience of default and uncollectability over the last five financial years, adjusted to reflect current market conditions.

	Amount at 31-Mar-08	Historical experience of default	Historical experience adjusted for market conditions at 31-Mar-08	Estimated maximum exposure to default and uncollectability
	£000s	%	%	£000s
	A	B	C	(A X C)
Deposits with banks and financial institutions*	219,700	0	0.00	0
External Investments	43,420	0	0.00	0
Sundry Debtors	<u>15,963</u>	0.03	0	<u>479</u>
	<u>279,083</u>			<u>479</u>

All trade payables and receivables are due for settlement within one year. Debtors and Creditors falling within this definition are disclosed with their policies in the balance sheet.

No credit limits were exceeded during the reporting period and the authority does not expect any losses from non-performance by any of its counterparties in relation to deposits.

	Amount	% Holding	Credit Rating	Credit Limit
BUILDING SOCIETIES				£'000
BOI	5,000,000		AA-, F1+ B	10,000
BRITANIA	5,000,000		A, F1, B/C	10,000
BRITANIA	5,000,000		A,F1, B/C	10,000
CHELSEA	1,000,000		A, F1, B	10,000
CHELSEA	4,000,000		A, F1, B	10,000
CHELSEA	5,000,000		A, F1, B	10,000
CESHIRE	5,000,000		A3, P-2, C-	10,000
CESHIRE	5,000,000		A3, P-2, C-	10,000
COVENTRY	5,000,000		A, F1, B	10,000
COVENTRY	5,000,000		A, F1, B	10,000
DERBYSHIRE	5,000,000		A3, P-2, C-	10,000
DERBYSHIRE	5,000,000		A3, P-2, C-	10,000
LEEDS	5,000,000		A, F1, B	10,000
LEEDS	5,000,000		A, F1, B	10,000
NATIONWIDE	5,000,000		AA-, F1+, A/B	10,000
NATIONWIDE	5,000,000		AA-, F1+, A/B	10,000
NORWICH & PETERBOROUGH	10,000,000		A2, P-1, C	10,000
PRINCIPALITY	10,000,000		A-, F1, B/C	10,000
SKIPTON	10,000,000		A, F1, B	10,000
WEST BROMICH	5,000,000		A-, F1, B/C	10,000
WEST BROMICH	5,000,000		A-, F1, B/C	10,000
YORKSHIRE	5,000,000		A+, F1, B	10,000
YORKSHIRE	<u>5,000,000</u>		A+, F1, B	10,000
	<u>125,000,000</u>	56.90%		

	Amount	% Holding	Credit Rating	Credit Limit
BANKS				£'000
Anglo Irish	5,000,000		A+, F1, B	10,000
Anglo Irish	5,000,000		A+, F1, B	10,000
DEPFA	5,000,000		AA-, F1, B	10,000
NATIONAL AUSTRALIA	10,000,000		AA, F1+, A/B	10,000
DEPFA	5,000,000		AA-, F1, B	10,000
AIB	10,000,000		AA-, F1+, B	10,000
RBS	10,000,000		AA, F1+, A/B	10,000
DEXIA	10,000,000		AA+, F1+, B	10,000
BOI	5,000,000		AA-, F1+, B	10,000
BARCLAYS	10,000,000		AA, F1+, A/B	10,000
COOP	<u>9,700,000</u>			
	<u>84,700,000</u>	38.55%		
COUNCILS				
GLASGOW CITY	<u>10,000,000</u>	4.55%		
TOTAL ALL SECTORS	219,700,000	100.00%		

Liquidity risk

As the authority has ready access to borrowing from the Public Works Loans Board, there is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments. Instead, the risk is that the authority will be bound to replenish a significant proportion of its borrowing at a time of unfavourable interest rates.

The maturity analysis of financial liabilities is as follows:

		PWLB	LOAN STOCK	TOTAL	Proportion of Existing Debt
Less than one year	2008/09	8,694,595	-	8,694,595	1%
Between one and two years	2009/11	8,203,248	-	8,203,248	1%
Between two and five years	2011/16	200,001,624	-	200,001,624	26%
More than five years	2016+	<u>556,899,390</u>	<u>3,596,000</u>	<u>560,495,390</u>	<u>72%</u>
		<u>773,798,857</u>	<u>3,596,000</u>	<u>777,394,857</u>	<u>100%</u>

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

Housing Revenue Income and Expenditure Account

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

2006/07 £'000	Housing Revenue Account Income and Expenditure Account	2007/08 Notes £'000
	Income	
	Gross Rental Income	
(111,369)	- <i>Dwellings Rents (gross)</i>	(113,241)
(4,358)	- <i>Non-Dwellings Rents (gross)</i>	(3,050)
(17,264)	Charges for Services & Facilities	(18,281)
(755)	Transfers from General Fund - Communal Use	(775)
(65,691)	HRA Subsidy Receivable	(68,043)
0	Contributions towards Expenditure	0
0	Reduced Provision for Bad or Doubtful Debts	0
0	Sums directed by the Secretary of State (Loan principal & premia)	(15,195)
<u>(199,437)</u>	Total Income	<u>(218,585)</u>
	Expenditure	
27,044	Repairs and Maintenance	25,804
51,625	Supervision and Management	83,225
0	PFI Arrangements	(29,645)
2,056	Rents, Rates, Taxes and Other Charges	1,996
296	Increased Provision for Bad or Doubtful Debts	661
21,065	Depreciation of Fixed Assets	19,932
311	Impairment of Fixed Assets	100,755
(379)	Government Grants Deferred written out	(526)
61	Debt Management Costs	40
0	Sums directed by the Secretary of State (Debt Premia)	1,398
<u>102,079</u>	Total Expenditure	<u>203,640</u>
(97,358)	Net Cost of Services as per Council's Income and Expenditure Account	(14,945)
2,082	HRA share of Corporate and Democratic Core	2,808
<u>(95,276)</u>	Net Cost of Services inc HRA share of none allocated specific services	<u>(12,137)</u>
50,434	HRA interest payable	49,491
(651)	Amortisation of premiums and discounts HRA Interest and Investment Income	(823)
<u>(45,493)</u>	(Surplus)/Deficit on HRA Services	<u>36,531</u>

The impairment relates to the £99.52m capital expenditure on dwellings which is deemed to have only added £25.02m to the value of assets, and the revaluation down on the Packington Estate prior to its transfer

The Sums directed by the Secretary of State relate to the repayment by the DCLG of debt and premia related to the Packington Estate after it's transfer. This has been shown as a separate line to provide clarity to the reader.

Statement of Movement on the Housing Revenue Account Balance

This Statement performs a similar reconciliation as in the Council's Statement of Movement on the General Fund Balance.

