

LGA Group consolidated financial statements for the year to 31 March 2017

Purpose of report

For members to review.

Summary

The LGA Group consolidated financial statements for the year ended 31 March 2017 have been produced and are expected to receive an unqualified audit opinion by PKF Littlejohn LLP. The final draft of the financial statements is presented for the LGA Leadership Board to agree, prior to these being adopted at the General Assembly on 4 July 2017. The audited financial statements for IDeA, LGA (Properties) Ltd and LGMB are also presented for review, prior to these being presented for adoption to their respective company boards before the end of June. These sets of accounts are all included at **Appendices A - D**.

The attached report substantially reproduces the report going to Audit Committee and the company boards. Members of the Audit Committee have been asked to review these accounts, and make any independent comment they consider appropriate to the Leadership Board or the relevant company boards. Due to timings, these observations will be presented orally at the meeting.

Recommendations

That the LGA Leadership Board:

- i. agree the LGA consolidated financial statements (**Appendix A**) and approve their submission for adoption at General Assembly on 4 July 2017;
- ii. review the financial statements for IDeA, LGMB and LGA(P) (**Appendices B – D**);
- iii. review the external auditors' report to the Leadership Board (**Appendix E**).

Action

As directed by Members

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LGA consolidated financial statements for the year to 31 March 2017

Background

1. The consolidated financial statements also disclose the position of the LGA as a stand-alone entity through incorporation of the Association's Statement of Comprehensive Income and Statement of Financial Position. These are the new names required for Income and Expenditure and Balance Sheet in the new FRS102 presentation of the Accounts from this Financial Year.
2. The aim is for all the company accounts that feed into the LGA's consolidated accounts to be reviewed by the Audit Committee and adopted by the respective company boards in June, to ensure that a fully verified set of accounts is presented to the General Assembly. The Committee is therefore being asked to review the LGA accounts and the property company accounts at this meeting along with the IDeA accounts at **Appendices A - D**.
3. Representatives of Littlejohn LLP, the appointed auditors, will be in attendance at the Audit Committee's meeting. Their report on the audit of the LGA and all its associated companies is included at **Appendix E**.
4. The following paragraphs provide commentary on the information disclosed in the financial statements and highlight the most significant points.
5. Members of the individual company boards will also receive a report of the observations of the Audit Committee.

LGA – Group – Appendix A

6. The consolidated accounts show the LGA and its related bodies made an operating surplus of £1.346m, the main causes of the trading surplus are:

Savings - £1.75m

- 6.1. Reduced spend on the IT contract - £0.9m.
- 6.2. Additional contributions to overheads from 50% higher than budgeted ring-fenced activities - £0.8m.
- 6.3. Partially offset by a decrease in the budgeted LGA's share of the surplus from GeoPlace LLP £0.050m.

Accounting Adjustments – £1.557m

- 6.4. Additional net unrealised gains on revaluation of Layden House and Local Government House - £0.547m.
- 6.5. Current year cost adjustment of £1.010m required to account for the pension scheme deficit in accordance with accounting standards. Note this is offset by a

£29.230m credit to the Pension Deficit Reserve arising from a negative actuarial loss from our pension funds this year.

7. Gains and losses that relate to changes in the actuarial assumptions used to calculate pension scheme liabilities, as well as the excess contributions made to reduce historic deficits are now all included within the overall Statement of Comprehensive Income for the year of net £28.221m.
8. The overall pension fund deficit reported in the accounts has increased by £30.24m from £94.751m to £124.991m. In line with FRS 17 accounting standards, the valuation in the accounts values assets at market value on 31 March 2017, and liabilities using a discount rate based on the return available on AA corporate bonds, also at the balance sheet date. This valuation is therefore subject to market performance on a specific date and will vary by Scheme. While the Pension Scheme Assets have grown in the year by c.£59.2m through investment performance, the Liabilities have grown at a faster rate by c.£89.5m, due primarily to the reduction in the discount rate (c.£51m) and demographic changes (c.£20m) used by the actuaries in their valuations as a result of market conditions and scheme memberships respectively.
9. The LGA's pension deficit with the Merseyside Pension Funds has increased by £3.336m from £35.042m to £38.378m (Asset growth £34.7m - 34% investment performance, Liability growth £38.0m); meanwhile the IDeA's pension deficit with the Camden Pension Fund has significantly increased by £26.904m from £59.709m to £86.613m (Asset growth £24.6m - 20% investment performance, Liability growth £51.5m).
10. For Investment Properties, the accounting standard FRS102 requires the consolidated accounts to show for Layden House (100%) and Local Government House (LGH - 11%) the indicated percentages of the current market values. For LGH this reflects the percentage of the asset which is used by non-group bodies, with the remainder (89%) shown as Tangible Fixed Assets. The consolidated accounts also show a net revaluation gain of £0.548m relating to Group investment properties, due to a gain for Layden house and loss for Local Government House due to its condition at the Balance Sheet date while it goes through refurbishment. The total current market value for each property is Layden House – £28.175m (2015/16 £26.151m) and Local Government House – £22.970m (2015/16 £35.850m).
11. Overall income decreased from £62.012m to £55.727m due to a reduction in Government Grants and Other Income, offset by increased income from the Children's and Adult conference being run by the LGA in alternate years.
12. The LGA's GeoPlace LLP Joint Venture made a useful contribution to income during 2016/17, making a dividend payment of £1.375m (2015/16 £1.425m).
13. Finally as agreed in the LGA's three year Financial strategy, the surplus on the General Reserve created by the LGA £1.035m and IDEA £2.522m operations and the deficit for LGAP £1.613m and LGMB £0.860m has been to the new Risk and Contingency reserve.

