

LOCAL GOVERNMENT ASSOCIATION

**Report and Consolidated Financial Statements
for the year ended 31 March 2012**

LOCAL GOVERNMENT ASSOCIATION

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LOCAL GOVERNMENT ASSOCIATION

CHIEF EXECUTIVE'S REPORT

Year ended 31 March 2012

Introduction

The Local Government Association (LGA) 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), to provide a single national voice for local government.

The LGA has a shared ambition with its associated organisations – Improvement & Development Agency for Local Government (IDeA), Local Government Employers (LGE), Local Authorities Co-Ordinators of Regulatory Services (LACORS) and Local Government Leadership (LGL) - to make an outstanding contribution to the success of local government. In the first quarter of the financial year 2011-12 the operations of these organisations were fully integrated to deliver a focused, effective offer for councils as set out in our combined business plan for the year. We work with and on behalf of our member authorities to support, promote and improve local government.

To reflect this new way of working, consolidated financial statements have been prepared for the first time so that the financial position of the wider group of bodies that are under the control of the LGA is clearly set out. As well as the five bodies described above, these include Local Government International Bureau (LGIB), and the two property companies Local Government Management Board (LGMB) and LGA Properties Ltd, all three of which are subsidiaries of the LGA, and Local Government Information House (LGIH) which is a subsidiary of IDeA.

The LGA had 422 member authorities in England and Wales in 2011-12. The 22 Welsh authorities are in corporate membership through the Welsh Local Government Association.

Business review of the year

The priorities in our business plan were firmly based on evidence and research, identifying the issues most important to member councils. Our offer to councils was designed around two top priorities. The first, achieving greater devolution for local government, has meant leading the national debate on the key issues facing councils and the people they represent. To achieve this, we have developed forward-looking policy positions to influence government policy in the priority areas identified by our members. We have focused on making a compelling case for a significant devolution of powers and funding to local councils and onward to local communities. We have lobbied on national and European legislation using evidence based on real examples of best practice from our membership.

In particular, in the second year of the coalition government, we have worked closely with our membership to represent their interests in the face of the major policy reforms that are being undertaken, and the significant reductions in public spending announced in the 2010 Spending Review which set councils some of the most challenging financial targets in the public sector.

Over the past twelve months, against the backdrop of recession and reductions in public sector funding, we have progressed a wide range of local government finance issues. These include halting plans to give ministers power to force councils to pay EU fines levied against the government for missing national targets on issues such as air quality, saving councils £1.3 billion; devolving the £970 million major schemes transport budget to councils and local partners; and raising the cap on capitalisation from £200 million to £300 million, granting most councils 100 per cent of their capitalisation bids compared with around 40 per cent in previous years.

In October 2011, the Icelandic Supreme Court ruled that local authorities were entitled to priority status in the administrations of Landsbanki and Glitnir. This was the result of legal action that we co-ordinated on behalf of 123 local authorities following the collapse of the Icelandic Banks,

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CHIEF EXECUTIVE'S REPORT

Year ended 31 March 2012

and will allow those authorities to recover an additional £470 million, compared with the position had the legal action been unsuccessful. Following these decisions, the Winding Up Boards of Landsbanki and Glitnir have already distributed over £290 million to UK local authorities. This kind of legal challenge could only have been undertaken at national level.

We secured commitment to the introduction of new arrangements that will cut Public Works Loans Board interest rates by 0.2 per cent. Councils will also benefit from a substantial reduction in audit fees in the financial year 2012-13, following our consistent lobbying of the Audit Commission over several years.

As a result of our work, government announced there will be no increase for 2012-13 in the amount to be removed from formula grant to pay for central education functions for academies, a considerable improvement on the position proposed in the Department for Education's summer 2011 consultation. We have agreed that councils and not central government will retain the lead role in working with troubled families and that they will receive £448 million of additional funding to enable them to do so. We have also been working to secure the future of adult social care, setting out what we hope to see in the forthcoming care and support white paper and the measures by which we will judge it. We have supported councils through our annual Culture, Tourism and Sport conference focusing on maximising the opportunities presented by the 2012 Olympic Games.

Following intensive lobbying, the National Planning Policy Framework will now include time for councils to get their local plans in place. We have also persuaded government to reform financing for council housing from April 2012, ending the so-called "tenant tax" and allowing councils to retain and reinvest rental income in their housing stock. We have continued to lobby to ensure that changes made to the housing benefit, business rates and council tax systems are not financially disadvantageous to councils. This has included maintaining councils' role in delivering Universal Credit.

We have provided support to councils preparing for the transition to Police and Crime Commissioners and secured government agreement to allocate £74 million for fire control room improvements. We have regularly engaged in the development of policy and implementation for regulatory services, both to influence government and to shape policy and practice in regulatory services. For example, government has responded to the LGA's calls to strengthen councils' ability to regulate scrap metal dealers following considerable media attention.

With regard to workforce issues, following detailed negotiation we have delivered a national pay freeze for local government for the third successive year, as requested by the vast majority of councils. We won the argument that the Local Government Pension Scheme is different from other public sector pension schemes and should be allowed to negotiate its own reform, largely separate from other negotiations on public sector pensions reform. We have also developed and agreed transitional guidance with the trade unions to cover public health staff moving into local government.