2006/07 £'000	Statement of Movement on the HRA Balance	2007/08 £'000	Notes
(42,384)	Surplus or Deficit for year on the HRA Income and Expenditure Account	36,531	
41,818	Net additional amount required by statute to be debited or credited to the HRA Balance for the year	(37,244)	
(566)	Increase or decrease in the HRA Balance	(713)	
(7,607)	HRA Balance brought forward	(8,173)	
0	Decrease in the HRA Balance during the year	200	
(8,173)	HRA Balance carried forward	(8,686)	

This Statement performs a similar reconciliation as in the Council's notes to the Statement of Movement on the General Fund Balance.

2006/07 £'000	Note on Reconciling Items for the HRA Balance	2007/08 £'000
<i>Items included in the HRA Income and Expenditure Account but excluded from the movement on the HRA Balance for the year</i>		
(311)	Impairment of Fixed Assets	(100,755)
379	Government Grants Deferred written out	526
0	Loan principal repaid - Sum directed by the Secretary of State	13,797
(287)	Transfers to/from Major Repairs Reserve	(398)
	Public Finance Initiative (PFI) arrangements	
11,956	- PFI 1 (Housing)	6,980
10,966	- PFI 2 (Housing)	22,665
(75)	Net charges made for retirement benefits in accordance with FRS17	(34)
22,628		(57,219)
<i>Items not included in the HRA Income and Expenditure Account but included in the movement on the HRA Balance for the year</i>		
	Employer's contributions payable to the Pension Fund and retirement benefits payable direct to pensioners	
49		30
0	Amortisation of premiums and discounts	3,024
15,439	Capital Expenditure funded by the HRA	17,121
15,488	Balance carried forward	20,175
<i>Net additional amount required by statute to be debited or credited to the HRA Balance for the year</i>		
3,702	Amounts transferred to/from Reserves	(200)
41,818	Balance carried forward	(37,244)

Notes to the Housing Revenue Account

1. Number and types of Dwellings

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

2006/07	Housing stock numbers	2007/08
Nos		Nos
20,280	Flats	19,628
1,857	Houses	1,839
137	Multiple Occupation	50
<u>22,274</u>		<u>21,517</u>

2. Value of Dwellings

The value of Council Dwellings as at 31st March 2008 was £1.610 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 37% in 2007/08 (the same as 2006/07), which means that the vacant possession value of the dwellings within the HRA as at 31st March 2008 is £4.347 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.

2006/07	Housing Assets - Value	2007/08
£'000		£'000
	<i>Operational Assets</i>	
1,573,775	Council dwellings	1,609,647
7,544	Other Dwellings (Multiple Occupation)	6,913
122,371	PFI 1 Land	115,625
<u>122,746</u>	PFI 2 Land	<u>133,701</u>
1,826,436	<i>Sub Total</i>	1,865,885
9,453	Other Land & buildings	12,233
2,822	Infrastructure Assets	6,046
377	Surplus Non-operational assets	377
111	Community Assets	110
1,320	Investment Properties	1,319
<u>2,981</u>	Assets under Construction	<u>0</u>
<u>1,843,500</u>	Total	<u>1,885,970</u>

3. Major Repairs Reserve

Expenditure financed from the Major Repairs Reserve amounted to £21.0m in 2007/08 (£28.8m in 2006/07).

2006/07	Major Repairs Reserve	2007/08
£'000		£'000
(9,858)	Balance as at 1st April	(1,494)
(20,687)	Transfer from capital Financing Account (equivalent to HRA depreciation)	(19,932)
287	Transfer to/(from) HRA	398
28,764	Capital Expenditure on Dwellings	21,027
	Other adjustments	
<u>(1,494)</u>	Balance as at 31 March	<u>(0)</u>

4. Housing Repairs Account

Islington Council does not keep a Housing Repairs Account.

5. Capital Expenditure and Capital Receipts

The Council spent £99.5m on the Housing Stock in 2007/08 (£103.1m in 2006/07). Capital Receipts in year amounted to £100m, of which £14.3m was paid to Central Government.

2006/07 £'000	HRA Capital Expenditure	2007/08 £'000
103,121	Works to HRA Dwellings / Other Properties	99,519
<u>103,121</u>	Total	<u>99,519</u>

2006/07 £'000	Capital Expenditure by Funding Source	2007/08 £'000
35,021	Borrowing	43,066
21,106	Usable Capital receipts	14,586
15,439	Revenue Contributions	16,771
28,764	Major Repairs Reserve	21,027
2,791	Other	4,069
<u>103,121</u>	Total	<u>99,519</u>

2006/07 £'000	Summary of Capital Receipts	2007/08 £'000
42,975	Usable	85,670
15,929	Paid to DCLG	14,280
0	Reserved	0
<u>58,904</u>	Total	<u>99,950</u>

2006/07 £'000	Summary of Capital Receipts per Property Category	2007/08 £'000
361	Land	0
58,544	Dwellings & Other Properties	99,950
<u>58,905</u>	Total	<u>99,950</u>

6. Depreciation

The amount included in the Housing Revenue Account Income and Expenditure Account for Depreciation amounted to £19.9m in 2007/08 (£21.1m in 2006/07).

2006/07 £'000	Depreciation	2007/08 £'000
20,778	Council Dwellings	19,534
131	Other Land & Buildings	223
156	Infrastructure Assets	175
<u>21,065</u>	Total Depreciation	<u>19,932</u>

7. Impairment

Impairment to the value of £100.76m was identified during 2007/08 (£311,000 for 2006/07).

8. Proper practice

The analysis of the items included in the Statement of Movement on the Housing Revenue Account Balance is shown immediately after that statement.

9. Subsidy

HRA Subsidy received in 2007/08 amounted to £68m (£65.7m in 2006/07). The calculation of the sum receivable is set out in the table below.

2006/07	HRA Subsidy Breakdown	2007/08
<i>£'000</i>		<i>£'000</i>
70,709	Management & Maintenance	69,546
20,778	Major Repairs	19,534
58,782	Charges for Capital	59,111
1,296	Other Reckonable Expenditure	1,836
-28	Interest on Receipts	-21
-102,767	Guideline Rent Income	-108,533
1,654	Rental Constraint Allowance	3,319
15,207	PFI	22,855
66	Transitional Housing Grant	0
-6	Prior Year Adjustment	396
<u>65,691</u>	Total Subsidy	<u>68,043</u>

10. Contribution to Pension Reserve

HRA share of the contribution to the Pension Reserve in 2007/08 was £4,000 (£26,000 in 2006/07).

11. Rent Arrears

Outstanding rent arrears at 31st March 2008 were £8.1m. The amounts outstanding at 31st March 2007 were £9.5m. During 2007/08, irrecoverable rent arrears of £1.146m were written off. The cumulative bad debt provision for rent arrears within the HRA account is £4.85m. The table below shows the comparison of rent arrears over 2006/07 and 2007/08.

