

LOCAL GOVERNMENT ASSOCIATION

CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2004

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REPORT OF THE CHIEF EXECUTIVE
FOR THE YEAR ENDED 31 MARCH 2004

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

The association's finances continued to improve this year with its balance sheet achieving a breakthrough into positive territory for the first time in the seven years since the LGA was set up, with a move from a deficit of £0.86 million to a surplus of £0.53 million. The association achieved a surplus for the year of £1.39 million, after taking into account net interest payable of £0.86 million and exceptional items of £0.29 million.

This compares with last year's surplus of £1.76 million which was arrived at after taking account of net interest payable of £0.92 million and exceptional items of £0.16 million. Subscription income was 5.6% higher, as a result of an across-the-board increase of 6% in fees moderated by the first resignation of an LGA member, the London Borough of Bromley. This year's finances were also boosted by a sharp increase in non-subscription income (up 24% to a net figure of £2.2 million), thanks to a new income stream from the associates programme and good trading levels and returns from conferences and seminars, with income generation boosted additionally by the inclusion in the LGA's figures this year of income from the national social services conference.

Net operating expenses were 11.7% higher, mainly as a result of higher spending on communications (up 37% to £0.9 million with the firefighters' dispute being a major factor) and staff costs up 13% to £8.7 million. There was a slight reduction in the net cost of services (down 1.3% to £1.75 million); this was achieved through management action to reduce office costs, and a healthy level of bookings at Local Government House. This reduction in costs masks significantly higher levels of spending on policy research and development (up from £0.12 million to £0.28 million) and computer and internet / website development costs (up from £0.35 million to £0.57 million). Additional expenditure has also been incurred on the LGA's new European lobbying initiative in conjunction with the Local Government International Bureau in Brussels.

In its continued drive to develop into a first class lobbying organisation, the association has embarked on a further round of changes to its internal structures, systems and ways of working. In the course of the next year the association will be reduced from six directorates to four: two for policy, one for strategy and communications and one for central services. The changes that have been taking place over the past year to set up a new information centre to provide a better service on mainstream enquiries are expected to be completed by the autumn, as will the changes to improve the linkages between conference and events and policy work. Crucial to this latter development is the association's continued focus on project working with 40 specific projects based on the following six themes: freedom to improve, securing resources, setting the agenda, shared priorities and better services, raising our sights and, lastly, organisational improvements. These themes were identified as the result of a perceptions audit which was carried out during the past year, and from which the association set itself the objective of achieving greater impact through better focus.

The coming year sees the association making further investment in customer relationship management systems to increase the effectiveness of the new information centre and to improve connections with member authorities. The association will also seek to make improvements to the involvement of members and member authorities in its work and is currently consulting on changes to member structures. The association is also undertaking a review of the ways in which the support services (HR, FM, Accounts, IT, conferences and events etc) are co-ordinated within the LGA and across those of local government's central bodies that are based in London (IDeA, EO, 4Ps & LACORS), with a view to enhancing their cost-effectiveness.

Sir Brian Briscoe
Chief Executive

STATEMENT OF THE RESPECTIVE RESPONSIBILITIES OF THE LGA EXECUTIVE
AND OF THE MANAGEMENT EXECUTIVE

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 Management Executive 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 Management Executive 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 Management Executive 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 Management Executive 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 Management Executive 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 MANAGEMENT EXECUTIVE

FOR THE YEAR ENDED 31 MARCH 2004

We have audited the financial statements of the Local Government Association on pages 4 to 17. These financial statements have been prepared under the historical cost convention and the accounting policies set out therein.