The Reserve is created to provide cash resources to fund developments in future years that provide opportunities to save costs or generate additional commercial income, fund external loan repayments, and also to cover the potential risks to the LGA medium term plan (such as increased pension deficit payments). This net adjustment is shown on the new Statement of Changes in Equity.

IDeA – Appendix B

14. IDeA made an operating surplus after interest of £2.993m in 2016/17 (£0.956m 2015/16). The main causes of the trading surplus are:

- 14.1. Additional income arising from Royalties from the New Streets data set provided by Local Authorities - £0.130m;
- 14.2. Additional contributions to overheads from ring-fenced activities - £0.664m;
- 14.3. A small decrease in the budgeted IDeA share of the surplus from GeoPlace LLP £0.125m;
- 14.4. Current year cost adjustment of £0.471m required to account for the pension scheme deficit in accordance with accounting standards. Note this is added to the £27.375m debit to the Pension Deficit Reserve arising from a negative actuarial loss from our pension funds this year;
- 14.5. Savings in the following Business areas: Workforce, Leadership and Productivity - £0.605m, Finance and Policy - £0.313m and Corporate Services - £0.059m; and
- 14.6. Intercompany – Savings on interest due to the delay in lending in relation to the property developments - £0.242m.

15. As explained above, the IDeA's pension deficit with the Camden Pension Scheme has increased by £26.904m as at 31 March 2017. The increase in liabilities in the last year has mainly been driven by the rising Discount rate (expected long term investment return) meaning more money is needed now to pay future benefits.

16. Overall, income reduced from £38.230m to £34.610m. This was mainly due to the continued reduction in government grants.

Local Government Management Board – Appendix C

17. LGMB owns the freehold of Layden House. The company's turnover of £0.394m comprises rent received from a number of third party tenants.

18. The company's net operating Income of £1.164m arises the net costs from running the property of £0.860m and £2.024m gain from the latest revaluation of the property at £28.2m.

19. The accounts highlight the fact that following a detailed options appraisal, the board has agreed to the refurbishment of Layden House in order to increase both the capital value of the building and its income base.

LGA (Properties) Ltd – Appendix D

20. LGA (Properties) Ltd owns the freehold of Local Government House. The company's turnover of £0.532m comprises rent received from the LGA, the IDeA and a number of external tenants. In accordance with the original lease to the LGA, the rent charged covers the cost of insuring the property and servicing the mortgage loans on it.
21. The company's net operating loss after interest of £16.517m is mainly driven by the FRS102 recognition in this statement of in year losses in the value of Local Government House at £14.904m (2015/16 £35.850m) reflecting the condition of the building at Balance Sheet date.

Audit opinion – Appendix E

22. A representative of the auditors will be in attendance at the Audit Committee's meeting. As part of the audit process, the auditors' report to the Leadership Board with their observations on the audit. A copy of the final draft of this report (the ISA 260 communication) is presented to the Committee at **Appendix E**. This comments on the differences in figures that resulted in adjustments during the audit, on departures from generally accepted accounting practice and on recommendations for improvement of our financial management and reporting.
23. The auditors note (Page 3 of Littlejohn LLP's report) that at the time of writing, one item of evidence is outstanding for disclosure in the Local Government Association (Properties) Limited financial Statements. This additional disclosure is now included in the version at Appendix D to this report.
24. The report comments (Page 14 of Littlejohn LLP's report) on one matter in which the accounts do not comply with generally accepted accounting practice – there is no separate detailed information on pension scheme assets and liabilities relating to the LGA only. The view of the Strategic Finance Manager is that further lengthening of the pension disclosure information would add complexity without significantly increasing the reader's understanding. The auditors' view is that this element of non-compliance would not prevent them from giving an unqualified 'true and fair view' audit opinion.
25. The report sets out in detail (Section 4 – Control environment) a number of matters that arose in the course of the audit, with suggestions for improvements in the controls and procedures operated by each entity.

Representations

26. The Chairman on behalf of the LGA Leadership Board is required to make various representations to the auditors that all matters relevant to the accounts have been properly disclosed (draft letter is included at **Appendix F**). As well as seeking general representations on matters such as the completeness of the information supplied for audit and the appropriateness of the accounting policies and accounting estimates used, the auditors will be seeking a number of specific representations.

Recommendation

27. Members are asked to agree the financial statements for 2016/17 prior to their adoption at the LGA General Assembly on 4 July 2017.