2006/07	Rent Arrears	2007/08
<i>£'000</i>		<i>£'000</i>
5,963	Current Tenants	4,791
3,530	Former Tenants	3,344
<u>9,493</u>	Total	<u>8,135</u>

12. Sums directed by Secretary of State

As part of the Packington Stock Transfer the DCLG repaid debt relating to the estate and the resultant premia incurred. This has been shown as income to the HRA and the premia payment as expenditure.

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 National Non-Domestic Rates.

2006/07 £'000	The Collection Fund Summary Income and Expenditure Account	2007/08 £'000
	Income	
(71,272)	Income due from Council Tax Payers (net of benefits, discounts for prompt payments and transitional relief)	(75,118)
	Transfers from General Fund	
(26,627)	Council Tax Benefits	(27,152)
(97,899)	Total Income Due in Respect of Council Tax	(102,270)
(127,354)	Income Collectable from Business Ratepayers	(115,891)
	Contributions	
	Towards previous year's Collection Fund Deficit	-
0	LB Islington	0
0	Greater London Authority	0
(225,253)	Total Income	(218,162)
	Expenditure	
	Precepts & Demands	
11	Lloyd Square	11
23,033	Greater London Authority	25,100
71,985	London Borough of Islington	75,619
95,029	Total Precepts & Demands	100,730
	Business Rate	
126,681	Payment to National Pool	115,229
673	Costs of Collection	663
	Bad and Doubtful Debts / Appeals	
125	Write Offs	161
3,589	Provisions	694
	Distribution of Surplus	
1,185	London Borough of Islington	665
334	Greater London Authority	213
0	Adjustment of previous years' community charges	0
227,616	Total Expenditure	218,355
2,363	(Surplus) / Deficit for the Year	193
	Collection Fund Account Reserves	
(1,993)	(Surplus) / Deficit Brought Forward	370
2,363	(Surplus) / Deficit for the Year	193
370	(Surplus) / Deficit Carried Forward	563

Notes to the Collection Fund Statement

C1. Council Tax Base

For 2007/08, there were an estimated 78,923 (in 2006/07 there were 76,040) residential properties in Islington which were placed in one of eight valuation bands depending on their capital value. The totals for each band are converted by use of appropriate multipliers and expressed in terms of a number of Band D dwellings to give a tax base. For example, for Band A there were 833 chargeable properties, but as all properties have to be expressed in terms of their Band D equivalent, all bands are adjusted by a % in order to restate them as Band D equivalents. For Band A, only 66.7% of the Band D Council tax is collectable for each property so 66.7% of the 833 Band A properties is used in calculating the Band D equivalent tax base to give 555 Band D equivalent properties. The tax base for Islington was 82,597 equivalent Band D properties, (79,807-2006/07) 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 i.e. the tax base.

Band	2007/08 Chargeable Dwellings	Proportion of Tax Due for a Band D Property	2007/08 Band D Equivalent Dwellings	2006/07 Band D Equivalent Dwellings
A	833	66.7%	555	463
B	4,648	77.8%	3,615	3,549
C	23,168	88.9%	20,595	20,050
D	25,141	100.0%	25,141	23,519
E	11,948	122.2%	14,603	14,293
F	6,414	144.4%	9,264	8,997
G	5,963	166.7%	9,938	9,966
H	807	200.0%	1,615	1,608
Total Band D Equivalents	78,923		85,326	82,445
Budgeted Collection Rate			96.80%	96.80%
Net Council Tax Base			82,595	79,807

C2. National Non-domestic Rates (NNDR).

Under the arrangements for uniform business rates, the Council collects non-domestic rates for its area, which are based on local rateable values multiplied by a uniform rate. The total amount, less certain reliefs and other reductions, is paid back to a central pool (NNDR Pool) managed by central government, which in turn pays back to authorities their share of the pool based on the standard amount per head of resident populations.

The total non-domestic rateable value at 31st March 2008 was £354m (£371m at 31st March 2007). The National Non-Domestic Rate multiplier for the year was 44.1p (42.6p in 2006/07), giving a possible non-domestic rate income of £156m (£158m in 2006/07).

C3. Precepts and Demands on Council Tax.

Details of the Demand by Islington Council and the Precepts demanded by the Greater London Assembly are disclosed in full on the face of the Collection Fund.

C4. Contributions towards previous year's Collection Fund Surplus/Deficit

Details of the Contributions towards previous year's Collection Fund Surplus/Deficit are disclosed in full on the face of the Collection Fund Statement.

Group Accounts

Local authorities are moving away from traditional ways of providing services and this makes it increasingly difficult for the authority's own financial statement to present fairly all aspects of control over service provision and accountability for resources and exposure to risks that the authority has taken on. This prompted the need for group accounts.

By preparing group accounts, the reader will be able to see all the resources available to the Council, how they have been used and the risks the Council is exposed to by providing services in this non-traditional way.

The Council had to determine whether it has any interests in subsidiaries, associates or joint ventures. Of these, where it could be demonstrated that the Council had control or a significant or dominant influence over the entities operating and financial policies, these entities would be included in the Council's group accounts. The group accounts have been prepared in accordance with the United Kingdom Generally Accepted Accounting Practice (UK GAAP) and provisions of the Companies Act.

The summarised group statements that follow show the consolidated position of the authority and its interest in Homes for Islington Ltd. In considering the group relationships, the following approach was adopted for each company / organisation in which the Council is involved, as prescribed in the Local Authorities Statement of Recommended Practice.

- Establish whether the Council has an interest in a body
- Establish whether a body is delivering a service or carrying on a trade or business of its own
- Establish whether the Council has access to benefits (future economic benefits or service potential) or exposure to the risk for potential loss
- Establish whether the Council controls the majority of equity capital or equivalent voting rights or appoints the majority of the governing body.

Company Limited By Guarantee

A company limited by guarantee is an alternative type of incorporation used primarily for non-profit organisations that require corporate status. A company limited by guarantee does not have share capital, but has members who are guarantors instead of shareholders.

The guarantors give an undertaking to contribute a nominal amount, towards the winding up of the company, in the event of a shortfall upon cessation of business. It cannot distribute its profits to its members, and is therefore eligible to apply for charitable status if necessary.

Notes to the Group Accounts

The following notes to the group accounts disclose transactions/balances that are deemed to be significant.

