

LOCAL GOVERNMENT ASSOCIATION

CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2005

LOCAL GOVERNMENT ASSOCIATION

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REPORT OF THE CHIEF EXECUTIVE  
FOR THE YEAR ENDED 31 MARCH 2005

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## INTRODUCTION

The Local Government Association was set up as an unincorporated body on 1 April 1997 following a merger of the three previous local authority associations covering England and Wales (the Association of County Councils, the Association of District Councils and the Association of Metropolitan Authorities), with the belief that one strong voice could present the case for local government better than three separate organisations. As the national voice for local communities, the association speaks for over 400 local authorities and nearly 500 member bodies in total, and seeks to promote the case for democratic local communities which are prosperous, safe, healthy and environmentally sustainable, and which provide equality of opportunity for all citizens.

## REVIEW OF THE YEAR AND FUTURE DEVELOPMENTS

2004/05 saw the Association re-organise its member structure to provide for a smaller number of cross cutting Boards, with an opportunity for other members to contribute to the Association's work through Member Task Groups overseeing projects on discrete policy areas. This new way of working enabled the Association to take a more strategic approach to agreeing a Business Plan for 2005, and proved an effective method of co-ordinating the work that we did in the months leading up to the anticipated General Election.

The General Election took place in May, and the LGA now faces the challenge of working in partnership with a new government to address the serious issues which face those who are represented by local councillors and local government.

We aimed to manage the LGA's budget prudently, so that the reserves which were achieved for the first time in 2003/04 were retained. This approach was successful, even when our unfunded pension deficit was re-valued upwards at year end. For the first time, the Association's conference income did not meet its target, and this will need attention in the coming year. On the staffing front, the year showed slimming down at Management Board level, and the recruitment of a new cadre of programme directors, designed to make a real impact on those in the outside world whom we need to influence.

This year also saw the Collaboration Project, designed to integrate and make more effective the support services of the LGA and the Central Bodies begin to make an impact. From 1 April 2005, the Finance and Human Resources teams have been brought together, and more changes will follow in the coming year, including a working environment project, whereby a mixture of investment and new ways of working will enable all the bodies representing local government at the centre to operate out of 2 buildings. The investment necessary to achieve these changes will be met from the savings arising from the vacation of the other buildings currently occupied by the Central Bodies.

The political leadership at the LGA have continued to emphasise the need for the LGA to make a real difference in a limited number of areas, and this approach will be refined in the year ahead, together with continuing efforts to improve the reputation of local government.

During the year, we will conduct a zero based budgeting exercise, and move to a 3 year budget planning cycle which should give greater stability and certainty for the organisation and its subscription paying members.

Sir Brian Briscoe  
Chief Executive

STATEMENT OF THE RESPECTIVE RESPONSIBILITIES OF THE LGA EXECUTIVE  
AND OF THE RESOURCES PANEL

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All matters of major strategic importance for the Local Government Association (LGA) are the responsibility of the LGA Executive. It makes proposals to the General Assembly on policy priorities and is responsible for submitting budgets to support agreed objectives. It delegates responsibility to the Resources Panel for formulating the annual budget and subscription proposals, which are submitted to it for consideration and approval, prior to recommendations being made to the General Assembly. The Resources Panel is responsible in its own right for monitoring budget arrangements during the year and for reviewing the general state of the LGA's finances.

The Resources Panel is also responsible for preparing and approving financial statements for each financial year which give a true and fair view of the state of affairs of the LGA and of the surplus or deficit of the association for that period. In preparing those financial statements, the Resources Panel is required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the association will continue in business.

The Resources Panel is responsible for ensuring that proper records are kept, which disclose with reasonable accuracy at any time the financial position of the association. It is also responsible for ensuring that the assets of the association are safeguarded and hence that reasonable steps are taken for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITORS' REPORT TO THE RESOURCES PANEL

FOR THE YEAR ENDED 31 MARCH 2005

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We have audited the financial statements of the Local Government Association on pages 4 to 19. These financial statements have been prepared under the historical cost convention and the accounting policies set out therein.

**Respective responsibilities of the Resources Panel and auditors**

As described in the statement of responsibilities on page 2, the Resources Panel are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

This report is made solely to the Resources Panel. Our audit work has been undertaken so that we might state to the Resources Panel those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Local Government Association and the Resources Panel, for our audit work, for this report, or for the opinions we have formed.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with applicable accounting standards. We also report to you if, in our opinion, the chief executive's report is not consistent with the financial statements, if the group has not kept proper accounting records, and if we have not received all the information and explanations we require for our audit.

