

LOCAL GOVERNMENT ASSOCIATION

CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2006

Saffery Champness
CHARTERED ACCOUNTANTS

LOCAL GOVERNMENT ASSOCIATION
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LOCAL GOVERNMENT ASSOCIATION

REPORT OF THE CHIEF EXECUTIVE FOR THE YEAR ENDED 31 MARCH 2006

INTRODUCTION

The Local Government Association was set up as an unincorporated body on 1 April 1997 following the 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 better local government and 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

2005/6 saw the Association embed its new member structures organised around the LGA Executive and six boards. The 'do less, but better' approach has delivered significant benefits over the previous arrangements with a more focused approach to policy priorities, more informed debate on these priorities, a higher national profile and a greater impact for the LGA in getting its messages across. Our work programme has been streamlined to contribute to the delivery of our manifesto for local government published before the general election. 'People and Places' launched in May, provides a further opportunity for us to refocus our resources on lobbying for the most important issues facing local government.

To support members lobbying efforts over the past year we have reviewed our staff resources, reducing administrative costs and implementing a strategy which will see us reducing the permanent policy staff, creating a larger purchase budget which we will use to bring in recognised 'experts' who can add weight to our lobbying messages. This strategy has already reaped rewards with key external figures leading high profile campaigns on reputation and transport. Over the coming year we will be looking to engage more members and officers in our work, who can bring with them local knowledge, skills and experience to strengthen our case

During the year we appointed a new chief executive, created a deputy chief executive post and restructured senior management, recruiting to new programme director level posts.

The collaboration project designed to integrate and make more effective the support services of the LGA and the Central Bodies has made a real impact on the way we operate across the family. Reviews have been undertaken or are planned for all support services, establishing shared support services across the six bodies. The LGA and the central bodies will operate from 2 buildings from summer 2006 releasing resources currently spent on rented accommodation. Collaboration will shortly extend to other areas of more frontline business, ensuring the LGA and the central bodies have focused business plans to achieve our joint ambitions for local government in 'people and places.'

We aimed to manage the LGA's budget prudently, retaining the level of reserves first established in 2003/04. The continued vagaries of FRS 17 reporting arrangements on pensions obscures the presentation of this year on year, but the real position is one of stability. It is particularly welcome that the reduction in subscription income resulting from the new arrangements for Wales was more than compensated for by strong performances from Conference and other income. The General Assembly in December agreed no increase in subscription for 2006/07, the first time that this has been achieved in the history of the LGA.

LOCAL GOVERNMENT ASSOCIATION
REPORT OF THE CHIEF EXECUTIVE
FOR THE YEAR ENDED 31 MARCH 2006 (continued)

I am pleased that the last set of accounts that I shall present for the General Assembly shows the progress made from difficult beginnings.



Sir Brian Briscoe

Chief Executive

15th June 2006

LOCAL GOVERNMENT ASSOCIATION
STATEMENT OF THE RESPECTIVE RESPONSIBILITIES OF THE LGA EXECUTIVE
AND OF THE RESOURCES PANEL

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 overseeing the preparation and approval of the 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.

LOCAL GOVERNMENT ASSOCIATION
INDEPENDENT AUDITORS' REPORT TO THE LGA EXECUTIVE AND THE RESOURCES PANEL
FOR THE YEAR ENDED 31 MARCH 2006

We have audited the financial statements on pages 7 to 24. These financial statements have been prepared in accordance with the accounting policies set out therein.

Respective responsibilities of the Resources Panel and auditors

As described in the statement of responsibilities on page 5, the Resources Panel are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

This report is made to the LGA Executive and to the Resources Panel. Our audit work has been undertaken so that we might state to the LGA Executive and the Resources Panel those matters we are required to state to them in an auditors' 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, the LGA Executive 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 whether in our opinion the information given in the Chief Executive's report is consistent with the financial statements. We also report to you if, in our opinion, the group has not kept proper accounting records or if we have not received all the information and explanations we require for our audit.