Respective responsibilities of the Management Executive and auditors

As described in the statement of responsibilities on page 2, the Management Executive are responsible for the preparation of 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 Management Executive. Our audit work has been undertaken so that we might state to the Management Executive 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 Management Executive, 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 Management Executive 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 2004 and of its surplus 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

2004

CONSOLIDATED INCOME AND EXPENDITURE ACCOUNT

FOR THE YEAR ENDED 31 MARCH 2004

	Notes	2004 Income £'000	2004 Expenditure £'000	2004 Net £'000	2003 Net £'000
SUBSCRIPTIONS AND OTHER INCOME					
Subscriptions		14,856		14,856	14068
Conferences and seminars		3,377	1,534	1,843	1,433
Royalties		162		162	236
Associates		104	3	101	-
Other		144	45	99	108
		-----	-----	-----	-----
		18,643	1,582	17,061	15,845
		--	-----	-----	-----
NET OPERATING EXPENSES					
Staff costs	1	299	8,974	8,675	7,687
Accommodation		202	1,244	1,042	982
Communications		71	1,006	935	682
Services		516	2,265	1,749	1,770
Members			1,532	1,527	1,397
Welsh LGA	2		508	508	479
European lobbying		-	89	89	5
		--	-----	-----	-----
		1,093	15,618	14,525	13,002
		--	-	-----	-----
TOTALS OF INCOME AND EXPENDITURE		19,736	17,200		
		--			
OPERATING SURPLUS				2,536	2,843
Interest receivable			335		306
Interest payable			(1,193)		(1,225)
			-----	(858)	-----
SURPLUS AFTER INTEREST				1,678	1,924
Exceptional items	3			(292)	(165)
SURPLUS FOR THE FINANCIAL YEAR				1,386	1,759
TRANSFERS TO RESERVE					
Pension reserve	9			(224)	(1,500)
Major repairs and maintenance reserve				(50)	(25)
				-----	-----
				1,112	234
				=====	=====

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 17 form part of these financial statements.

BALANCE SHEETS
AT 31 MARCH 2004

	Notes	2004 £'000	Association 2003 £'000	2004 £'000	Group 2003 £'000
FIXED ASSETS					
Tangible assets	4	839	703	20,585	20,797
		-----	-----	-----	-----
CURRENT ASSETS					
Debtors		2,124	1,891	1,749	1,578
Cash at bank and in hand		5,021	4,042	5,021	4,042
		-----	-----	-----	-----
		7,145	5,933	6,770	5,620
CREDITORS: Amounts falling due within one year	6	(3,269)	(3,038)	(3,927)	(3,755)
		-----	-----	-----	-----
NET CURRENT ASSETS		3,876	2,895	2,843	1,865
		-----	-----	-----	-----
TOTAL ASSETS LESS CURRENT		4,715	3,598	23,428	22,662
CREDITORS: Amounts falling due after more than one year	7	-	-	(18,600)	(19,120)
PROVISIONS FOR LIABILITIES AND	8	(4,300)	(4,400)	(4,300)	(4,400)
		-----	-----	-----	-----
		415	(802)	528	(858)
		=====	=====	=====	=====
CAPITAL AND RESERVES					
Pension reserve	9	4,300	4,076	4,300	4,076
Major repairs and maintenance reserve	9	125	75	125	75
Accumulated deficit	10	(4,010)	(4,953)	(3,897)	(5,009)
		-----	-----	-----	-----
		415	(802)	528	(858)
		=====	=====	=====	=====

Approved by the Management Executive on 24 May 2004

and signed on its behalf

Sir Brian Briscoe

Chief Executive

The notes on pages 7 to 17 form part of these financial statements

CONSOLIDATED CASHFLOW STATEMENT

AS AT 31 MARCH 2004

	Notes	2004 £'000	2003 £'000
NET CASH INFLOW FROM OPERATING ACTIVITIES	12	2,752	651
		-----	-----
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		----	--
Interest received		335	306
Interest paid – property finance		(737)	(769)
Finance discounts for former AMA authorities		(456)	(456)
		-----	-----
		----	--
<u>Net cash outflow from returns on investments & servicing of finance</u>		(858)	(919)
		-----	-----
		----	--
INVESTING ACTIVITIES			
Purchase of tangible assets		(395)	(289)
		-----	-----
		----	--
<u>Net cash outflow from investing activities</u>		(395)	(289)
		-----	-----
		----	--
NET CASH INFLOW / (OUTFLOW) BEFORE FINANCING	13	1,499	(557)
		-----	-----
		----	--
FINANCING			
Payment of loan instalments to Barclays Bank		(520)	(520)
		-----	-----
		----	--
<u>Net cash outflow from financing</u>		(520)	(520)
		-----	-----
		----	--
<u>Increase / (Decrease) in cash</u>		979	(1,077)
		=====	=====