We read the chief executive's report and consider the implications for our report if we become aware of any apparent misstatements within it or material inconsistencies with the financial statements.

**Basis of audit opinion**

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Resources Panel in the preparation of the financial statements, and of whether the accounting policies are appropriate to the association's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

**Opinion**

In our opinion the financial statements give a true and fair view of the state of affairs of the Association and the group as at 31 March 2005 and of the surplus of the group for the year then ended and have been properly prepared in accordance with applicable accounting standards.

Saffery Champness  
Chartered Accountants  
Registered Auditors

Lion House  
Red Lion Street  
London  
WC1R 4GB

2005

## CONSOLIDATED INCOME AND EXPENDITURE ACCOUNT

FOR THE YEAR ENDED 31 MARCH 2005

	Notes	2005 Income £'000	2005 Expenditure £'000	2005 Net £'000	2004 Net £'000
<b>SUBSCRIPTIONS AND OTHER INCOME</b>					
Subscriptions		15,165	-	15,165	14,856
Conferences and seminars		2,180	956	1,224	1,843
Royalties		160	-	160	162
Associates		117	7	110	101
Conference suite & room hire		377	149	228	342
Other		83	-	83	99
		-----	-----	-----	-----
		18,082	1,112	16,970	17,403
		--	-----	-----	-----
<b>NET OPERATING EXPENSES</b>					
Staff costs	1	242	10,104	9,862	8,675
Accommodation		204	1,254	1,050	1,042
Communications		124	920	796	935
Services		249	2,373	2,124	2,091
Members		7	1,597	1,590	1,527
Welsh LGA	2	-	520	520	508
European lobbying		-	65	65	89
		-----	-----	-----	-----
		826	16,833	16,007	14,867
		--	-	-----	-----
<b>TOTALS OF INCOME AND EXPENDITURE</b>		18,908	17,945		
<b>OPERATING SURPLUS</b>				963	2,536
Interest receivable			499		335
Interest payable			(1,163)		(1,193)
			-----	(664)	-----
<b>SURPLUS AFTER INTEREST</b>				299	1,678
Exceptional items	3			(223)	(292)
<b>SURPLUS FOR THE FINANCIAL YEAR</b>				76	1,386
<b>TRANSFERS TO RESERVE</b>		9			
Pension reserve				(50)	(224)
Major repairs and maintenance reserve				(25)	(50)
				-----	-----
				1	1,112
				=====	=====

The association's income and expenses all relate to continuing operations.



The association has no recognised gains or losses other than the surplus for the year.

The surplus for the year has been calculated on the historical cost basis.

The notes on pages 7 to 19 form part of these financial statements.

## BALANCE SHEETS

AT 31 MARCH 2005

	Notes	2005 £'000	Association 2004 £'000	2005 £'000	Group 2004 £'000
<b>FIXED ASSETS</b>					
Tangible assets	4	958	839	20,355	20,585
<b>CURRENT ASSETS</b>					
Debtors		2,397	2,124	2,069	1,749
Cash at bank and in hand		4,301	5,021	4,301	5,021
		6,698	7,145	6,370	6,770
CREDITORS: Amounts falling due within one year	6	(2,633)	(3,269)	(3,341)	(3,927)
NET CURRENT ASSETS		4,065	3,876	3,029	2,843
TOTAL ASSETS LESS CURRENT		5,023	4,715	23,384	23,428
CREDITORS: Amounts falling due after more than one year	7	-	-	(18,080)	(18,600)
PROVISIONS FOR LIABILITIES AND	8	(4,700)	(4,300)	(4,700)	(4,300)
		323	415	604	528
<b>CAPITAL AND RESERVES</b>					
Pension reserve	9	4,350	4,300	4350	4,300
Major repairs and maintenance reserve	9	150	125	150	125
Accumulated deficit	10	(4,177)	(4,010)	(3,896)	(3,897)
		323	415	604	528