Basis of audit opinion

We conducted our audit in accordance with 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 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 group'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, in accordance with United Kingdom Generally Accepted Accounting Practice of the state of affairs of the association and the group as at 31 March 2006 and of the surplus of the group for the year then ended; and
- * the financial statements have been properly prepared in accordance with applicable accounting standards; and
- * the information given in the Chief Executive's report is consistent with the financial statements.

SAFFERY CHAMPNESS
Chartered Accountants

Lion House
Red Lion Street
London
WC1R 4GB

16 June 2006

LOCAL GOVERNMENT ASSOCIATION
CONSOLIDATED INCOME AND EXPENDITURE ACCOUNT
FOR THE YEAR TO 31 MARCH 2006

	Notes	2006 Income £000	2006 Expenditure £000	2006 Net £000	2005 Net £000 As Restated
SUBSCRIPTIONS AND OTHER INCOME					
Subscriptions		14,674		14,674	15,165
Conferences and seminars		3,901	1,808	2,093	1,224
Royalties		176		176	160
Associates and Grants		110		110	110
Conference suite and room hire		603	347	256	228
Other		94		94	83
		19,558	2,155	17,403	16,970
NET OPERATING EXPENSES					
Staff costs		254	9,123	8,869	9,453
Staff costs for shared services		1,108	1,545	437	563
Total Staffing	1	1,362	10,668	9,306	10,016
Accommodation		199	1,226	1,027	1,050
Communications		23	945	922	796
Services		209	2,367	2,158	2,124
Members		8	1,602	1,594	1,590
Welsh LGA	2			0	520
European lobbying			60	60	65
Collaboration		699	826	127	
Shared Services		277	100	(177)	
		2,777	17,793	15,017	16,161
Operating surplus				2,386	809
Bank interest receivable				327	499
Interest paid				(1,129)	(1,163)
Other finance expense	3			(471)	(471)
Surplus after interest				1,113	(326)
Less					
Exceptional items	4			400	223
SURPLUS FOR THE FINANCIAL YEAR				713	(549)

The association's income and expenses all relate to continuing operations.
The surplus for the year has been calculated on the historical cost basis.
The notes on pages 11 to 24 form part of these financial statements.

LOCAL GOVERNMENT ASSOCIATION
STATEMENT OF RECOGNISED GAINS AND LOSSES
FOR THE YEAR TO 31 MARCH 2006

	Notes	2006 £'000s	2005 £'000s
Surplus/(deficit) for the financial year		713	(549)
Actuarial gain/(loss) recognised in respect of the pension fund	11	433	(4,408)
Total recognised gains and losses relating to the year		<u>1,146</u>	<u>(4,957)</u>
Prior year adjustment	9	(18,711)	
Total recognised gains and losses recognised since last annual report		<u>(17,565)</u>	

The notes on pages 11 to 24 form part of these financial statements.

LOCAL GOVERNMENT ASSOCIATION
BALANCE SHEETS
as at 31st March 2006

		Association		Group	
	Notes	2006 £'000s	2005 £'000s As Restated	2006 £'000s	2005 £'000s As Restated
FIXED ASSETS					
Tangible Assets	5	742	958	19,791	20,355
CURRENT ASSETS					
Debtors	6	3,191	2,397	2,804	2,069
Cash at bank and in hand		5,095	4,301	5,095	4,301
Total Current Assets		8,286	6,698	7,899	6,370
CREDITORS					
Amounts falling due in one year	7	(3,588)	(2,633)	(4,238)	(3,341)
NET CURRENT ASSETS		4,698	4,065	3,661	3,029
TOTAL ASSETS LESS CURRENT LIABILITIES		5,440	5,023	23,452	23,384
CREDITORS					
Amounts falling due after more than one year	8	0	0	(17,560)	(18,080)
PROVISIONS FOR LIABILITIES AND CHARGES	9	(22,853)	(23,411)	(22,853)	(23,411)
NET LIABILITIES		(£ 17,413)	(£ 18,388)	(£ 16,961)	(£ 18,107)
CAPITAL AND RESERVES	10				
Unfunded pension deficit		(1,907)	(1,917)	(1,907)	(1,917)
Merseyside pension deficit		(8,692)	(8,185)	(8,692)	(8,185)
West Sussex pension deficit		(12,254)	(13,309)	(12,254)	(13,309)
Pension reserve		4,525	4,350	4,525	4,350
Major Repairs and maintenance reserve		175	150	175	150
Conference reserve		200		200	0
Accumulated surplus		523	523	804	804
Surplus for year		17		188	
NET LIABILITIES		(£ 17,413)	(£ 18,388)	(£ 16,961)	(£ 18,107)