Our second priority, helping councils tackle their challenges, recognises that the way councils improve over the next ten years will be radically different from the last ten. We are moving away from the government wanting to control public services through top-down performance management and inspection, with a dismantling of Public Service Agreements and Comprehensive Area Assessments. In a world in which councils take responsibility for their own performance, our role is to ensure that new ideas and new ways of working are shared.

To help achieve this we have invested in the Knowledge Hub, a new web based service where councils can learn from each other and share information on efficiency and innovation. Alongside this, we have supported the Creative Councils initiative, enabling councils to share experiences and highlight innovation. We have also created LG Inform, where councils can

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compare data to help them improve their performance and efficiency. Since its launch, LG Inform has built a user base of 280 registered authorities.

In 2011-12 we supported over 500 councillors from 198 councils through the Leadership Academy and we provided a range of other leadership programmes including the Leeds Castle programme for leaders and chief executives, the Next Generation programme for up-and-coming young councillors, and the National Graduate Development programme which continues to recruit high calibre graduates into local government.

We continue to maintain an overview of the performance of the sector and we have provided targeted support to individual councils, especially those with the most severe performance challenges.

To help councils we delivered a total of 97 peer challenges. Included in this is our offer of a no cost "corporate" peer challenge. In addition we delivered 23 corporate peer challenges, with another 40 booked in for 2012-13. We have allocated £6.5 million to support a local-government-led programme of improvement support for children's services. This has included delivering 27 children's safeguarding peer challenges. We also provided a subsidised peer challenge for six councils whose adult social care services are currently rated "adequate".

We have addressed these priorities through the LGA boards covering children and young people, community wellbeing, culture, tourism and sport, economy and transport, environment and housing, European and international, safer and stronger communities, workforce, and improvement.

In 2011-12 gross income for the group, excluding contributions from joint ventures, amounted to £76.1 million, a reduction from £84.7 million in 2010-11. In addition to subscription income from member authorities, and Revenue Support Grant (RSG) top-slice, this has included almost £20 million of grant funding for specific programmes. Income from renting out space in Local Government House and Layden House has increased, with the greater sharing of accommodation in Local Government House and the rental of Layden House in its entirety during 2011. We continued to secure income from running conferences and events.

Work on getting closer to our members and retaining authorities in membership continued in 2011-12, with the return of four authorities to membership. Subscription rates have again been reduced for 2012-13, and all 2011-12 subscription income was paid over promptly by our member authorities.

Key Performance Indicators

We have reviewed the impact of our work and the delivery of our priorities through robust performance management which has included regular reports to the LGA's Audit and Scrutiny Panel. In addition we have reviewed our own efficiency and effectiveness through a number of key indicators. These include the number of organisations in membership, which stood at 422 in March 2012 and included all but four eligible councils. We continue to monitor employee absence, which has fallen from an average annual number of sick days per employee of 6.4 days at December 2010 to 4.2 days at March 2012.

In the coming year we will monitor customer satisfaction indicators, by carrying out a survey of our members. We will also regularly review employee satisfaction through an annual survey.

We review our financial sustainability by carefully controlling our staff costs. As a result of the restructuring described more fully below, employee numbers have fallen from 529 employees in the year ended 31 March 2011 to 347 in the year ended 31 March 2012.

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CHIEF EXECUTIVE'S REPORT

Year ended 31 March 2012

We also continue to pay close attention to the collection of outstanding debt. The percentage of trade debtors over 12 months has reduced from 34 per cent of the total at March 2011, to 12 per cent of the corresponding figure at March 2012.

Restructure

The LGA has along with its associated companies completed its largest review and restructure since its creation. This work started in the financial year 2009-10 with the formation of a shared communications service which ensured a more efficient and unified communications function.

Faced with a reduction of 38% in the funding distributed through the RSG top-slice mechanism, a restructuring exercise was started in 2010-11 and completed during 2011-12, with a new organisational structure in place from 1 June 2011. This has meant a reduction in staff resources of over 30%, taking staff costs for the LGA and its associated organisations from £39.0 million in 2010-11 to £24.1 million for 2011-12.

As a result we have had to undertake several rounds of voluntary redundancy and an extensive selection and recruitment process for those employees that wished to remain. There has been a significant reduction in the number of senior posts in the restructuring process. Excluding senior posts that are funded by specific grants (3 such posts at 1 April 2011 and 1 April 2012), the total number of senior manager and Director level posts has reduced from 41 as at 1 April 2010 to 21 as at 31 March 2012, following completion of implementation of the restructuring programme. Total transition costs, covering the administration of the selection process, outplacement support for those leaving and the costs of redundancy and notice period payments, have amounted to £7.6 million, the majority of which was paid or provided for in 2010-11.

Despite very challenging times we have delivered a satisfactory financial outcome in 2011-12. Costs were kept down, allowing each body to make a significant payment towards its pension fund deficit and meet the severance costs paid within 2011-12 without needing to draw on reserves.