Approved by the Resources Panel on 7<sup>th</sup> June 2005

and signed on its behalf

Sir Brian Briscoe  
Chief Executive

The notes on pages 7 to 19 form part of these financial statements

CONSOLIDATED CASHFLOW STATEMENT  
AS AT 31 MARCH 2005

	Notes	2005 £'000	2004 £'000
NET CASH INFLOW FROM OPERATING ACTIVITIES	12	900	2,752
		-----	-----
		----	--
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received		499	335
Interest paid – property finance		(707)	(737)
Finance discounts for former AMA authorities		(456)	(456)
		-----	-----
		----	--
<u>Net cash outflow from returns on investments &amp; servicing of finance</u>		(664)	(858)
		-----	-----
		----	--
INVESTING ACTIVITIES			
Purchase of tangible assets		(436)	(395)
		-----	-----
		----	--
<u>Net cash outflow from investing activities</u>		(436)	(395)
		-----	-----
		----	--
NET CASH (OUTFLOW) / INFLOW BEFORE FINANCING	13	(200)	1,499
		-----	-----
		----	--
FINANCING			
Payment of loan installments to Barclays Bank		(520)	(520)
		-----	-----
		----	--
<u>Net cash outflow from financing</u>		(520)	(520)
		-----	-----
		----	--
<u>(Decrease) / (Increase) in cash</u>		(720)	979
		=====	=====

## RECONCILIATION OF NET CASHFLOW TO MOVEMENT IN NET DEBT (note 13)

	2005 £'000	2004 £'000	2005 £'000	2004 £'000
--	---------------	---------------	---------------	---------------

(Decrease) / Increase in cash in the period	(720)	979
Cash to repay debt	520	520
	-----	-----
	-----	-----
Change in net debt	(200)	1,499
Net debt at 1 April 2004	(14,099)	(15,598)
	-----	-----
	-----	-----
Net debt at 31 March 2005	(14,299)	(14,099)
	-----	-----
	-----	-----

The notes on pages 7 to 19 form part of these financial statements

## ACCOUNTING POLICIES

FOR THE YEAR ENDED 31 MARCH 2005

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**A BASIS OF ACCOUNTING**

The Local Government Association is an unincorporated association governed by its constitution. The financial statements are prepared under the historical cost convention and in accordance with applicable accounting standards.

**B GOING CONCERN**

The financial statements have been prepared on a going concern basis. At 31 March 2005 the group had net assets of £0.60 million (2004: net assets of £0.53 million).

The unfunded pension deficits are being repaid over the remaining lives of the pensioners concerned, as detailed in note 11. The payments are being financed from subscriptions.

The financing of the purchase and refurbishment of Local Government House has been undertaken through loan agreements, as detailed in note 7.

In view of these agreements, the Resources Panel expect that the association will have adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis. However, in the event of dissolution, the association's unsecured liabilities would be underwritten, under the terms of the association's constitution, by a guarantee from all member authorities, past and present.

**C BASIS OF CONSOLIDATION**

The financial statements include the results, assets and liabilities of the association and its subsidiary undertaking, Local Government Association (Properties) Limited.

The financial statements have been consolidated using the acquisition method of accounting.

**D TANGIBLE FIXED ASSETS AND DEPRECIATION**

Depreciation of tangible fixed assets is set aside on the basis of providing in equal annual instalments for the cost, less estimated residual value, over the estimated useful lives of these assets, as follows:-

Freehold buildings	25 years
Fixtures & fittings	15 years
Furniture	10 years
Equipment & information systems	5 years
Computer systems	3 years

No depreciation is charged on freehold land and the residual value of the building.

**E INCOME AND EXPENDITURE**

Subscriptions and other income are accounted for on a receivable basis, but voluntary contributions to

specific funds are recorded on a received basis. Expenditure is accounted for on an accruals basis.

#### F PENSIONS

Contributions payable to the association's pension funds are charged to the income and expenditure account so as to spread the costs of pensions over the service lives of employees in the fund. The pension charge is calculated on the basis of actuarial advice.

#### G TAXATION STATUS

The income and chargeable gains of the association are exempt from corporation tax under section 519 of the Income and Corporation Taxes Act 1988, which grants exemption to local authority associations.