Approved by the Resources Panel on 6th June 2006

and signed on its behalf



Sir Brian Briscoe
Chief Executive

The notes on pages 11 to 24 form part of these financial statements.

LOCAL GOVERNMENT ASSOCIATION
CONSOLIDATED CASH FLOW STATEMENT
as at 31 MARCH 2006

	Notes	2006 £'000s	2005 £'000s
NET CASH INFLOW FROM OPERATING ACTIVITIES	12	2,311	900
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received		327	499
Interest paid – property finance		(672)	(707)
Finance discounts for former AMA authorities		(456)	(456)
Net cash outflow from returns on investments & servicing of finance		(801)	(664)
INVESTING ACTIVITIES			
Purchase of tangible assets		(196)	(436)
Net cash outflow from investing activities		(196)	(436)
NET CASH INFLOW / (OUTFLOW) BEFORE FINANCING	13	1,314	(200)
FINANCING			
Payment of loan instalments to Barclays Bank		(520)	(520)
Net cash outflow from financing		(520)	(520)
Increase / (Decrease) in cash		794	(720)
RECONCILIATION OF NET CASH TO MOVEMENT IN NET DEBT (note 13)			
		2006 £'000s	2005 £'000s
Increase / (Decrease) in cash		794	(720)
Cash to repay debt		520	520
Change in net debt		1,314	(200)
Net debt at 1 April 2005		(14,299)	(14,099)
Net debt at 31 March 2006		(12,985)	(14,299)

The notes on pages 11 to 24 form part of these financial statements

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 United Kingdom accounting standards.

B GOING CONCERN

The financial statements have been prepared on a going concern basis.

The group has net liabilities, after accounting for the defined benefit pension scheme deficits of £16.961 million as at 31 March 2006. This position includes an actuarial estimate of the pension liabilities at the balance sheet date. The Association pays amounts into the schemes, as prescribed by the actuaries (note 11), in order to eliminate this deficit over 25 years.

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 8.

In view of these arrangements 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 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

New employees are entitled to membership of the Merseyside defined benefit pension scheme. Existing staff remain members of either the Merseyside or the West Sussex schemes. Under the defined benefit plans, pension scheme assets are measured using market values. Pension scheme liabilities are measured using the projected unit actuarial method and are discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability. Any increase in the present value of liabilities within the defined benefit pension schemes expected to arise from employee service in the period are charged to the income and expenditure account.

The expected return on the scheme's assets and the increase during the period in the present value of the scheme's liabilities arising from the passage of time are included in other finance income. Actuarial gains and losses are recognised in the statement of total recognised gains and losses. Pension scheme surpluses, to the extent that they are considered recoverable, or deficits are recognised in full and presented on the face of the balance sheet.

The accounting policy above in respect of defined benefit schemes represents a change this year and the comparatives have been restated. Under the previous policy, contributions were provided for over the service lives of the employees so that the regular pension cost was a broadly level percentage of the current and expected future pensionable payroll in the light of the then current and actuarial assumptions.

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.

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.