Group Income and Expenditure Account for the Year Ended 31 March 2008

2006/07	Group Revenue Account	2007/08	2007/08	2007/08
Net Expenditure £'000		Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000
2,822	Central Services to the Public	34,241	(32,333)	1,908
47,396	Cultural, Environmental and Planning Services	96,382	(43,675)	52,707
2,173	Highways, Roads and Transport Services	42,623	(43,776)	(1,153)
11,871	Housing Services	170,512	(152,795)	17,717
(97,358)	Housing Revenue Account (HRA)	203,640	(218,585)	(14,945)
67,286	Adult Social Care	88,902	(24,199)	64,703
59,840	Children & Education	301,931	(240,023)	61,908
12,182	Corporate and Democratic Core	14,158	(2,929)	11,229
661	Non Distributed Costs	6,369	0	6,369
	Exceptional Item			
592	Surpluses / Deficits on Trading Undertakings	18,457	(18,467)	(10)
13,447	Levies	13,895	0	13,895
120,912	Net Cost of Services	991,110	(776,782)	214,328
(767)	(Profit) /Loss on Disposal of Fixed Assets	6,250		6,250
58,804	Interest Payable & Similar Charges	54,946		54,946
15,931	Contribution to Housing Pooled Capital Receipts	14,280		14,280
(7,429)	Interest and Investment Income		(11,938)	(11,938)
6,814	Pensions Interest Cost and Expected Return on Pensions Assets	48,357	(43,492)	4,865
33	Corporation Tax	85		85
194,299	Net Operating Expenditure	1,115,028	(832,212)	282,816
(73,181)	Demand on the Collection Fund			(75,619)
(23,705)	General Government Grants			(21,757)
(119,926)	Non Domestic Rates Redistribution			(125,684)
(22,512)	Net General Fund (Surplus) / Deficit.			59,756

Group Balance Sheet as at 31 March 2008

31 March 2007 £000	Group Balance Sheet	31 March 2008 £000
1,487	Fixed Assets	
	Intangibles Assets	1,825
	Tangible Fixed Assets	
	Operational Assets	
1,853,386	Council Dwellings	1,864,685
519,164	Other Land and Buildings	632,963
2,942	Vehicles, Equipment & Plant	7,128
91,762	Infrastructure Assets	113,515
12,515	Community Assets	13,409
	Non-Operational Assets	
54,978	Fixed Assets Under Construction	4,381
75,696	Investment Properties	45,336
4,747	Surplus Non-operational Assets	5,202
2,616,677	Total Fixed assets	2,688,444
444,574	Long Term Debtors & Prepayments	398,585
3,061,251	Total Long-Term Assets	3,087,029
	Current Assets	
368	Stock and Work-in-Progress	820
137,190	Sundry debtors	111,215
44,186	Investments	263,120
1,776	Cash and Bank	6,648
3,244,771	Total Assets	3,468,832
	Current Liabilities	
139,976	Creditors	168,182
15,985	Short-term Borrowing	8,695
13,870	Cash and Bank Overdrawn	16,733
3,074,939	Total Assets Less Current Liabilities	3,275,222
(696,075)	Long -Term Borrowing	(768,723)
(189)	Deferred Capital Receipts	(4,165)
(14,112)	Provisions	(15,512)
(104,475)	Government Grants - Deferred	(108,003)
(2,647)	Deferred Liabilities	(2,136)
(226,921)	Liability related to defined benefit pension scheme	(352,915)
2,030,521	Total Assets Less Liabilities	2,023,767
	Financed by:	
0	Revaluation Reserve	107,688
2,135,835	Capital Adjustment Account	2,110,760
(8,535)	Financial Instruments Adjustment Account	(5,512)
74,196	Capital Receipts Reserve	101,004
18,121	General Fund Balance	19,326
(17,592)	Homes for Islington Reserves	(20,023)
(209,029)	Pensions Reserve	(332,592)
1,494	Major Repairs Reserve	0
28,227	Earmarked Reserves	34,992
8,174	Housing Revenue Account	8,687
(370)	Collection Fund	(563)
2,030,521	Group Balances and Reserves	2,023,767

Explanatory Notes to the Group Accounts

- G1. The Group Accounts have been prepared using the acquisition method and include the accounts of the Council and its subsidiary, Homes for Islington (HFI).
- G2. Homes for Islington was incorporated on the 4th April 2004; it is a wholly owned subsidiary of the Council and is limited by guarantee.
- G3. HFI is an Arms Length Management Organisation (ALMO) and is responsible for managing and providing all the Housing related services such as repairs and maintenance of Council dwellings.
- HFI's auditors are RSM Robson Rhodes LLP, 30 Finsbury Square, London, EC2P 2YU.
- G4. There has been no qualification to the audit opinion in respect of HFI and the accounts can be obtained at Highbury House, 5 Highbury Crescent, London N5 1RN.
- G5. Summary of HFI transactions included in Group Revenue Account

2006/07 £'000	Summary of HFI Transactions Included in Group Revenue Account	2007/08 £'000
1,547	Operating Loss/ (Profit)	3,065
(157)	Interest Receivable	(288)
(87)	Pensions Interest Cost and Expected Return on Pensions Assets	224
33	Corporation Tax	85
<u>1,336</u>		<u>3,087</u>

- G6. Summary of HFI balances included in Group Balance Sheet after elimination of inter-group consolidation adjustments

LBI £'000	2006/07		Summary of Balances Included in Group Balance Sheet	2007/08		Total £'000
	LBI £'000	HFI £'000		LBI £'000	HFI £'000	
2,616,366	310,853	2,616,677	Fixed Assets	2,688,210	234	2,688,444
			Debtors			
137,058	132	137,190	- Current	111,120	95	111,215
444,574	-	444,574	- Long Term	398,585	0	398,585
-	1,776	1,776	Cash	-	6,648	6,648
(209,029)	(17,892)	(226,921)	Pension Liability	(332,592)	(20,323)	(352,915)
			Creditors			
(126,302)	(13,674)	(139,976)	- Current	(155,501)	(12,681)	(168,183)
(696,043)	(31)	(696,075)	- Long Term	(768,700)	(23)	(768,723)
(13,190)	(922)	(14,112)	Provisions	(14,853)	(660)	(15,512)
(13,870)	-	(13,870)	Bank Overdraft	(16,733)	-	(16,733)

Group Statement of Total Recognised Gains and Losses

2006/07 £'000	Group Statement of Total Recognised Gains and Losses	2007/08 £'000
(22,512)	Net surplus or deficit for the year	59,756
(15,697)	Surplus or deficit on revaluation of fixed assets	(171,700)
(42,979)	Actuarial gains and losses on pension fund assets and liabilities	118,505
(3,112)	Any other gains or losses recognised in the STRGL	193
(84,300)	Total recognised gains and losses for the year	6,754