ACCOUNTING POLICIES  
FOR THE YEAR ENDED 31 MARCH 2005 (Continued)

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H DERIVATIVE FINANCIAL INSTRUMENTS

Interest rate swap agreements, caps and floors are used to manage long-term interest rate exposures. Amounts payable or receivable in respect of these derivatives are recognised as adjustments to the interest expense over the period of the contracts.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 2005

1 STAFF COSTS

Association and Group

Employment costs and related expenses	2005	2004
£'000	£'000	£'000
All employees:		
Salaries	7,575	7,176
Employer's social security costs	700	659
Employer's pension costs (see note 11)	751	623
	-----	-----
	9,026	8,458
Less: Income from secondments	242	299
Transfers to projects	83	39
Transfers to political support groups	466	491
	-----	-----
	(791)	(829)
	-----	-----
	8,235	7,629
	-----	-----
Other staff costs:		
Agency, freelance & secondment costs	310	341
Recharges re unfunded pension liabilities	370	386
Increase / (reduction) in pension provision	400	(100)
Travel, subsistence and staff expenses	95	97
Recruitment costs	268	165
Training costs	161	148
Other personnel costs	23	9
	-----	-----
	1,627	1,046
	-----	-----
Total staff costs	9,862	8,675
	-----	-----

The average number of employees during the year was 206 (2004: 209).

2 WELSH LOCAL GOVERNMENT ASSOCIATION

The association pays to the Welsh Local Government Association an annual grant equal to half of the Welsh association's agreed running costs.

3 EXCEPTIONAL ITEMS

	2005	2004
	£'000	£'000
Severance & pension costs arising from restructuring	223	292
	-----	-----
	----	-----



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2005 (Continued)

## 4 TANGIBLE FIXED

<u>Group</u>	Freehold Property £'000	Computer & Information Systems £'000	Equipment £'000	Furniture Fixtures & Fittings £'000	2005 Total £'000	2004 Total £'000
<b>COST</b>						
At start of year	20,011	880	379	1,949	23,219	22,824
Additions	-	412	19	5	436	395
Disposals	-	(353)	-	-	(353)	-
	-----	-----	-----	-----	-----	-----
At end of year	20,011	939	398	1,954	23,302	23,219
	-----	-----	-----	-----	-----	-----
<b>DEPRECIATION</b>						
At start of year	1,181	520	275	658	2,634	2,027
Charge for the year	263	156	41	206	666	607
Disposals	-	(353)	-	-	(353)	-
	-----	-----	-----	-----	-----	-----
At end of year	1,444	323	316	864	2,947	2,634
	-----	-----	-----	-----	-----	-----
<b>NET BOOK</b>	<b>18,567</b>	<b>616</b>	<b>82</b>	<b>1,090</b>	<b>20,355</b>	<b>20,585</b>
	=====	=====	=====	=====	=====	=====

No depreciation has been charged on freehold land and the residual value of the building totalling

<u>Association</u>	Computer & Information Systems £'000	Equipment £'000	Furniture Fixtures & Fittings £'000	2005 Total £'000	2004 Total £'000
<b>COST</b>					
At start of year	880	379	664	1,923	1,528
Additions	412	19	5	436	395
Disposals	(353)	-	-	(353)	-
	-----	-----	-----	-----	-----
At end of year	939	398	669	2,006	1,923
	-----	-----	-----	-----	-----
<b>DEPRECIATION</b>					
At start of year	520	275	289	1,084	825
Charge for the year	156	41	120	317	259
Disposals	(353)	-	-	(353)	-
	-----	-----	-----	-----	-----
At end of year	323	316	409	1,048	1,084
	-----	-----	-----	-----	-----
<b>NET BOOK VALUE</b>	<b>616</b>	<b>82</b>	<b>260</b>	<b>958</b>	<b>839</b>
	=====	=====	=====	=====	=====



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2005 (Continued)

## 5 DEBTORS

	Association		Group	
	2005 £'000	2004 £'000	2005 £'000	2004 £'000
Accounts receivable (less provision for doubtful debts)	1,046	1,049	1,046	1,049
Prepayments	233	174	233	174
Accrued income	239	273	239	273
Other debtors	551	304	551	253
Amounts owed by group undertaking	328	324	-	-
	2,397	2,124	2,069	1,749

## 6 CREDITORS

	Association		Group	
	2005 £'000	2004 £'000	2005 £'000	2004 £'000
Amounts falling due within one year				
Bank loans and overdrafts	511	-	1,031	520
Accounts payable and accruals	1,389	1,383	1,518	1,521
Subscription and conference income in advance	69	1,308	69	1,308
PAYE and national insurance	414	378	414	378
Project balances (see note below)	237	112	237	112
Other creditors	13	88	72	88
	2,633	3,269	3,341	3,927