Future Developments

Our future success will rely heavily on our delivering ever greater value to local government when councils are facing significant reductions in their own funding and are, more than ever, questioning the value of every item of expenditure. The further work to make our offer even more focused on the priorities of key importance to member authorities and even more effective in lobbying in support of local government, is therefore vital.

Our priorities for the year ahead include supporting councils in leading public sector reform, where we will be focusing in particular on the need to reform the funding system for adult social care. We will be promoting councils' leadership of economic development as well as campaigning to ensure there is sustainable funding for local government going forward. Councils have already shown remarkable resilience in coping with the spending cuts, and we will also be focusing on supporting them in finding innovative ways of moving forward through our support with productivity and efficiency, our programme of peer challenges and direct support, and our leadership programmes.

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CHIEF EXECUTIVE'S REPORT **Year ended 31 March 2012**

Principal risks and uncertainties

We have reviewed our arrangements for risk management with the regular review of a strategic risk register and clear responsibilities assigned to named senior officers for the management of the principal risks. The principal risks identified include ensuring that we deliver on our objectives and have impact for our members; ensuring that membership levels are maintained, ensuring financial sustainability; reducing our cost base; and ensuring that our employees have the skills and capability to deliver our objectives.

Financial Risk Management

Our operations expose us to a variety of financial risks that include ensuring that the funds held by us are, first and foremost, secure; second, that adequate liquidity is maintained so that sufficient funds are always available to meet current liabilities; and third that the best return on investment is obtained subject to achievement of the first two objectives.

Our principal liabilities other than those arising in ordinary day to day business relate to our combined pension deficit and three main liabilities: structural interest free debt of £8.2 million due to the predecessor Local Authority Associations and related to the purchase of the Smith Square property; bank debt of £7.66 million on separate loans due to Barclays relating to the Smith Square property, which is currently being repaid at the rate of £0.7 million each year; and a liability of £0.218 million per annum until 2020 for funding the District Councils' Network (DCN), financed from cash received from the predecessor Local Authority Association.

The valuation of our combined pension deficit was £67 million at 31 March 2012. In order to pay off the pension deficit, we are currently making additional contributions of £3.8 million per annum. Actuarial advice indicates that on reasonable long term assumptions, these contributions will be sufficient to eliminate the deficit over a period of 15 years. The LGA's Resources Panel has commissioned further work to investigate ways in which the management of the pension deficit can be improved.

Price risk

We have relatively low exposure to price risk. Our employee costs are controlled through formal annual negotiations with employee representatives. Our back office services are outsourced to Liberata and provided through a fixed price contract which is due to run until 2018. Negotiations are currently underway to achieve a reduction in the price of the contract following the recent reduction in the size of our operations. Other services are procured from a range of external providers through competitive tendering arrangements in line with our formal procurement procedures.

Credit risk

We have a debt management policy and clear credit control procedures which include regular review and follow-up of our trade debtors.

Liquidity risk

Our agreed approach is to manage our revenue budget so as deliver a balanced budget that does not require a net call on cash for the financial year as a whole. We maintain an adequate level of day to day liquid funds to pay liabilities promptly as they fall due.

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CHIEF EXECUTIVE'S REPORT **Year ended 31 March 2012**

Cash flow risk

We have both interest-bearing assets and liabilities. Subject to our liquidity requirements, which are assessed on a weekly basis, surplus funds are deposited in accordance with the Approved Investment Strategy as agreed by the LGA's Resources Panel.

Market Value of Land and Buildings

The market value of Local Government House, which is owned by LGA Properties Ltd, was considered in the latest valuation in 2009 to be £17.75 million, which is approximately £1 million higher than the current book value of £16.73 million.

Layden House, which is owned by Local Government Management Board, is now classified as an investment property and included in these financial statements at its market value of £11.7 million.

Environment

We have agreed an environmental policy which includes the commitment to:

- reduce carbon emissions by 16% by 2014-15 in line with the intended UK carbon budget;
- continually reduce waste and increase our recycling rate;
- reduce paper use;
- ensure that procurement of goods and services adheres to our green purchasing and procurement policy;
- champion and mainstream consideration of environmental sustainability throughout our outward facing work programmes and services; and
- comply with all applicable legislation, regulation and with other relevant requirements relating to our environmental impacts.

Employees

Details of the number of employees and related costs can be found in note 3 to the financial statements on page 23.

Consultation with employees and their representatives has continued at all levels, with the aim of ensuring that their views are taken into account when decisions are made that are likely to affect their interests. Communication with all employees continues through direct briefing and regular use of our intranet.

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes and abilities of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with us continues and that appropriate training is arranged. It is our policy that the training, career development and promotion of a disabled person should, as far as possible, be identical to that of a person who does not have a disability.

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CHIEF EXECUTIVE'S REPORT

Year ended 31 March 2012

Political and charitable contributions

Neither the LGA nor its associated companies made any political or charitable donations or incurred any political expenditure during the year.

Dividends

The LGA Constitution and the articles of association of the companies that the LGA controls directly do not permit the payment of dividends.

Carolyn Downs

Chief Executive

LOCAL GOVERNMENT ASSOCIATION

REPORT OF THE CHAIRMAN OF THE RESOURCES PANEL Year ended 31 March 2012

Business review of the year

The LGA Resources Panel has undertaken significant work across a number of meetings to review the medium term financial strategy of the LGA and its associated organisations and develop the proposed budget for 2011-12 in the light of this.