Group Cash Flow Statement 2007/08

2006/07 £'000	Group Cash Flow Statement	2007/08 £'000
74,743	Net Cash Flow on Revenue Activities	196,379
	Returns on Investments and Servicing of Finance	
	Cash Outflows	
(58,666)	Interest Paid	(59,587)
(4)	Interest element of finance lease rental payments	(2)
	Cash Inflows	
11,760	Interest Received	8,850
(46,910)	Returns on Investments and Servicing of Finance Net Cash Flow	(50,739)
(25)	Taxation	(85)
	Capital Expenditure and Financial Investments	
	Cash Outflows	
(145,458)	Purchase of Fixed Assets	(138,826)
(19,473)	Other Capital Cash Payments	(11,311)
(2,273)	Increase in Long Term Investments	
	Cash Inflows	
42,835	Sale of Fixed Assets	99,255
51,097	Capital Grants Received	(20,814)
3,648	Other Capital Cash Receipts	10,977
(69,624)	Capital Activities Net Cash Flow	(60,719)
(41,816)	Net Cash (Inflow) / Outflow Before Financing	84,836
	Management Of Liquid Resources	
37,140	Increase / (Decrease) in Short Term Deposits	(148,182)
	Financing	
	Cash Outflows	
(105,830)	Repayments of Amounts Borrowed	(13,797)
(15)	Capital element of finance lease rental payments	(12)
	Cash Inflows	
115,999	New Loans Raised	79,164
10,154	Financing Net Cash Flow	65,355
5,478	(Increase) / Decrease In Cash	2,009

**Reconciliation of Surplus/(Deficit) to Net
Cash Inflow/(Outflow) from Operating
Activities**

	2007/08 £'000	2007/08 £'000
Surplus/(Deficit) for the Year		(59,756)
Non Cash Transactions		
Depreciation & Impairment	121,708	
Deferred Grants amortised in year	(3,365)	
Grants funding Deferred Charges amortised/written off during the year	1,365	
Deferred capital grants written off in year	(16,708)	
Net PFI debtor adjustments	29,909	
Pension Fund adjustments	7,205	
Contributions to Provisions	1,401	
	<hr/>	141,515
Adjustment for items reported separately on Cashflow		
Interest and Investment Income	(11,650)	
Interest payable and similar charges (including gains or losses on the repurchase or early settlement of borrowing taken to revenue & amortisation of gains or losses on repurchase or early settlement of borrowings c/fwd in accordance with the SORP)	54,946	
Taxation	85	
Interest element of finance lease rental payments	18	
Gain and Loss on disposal of fixed assets	3,458	
Deferred charges	9,604	
	<hr/>	56,461
Items on an Accrual Basis		
(Increase)/Decrease in Stock		(452)
(Increase)/Decrease in Debtors		24,288
Increase/(Decrease) in Creditors		34,323
		<hr/>
Net Cash Inflow/(outflow) from operating activities		196,379

2006/07 £'000	Reconciliation of the Council's Surplus for the Year to the Group Surplus	2007/08 £'000
(23,850)	Surplus on the Council's income and expenditure account for the year	56,669
1,338	Deficit in the Group Income and Expenditure attributable to group entities (adjusted for intra group transactions)	3,087
<hr/> (22,512)	Surplus for the year on the Group Income and Expenditure Account	<hr/> 59,756

Pension Fund

The principal purpose of the Islington 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 built up from contributions paid by both employees and the Council, together with interest and dividends received from the Fund's investments; out of which pensions and other benefits are paid. Employees' contributions to the Fund and the extent of benefits paid out are fixed by Government Regulations. An independent actuary assesses the Council's contribution rate every three years. The Local Government Pension Scheme is operated under regulations made under Sections 7 and 12 of the Local Government Superannuation Act 1972. The Regulations are the Local Government Pension Scheme Regulations 1997, as amended, and cover contributions, valuation of the Fund and benefits. The Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998, as amended, cover fund management and suitable investments. The Pension Fund Accounts have been drawn up in accordance with the provisions of Chapter 2 of the Statement of Recommended Practice "Financial Reports of Pension Schemes". The Statement of Investment Principles, Funding Strategy Statement and Governance Policy Statement, for the Fund are available on the Council's website www.islington.gov.uk. The easiest way to access this is through the A-Z button, under "Finance Department"; "The Council's Pension Fund; "Statement of Investment Principles" "Governance Policy Statement", and "Funding Strategy Statement".

Power is given in the 1997 Regulations (as amended) to admit employees of other organisations to the London Borough of Islington Pension Fund. As at 31 March 2008 the Council has 18 Admitted Bodies, four of which have frozen benefits only.

The 18 admitted bodies at 31 March 2008 were:

- Aquaterra
- Braithwaite TMO
- Brunswick TMO
- Cambridge Education Associates / Mott McDonald
- Camden & Islington Mental Health and Social Care Trust
- Caxton Islington Ltd
- Circle33 Housing Association
- Community Service Volunteers
- Dunlop Haywards (Erinaceous)
- FSST
- HFI
- St. Magdalene
- Islington Lighting Ltd
- Islington South (NCP Ltd)
- Mouchel Parkman
- Notting Hill Housing Trust
- Pleydell TMO
- Southern Housing Group

There are also four other admitted bodies that do not currently have any participating members. These are:

- ALA
- FSU
- Redbrick TMO
- St. Lukes TMO

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

2006/07 £'000	Income and Expenditure Account for the Pension Fund	Note	2007/08 £'000
	Contributions and benefits		
33,152	Contributions receivable	2	35,627
6,055	Transfers in		4,596
1,648	Other Income		2,508
<u>40,855</u>			<u>42,731</u>
(28,023)	Benefits payable	3	(28,771)
(5,535)	Payment to and on account of leavers	4	(4,020)
(1,124)	Administrative & other expenses borne by scheme	5	(1,323)
<u>(34,682)</u>			<u>(34,114)</u>
6,173	Net additions/withdrawals from dealing with members		8,617
	Returns on investment		
18,489	Investment income	6	18,238
33,060	Change in market value(realised & unrealised)		(53,663)
(1,865)	Investment management expenses		(1,885)
<u>49,684</u>			<u>(37,310)</u>
	Net return on investments		
55,857	Net increase/decrease in fund in year		(28,693)
662,210	Opening net assets of the scheme		718,067
<u>718,067</u>	Closing net assets of the scheme		<u>689,374</u>

Net Assets Statement

	Note	2007/08 £'000	2006/07 £'000
Investment assets	7	675,642	715,750
Borrowings		(100)	0
Current assets	8	16,712	7,817
Current liabilities	9	(2,880)	(5,500)
Net assets of the scheme at 31 March		<u>689,374</u>	<u>718,067</u>

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 obligation is dealt with in the Actuarial certificate and Annual Report and these accounts should be read in conjunction with them.