<u>Project balances</u>	At 1 April 2004 £'000	Income £'000	Expenditure £'000	At 31 March 2005 £'000
Analysis of changes in balances during the year:				
National Highways Street Works Manager	93	59	(60)	92
National Training Organisation for Housing	19	-	-	19
Transport pathfinders funding	-	100	-	100
Domestic violence project	-	150	(126)	24
Councillor database project	-	-	(66)	2
	112	377	(252)	237

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 2005 (Continued)

## 7 CREDITORS

Amounts falling due after more than one year	Association		Group	
	2005 £'000	2004 £'000	2005 £'000	2004 £'000
Barclays Bank plc				
– Refurbishment of Local Government House	–	–	9,880	10,400
Association of County Councils (Properties) Limited				
Purchase of Local Government House				
– Long-term loan made to LGA (Properties) Ltd repayable only on disposal of the property	–	–	2,000	2,000
Association of Metropolitan Authorities (Properties)				
Purchase of Local Government House				
– Long-term loan made to LGA (Properties) Ltd repayable only on disposal of the property	–	–	6,200	6,200
	-----	-----	-----	-----
	–	–	18,080	18,600
	-----	-----	-----	-----

The Barclays Bank plc loan of £10.4m is secured against Local Government House. The original loan of £13m is repayable over 25 years in bi-annual instalments of £260,000. Accordingly, the next two instalments totalling £520,000 are included in creditors falling due within one year, with the balance of £9.88m included in creditors falling due after more than one year.

The interest rate strategy of the association is to align its interest payments with its business structure. As the LGA is a membership-based association, whose income is not influenced by changes in short-term interest rates, the association has taken the view that two-thirds of its loan portfolio should be at a fixed rate and one-third at a floating rate within a collar. This will enable the association to maintain its quality of earnings and to weather any future volatility in interest rates.

The hedging facilities for the two tranches, drawn down originally as £10 million and £3 million respectively, were valued as at 31 March 2005 as follows:

Instrument	Notional Amount	Maturity Date	Trade Date	Mark to Market Value
	£'000			Notional (Gain) / Loss £'000
<u>Tranche 1</u>				
CAP (Collar)	)	21/01/2025	27/01/2000	(27)
	) 2,667		0	
Floor (Collar)	)	21/01/2025	27/01/2000	238
	)		0	
SWAP	5,333	21/01/2025	27/01/2000	643
			0	
	-----			-----
Total	8,000	Net Notional Loss		854
	-----			-----
<u>Tranche 2</u>				

CAP (Collar)	)		21/01/2025	13/07/200	(8)
	)	800		0	
Floor (Collar)	)		21/01/2025	13/07/200	66
	)			0	
SWAP		1,600	21/01/2025	13/07/200	173
				0	
		-----			-----
Total		2,400		Net Notional Loss	231
		-----			-----
<u>Combined total</u>		10,400			1,085
		=====			=====

FOR THE YEAR ENDED 31 MARCH 2005 (Continued)

## 8 PROVISION FOR LIABILITIES AND CHARGES

Pensions	Association And Group	
	2005 £'000	2004 £'000
Balance brought forward	4,300	4,400
Increase / (reduction) in provision based on 2005 valuation	400	(100)
	-----	-----
	-----	-----
	4,700	4,300
	-----	-----
	-----	-----

The above provision for the unfunded liabilities of the LGA and its predecessor associations is based on an actuarial estimate at 31 March 2005. The valuation of £4.7m includes liabilities which are also included in the actuarial valuation for FRS 17 purposes of the LGA's participation in the Merseyside Pension Fund of £500k and in the West Sussex County Council Pension Fund of £2,297k (see note 11 below).

## 9 RESERVES

During 1999/2000 an actuarial valuation was carried out of the association's inherited pension liabilities, which resulted in a significant increase in the negative reserves shown in that year's balance sheet. It was subsequently agreed by the LGA's Management Executive that, in order to improve the tone of the association's balance sheet, at least two-thirds of the surplus achieved in any year should be transferred to a specific pension reserve.

A further reserve has been set up for the purpose of setting aside funds for major repairs and cyclical maintenance to Local Government House.