With the 2010-11 LGA membership subscription structure having been radically reformed in the light of the Resources Panel's review in 2009-10, it was decided that only relatively minor further changes to the subscription structure should be recommended for introduction in April 2011. However, the Resources Panel concluded that the level of subscriptions should be further reduced, on a strategy representing an overall reduction of around 20% in subscription income over the period to 31 March 2014, and that a discount to encourage prompt payment should be introduced. This policy was followed in the year with a consequent reduction in subscription income of over 12 per cent, from £12.3m to £10.8m after taking into account all applicable discounts.

The Resources Panel has regularly monitored the LGA's financial performance against the agreed budget and, in the light of the restructuring activity across the LGA and its associated organisations, commissioned detailed reports firstly to review how value could be maximised from the improved use of accommodation and secondly to develop a cost-effective strategy for management of the LGA's pension liabilities. As a result of the first report, action to locate all of the LG Group's staff in Local Government House was accelerated, and this change was effected on 9 May 2011. In its review of the strategy for the management of pension costs, the Resources Panel has commissioned work to investigate whether the current complex arrangements can be simplified, and has noted that annual contributions to reduce pension deficits have now risen to more than £4.5 million per annum. These contributions have been assessed actuarially as the amount required to eliminate deficits over a 15 year period.

The Resources Panel has regularly reviewed the LGA's approach to Treasury Management and concluded that the LGA should continue to adopt a cautious investment strategy. Substantial use has been made of the Public Sector Deposit Fund, a qualifying money market fund operated by CCLA Investment Management Ltd.

The Resources Panel continues to oversee the contract for outsourced back office services on behalf of the LGA and its associated organisations, and in particular the contract renegotiation which is currently in train following the significant downsizing of the LGA's operations that has taken place during the year.

Governance

The LGA Resources Panel oversees management of the LGA's financial and other resources, and the financial and accommodation strategies for the wider group. The Panel also has the responsibility to consider and make recommendations on proposals for the use of revenue support grant by entities within the group. These responsibilities include oversight of treasury management issues. No losses arose on treasury activities. The Resources Panel has also considered these financial statements in the light of a report from the LGA Audit and Scrutiny Panel, chaired by Cllr Ian Swithenbank CBE, whose membership is independent of the LGA's other Boards and Panels.

Councillor Stephen Castle

Chairman of the Resources Panel

LOCAL GOVERNMENT ASSOCIATION

REPORT OF THE CHAIRMAN OF THE RESOURCES PANEL Year ended 31 March 2012

The members of the Resources Panel for the year were:

Councillor Stephen Castle (Chairman)

Councillor Sharon Taylor (Vice Chair)

Councillor Keith Whitmore (Deputy Chair)

Councillor Philip Evans JP (Deputy Chair)

Councillor Paul Middlebrough

Councillor Melvyn Caplan

Councillor Simon Hoare

Councillor Jim McMahon

Councillor John Kent

LOCAL GOVERNMENT ASSOCIATION

STATEMENT OF RESOURCES PANEL'S RESPONSIBILITIES **Year ended 31 March 2012**

The Resources Panel of the Local Government Association (LGA) has accepted responsibility for the preparation of these financial statements for the year ended 31 March 2012. The Panel has decided to prepare these financial statements in accordance with UK Generally Accepted Accounting Practice.

In preparing these financial statements, the Resources Panel has:

- selected suitable accounting policies and applied them consistently;
- made judgments and estimates that are reasonable and prudent;
- stated whether applicable accounting standards have been followed, subject to any material departures being disclosed and explained in the financial statements; and
- prepared the financial statements on the going concern basis as they believe that to be appropriate, having regard to the LGA's business, state of affairs and constitution.

The Resources Panel has a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the LGA and to prevent and detect fraud and other irregularities.

Provision of information to Auditor

In the case of each of the persons who are members of the Resources Panel at the time when the financial statements are approved, the following applies:

- so far as the members of the Panel are aware, there is no relevant audit information of which the entity's auditor is unaware, and
- the members of the Panel have taken all the steps that they ought to have taken under their Terms of Reference in order to make themselves aware of any relevant audit information and to establish that the entity's auditor is aware of that information.

Auditors

Littlejohn LLP were appointed as auditor during the year. A resolution for the re-appointment of auditors of the LGA is to be proposed.

Approved by the Resources Panel and signed on their behalf

30 May 2012

Councillor Stephen Castle
Chairman of the Resources Panel

LOCAL GOVERNMENT ASSOCIATION

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE LOCAL GOVERNMENT ASSOCIATION

Year ended 31 March 2012

We have audited the financial statements of the Local Government Association (LGA) for the year ended 31 March 2012 which comprise the Consolidated Income and Expenditure Account and Statement of Total Recognised Gains and Losses, Association Income and Expenditure Account and Statement of Total Recognised Gains and Losses, Consolidated and Association Balance Sheets, Consolidated Cash Flow Statement and the related notes 1 to 19. The financial reporting framework that has been applied in their preparation is as set out within Note 1 to these accounts.