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

	2004 £'000	2003 £'000
	2004 £'000	2003 £'000

Increase / (Decrease) in cash in the period	979	(1,077)
Cash to repay debt	520	520
	-----	-----
	-----	-----
Change in net debt	1,499	(557)
Net debt at 1 April 2003	(15,598)	(15,041)
	-----	-----
	-----	-----
Net debt at 31 March 2004	(14,099)	(15,598)
	-----	-----
	-----	-----

The notes on pages 7 to 17 form part of these financial statements

ACCOUNTING POLICIES

FOR THE YEAR ENDED 31 MARCH 2004

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 2004 the group had net assets of £0.53 million (2003: net liabilities of £0.86 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 Management Executive 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	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 2004 (Continued)

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 2004

1 STAFF COSTS

Association and Group

Employment costs and related expenses	2004	2003
£'000	£'000	£'000
All employees:		
Salaries	7,176	6,711
Employer's social security costs	659	557
Employer's pension costs (see note 11)	623	483
	-----	-----
	8,458	7,751
Less: Income from secondments	299	295
Transfers to projects	39	85
Transfers to political support groups	491	434
	-----	-----
	(829)	(814)
	-----	-----
	7,629	6,937
	-----	-----
Other staff costs:		
Agency, freelance & secondment costs	341	314
Recharges re unfunded pension liabilities	386	307
Reduction in pension provision	(100)	(200)
Travel, subsistence and staff expenses	97	92
Recruitment costs	165	73
Training costs	148	154
Other personnel costs	9	10
	-----	-----
	1,046	750
	-----	-----
Total staff costs	8,675	7,687
	-----	-----

The average number of employees during the year was 209 (2003: 204).

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

	2004	2003
	£'000	£'000
Severance & pension costs arising from restructuring	292	165
	-----	-----

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2004 (Continued)

4 TANGIBLE FIXED

<u>Group</u>	Freehold Property £'000	Computer Systems £'000	Equipment £'000	Furniture Fixtures and fittings £'000	2004 Total £'000	2003 Total £'000
COST						
At start of year	20,011	556	338	1,919	22,824	22,924
Additions	-	324	41	30	395	289
Disposals	-	-	-	-	-	(389)
	-----	-----	-----	-----	-----	-----
At end of year	20,011	880	379	1,949	23,219	22,824
	-----	-----	-----	-----	-----	-----
DEPRECIATION						
At start of year		365	238		2,027	1,775
Charge for the year	263	155	37	152	607	663
Disposals	-	-	-	-	-	(411)
	-----	-----	-----	-----	-----	-----
At end of year	1,181	520	275	658	2,634	2,027
	-----	-----	-----	-----	-----	-----
NET BOOK	18,830	360	104	1,291	20,585	20,797
	=====	=====	=====	=====	=====	=====

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

<u>Association</u>	Computer Systems £'000	Equipment £'000	Furniture Fixtures and fittings £'000	2004 Total £'000	2003 Total £'000
COST					
At start of year	556	338	634	1,528	1,628
Additions	324	41	30	395	289
Disposals	-	-	-	-	(389)
	-----	-----	-----	-----	-----
At end of year	880	379	664	1,923	1,528
	-----	-----	-----	-----	-----
DEPRECIATION					
At start of year	365	238		825	921
Charge for the year	155	37	67	259	315
Disposals	-	-	-	-	(411)
	-----	-----	-----	-----	-----
At end of year	520	275	289	1,084	
	-----	-----	-----	-----	-----
NET BOOK VALUE	360	104	375	839	703
	=====	=====	=====	=====	=====

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2004 (Continued)

5 DEBTORS

	Association		Group	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000
Accounts receivable (less provision for doubtful	1,049	661	1,049	661
Prepayments	174	272	174	272
Accrued income	273	343	273	343
Other debtors	304	302	253	302
Amounts owed by group undertaking	324	313	-	-
	-----	-----	-----	-----
	2,124	1,891	1,749	1,578
	-----	-----	-----	-----