Notes to the Pensions Account

P1. Fund Membership

The fund membership contained in the table below consists of both Council employees and employees of Admitted Bodies, details of which are contained in note P1.

2006/07	Fund Membership	2007/08
No's		No's
5,638	Employees	5,838
4,016	Pensioners	4,059
776	Widows' / Childrens' Pensions	790
4,746	Former Members Entitlement to Deferred Benefits	4,992
<u>15,176</u>		<u>15,679</u>

P2a. The following table sets out an analysis of the contributions made by the Council and its Admitted bodies.

Contributions receivable - Employers contributions	Normal	Special	Strain
	Contributions	Contributions	Recovery
	£'000	£'000	£'000
CSV	1121	0	0
Aquaterra	198	0	0
Circle 33	34	0	0
Camden & Islington Mental Health SCT	45	0	0
Islington Council	19,224	310	1,191
HFI	2,195	0	118
CEA	967	0	0
FSST	20	0	0
Caxton	1,012	0	0
Notting Hill Trust	11	0	0
Islington South	14	0	0
Islington Lighting Ltd	20	0	0
Southern Housing Group	3	0	0
Braithwaite	4	0	0
Pleydell	4	0	0
Brunswick	3	0	0
Erinaceous GP	23	0	0
Mouchel Parkman	39	0	0
Totals	<u>24,937</u>	<u>310</u>	<u>1,309</u>

P2b. The following table sets out an analysis of the contributions made by Employees of the Council and its Admitted bodies.

Contributions receivable - Employees contributions	Normal Contributions £'000	Additional Voluntary Contributions £'000
CSV	427	0
Aquaterra	93	0
Circle 33	11	0
Camden & Islington Mental Health SCT	17	0
Islington Council	6,443	24
HFI	1,232	8
CEA	417	34
FSST	7	0
Caxton	307	3
Notting Hill Trust	5	0
Islington South	6	0
Islington Lighting Ltd	6	0
Southern Housing Group	2	0
Braithwaite	3	0
Pleydell	1	0
Brunswick	1	0
Erinaceous GP	9	0
Mouchel Parkman	15	0
	<u>9,002</u>	<u>69</u>

P3. Expenditure

a) Benefits provided by the scheme include:

- Retirement pensions at normal retirement age or earlier should the Council's medical adviser decide that a member be retired on grounds of ill health, or on grounds of redundancy or efficiency of the service at or after the age of fifty.
- Pensions for widows and widowers and in certain circumstances children's pensions.

b) Lump sum payments on retirement or death in service. Retirement benefits are normally based on a members' pensionable pay over the last year of service, whilst the lump sum payment in respect of death in service is twice the actual final year's pay.

c) A contributor who leaves the service of the Council or opts out of the scheme and has less than three months membership (or less than 2 years if joined before 1 April 2004) may take a refund of contributions, so long as not re-entering the scheme within one month and one day of leaving/opting out. Any refund is subject to certain statutory deductions. However, where the member's service is three months or more (or two years or more if joined the scheme before 1st April 2004), no refund can be given, instead preserved benefits are awarded which are accrued up to the contributor's last day of service and are payable when benefits would normally become payable had the contributor remained in the employment of the Council. In certain circumstances, it may be possible to transfer accrued membership to another local authority or to an outside scheme/arrangement.

d) Payment of a Contribution Equivalent Premium (CEP) restores the Employee's rights in the state pension scheme as if he/she had not been contracted out, and extinguishes his/her accrued rights to a guaranteed minimum pension (GMP) in the local government pension scheme.

e) Regulations permit the Council to charge administration costs and the investment managers' fees to the Fund. Administration costs represent officers' salaries and other expenses for work on scheme administration and investment-related matters and central establishment and computer recharges. The fees paid to the investment managers are their charges for managing the investments of the Fund.

P4. 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 Retirement Benefits	Lump Sum Death Benefits
	£'000	£'000	£'000
CSV	254	143	44
Aquaterra	99	41	0
Circle 33	25	0	0
Camden & Islington Mental Health SCT	20	0	0
Islington Council	24,041	2,538	274
HFI	320	140	2
CEA	198	146	0
FSST	5	0	0
Caxton	196	153	56
Islington South	25	9	1
Islington Lighting Ltd	7	16	0
St Lukes	3	0	0
ALA	15	0	0
Totals	25,208	3,186	377

P5. Payments to and on Account of Leavers

Payment to and on Account of Leavers	Refunds of contributions	Individual Transfers Out
	£'000	£'000
CSV	1	142
Camden & Islington Mental Health SCT	0	94
Islington Council	10	3,300
HFI	1	185
CEA	0	276
Caxton	(2)	12
Totals	10	4,009

P6. Income from Investments

Investment Income	Equities	Fixed Income	Interest received	Accrued Interest	Totals
	£'000	£'000	£'000	£'000	£'000
Own Fund	6,119	0	143	1,965	8,227
AXA Framlington	718	0	0	20	738
Capital International	3,384	0	239	831	4,454
Insight Investment	0	2,073	29	1,059	3,161
UBS	0	1,148	39	471	1,658
Totals	10,221	3,221	450	4,346	18,238

P7. The following tables provide a breakdown of all investments (excluding cash) held by the pension fund

Investment Assets by Type	2007/8 £'000	2006/7 £'000
Fixed interest securities		
UK quoted	131,681	132,925
Overseas corporate quoted	11,470	10,037
	<u>143,151</u>	<u>142,962</u>
Equities		
UK quoted	246,575	280,517
Overseas quoted	203,795	217,698
	<u>450,370</u>	<u>498,215</u>
Pooled investment vehicles		
Managed Funds	524	699
Private Equity	18,603	8,410
UK Unit trusts		
Property	28,384	26,702
Derivative contracts		
Futures contracts	21,746	33,253
Cash deposits		
Sterling	12,864	
Foreign currency		

All fund managers operating the pooled investment vehicles are registered in the United Kingdom.

The table below details the Fund's investments by asset manager and asset allocation.

Analysis by Asset Class	2007/08 %	2007/08 £'000
Fixed interest securities	21.44%	144,869
Equities	68.31%	461,516
Pooled investment vehicles	0.08%	524
Derivative contracts	3.22%	21,746
Properties	4.20%	28,384
Private Equity	2.75%	18,603
	<u>100.00%</u>	<u>675,642</u>
Analysis by Manager	%	£'000
AXA Framlington	5.03%	33,978
Barings	0.08%	523
Capital International	31.75%	214,498
European Strategic Fund	1.47%	9,946
Goldman Sachs	3.15%	21,300
Insight Investment	10.82%	73,137
Lime Properties - Morley	4.20%	28,384
London Borough of Islington	31.53%	213,040
Midland Venture Capital Trust	0.00%	26
Pantheon	1.28%	8,631
UBS	10.68%	72,179
	<u>100.00%</u>	<u>675,642</u>

P8.