LOCAL GOVERNMENT ASSOCIATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR TO 31 MARCH 2006

1	STAFF COSTS		
	Association and Group	2006	2005
		£'000s	£'000s
	Employment costs and related expenses		
	All employees:		
	Salaries	8,174	7,573
	Employer's social security costs	797	700
	Employer's pension costs cash paid into scheme (see note 11)	1,050	751
	Pension scheme current service cost less contributions (FRS 17)	(596)	156
		<u>9,425</u>	<u>9,180</u>
	Less: Income from secondments	(254)	(242)
	Income from shared services and transfers to projects	(1,108)	(83)
	Transfers to political support groups	(480)	(466)
		<u>(1,842)</u>	<u>(791)</u>
		<u>7,583</u>	<u>8,389</u>
	Other staff costs:		
	Agency, freelance & secondment costs	744	310
	Recharges re unfunded pension liabilities	337	370
	Increase / (reduction) in pension provision	-	400
	Travel, subsistence and staff expenses	113	95
	Recruitment costs	293	268
	Training costs	156	161
	Other personnel costs	80	23
		<u>1,723</u>	<u>1,627</u>
	Total staff costs	<u>9,306</u>	<u>10,016</u>

The average number of employees during the year was 226 (2005: 206).

2 WELSH LOCAL GOVERNMENT ASSOCIATION

The Local Government Association receives an annual subscription for the services provided to the Welsh Local Government Association.

3	OTHER FINANCE EXPENSE	2006	2005
		£'000s	£'000s
	Expected return on pension scheme assets	3,224	2,944
	Interest on pension scheme liabilities	(3,695)	(3,415)
		<u>(471)</u>	<u>(471)</u>

4	EXCEPTIONAL ITEMS	2006	2005
		£'000s	£'000s
	Severance & Pension costs arising from restructuring	<u>400</u>	<u>223</u>

LOCAL GOVERNMENT ASSOCIATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR TO 31 MARCH 2006 (CONTINUED)

5 TANGIBLE FIXED ASSETS						
Group	Freehold Property £'000s	Computers & Information Systems £'000s	Equipment £'000s	Furniture & Fittings £'000s	Total 2006 £'000s	Total 2005 £'000s
COST						
At start of year	20,011	939	398	1,954	23,302	23,219
Additions		176	20	0	196	436
Disposals		(204)	(262)	0	(466)	(353)
At end of year	20,011	911	156	1,954	23,032	23,302
DEPRECIATION						
At start of year	1,444	323	316	864	2,947	2,634
Charge for the year	262	301	35	161	759	666
Disposals		(203)	(262)		(465)	(353)
At end of year	1,706	421	89	1,025	3,241	2,947
NET BOOK VALUE	18,305	490	67	929	19,791	20,355

No depreciation has been charged on freehold land and the residual value of the building totalling £13.4m.

Association	Computers & Information Systems £'000s	Equipment £'000s	Furniture & Fittings £'000s	Total 2006 £'000s	Total 2005 £'000s
COST	939	398	669	2,006	1,923
At start of year					
Additions	175	20	0	195	436
Disposals	(203)	(262)	0	(465)	(353)
At end of year	911	156	669	1,736	2,006
DEPRECIATION					
At start of year	323	316	409	1,048	1,084
Charge for the year	301	35	75	411	317
Disposals	(203)	(262)	0	(465)	(353)
At end of year	421	89	484	994	1,048
NET BOOK VALUE	490	67	185	742	958

LOCAL GOVERNMENT ASSOCIATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR TO 31 MARCH 2006 (CONTINUED)

	2006 £'000s	Association 2005 £'000s	2006 £'000s	Group 2005 £'000s
6 DEBTORS				
Accounts receivable (less provision for doubtful debts)	2,431	1,046	2,431	1,046
Prepayments	77	233	77	233
Accrued income	117	239	117	239
Other debtors	128	551	179	551
Amounts owed by group undertaking	438	328		
	<u>3,191</u>	<u>2,397</u>	<u>2,804</u>	<u>2,069</u>

	2006 £'000s	Association 2005 £'000s	2006 £'000s	Group 2005 £'000s
7 CREDITORS				
Amounts falling due within one year				
Bank loans and overdrafts	0	511	520	1,031
Accounts payable and accruals	2,878	1,389	3,008	1,518
Subscription and conference income in advance	42	69	42	69
PAYE and national insurance	399	414	399	414
Project balances (see note below)	221	237	221	237
Other creditors	48	13	48	72
	<u>3,588</u>	<u>2,633</u>	<u>4,238</u>	<u>3,341</u>

PROJECT BALANCES

Analysis of changes in balances during the year:

	As at 1 April 2005	Income	Expenditure	As at 31 March 2006
National Highways Street Works Manager	92	45	(61)	76
National Training Organisation for Housing	19			19
Transport pathfinders funding	100			100
Domestic violence project	24			24
Councillor database project	2			2
	<u>237</u>	<u>45</u>	<u>(61)</u>	<u>221</u>

LOCAL GOVERNMENT ASSOCIATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR TO 31 MARCH 2006 (CONTINUED)

8 CREDITORS

	2006 £'000s	Association 2005 £'000s	2006 £'000s	Group 2005 £'000s
Amounts falling due after more than one year				
Barclays Bank plc			9,360	9,880
- Refurbishment of Local Government House				
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) Limited Purchase of Local Government House - Long-term loan made to LGA (Properties) Ltd repayable only on disposal of the property			6,200	6,200
			17,560	18,080

The Barclays Bank plc loan of £9.88m 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 £9.36m 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 2006 as follows:

Instrument	Notional Amount	Maturity Date	Trade Date	Mark to Market Value Notional (Gain) / Loss £'000
Tranche 1	£'000			
CAP (Collar))		January 21, 2025	January 27, 2000	(15)
Floor (Collar))	2,533	January 21, 2025	January 27, 2000	258
SWAP	5,067	January 21, 2025	January 27, 2000	709
Total	<u>7,600</u>		Net Notional Loss	<u>952</u>
Tranche 2				
CAP (Collar))		January 21, 2025	July 13, 2000	(5)
Floor (Collar))	760	January 21, 2025	July 13, 2000	73
SWAP	1,520	January 21, 2025	July 13, 2000	195
Total	<u>2,280</u>		Net Notional Loss	<u>263</u>
Combined total	<u>9,880</u>			<u>1,215</u>

LOCAL GOVERNMENT ASSOCIATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR TO 31 MARCH 2006 (CONTINUED)

9 PROVISION FOR LIABILITIES AND CHARGES	Association and Group	
	2006 £'000s	2005 £'000s
Pension provisions:		
Balance brought forward	23,411	4,300
Increase / (reduction) in provisions	(558)	400
Prior year adjustment		18,711
	<u>22,853</u>	<u>23,411</u>

The pension provision brought forward was the actuarial estimate of the unfunded pension liabilities of the LGA and predecessor associations. The prior year adjustment is the net effect of the requirement of FRS 17 to bring on to the balance sheets all pension liabilities as detailed in accounting policy F and note 11.

The summary of pension provision is:-

	2006 £'000s	2005 £'000s
Unfunded pension deficit	(1,907)	(1,917)
West Sussex pension deficit	(12,254)	(13,309)
Merseyside pension deficit	(8,692)	(8,185)
TOTAL PROVISIONS FOR LIABILITIES AND CHARGES	<u>(22,853)</u>	<u>(23,411)</u>

LOCAL GOVERNMENT ASSOCIATION

10 RESERVES

Reserves - Group	Accumulated surplus	Pension reserve	Major repairs and Maintenance fund	Unfunded pension deficit	West Sussex pension deficit	Merseyside pension deficit	Conference reserve	Total
As at 1 April 2005 as previously stated	(3,896)	4,350	150	0	0	0		604
Prior year adjustment	4,700	0		(1,917)	(13,309)	(8,185)		(18,711)
As at 1 April 2005 as restated	804	4,350	150	(1,917)	(13,309)	(8,185)	0	(18,107)
Surplus for the year	188	175	25	10	22	93	200	713
Actuarial gain / (loss)	0		0	0	1,033	(600)	0	433
At 31 March 2006	992	4,525	175	(1,907)	(12,254)	(8,692)	200	(16,961)

Reserves - Association

	Accumulated surplus	Pension reserve	Major repairs and Maintenance fund	Unfunded pension deficit	West Sussex pension deficit	Merseyside pension deficit	Conference reserve	Total
As at 1 April 2005 as previously stated	(4,177)	4,350	150		0	0		323
Prior year adjustment	4,700	0		(1,917)	(13,309)	(8,185)		(18,711)
As at 1 April 2005 as restated	523	4,350	150	(1,917)	(13,309)	(8,185)	0	(18,388)
Surplus for the year	17	175	25	10	22	93	200	542
Actuarial gain / (loss)	0		0	0	1,033	(600)		433
At 31 March 2006	540	4,525	175	(1,907)	(12,254)	(8,692)	200	(17,413)