This report is made solely to the Members, as a body, in accordance with the terms of our engagement. Our audit work has been undertaken so that we might state to the Members those matters we have been engaged to state to them in this 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 members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Resources Panel and auditors

As explained more fully in the Statement of Resources Panel's Responsibilities set out on page 10, the Members of the Resources Panel are responsible for the preparation of the financial statements and for being satisfied that they have been properly prepared. Our responsibility is to audit, and express an opinion on, the financial statements in accordance our contract dated 20 January 2012 and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the LGA's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

In addition we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

LOCAL GOVERNMENT ASSOCIATION

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE LOCAL GOVERNMENT ASSOCIATION

Year ended 31 March 2012

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the Group's and Association's affairs as at 31 March 2012 and of the Group's surplus for the year then ended; and
- have been properly prepared in accordance with the basis of preparation and accounting policies set out in Note 1 to the accounts

In our opinion the information given in the Report of the Resources Panel for the financial year for which the Financial Statements are prepared is consistent with the Financial Statements.

Other matter

The comparative figures presented in the Consolidated Income and Expenditure Account and Consolidated Balance Sheet are unaudited.

Statutory auditors
1 Westferry Circus
Canary Wharf
London
E14 4HD

Littlejohn LLP

Date:

Littlejohn LLP is eligible to act as an auditor in terms of section 1212 of the Companies Act 2006.

LOCAL GOVERNMENT ASSOCIATION

CONSOLIDATED INCOME AND EXPENDITURE ACCOUNT

Year ended 31 March 2012

	Note	2012 £000	UNAUDITED 2011 £000
Income: Group and share of joint ventures' income		82,669	89,886
Less share of joint ventures' income		(6,537)	(5,146)
Group Income	2	76,132	84,740
Administrative expenses		(69,776)	(81,282)
GROUP OPERATING SURPLUS	4	6,357	3,458
Share of operating surplus/(deficit) of joint ventures		2,023	(517)
Finance discounts allowed	5	(449)	(455)
Profit on disposal of business	8	-	6,789
Impairment of investment	8	(1,259)	(6,789)
Waiver of debt	8	1,259	
Share of joint ventures distribution to members		(71)	(51)
Interest receivable and similar income		382	303
Interest payable		(616)	(667)
Pension scheme - interest cost and expected return on assets		(1,064)	(3,232)
Pension scheme – past service costs and gains/(losses) on settlements and curtailments		(1,456)	22,361
SURPLUS OF INCOME OVER EXPENDITURE FOR THE YEAR BEFORE AND AFTER TAX	6,15	5,106	21,200

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

Year ended 31 March 2012

	Note	2012 £000	UNAUDITED 2011 £000
Surplus for the year		5,106	21,200
Unrealised gain on revaluation in respect of investment property		6,437	-
Actuarial gain/(loss) recognised in respect of the pension fund	15	(8,748)	34,943
Total recognised gain/(loss) relating to the year		2,795	56,143
Total recognised gain/(loss) relating to			
Group		843	56,710
Joint Ventures		1,952	(567)
		2,795	56,143

All amounts relate to continuing operations. **Figures for 2011 are unaudited because this is the first year for which Consolidated Financial Statements have been prepared.** The accounting policies and notes in pages 19 to 38 form part of these financial statements.

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ASSOCIATION INCOME AND EXPENDITURE ACCOUNT

Year ended 31 March 2012

	Note	2012 £000	RESTATED 2011 £000
Income	2	31,466	33,087
Administrative expenses		<u>(27,704)</u>	<u>(29,849)</u>
OPERATING SURPLUS	4	3,762	3,238
Finance discounts allowed	5	(449)	(455)
Interest receivable and similar income		198	138
Pension scheme – interest cost and expected return on assets	16	(520)	(1,345)
Pension scheme – past service costs and gains/losses on settlements and curtailments	16	(18)	7,498
SURPLUS OF INCOME OVER EXPENDITURE FOR THE YEAR BEFORE AND AFTER TAX	6,15	<u>2,973</u>	<u>9,074</u>

ASSOCIATION STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

Year ended 31 March 2012

	Note	2012 £000	2011 £000
Surplus for the year		2,973	9,074
Actuarial gain/(loss) recognised in respect of the pension fund	16	<u>(7,392)</u>	<u>9,820</u>
Total recognised loss relating to the year		<u>(4,419)</u>	<u>18,894</u>

All amounts relate to continuing operations.

The accounting policies and notes in pages 19 to 38 form part of these financial statements.