6 CREDITORS

	Association		Group	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000
Amounts falling due within one year				
Bank loans and overdrafts	-	-	520	520
Accounts payable and accruals	1,383	1,348	1,521	1,490
Subscription and conference income in advance	1,308	1,197	1,308	1,197
PAYE and national insurance	378	309	378	309
Project balances (see note below)	112	125	112	125
Other creditors	88	59	88	114
	-----	-----	-----	-----
	3,269	3,038	3,927	3,755
	-----	-----	-----	-----

<u>Project balances</u>	At 1 April		At 31 March	
	2003 £'000	Income £'000	Expenditure £'000	2004 £'000
Analysis of changes in balances during the year:				
National Highways Street Works Manager	99	52	(58)	93
National Training Organisation for Housing	19	-	-	19
EAZ Excellence Development Fund	7	-	(7)	-
	-----	-----	-----	-----
	125	52	(65)	112
	-----	-----	-----	-----

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2004 (Continued)

7 CREDITORS

Amounts falling due after more than one year	Association		Group	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000
Barclays Bank plc				
- Refurbishment of Local Government House	-	-	10,400	10,920
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
	-----	-----	-----	-----
	-	-	18,600	19,120
	-----	-----	-----	-----

The Barclays Bank plc loan of £10.92m 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 £10.4m 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 2004 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	(48)
	) 2,800		0	
Floor (Collar)	)	21/01/2025	27/01/2000	282
	)		0	
SWAP	5,600	21/01/2025	27/01/2000	675
			0	
	-----			-----
Total	8,400	Net Notional Loss		909
	-----			-----
<u>Tranche 2</u>				

CAP (Collar)	)		21/01/2025	13/07/200	(15)
	)	840		0	
Floor (Collar)	)		21/01/2025	13/07/200	80
	)			0	
SWAP		1,680	21/01/2025	13/07/200	181
				0	
		-----			-----
Total		2,520		Net Notional Loss	246
		-----			-----
<u>Combined total</u>		10,920			1,155
		=====			=====

FOR THE YEAR ENDED 31 MARCH 2004 (Continued)

8 PROVISION FOR LIABILITIES AND CHARGES

Pensions	Association And Group	
	2004 £'000	2003 £'000
Balance brought forward	4,400	4,600
Reduction in provision based on 2004 valuation	(100)	(200)
	-----	-----
	-----	-----
	4,300	4,400
	-----	-----
	-----	-----

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. This year it has been possible to reduce the transfer to approximately one-sixth of the surplus, by virtue of the fact that the reserve has now been brought into balance with the pension provision.

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	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000
PENSION RESERVE				
Balance brought forward	4,076	2,576	4,076	2,576
Transfer from income and expenditure account	224	1,500	224	1,500
	-----	-----	-----	-----
	--	----	--	--
Balance at end of year	4,300	4,076	4,300	4,076
	-----	-----	-----	-----
	--	----	--	--
MAJOR REPAIRS AND MAINTENANCE RESERVE				
Balance brought forward	75	50	75	50
Transfer from income and expenditure account	50	25	50	25
	-----	-----	-----	-----
	--	----	--	--
Balance at end of year	125	75	125	75
	-----	-----	-----	-----
	--	----	--	--

10 ACCUMULATED DEFICIT

	Association		Group	
	2004	2003	2004	2003
	£'000	£'000	£'000	£'000
Deficit brought forward	(4,953)	(5,018)	(5,009)	(5,243)
Surplus for the year after transfer to reserves	943	65	1,112	234
	-----	-----	-----	-----
	--	----	--	--
Deficit at end of year	(4,010)	(4,953)	(3,897)	(5,009)
	-----	-----	-----	-----
	--	----	--	--

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2004 (Continued)

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 £622,905 (2003: £483,481).

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 2001. 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 would be 5.6% per annum compound, salaries would increase at 3.3% per annum compound with the addition of scale increments for salaried staff, and post retirement pensions would increase at 2.3% 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 3.5% per annum compound with the addition of scale increments for salaried staff, and post-retirement pensions would increase at 2.5% compound.

The actuarial valuation at 31 March 2001 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 £198.5 million on a total valuation of £3,013 million. The regulations require a target funding level of 100% for past service liabilities.