	Association		Group	
	2005 £'000	2004 £'000	2005 £'000	2004 £'000
<b>PENSION RESERVE</b>				
Balance brought forward	4,300	4,076	4,300	4,076
Transfer from income and expenditure account	50	224	50	224
	-----	-----	-----	-----
	--	----	--	--
Balance at end of year	4,350	4,300	4,350	4,300
	-----	-----	-----	-----
	--	----	--	--
<b>MAJOR REPAIRS AND MAINTENANCE RESERVE</b>				
Balance brought forward	125	75	125	75
Transfer from income and expenditure account	25	50	25	50
	-----	-----	-----	-----
	--	----	--	--
Balance at end of year	150	125	150	125



10 ACCUMULATED DEFICIT

	Association		Group	
	2005 £'000	2004 £'000	2005 £'000	2004 £'000
Deficit brought forward	(4,010)	(4,953)	(3,897)	(5,009)
(Deficit) / Surplus for the year after transfer to reserves	(167)	943	1	1,112
Deficit at end of year	(4,177)	(4,010)	(3,896)	(3,897)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 2005 (Continued)

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11 PENSIONS

Current Pension Schemes

The Local Government Association is an admitted body to two local government pension funds: the Merseyside Pension Fund, which was transferred from the Association of Metropolitan Authorities and is administered by the Metropolitan Borough of Wirral, and the West Sussex County Council Fund. Both funds are administered in accordance with the Local Government Pension Scheme Regulations 1997.

Employer's contributions to the funds are charged to the income and expenditure account so as to spread the cost of pensions over employees' working lives with the association. The contributions are determined by a qualified actuary on the basis of valuations using the projected unit method. The total pension cost of the association for the year was £751,240 (2004: £622,905).

Financial Reporting Standard, FRS 17 – Retirement Benefits, will require the financial statements for the year ending 31 March 2006 to reflect at fair value the assets and liabilities arising from the company's retirement benefit obligations and related funding. Until that time additional disclosures are made by way of note.

Merseyside Pension Fund

The most recent formal actuarial review in relation to the Merseyside Pension Fund was at 31 March 2004. The actuarial assumptions that have the most significant effect on the results of the valuation are those relating to the rate of return on investments and the rates of increase in salaries and pensions.

For past service liabilities, it was assumed that the investment return, pre retirement, would be 6.6% per annum compound and, post retirement would be 5.6% compound, and that post-retirement pensions would increase at 2.8% per annum compound. For future service liabilities, it was assumed that the investment return would be 6.5% per annum compound, salaries would increase at 3.75% per annum compound, and post-retirement pensions would increase at 2.5% compound.

The actuarial valuation at 31 March 2004 did not report separately on the LGA's element of the fund. On the basis of valuation used and the requirements of regulation P6 the fund showed a deficit of £951.9 million on a total valuation of £2,955 million. The regulations require a target funding level of 100% for past service liabilities. The actuary estimates that to recover the deficit over a 25-year period would require an average employer contribution rate of 16.1%.

On the basis of the above results the actuary recommended, with effect from April 2005, a common contribution rate of 9.3% for all scheme members, and various secondary contribution rates, to reflect circumstances peculiar to individual employers; for the association, higher rates of contribution are phased in over three years to give the following combined rates: 2005/06 12.4%, 2006/07 14.7% and 2006/07 17.1%. This compares with a combined rate of 10% that had been specified for 2004/05 by the previous actuarial valuation as at 31 March 2001.

On the basis prescribed by the Income and Corporation Taxes Act 1988 the actuarial value of the assets of the fund does not exceed 105% of the fund's liabilities. This means no remedial action is required

under the provisions of this legislation.

The cost of pension increases is to be borne by the fund and is therefore allowed for in this valuation.

However, added years' benefits, and the pensions increases thereon, will continue to be recharged in the future; the payment in the current year was £21,850 (2004: £22,544).