It is the intention of the Management Executive to build up sufficient reserves, in a designated pension reserve, to cover any deficit on the pension schemes. At the end of each financial year the predicted surplus is assessed and an allocation is made to the pension reserve to build up this fund. In 2006 this allocation was £175,000 (2005: £50,000)

Further reserves have been set up for the purpose of setting aside funds for major repairs and cyclical maintenance to Local Government House and for carried forward income from conferences.

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.

Financial Reporting Standard, FRS 17 – Retirement Benefits, requires the financial statements for the year ending 31 March 2006 to reflect at fair value the assets and liabilities arising from the associations's retirement benefit obligations and related funding.

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 2007/8 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 £23,238 (2005: £21,850).

LOCAL GOVERNMENT ASSOCIATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR TO 31 MARCH 2006 (CONTINUED)

The major assumptions used by the actuary were as follows:

	At 31 March 2006	At 31 March 2005	At 31 March 2004
Rate of increase in salary	4.15%	4.15%	3.80%
Rate of increase in pensions in payment	2.90%	2.90%	2.80%
Discount rate	4.90%	5.40%	6.30%
Inflation assumption	2.90%	2.90%	2.80%

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

	Long-term Rate of Return Expected at 31-Mar-06	Value at 31-Mar-06 £'000	Long-Term rate of return expected at 31-Mar-05	Value at 31-Mar-05 £'000	Long-Term rate of return expected at 31 March 2004	Value at 31 March 2004 £'000
Equities	7.00%	14,158	7.50%	10,423	7.50%	9,456
Government bonds	4.30%	3,899	4.70%	3,421	4.70%	2,679
Other bonds	4.90%	1,114	5.40%	887	5.50%	662
Property	6.00%	1,161	6.50%	1,792	6.50%	1,565
Other	4.50%	2,878	4.75%	1,575	6.50%	1,774
Total Scheme Assets		23,210		18,098		16,136
Present value of scheme liabilities						
Funded		(31,396)		(25,783)		(17,947)
Unfunded		(506)		(500)		(400)
Deficit in the Scheme		(8,692)		(8,185)		(2,211)

Analysis of amount recognised in STRGL

Actual return less expected return on pension scheme assets	3,002	892	1,813
Experience gains and losses arising on the scheme liabilities	(731)	(1,501)	-
Changes in assumptions underlying the present value of the scheme liabilities	(2,871)	(5,031)	-
Actuarial (loss)/gain reported in STRGL	(600)	(5,640)	1,813

LOCAL GOVERNMENT ASSOCIATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR TO 31 MARCH 2006 (CONTINUED)

Movement in deficit during the year	2006 £'000	2005 £'000	2004 £'000
Deficit in scheme at beginning of the year	(8,185)	(2,211)	(3,716)
Movement in the year:			
Current service cost	(1,055)	(893)	(658)
Contributions	1,395	680	529
Net interest / return on assets	(247)	(121)	(179)
Actuarial (loss) / gain	(600)	(5,640)	1,813
Deficit in scheme at end of year	(8,692)	(8,185)	(2,211)

History of experience gains and losses

	2006 £'000	2005 £'000	2004 £'000	2003 £'000
Difference between the expected and actual return on scheme assets: amount				
Amount	3002	892	1,813	
Percentage of scheme assets	12.90%	4.90%	11.20%	
Experience gains and losses on scheme liabilities				Information Not Available
Amount	(731)	(1,501)	-	
Percentage of the present value of scheme liabilities	2.30%	-5.70%	-%	
Total amount recognised in statement of total recognised gains and losses:				
Amount	(600)	(5,640)	1,813	
Percentage of the present value of scheme liabilities	1.90%	-21.50%	11.20%	

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.