Current Assets	2007/8 £'000	2006/7 £'000
Sundry	0	545
Contributions due from Employers	703	(984)
Investment income accrued	4,346	2,373
Sales Outstanding	1,490	4,038
Debtors	77	0
Cash & Bank	10,096	1,845
Total	16,712	7,817

P9.

Current Liabilities	2007/8 £'000	2006/7 £'000
Contributions due from employers	(490)	(503)
Purchases outstanding	(1,593)	(4,358)
Accrued expenses	(797)	(639)
Total	(2,880)	(5,500)

P10.

Income is credited to the Pension Fund consisting mainly of:

a) Employees' contributions of either 6% or 5% (former manual workers with lower rate rights, who were contributing 5% at 1 April 1998) of pensionable pay.

b) Employers' contributions determined by actuarial means at the last revaluation effective from 1 April 2005, fixed at 9.9% of pensionable payroll costs. In common with many other local authorities, the Pension Fund has a deficit. It was agreed with the actuary that the deficit on past service should be met by separate additional lump sum payments and recovered over twenty five years. A lump sum contribution of £8.74m was made in 2007/08.

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.

P11. 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 2004.

Pension Fund Triennial Revaluation

The Pension Fund Triennial revaluation carried out as at 31 March 2004 did not come into effect in terms of altered employer contributions until 1 April 2005. Under this revaluation the Fund

assets were valued at £486.1m and liabilities at £617.3m, a deficit of £131.2m. The funding level of the Pension Fund, revealed at the triennial revaluation, is thus 78.7%. The actuary has defined an employer contribution rate of 9.9% of pensionable pay for 2005/06, 2006/07 and 2007/08 and additional monetary amounts to be paid by the Council to address the deficit on the Fund, as detailed below.

Additional monetary amounts are paid each year (£8.74m in 2007/08, £8.44m 2006/07, £8.217m 2005/06) and inflated by the amount specified in the annual Pensions Increase Order, to complete a 25 year programme of payments to bring the Fund back to 100% funding. An interim valuation carried out as at 31 March 2005 showed the funding level had remained at 79% but projected an improvement at 30th September with a funding level of approximately 84%.

The contribution rates were calculated using the projected unit actuarial method and the main assumptions (2004 valuation) were as follows for future service:

- Rate of return on investments 6.5% per annum
 - Rate of general pay increases 4.25% per annum
 - Rate of increases to pensions in payment (in excess of Guaranteed Minimum Pensions) 2.5% per annum
- Assets have been valued at their mid-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.

P12. Accounting Policies.

The Fund's accounts are compiled in accordance with the Local Government Pension Scheme regulations 1997, and the current CIPFA Code of Practice.

Investments are stated at market value with any unrealised profit or loss accruing to the Fund balance, rather than being included in the Revenue Account.

Income and expenditure are accounted for on an accruals basis with the exception of liabilities to pay pension and other benefits in the future, and transfer values which are now accounted for on a cash basis in accordance with the July 1996 Pensions and Revenue Accounting Guidance (PRAG).

Dividends and interest due on investments, but not received are accounted for on an accruals basis. Market Value for securities is determined by Stock Exchange prices on the balance sheet date. Stock Exchange prices are provided externally by Extel.

Prices in foreign currencies have been converted into Sterling at the closing rates of exchange at the balance sheet date.

Overseas income is converted at the rates of exchange ruling when remitted.

Costs incurred in acquiring assets are included as part of the book cost of the investment.

Additional Voluntary Contributions: Scheme members are entitled to pay additional voluntary contributions on a money purchase basis to secure additional benefits in the pension scheme. These investments are held separately from the pension fund with providers Equitable Life, NPI

and Prudential Assurance Company. The investments are held in the form of with-profits, unit-linked and building society fund accounts.

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.

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 Financing 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 (BVACOP) 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.

Contingent Liabilities: Sums of money that the Council will be liable to pay in certain circumstances e.g. as a result of losing court cases. Contingent liabilities are either:

- (a) a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the organisation's control, or
- (b) a present obligation that arises from past events but is not recognised because:
 - (i) it is not probable that a transfer of economic benefits will be required to settle the obligation, or
 - (ii) the amount of the obligation cannot be measured with sufficient reliability.

A contingent asset arises from past events and whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the entity's control.

Council Tax: A tax on domestic property values.

Creditors: Amounts of money owed by the Council for goods or services received.

Debt Charges: The cost of borrowing money to meet capital expenditure, including principal payments and interest charges.

Debtors: Amounts of money owed to the Council for goods or services provided.

Deemed Debt: Outstanding loans inherited from ex GLC housing.

Deferred Capital Receipts: This refers to income of a capital nature that will be received in future accounting periods. A corresponding long-term debtor normally offsets it; for example, receipts related to mortgages made by the Council.

Deferred Charges: Expenditure of capital nature, met from borrowing but where there is no tangible asset e.g. improvement grants.

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 Financial Reporting Standard (FRS) 15.

Direct Expenses: Expenditure on employees or running costs that are directly controlled by the service involved.

Direct Revenue Financing (DRF): The use of revenue monies to pay for capital expenditure, also known as Revenue Contributions to Capital Outlay.

Disposals: Sales of Council's assets - see Capital Receipts.

Emoluments: All sums paid to or receivable by an employee including the money value of any other benefit received other than in cash.

External Auditors: The auditor appointed by the Audit Commission to carry out an audit of the Council's accounts. Currently this is the Operations Directorate of the Audit Commission, who have statutory responsibilities to ensure that:

- The Council's accounts are prepared in compliance with applicable statutory provisions;
- The Council has complied with the Best Value Accounting Code of Practice (BVACOP);
- 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.

Fixed Asset Restatement Account: Represents principally the balance of surpluses or deficits arising on periodic revaluation of fixed assets.

General Fund: The Council's main revenue account that covers the net cost of all services.

Government Grants Deferred: Government grant income which has been used to finance capital expenditure.

Housing General Fund: That part of the Housing Service's budget which does not relate to the Council's landlord functions. This includes costs of homelessness and rent allowances. These services appear as a separate Service Head within the General Fund budget.

Housing Revenue Account (HRA): A statutory account that contains all expenditure and income on the provision of Council Housing for rent. The HRA is a ring-fenced account within the General Fund. Local authorities are not allowed to make up any deficit on the HRA from its own resources.

Housing Subsidy: The grant paid by Central Government to local authorities to subsidise the cost of Council Housing. The grant is paid into the Housing Revenue Account.

Indirect Employee Expenses: Employee overheads and other costs incurred in employing staff apart from pay e.g. removal expenses etc.