On the basis of the above results the actuary recommended a primary contribution rate of 11.5% for all scheme members to provide the 100% funding referred to above, and a secondary contribution, to reflect circumstances peculiar to individual employers, at a negative rate of 3.8% for the association for the year 2003/04, giving a combined contribution rate for that year of 7.7%. This compares with a combined rate of 3% that had been contributed from April 1999 until March 2002, and 5.3% for the year 2002/03. For the year 2004/05 the combined rate will be 10%.

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 £22,544 (2003: £21,090).

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

Estimated financial position of defined benefit scheme as at 31 March 2004	£'000	2003	£'000
Assets	16,136	12,544	
Liabilities	(17,947)		(15,860)
	-----		-----
Deficit	(1,811)		(3,316)
	-----		-----

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2004 (Continued)

11 PENSIONS (Continued)

Asset values

The association's share in the assets of the fund has been valued as at 31 March 2004 as follows:

	2004 £'000	2003 £'000
Equities	9,456	7,138
Government Bonds	2,679	2,684
Other Bonds	662	213
Property	1,565	1,342
Other	1,774	1,167
	----- 16,136	----- 12,544

Main financial assumptions

Rate of inflation	2.8%	2.5%
Rate of increase in salaries	3.8%	3.5%
Rate of increase in pensions	2.8%	2.5%
Discount rate	6.3%	6.0%
Expected return on assets - Equities	7.5%	7.5%
- Government Bonds	4.7%	4.5%
- Other Bonds	5.5%	5.4%
- Property	6.5%	6.5%
- Other	4.0%	3.75%

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 2001.

The actuarial assumptions used for the calculation of the contribution rate are that the investment rate of return would be 6.25% per annum compound, salaries would increase at 4.3% per annum compound with the addition of scale increments for salaried staff, and post-retirement pensions would increase at 2.8% per annum compound.

The actuarial valuation at 31 March 2001 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 £125.4 million on a total valuation of £861.6 million. The regulations require a target funding level of 100% for past service liabilities.

On the basis of the above results the actuary recommended a primary contribution rate of 15.9% for all scheme members to provide the 100% funding referred to above, and a secondary contribution, to reflect circumstances peculiar to individual employers, at a positive rate of 3.3% for the association, giving a combined contribution rate of 19.2% with effect from 1 April 2002. This compares with a combined rate of 15% that had been contributed from April 1999 up to that date.

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 £244,129 (2003: £211,143), of which £71,475 (2003: £64,200) has been treated as exceptional costs.

LOCAL GOVERNMENT ASSOCIATION

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2004 (Continued)

11 PENSIONS (Continued)

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

Estimated financial position of defined benefit scheme as at 31 March 2004:

	2004 £'000	2003 £'000	
Assets	27,317	22,730	
Liabilities	(38,078)		(35,350)
Deficit (12,620)	(10,761)		

Asset values

The association's share in the assets of the fund has been valued as at 31 March 2004 as follows:

	2004 £'000	2003 £'000
Equities	20,616	16,348
Bonds	3,978	3,643
Property	1,824	1,900
Cash	899	839
	-----	-----
	27,317	22,730
	-----	-----

Main financial assumptions

	2004	2003
Price increases	2.9%	2.5%
Salary increases	4.4%	4.0%
Pension increases	2.9%	2.5%
Discount rate	5.5%	5.4%
Expected return on assets - Equities	7.7%	8.0%

- Bonds	5.1%	4.8%
- Property	6.5%	6.0%
- Cash	4.0%	4.0%

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 £189,922 (2003: £137,722).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2004 (Continued)

NOTES TO THE CASHFLOW STATEMENT

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

	2004	2003
	£'000	£'000
Operating surplus	2,536	2,843
Depreciation (including disposals)	607	641
Pension provision	(100)	(200)
(Increase) / Decrease in debtors	(171)	72
Increase / (Decrease) in creditors	172	(2,540)
	-----	-----
	---	---
	3,044	816
Outflow related to exceptional items	(292)	(165)
	-----	-----
	---	---
Net cash inflow from operating activities	2,752	651
	-----	-----
	--	---