LOCAL GOVERNMENT ASSOCIATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR TO 31 MARCH 2006 (CONTINUED)

On the basis prescribed by the Income and Corporation Taxes Act 1988 the actuarial value of the assets of the does not exceed 105% of the fund's liabilities. This means no remedial action is required under the provisions 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 £125,777 (2005: £184,203), none of which has been treated as exceptional costs.

The major assumptions used by the actuary were as follows:

	At 31 March 2006		At 31 March 2005		At 31 March 2004	
Rate of increase in salary	4.6%		4.4%		4.4%	
Rate of increase in pensions in payment	3.1%		2.9%		2.9%	
Discount rate	4.9%		5.4%		5.5%	
Inflation assumption	3.1%		2.9%		2.9%	
	Long-term Rate of Return Expected at 31 March 2006	Value at March 2006 £'000	Long-Term rate of return expected at 31 March 2005	Value at 31 March 2005 £'000	Long-Term rate of return expected at 31 March 2004	Value at 31 March 2004 £'000
Equities	7.40%	26,776	7.70%	22,073	7.70%	20,616
Government bonds	4.60%	4,277	5.10%	3,652	5.10%	3,978
Other bonds	5.50%	2,262	6.50%	1,940	6.50%	1,824
Property	4.60%	1,319	4.00%	1,350	4.00%	899
Other						
Total Scheme Assets		34,634	7.10%	29,015	7.10%	27,317
Present value of scheme liabilities						
Funded		(44,501)		(40,027)		(38,078)
Unfunded		(2,387)		(2,297)		(3,486)
Deficit in the Scheme		(12,254)		(13,309)		(14,247)

LOCAL GOVERNMENT ASSOCIATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR TO 31 MARCH 2006 (CONTINUED)

	2006 £'000	2005 £'000	2004 £'000
Analysis of amount recognised in STRGL			
Actual return less expected return on pension scheme assets	4935	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	(3,902)	(518)	(1,842)
Actuarial (loss)/gain reported in STRGL	1,033	1,232	1,626

	2006 £'000	2005 £'000	2004 £'000
Movement in deficit during the year			
Deficit in scheme at beginning of the year	(13,309)	(14,247)	(15,700)
Movement in the year:			
Current service cost	(336)	(331)	(299)
Employer Contributions	458	345	349
Other Income	124	124	222
Impact of settlements and curtailments	-	(81)	-
Net return on assets	(224)	(351)	(445)
Actuarial gain	1,033	1,232	1,626
Deficit in scheme at end of year	(12,254)	(13,309)	(14,247)

History of experience gains and losses

	2006 £'000	2005 £'000	2004 £'000	2003 £'000
Difference between the expected and actual return on scheme assets: amount				
Amount	4935	1,251	3,848	(7,300)
Percentage of scheme assets	14.20%	4.30%	14.1%	(32.1%)
Experience gains and losses on scheme liabilities				
Amount	0	499	(380)	(2,344)
Percentage of the present value of scheme liabilities	0.00%	1.20%	0.9%	(6.1)
Total amount recognised in statement of total recognised gains and losses:				
Amount	1,033	1,232	1,626	(10,414)
Percentage of the present value of scheme liabilities	2.20%	2.90%	3.90%	(27.1%)

Unfunded Pension Liabilities

The LGA and predecessor organisations has incurred pension liabilities which were outside the funded benefits provided by the pension schemes involved, which were therefore unfunded. These liabilities were estimated by an actuary at 31 March 2006 at £4.8m (2005 £4.7m). The LGA had previously made provision for these liabilities, some of which were included in the valuations of the Merseyside and West Sussex schemes. As the deficits in those two schemes have now been provided for in the balance sheet under the requirements of FRS 17 the balance of the unfunded liabilities, outside the two schemes, has now been shown separately as £1,907k (2005 £1,917k). The unfunded liabilities are being paid annually over the remaining lives of the pensioners concerned.