Under the requirements of Financial Reporting Standard FRS 17, the following additional disclosures are required by way of note:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 2005 (Continued)

The major assumptions used by the actuary were as follows:

	At 31 March 2005	At 31 March 2004	At 31 March 2003
Rate of increase in salary	4.15%	3.8%	3.5%
Rate of increase in pensions in payment	2.9%	2.8%	2.5%
Discount rate	5.4%	6.3%	6.0%
Inflation assumption	2.9%	2.8%	2.5%

The assets in the scheme and the expected rate of return were:

	Long-term Rate of Return Expected at	Value at 31March 2005 £'000	Long-Term rate of return expected at	Value at 31March 2004 £'000	Long-Term rate of return expected at	Value at 31 March 2003 £'000
Equities	7.5%	10,423	7.5%	9,456	7.5%	7,138
Government bonds	4.7%	3,421	4.7%	2,679	4.5%	2,684
Other bonds	5.4%	887	5.5%	662	5.4%	213
Property	6.5%	1,792	6.5%	1,565	6.5%	1,342
Other	4.75%	1,575	4.0%	1,774	3.75%	1,167
Total market value of assets		18,098		16,136		12,544
Present value of scheme liabilities:						
Funded		(25,783)		(17,947)		(15,860)
Unfunded		(500)		(400)		(400)
Deficit in the scheme		(8,185)				
(2,211)		(3,716)				

Analysis of the amount that would be charged to operating profit

	2005 £'000	2004 £'000
Current service cost	893	658
Total operating charge	893	

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658

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**Analysis of the amount that would be credited/(charged) to other finance income**

Expected return on pension scheme assets	1,050	829
Interest on pension scheme liabilities		
	(1,171)	(1,008)
Net return/(charge)		
	(121)	(179)

**Analysis of amount that would be recognised in STRGL**

Actual return less expected return on pension scheme assets		1,813
	892	
Experience gains and losses arising on the scheme liabilities		-
	(1,501)	
Changes in assumptions underlying the present value of the scheme liabilities		-
	(5,031)	
Actuarial (loss)/gain to be reported in STRGL		
	(5,640)	1,813

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 2005 (Continued)

**Movement in deficit during the year**

	2005	2004
	£'000	£'000
Deficit in scheme at beginning of the year	(2,211)	(3,716)
Movement in the year:		
Current service cost	(893)	(658)
Contributions	680	529
Net interest / return on assets	(121)	(179)
Actuarial (loss) / gain	(5,640)	1,813
Deficit in scheme at end of year	<u>(8,185)</u>	<u>(2,211)</u>

**History of experience gains and losses**

	2005	2004	2003
	£'000	£'000	£'000
Difference between the expected and actual return on scheme assets: amount			Information Not Available
Amount	892	1,813	
Percentage of scheme assets	4.9%	11.2%	
Experience gains and losses on scheme liabilities			
Amount	(1,501)	-	
Percentage of the present value of scheme liabilities	(5.7%)	-%	
Total amount recognised in statement of total recognised gains and losses:			
Amount	(5,640)	1,813	
Percentage of the present value of scheme liabilities	(21.5%)	11.2%	

## West Sussex County Council Pension Fund

The Local Government Association was admitted to the West Sussex County Council Fund on 1 April 1997. The most recent formal actuarial valuation of the fund was undertaken as at 31 March 2004.

The actuarial assumptions used for the calculation of the contribution rate are that the investment rate of return would be 6.3% per annum compound, salaries would increase at 4.4% per annum compound, and post-retirement pensions would increase at 2.9% per annum compound.

The actuarial valuation at 31 March 2004 did not report separately on the LGA's element of the fund. On the basis of valuation used and the requirements of regulation P6 the fund showed a deficit of £305 million on a total valuation of £967 million. The regulations require a target funding level of 100% for past service liabilities.

On the basis of the above results the actuary recommended, with effect from April 2005, a common contribution rate of 18.8% for all scheme members to provide the 100% funding referred to above, and various secondary contribution rates, to reflect circumstances peculiar to individual employers; for the association, higher rates of contribution are phased in over three years to give the following combined rates: 2005/06 27.3%, 2006/07 35.3% and 2007/08 43.3%. This compares with a combined rate of 19.2% that had been contributed from April 2002 up to that date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 2005 (Continued)

On the basis prescribed by the Income and Corporation Taxes Act 1988 the actuarial value of the assets of the fund does not exceed 105% of the fund's liabilities. This means no remedial action is required under the provisions of this legislation.

The cost of pension increases is to be borne by the fund and is therefore allowed for in this valuation.

However, added years' benefits, and the pensions increases thereon, will continue to be recharged in the future; the payment in the current year was £184,203 (2004: £244,129), none of which has been treated as exceptional costs (2004: £71,475).