13 ANALYSIS OF CHANGES IN NET DEBT

	At 1 April		At 31 March
	2003	Cashflows	2004
	£'000	£'000	£'000
			Other Changes
			£'000
Cash at bank	4,042	979	-
Debt due within one year	(520)	520	(520)
Debt due after one year	(19,120)	-	520
	-----	-----	-----
	----	---	---
	(15,598)	1,499	-
	-----	-----	-----
	-----	---	---
			(14,099)

CONSOLIDATED DETAILED INCOME AND EXPENDITURE ACCOUNT
for the year ended 31 March 2004

SUBSCRIPTIONS AND OTHER INCOME

	----- 2004 -----		----- 2003 -----	
	£	£	£	£
MAINSTREAM SUBSCRIPTIONS				
Shire counties		2,981,273		2,812,526
Shire districts		3,027,122		2,855,762
Metropolitan districts		2,684,915		2,532,936
London boroughs		1,971,552		1,921,551
English unitaries		2,344,811		2,212,081
Welsh unitaries		905,319		854,077
Fire authorities		550,974		519,730
Transport authorities		226,566		213,744
		-----		-----
		14,692,532		13,922,407
CORPORATE SUBSCRIPTIONS				
- Police authorities	108,929		93,712	
- National park authorities	12,655		11,938	
- Rural Commission	3,516		3,318	
- Greater London Authority	38,567		36,384	
	-----	163,667	-----	145,352
NON-SUBSCRIPTION INCOME				
Conferences and seminars	1,842,639		1,432,813	
Royalties	161,409		236,028	
Associates	100,941		4,450	
Other	99,331		103,515	
	-----	2,204,320	-----	1,776,806
TOTAL SUBSCRIPTIONS AND OTHER INCOME				
		17,060,519		15,844,565
		-----		-----

NET OPERATING EXPENSES

	£	£	£	£
STAFF COSTS				
Employees		8,457,957		7,751,497
Less: income from secondments	(299,302)		(295,101)	
transfers to projects	(38,736)		(84,883)	
transfers to political support groups	(491,228)		(433,858)	
	-----	(829,266)	-----	(813,842)
		-----		-----
		7,628,691		6,937,655
Other staff costs				
- Agency, freelance and secondment costs	341,312		314,089	
- Pension payments and provisions	286,157		106,792	
- Travel, subsistence and staff expenses	96,695		90,143	
- Recruitment costs	165,246		72,677	
- Training costs	147,588		153,811	
- Other personnel costs	9,499		11,558	
	-----	1,046,497	-----	749,070
		-----		-----

Carried forward

8,675,188

7,686,725

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[FOR MANAGEMENT USE ONLY]

CONSOLIDATED DETAILED INCOME AND EXPENDITURE ACCOUNT
for the year ended 31 March 2004 (continued)

NET OPERATING EXPENSES

(Continued)

	----- 2004 -----			----- 2003 -----		
	£	£	£	£	£	£
Brought forward			8,675,188			7,686,725
ACCOMMODATION						
Rent, rates and insurance		443,861			410,423	
Water, gas and electricity		63,923			55,732	
Maintenance, cleaning and security		335,988			309,824	
Repairs, decorations and other costs		51,188			55,789	
Depreciation of Local Government House		348,346			348,346	
		-----			-----	
		1,243,306			1,180,114	
Less: rental income and landlord's service charges	(201,663)			(198,151)		
	-----		1,041,643	-----		981,963
		-----			-----	
COMMUNICATIONS						
Cost of publications		28,531			46,273	
'first' magazine publication costs		422,909			421,730	
Exhibitions and party conferences		218,521			180,117	
Media monitoring		24,555			18,819	
Creative services (including picture library)		8,906			5,898	
Corporate promotion material		108,641			35,976	
Campaigns and communications work associated with policy priorities		139,294			43,812	
Image campaign		15,000			25,077	
External printing		39,769			-	
		-----			-----	
		1,006,126			777,702	
Less income:						
Party conferences - sponsorship		-			(3,395)	
Publication sales, sponsorship and advertising	(23,585)			(54,172)		
'first' magazine - subscriptions	(4,480)			(4,690)		
- sponsorship and advertising	(43,168)			(29,757)		
Image campaign - sponsorship		-		(3,200)		
	-----		934,893	-----		682,488
		-----			-----	
SERVICES						
<u>Conference facilities & room hire</u>						
Income	(341,080)			(267,184)		
Internal charges to conferences	(244,090)			(264,203)		
Less: costs	384,204			372,100		
	-----	(200,966)		-----	(159,287)	
		-----			-----	
		-----			-----	