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CONSOLIDATED BALANCE SHEET
Year ended 31 March 2012

	Note	2012 £000	UNAUDITED 2011 £000
FIXED ASSETS			
Tangible assets	7	17,879	23,574
Investment Properties	7	11,700	-
Loan to Joint Venture	8	1,010	2,759
Investments in Joint Ventures:			
Share of gross assets of joint ventures	8	4,852	4,144
Share of gross liabilities of joint ventures	8	(3,208)	(4,451)
		<u>32,233</u>	<u>26,026</u>
LONG TERM DEBTORS:			
Funding due from GeoPlace LLP		-	1,250
CURRENT ASSETS			
Stocks	10	39	158
Debtors	11	6,366	9,659
Short term Investments	12	16,876	18,900
Cash at bank and in hand		4,238	4,667
		<u>27,519</u>	<u>33,384</u>
CREDITORS: amounts falling due within one year	13	<u>(13,315)</u>	<u>(20,928)</u>
NET CURRENT ASSETS		<u>14,204</u>	<u>12,456</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		46,437	39,732
CREDITORS: amounts falling due after more than one year	13	(16,903)	(15,860)
Deferred consideration for acquisition of investments	9	-	(1,250)
PROVISIONS FOR LIABILITIES			
Restructuring Provision	14	(241)	(2,241)
Other		(20)	(20)
		<u>(261)</u>	<u>(2,261)</u>
PENSION FUND DEFICIT	16	<u>(66,974)</u>	<u>(60,857)</u>
NET LIABILITIES		<u>(37,701)</u>	<u>(40,496)</u>
ACCUMULATED FUNDS			
General Reserve	15	18,311	15,836
Revaluation Reserve		6,437	-
Pension Reserve		4,525	4,525
Pension Deficits Reserve			
- Pension Fund Assets		168,408	165,366
- less Defined Liabilities		(235,382)	(226,223)
		<u>(37,701)</u>	<u>(40,496)</u>

These financial statements were approved by the LGA Resources Panel on 30 May 2012 and signed on their behalf by

Councillor Stephen Castle

The accounting policies and notes in pages 19 to 38 form part of these financial statements.

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ASSOCIATION BALANCE SHEET As at 31 March 2012

	Note	2012 £000	2011 £000
FIXED ASSETS			
Investment in joint venture	9	<u>1,775</u>	<u>1,775</u>
LONG TERM DEBTORS: Loan to LGA (Properties)			
		520	620
CURRENT ASSETS			
Debtors	11	2,519	5,093
Short term Investments	12	7,026	5,000
Cash at bank and in hand		<u>1,662</u>	<u>1,032</u>
		11,207	11,125
CREDITORS: amounts falling due within one year	13	<u>(2,465)</u>	<u>(5,110)</u>
NET CURRENT ASSETS		<u>8,742</u>	<u>6,015</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		11,037	8,410
CREDITORS: amounts falling due after more than one year	13	(1,743)	-
PROVISIONS FOR LIABILITIES			
Restructuring Provision	14	-	(75)
PENSION FUND DEFICIT		<u>(30,799)</u>	<u>(25,421)</u>
NET LIABILITIES		<u><u>(21,505)</u></u>	<u><u>(17,086)</u></u>
ACCUMULATED FUNDS			
General Reserve	15	4,769	3,810
Pension Reserve		4,525	4,525
Pension Deficits Reserve			
- Pension Fund Assets		69,562	68,629
- less Defined Liabilities		<u>(100,361)</u>	<u>(94,050)</u>
		<u><u>(21,505)</u></u>	<u><u>(17,086)</u></u>

The accounting policies and notes in pages 19 to 38 form part of these financial statements.

LOCAL GOVERNMENT ASSOCIATION

CONSOLIDATED CASH FLOW STATEMENT As at 31 March 2012

	Note	2012 £000
Net cash outflow from operating activities	(i)	(2,225)
Returns on investments and servicing of finance		
Interest received		382
Interest paid		(616)
Finance discounts for former members of AMA		(449)
		<hr/> (683)
Capital Expenditure		
Fixed asset purchases		(35)
Acquisitions and disposals		
Funding received from GeoPlace LLP		2,000
Payment to acquire investment in Intelligent Addressing (Holdings) Ltd		(2,000)
Repayment of loan investment in GeoPlace LLP		490
		<hr/> 490
Management of liquid resources		
Decrease / (increase) in short term investments		2,024
		<hr/>
Increase/(Decrease) in cash		(429)
Net funds at the start of the year		4,667
		<hr/>
Net funds at the end of the year		<u>4,238</u>

The accounting policies and notes in pages 19 to 38 form part of these financial statements.

LOCAL GOVERNMENT ASSOCIATION

NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

As at 31 March 2012

i. RECONCILIATION OF OPERATING SURPLUS TO NET CASH (OUTFLOW) FROM OPERATING ACTIVITIES

	2012 £000
Operating surplus	6,357
Depreciation	389
Loss on Disposal of Fixed Assets	78
Waiver of debt	1,259
Pension costs – current service cost less contributions	(4,441)
Pension costs – contributions in respect of unfunded benefits	(710)
Decrease in current assets:	
- stocks	119
- debtors	3,294
(Decrease) in current liabilities:	
- creditors	(7,613)
- provisions	(2,000)
Increase in creditors due after one year	1,043
Net cash outflow from operating activities	<u>(2,225)</u>

Analysis of Net Funds

	As at beginning of Year £000	Cash flow £000	Other non cash changes £000	As at end of year £000
Cash at bank and in hand	4,667	(429)		4,238

The accounting policies and notes in pages 19 to 38 form part of these financial statements.