**The major assumptions used by the actuary were as follows:**

	At 31 March 2005	At 31 March 2004	At 31 March 2003
Rate of increase in salary	4.4%	4.4%	4.0%
Rate of increase in pensions in payment	2.9%	2.9%	2.5%
Discount rate	5.4%	5.5%	5.4%
Inflation assumption	2.9%	2.9%	2.5%

**The assets in the scheme and the expected rate of return were:**

	Long-term rate of return expected at	Value at	Long-term rate of return expected at	Value at	Long-term rate of return expected at	Value at
	31 March 2005	£'000	31 March 2004	£'000	31 March 2003	£'000
Equities	7.7%	22,073	7.7%	20,616	8.0%	16,348
Bonds	5.1%	3,652	5.1%	3,978	4.8%	3,643
Property	6.5%	1,940	6.5%	1,824	6.0%	1,900
Cash	4.0%	1,350	4.0%	899	4.0%	839
Total market value of assets		29,015		27,317		22,730
Present value of scheme liabilities						
Funded		(40,027)		(38,078)		(35,350)
Unfunded		(2,297)		(3,486)		(3,080)
Deficit in the scheme		(13,309)		(14,247)		(15,700)



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 2005 (Continued)

**Analysis of the amount that would be charged to operating profit**

	2005	2004
	£'000	£'000
Current service cost		299
	<u>331</u>	<u>          </u>
Total operating charge	<u>331</u>	<u>299</u>

**Analysis of the amount that would be credited/(charged) to other finance income**

Expected return on pension scheme assets	1,894	1,600
Interest on pension scheme liabilities	(2,245)	(2,045)
	<u>          </u>	<u>          </u>
Net return/(charge)	<u>(351)</u>	<u>(445)</u>

**Analysis of amount that would be recognised in STRGL**

Actual return less expected return on pension scheme assets	1,251	3,848
Experience gains and losses arising on the scheme liabilities	499	(380)
Changes in assumptions underlying the present value of the scheme liabilities	(518)	(1,842)
	<u>          </u>	<u>          </u>
Actuarial gain to be reported in STRGL	<u>1,232</u>	<u>1,626</u>

**Movement in deficit during the year**

	2005	2004
	£'000	£'000
Deficit in scheme at beginning of the year	(14,247)	(15,700)
Movement in the year:		
Current service cost		

	(331)	(299)
Employer contributions		
	345	349
Other income		
	124	222
Impact of settlements and curtailments		
	(81)	-
Net return on assets		
	(351)	(445)
Actuarial gain		
	1,232	1,626
	<hr/>	<hr/>
Deficit in scheme at end of year	(13,309)	(14,247)
	<hr/>	<hr/>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 2005 (Continued)

**History of experience gains and losses**

	2005	2004	2003
	£'000	£'000	£'000
Difference between the expected and actual return on scheme assets: amount			
Amount	1,251	3,848	(7,300)
Percentage of scheme assets	4.3%	14.1%	(32.1%)
Experience gains and losses on scheme liabilities			
Amount	499	(380)	(2,344)
Percentage of the present value of scheme liabilities	1.2%	(0.9%)	(6.1%)
Total amount recognised in statement of total recognised gains and losses:			
Amount	1,232	1,626	(10,414)
Percentage of the present value of scheme liabilities	2.9%	3.9%	(27.1%)

Other Pension Funds

Payments are being made to other pension funds for unfunded liabilities incurred by predecessor organisations. The total payment in the year was £162,192 (2004 £189,922).

NOTES TO THE CASHFLOW STATEMENT

12 RECONCILIATION OF OPERATING SURPLUS TO NET CASH INFLOWS  
FROM OPERATING ACTIVITIES

	2005	2004
	£'000	£'000
Operating surplus	963	2,536
Depreciation (including disposals)	666	607
Pension provision	400	(100)
(Increase) / Decrease in debtors	(320)	(171)
Increase / (Decrease) in creditors	(586)	172
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	1,123	3,044
Outflow related to exceptional items	(223)	(292)
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Net cash inflow from operating activities	900	2,752
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13 ANALYSIS OF CHANGES IN NET DEBT

	At 1 April 2004	Cashflows	Other Changes	At 31 March 2005
	£'000	£'000	£'000	£'000
Cash at bank	5,021	(720)	-	4,301
Debt due within one year	(520)	520	(520)	(520)
Debt due after one year	(18,600)	-	520	(18,080)
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	(14,099)	(200)	-	(14,299)
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