Carried forward

(200,966) 10,651,724

(159,287) 9,351,176

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CONSOLIDATED DETAILED INCOME AND EXPENDITURE ACCOUNT
for the year ended 31 March 2004 (continued)

NET OPERATING EXPENSES

(Continued)

	----- 2004 -			----- 2003 --		
	£	£	£	£	£	£
Brought forward		(200,966	10,651,724		(159,287	9,351,176
))	
<u>Supplies</u>						
Telephone, internet and post	127,672			220,175		
Stationery, office supplies and storage	44,942			84,677		
Books and journals	32,495			35,365		
Parliamentary Bills	6,874			9,400		
Leasing and rental of equipment	7,303			9,225		
Computer costs	427,536			264,731		
Internet / LGA Website / Local Govt Link	100,161			86,003		
Internal publishing	211,050			353,172		
Equipment and furniture	133,298			135,545		
	-----			-----		
	----			----		
	1,091,331			1,198,293		
Less: income – miscellaneous services	(174,607)			(159,054)		
Less: internal charges	(7,828)			(4,891)		
	-----	908,896		-----	1,034,348	
	-----			-----		
<u>Miscellaneous</u>						
Legal, professional and consultancy	448,755			510,307		
Policy research and development	282,367			116,624		
Corporate marketing	23,589			-		
Cost of outside meetings	161,720			131,253		
Audit	13,650			12,750		
General insurance	46,515			38,081		
Corporate subscriptions	3,031			10,551		
Bank charges	8,008			5,521		
Transfer of LANTAC to LABC Services	32,600			48,500		
Miscellaneous expenses	20,517			21,319		
	-----	1,040,752		-----	894,906	
	-----			-----		
	-----			-----		
Services – total net expenditure			1,748,682			1,769,967
 <u>MEMBERS</u>						
Labour Group		248,462			232,869	
Liberal Democrat Group		141,638			134,284	
Conservative Group		218,330			174,717	
Independent Group		74,205			70,382	

Other members' allowances / expenses	844,428	784,648
	----- 1,527,063	----- 1,396,900
	-----	-----
	-----	-----
Carried forward	13,927,469	12,518,043

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CONSOLIDATED DETAILED INCOME AND EXPENDITURE ACCOUNT
for the year ended 31 March 2004 (continued)

OPERATING SURPLUS, INTEREST & EXCEPTIONAL ITEMS

	-----2004--		-----2003--	
	£	£	£	£
Brought forward		13,927,469		12,518,043
WELSH LOCAL GOVERNMENT ASSOCIATION LGA contribution		508,000		479,000
EUROPEAN LOBBYING		89,386		5,000
		-----		-----
TOTAL NET OPERATING EXPENSES		14,524,855		13,002,043
		-----		-----
		-----		-----
TOTALS OF INCOME & EXPENDITURE				
Subscriptions and other income		17,060,519		15,844,565
Net operating expenses		(14,524,855)		(13,002,043)
		-----		-----
		-----		-----
OPERATING SURPLUS		2,535,664		2,842,522
INTEREST				
Interest receivable		335,371		306,051
Interest payable		(1,192,791)		(1,224,904)
		-----		-----
		-----		-----
		(857,420)		(918,853)
		-----		-----
SURPLUS AFTER INTEREST		1,678,244		1,923,669
EXCEPTIONAL ITEMS				
Restructuring costs – severance & pension costs		(291,973)		(164,821)
		-----		-----
		-----		-----

SURPLUS FOR THE FINANCIAL YEAR

1,386,271

1,758,848

TRANSFERS TO RESERVE

Pension reserve

(224,067)

(1,500,000)

Major repairs & maintenance reserve

(50,000)

(25,000)

1,112,204

233,848

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