LOCAL GOVERNMENT ASSOCIATION

NOTES TO THE FINANCIAL STATEMENTS

As at 31 March 2012

1. ACCOUNTING POLICIES

The financial statements are prepared in accordance with United Kingdom Generally Accepted Accounting Practice, with the exception of preparing comparative figures for the Cashflow Statement and a detailed note on the Association's defined benefit pension scheme. The Resources Panel do not believe that this results in the financial statements not showing a true and fair view. The particular accounting policies adopted are described below.

Going Concern

The financial statements have been prepared on the going concern basis. The Association and the entities under its control have net liabilities, after accounting for the defined benefit pension scheme deficits of £37.7 million as at 31 March 2012. £21.5 million of this amount relates to the Association. The valuation of net liabilities is based on actuarial estimates of pension scheme liabilities at the balance sheet date. The Association and certain of its related entities pay amounts into the schemes, as prescribed by the actuaries, in order to eliminate this deficit over a maximum of 15 years, and unfunded pension liabilities are being cleared over the remaining lives of the pensioners concerned, as disclosed in Note 16. Payments to clear pension deficits are financed from the Association's and related entities' general income. In view of these arrangements the Resources Panel expects that the Association and entities under its control 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, any excess of the Association's liabilities over its assets would be required, under the terms of its constitution, to be covered by its member authorities, including authorities that had left membership within the period of five years prior to dissolution.

Accounting convention

The financial statements are prepared under the historical cost convention as modified by the holding of investment properties at valuation in accordance with SSAP 19 "Accounting for Investment Properties".

Basis of consolidation

The group financial statements consolidate the financial statements of the Association and companies under its control for the year ended 31 March 2012. They also consolidate the group's share of the results and post-acquisition reserves of joint ventures under the gross equity accounting method. The profits and losses of group undertakings and joint ventures are consolidated from the date of acquisition to the date of disposal using the acquisition method of accounting. Uniform accounting policies are used for all group companies. Profits or losses on intragroup transactions are eliminated on consolidation. Note 18 gives details of the companies under the control of the Association and the Association's other related entities.

This is the first year of group consolidation. Corresponding figures have been presented but are unaudited. These corresponding figures are derived from financial statements for the year to 31 March 2011 for all entities included in the consolidation, each of which received an unqualified audit opinion.

Tangible Fixed Assets and Depreciation

Tangible fixed assets are held at historical cost net of depreciation and provisions for impairment. Depreciation is provided on all tangible fixed assets, other than freehold land, at rates calculated to write off the cost or valuation of each asset, less any estimated residual value, evenly over its expected useful life. The expected useful lives of the principal categories are:

LOCAL GOVERNMENT ASSOCIATION

NOTES TO THE FINANCIAL STATEMENTS

As at 31 March 2012

1. ACCOUNTING POLICIES (Continued)

Freehold buildings	25 years
Furniture and equipment	15 years

Investment Property

The freehold land and buildings investment property, Layden House, has been valued by an independent, external valuer on an open market basis at the Balance Sheet date. In accordance with the Statement of Standard Accounting Practice 19:

- i. the investment property will be revalued annually with the surplus or deficit transferred to the revaluation reserve, unless the deficit is considered to be permanent; and
- ii. no depreciation or amortisation is provided.

Open market value is defined, in accordance with the RICS valuation standards, as: "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arms length transaction after proper marketing wherein the parties each had acted knowledgeably, prudently and without compulsion".

Investments

The Investments in Joint Ventures are the interests in Local Partnerships LLP and Geoplace LLP. Note 8 provide the details of their formations and results.

Short Term investments are cash balances held by the Association and the companies it controls. These balances are pooled and deposited with financial institutions on the Association's approved counterparty list and in accordance with the Investment Strategy.

Stocks and Work in Progress

Stocks and work in progress are valued at the lower of cost and net realisable value. Cost includes costs incurred in bringing each product to its present location and condition and is calculated as cost of direct materials and labour plus attributable overheads based on normal levels of activity. Net realisable value is based on estimated selling price less further costs expected to be incurred to completion and disposal.

Income

Income represents the amount receivable as grants, subscriptions and for goods sold and services provided (excluding Value Added Tax). Note 2 gives further analysis of income which is all generated in the UK.

Government Grants

Grants are recognised in the Income and Expenditure accounts when the conditions for receipt have been met. Deferred grant income at the year end is included in creditors. Specific Grant is recognised in the financial statements in the period the related activities occur.

Debtors

The policy of the Association and the companies it controls is to make partial provision for debts that are over one year old and full provision for debts that are over two years old, subject to exceptions for subscription debt and debt due from related entities, where the policy is not to make provision. Old debt is periodically reviewed for write-off.

Provisions

Provisions are utilised to reflect restructuring costs of redundancies which had been agreed before the end of the financial year.

LOCAL GOVERNMENT ASSOCIATION

NOTES TO THE FINANCIAL STATEMENTS

As at 31 March 2012

1. ACCOUNTING POLICIES (Continued)

Pension costs

New employees are entitled to membership of the Local Government Pension Scheme through either the Merseyside Pension Fund or the London Borough of Camden Pension Fund. Existing staff may be members of either of these Funds or of the West Sussex County Council Pension Fund. The Local Government Pension Scheme is a defined benefit scheme and 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 schemes' assets and the increase during the period in the present value of the schemes' liabilities arising from the passage of time are included in the income and expenditure account as pension scheme adjustments. 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 amounts charged to operating profit are the current service costs and gains and losses on settlements and curtailments (included in staff costs). Past service costs are recognised immediately in the income and expenditure account if the benefits have vested. If the benefits have not vested immediately, the costs are recognised over the period until vesting occurs.