Infrastructure: A classification of fixed assets which includes facilities required to enable other developments to take place (e.g. roads, street lighting) and similar environmental works.

Intangible Assets: An intangible item, such as software licences and development expenditure, may meet the definition of an asset when the Council controls access to the future economic benefits that it represents.

Leases: Certain types of leasing arrangements are not treated as capital expenditure and the Council can use them to lease computer equipment and vehicles without the costs having to be met from capital resources such as borrowing. They are known as "operating leases", but the Council must also consider the cost of future "leasing charges". This benefit does not apply to "finance leases" where ownership transfers to the lessee.

Leasing Charges: The annual rental payments on items such as vehicles and computers that have been leased by the Council. See Capital Financing Costs.

Levies: Payments to London-wide bodies such as the Lee Valley Regional Park Authority. The cost of these bodies is borne by local authorities in the area concerned based on their Council Tax base and is met from the General Fund.

Long Term Debtors: These debtors represent the capital income still to be received where sales of assets have taken place and deferred receipts such as mortgages have been agreed.

Members Allowances: Payments to Councillors, authorised by law, in respect of the costs incurred in carrying out their duties as elected representatives.

Minimum Revenue Provision: The minimum amount, which the Council must charge to the General Fund in the year, in respect of the repayment of principal of borrowing for capital purposes. The minimum provision is expressed as 4% of the Council's General Fund capital financing requirement.

Memorandum Account: These accounts are not part of the Council's formal statutory accounts and are included in the statement for added information.

National Non-Domestic Rates (NNDR): The rates paid by businesses. The amount paid is based on a rateable value set by the Inland Revenue multiplied by a national rate in the £ set by the Government. The rates are collected by local authorities and paid over to the Government. They are then redistributed on the basis of the resident population.

NNDR Pool: The NNDR pool is the fund operated by the Government into which all business rates are effectively paid and then from which they are redistributed to local authorities.

Preceptor: Preceptors are other authorities who get their income from the billing authorities in their area. In London there is now a single preceptor, the Greater London Authority (GLA). The Greater London Authority and its component bodies calculate their total spending needs for the year and the GLA sets its Council Tax in the same way as a London Borough. Each billing authority then collects their tax for them.

Provision: An amount of money set aside in the budget to meet known liabilities that will arise in the future but may not be quantifiable at present.

Provision for Losses on Collection: Local authorities are required to make an allowance for income that is unlikely to be collected. A provision for losses has to be taken into account when calculating the Council Tax levy - see Collection Rate

Prudential Code: This is new system, which plays a key role in capital finance and came into effect on 1st April 2004. It provides local authorities the financial freedom to borrow, provided that such borrowing is prudent, affordable and sustainable.

Rateable Value: The value of a property for rating purposes. The Inland Revenue sets rateable values. The rates payable by an individual business, are calculated by multiplying the rateable value of the property by the rate in the £ set by the Government.

Rate in the £: The rates payable by businesses is calculated by multiplying the rateable value of the property by a rate in the £ expressed in pence. The rate in the £ for 2006/07 was 43.6 pence. The rates payable on a particular property is therefore the rateable value multiplied by the rate in the £.

Recharges: A charge from one account to another to reflect the cost of a service provided. They are included in Service budgets under the heading of "Support Services".

Related Party Transactions: These are material transactions between the Council and other bodies (related parties) such as government departments, preceptors, the Pension Fund and Council funded organisations that must be disclosed in financial statements. In the context of the Statement of Accounts, material transactions between Councillors and Service Heads (and any member of their immediate family or other person living at the same address) with related parties must be disclosed. This includes directorships, employment at a senior level, or significant financial interests in companies or partnerships or voluntary organisations who have material transactions with the Council.

Reserves: The amounts held by way of balances and funds that are free from specific liabilities or commitments.

Revenue Contribution to Capital Outlay (RCCO): The use of revenue monies to pay for capital expenditure - also known as Direct Revenue Financing (DRF).

Revenue Support Grant: The main grant payable to support local authority revenue expenditure. A local authority's RSG entitlement is intended to make up the difference between expenditure, and income from the NDR Pool and Council Tax so that, if all local authorities spent in line Council Tax, would be the same throughout the country.

Section 151 Responsibilities: Section 151 of the Local Government Act 1972 (as amended) sets down responsibilities on the Council concerning the appointment of a Chief Financial Officer and the management of its financial affairs.

Service Level Agreements (SLAs): Written "contracts" for internal services to be provided by one Service Head (the provider) to another (the client or user). They set out the service to be provided, the duration, price and conditions of the service, and are agreed before the financial year begins.

Service Support Services Costs: The reallocation of the cost of Service administration over the services provided so as to show the full cost of each function.

Single Regeneration Budget (SRB): A Government programme bringing together all the "regeneration" initiatives that previously operated as separate programmes. As the funding of schemes approved under the individual programmes expires, it is "ploughed back" into new initiatives submitted by local authorities and approved by the Government e.g. Kings Cross Partnership.

Specific Grants: A grant receivable from a Government department that relates to expenditure incurred on providing a particular service e.g. Dedicated Schools Grant (DSG).

Statutory Account: Any account that the Council is, by law, required to keep.

Support Service: A service provided for other Service Heads within the Council rather than direct to the public, including payroll, computing, central personnel and legal services.

Supported Capital Expenditure: Allocations from the Government under the new Prudential Code that replaces the previous system of credit approvals. These allocations enable services to borrow to fund capital schemes, and they will receive revenue funding to pay for the borrowing costs.

Trading Accounts: The profit and loss account of any trading organisation required to be disclosed separately in the Council's accounts.

Transitional Relief: Abatements to Business Rates to mitigate the effects of changes resulting from revaluations.

Transport Supplementary Grant (TSG): Paid by the Government toward the cost of capital works to roads of more than local significance, meeting 50% of approved costs.

Turnover: In the context of the Statement of Accounts, the value of work carried out by a trading organisation.

Ultra Vires: This literally means 'beyond the power'. Local authorities are only allowed to do things for which they have specific legal powers. If they spend money on anything else, this is illegal and is referred to as being 'ultra vires'.

Unsupported Borrowing: Local Authorities can set their own borrowing levels based on their capital need and their ability to pay for the borrowing. The levels will be set by using the indicators and factors set out in the Prudential Code. The borrowing costs are not supported by the Government so services need to ensure they can fund the repayment costs. This borrowing may also be referred to as Prudential Borrowing.

Usable Capital Receipts: The proportion of capital receipts which the Council is able to use for capital spending purposes and which is not required to set aside to redeem debt.

Write-offs: Income is recorded in the Council's accounts on the basis of amounts due. When money owing to the Council cannot be collected the income already shown in the accounts has to be reduced or written off.