LOCAL GOVERNMENT ASSOCIATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR TO 31 MARCH 2006 (CONTINUED)

NOTES ON CASH FLOW STATEMENT

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

	2006 £'000	2,005 £'000
Operating surplus	2,386	809
Depreciation (including disposals)	759	666
Pension provision	(10)	400
Non cash adjustment on pension scheme	(586)	154
(Increase) / Decrease in debtors	(735)	(320)
Increase / (Decrease) in creditors	897	(586)
	<u>2,711</u>	<u>1,123</u>
Outflow related to exceptional items	(400)	(223)
Net cash inflow from operating activities	<u>2,311</u>	<u>900</u>

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	At 1 April 2005 £'000	Cashflows £'000	Other Changes £'000	At 31 March 2006 £'000
Cash at bank	4,301	794	-	5,095
Debt due within one year	(520)	520	(520)	(520)
Debt due after one year	(18,080)	-	520	(17,560)
	<u>(14,299)</u>	<u>1,314</u>	<u>0</u>	<u>(12,985)</u>

LOCAL GOVERNMENT ASSOCIATION
UNAUDITED PRO-FORMA CONSOLIDATED INCOME AND EXPENDITURE ACCOUNT
YEAR TO 31 MARCH 2006

Appendix A

	Notes	2006 Income £000	2006 Expenditure £000	2006 Net £000	2005 Net £000
SUBSCRIPTIONS AND OTHER INCOME					
Subscriptions		14,674		14,674	15,165
Conferences and seminars		3,901	1,808	2,093	1,224
Royalties		176		176	160
Associates and Grants		110		110	110
Conference suite and room hire		603	347	256	228
Other		93		93	83
		19,557	2,155	17,402	16,970
NET OPERATING EXPENSES					
Staff costs		254	9,818	9,564	9,299
Staff costs for shared services		1,108	1,545	437	563
Total Staffing	1	1,362	11,363	10,001	9,862
Accommodation		199	1,226	1,027	1,050
Communications		23	945	922	796
Services		209	2,367	2,158	2,124
Members		8	1,602	1,594	1,590
Welsh LGA	2			0	520
European lobbying			60	60	65
Collaboration		699	826	127	
Shared Services		277	100	(177)	
		2,777	18,489	15,712	16,007
Operating surplus				1,690	963
Bank interest received				327	499
Interest paid				(1,129)	(1,163)
Surplus after interest				888	299
Less					
Exceptional items	3			400	223
SURPLUS FOR THE FINANCIAL YEAR				488	76
TRANSFERS TO RESERVE	9				
Conference income carried forward				200	
Surplus to General reserves				288	76
Pension reserve				175	50
Major repair and maintenance reserve				25	25
Added to reserves				£88	£1

LOCAL GOVERNMENT ASSOCIATION
UNAUDITED PRO-FORMA BALANCE SHEETS
as at 31st March 2006

Appendix A

		Association		Group	
	Notes	2006 £'000s	2005 £'000s	2006 £'000s	2005 £'000s
FIXED ASSETS					
Tangible Assets	4	742	958	19,791	20,355
CURRENT ASSETS					
Debtors	5	3,191	2,397	2,804	2,069
Cash at bank and in hand		5,095	4,301	5,095	4,301
Total Current Assets		8,286	6,698	7,899	6,370
CREDITORS					
Amounts falling due in one year	6	(3,588)	(2,633)	(4,238)	(3,341)
NET CURRENT ASSETS		4,698	4,065	3,661	3,029
TOTAL ASSETS LESS CURRENT LIABILITIES		5,440	5,023	23,452	23,384
CREDITORS					
Amounts falling due after more than one year	7	0	0	(17,560)	(18,080)
PROVISIONS FOR LIABILITIES AND CHARGES	8	(4,800)	(4,700)	(4,800)	(4,700)
NET ASSETS		£640	£323	£1,092	£604
CAPITAL AND RESERVES					
Pension reserve	9	4,525	4,350	4,525	4,350
Major Repairs and maintenance reserve	9	175	150	175	150
Accumulated deficit	10	(4,177)	(4,177)	(3,896)	(3,896)
Earmarked reserve conferences		200		200	
Surplus for year		(83)		88	
NET ASSETS		£640	£323	£1,092	£604