The Association's income and expenditure figures have been re-instated to reflect the re-analysis of charges arising from the defined benefits pension scheme to ensure compliances with the reporting standard FRS17.

Status of the Association

The Local Government Association is an unincorporated association governed by its constitution.

LOCAL GOVERNMENT ASSOCIATION

NOTES TO THE FINANCIAL STATEMENTS

As at 31 March 2012

2. INCOME

	2012	UNAUDITED
	2012	2011
CONSOLIDATED	£000	£000
Group		
Subscriptions	11,627	16,705
Conferences and seminars	2,431	2,176
Government Grants	52,828	51,971
Shared Services – external to group	1,751	1,471
Other income	7,495	12,417
	<hr/> 76,132	<hr/> 84,740
Joint Ventures	6,537	5,146
	<hr/> 82,669	<hr/> 89,886
	<hr/> <hr/>	<hr/> <hr/>
	2012	2011
	£000	£000
ASSOCIATION		
Subscriptions	11,270	13,009
Conferences and seminars	1,835	1,688
Shared Services	9,374	9,874
Other income	8,987	8,516
	<hr/> 31,466	<hr/> 33,087
	<hr/> <hr/>	<hr/> <hr/>

Other income includes a distribution of £2,707,612 (£1,961,505 of which is accounted for as deferred income) which the Association received on 14 July 2011 from the liquidation of A.D.C. Trustees Ltd, the company that had held the property and assets for the Association of District Councils. The Leadership Board of the Association has determined that funds from this distribution should be applied, firstly, to provide support of £217,945 p.a. for ten years to the District Councils Network, a special interest group of the Association; secondly to provide a new additional discount from 1 April 2012 at a rate of 1.5% on the subscriptions of non-metropolitan unitary authorities. Creditors payable after more than one year (Note 13) includes an amount of £1,743,560 representing the final eight instalments of the support due for the District Councils Network.

The Association operates Shared Services arrangements under which the companies it controls, and certain other entities, are recharged for the costs of accommodation and various other business services, some of which are provided under a contract between the Association and Liberata Ltd.

LOCAL GOVERNMENT ASSOCIATION

NOTES TO THE FINANCIAL STATEMENTS

As at 31 March 2012

3. STAFF INFORMATION

	CONSOLIDATED		ASSOCIATION	
	2012	UNAUDITED 2011	2012	Restated 2011
Average number of persons employed	347	529	120	151
	2012	2011	2012	2011
	£000	£000	£000	£000
Staff costs				
Wages and salaries	17,695	23,991	6,646	7,113
Social security costs	1,705	2,280	622	720
Pension costs – employer payments	2,538	6,909	739	3,085
Pension costs – employer deficit payments	4,580	3,089	2,137	2,182
Pension costs – current service costs less contributions	(5,151)	(3,199)	(2,552)	(2,670)
<u>Less</u> income from secondments	(1,022)	(3,007)	(386)	(1,144)
	20,345	30,063	7,206	9,286
Staff related costs				Restated
Agency, freelance and secondment costs	1,232	2,595	601	794
Redundancy costs & Provision	1,101	4,059	256	537
Travel, subsistence and staff expenses	1,116	1,769	242	233
Recruitment costs	149	58	120	-
Training costs	150	447	39	130
Other personnel costs	1	33	6	20
	3,749	8,961	3,401	1,714
Total staff costs	24,094	39,024	8,470	11,000

Prior year restatement

The corresponding figures have been restated to reflect the accounting entries required to comply with Financial Reporting Standard 17. There is no change in the prior year surplus before and after tax or total recognised gains and losses.

LOCAL GOVERNMENT ASSOCIATION

NOTES TO THE FINANCIAL STATEMENTS

As at 31 March 2012

3. STAFF INFORMATION (CONTINUED)

Details of the remuneration of senior staff are given below. No bonuses were paid.

	2012		2011	
	Salary £	Employer pension contribution £	Salary £	Employer pension contribution £
Senior staff employed by the Association				
John Ransford – Chief Executive	71,250	-	207,532	48,518
Carolyn Downs – Chief Executive	61,455	9,771	-	-
Jo Miller – Deputy Chief Executive	131,945	20,979	195,042	46,211
Jenny Crighton – Director of Strategy and Communications	-	-	41,468	10,150
Stephen Jones – Director of Finance and Resources	159,520	25,364	159,520	42,113
Other senior staff				
Rob Whiteman – Managing Director, Improvement & Development Agency for Local Government	98,617	16,765	179,782	40,271
Jan Parkinson – Managing Director, Employers' Organisation for Local Government	152,418	27,130	152,418	52,279
Derek Allen – Executive Director, Local Authorities' Co-ordinators of Regulatory Services	132,964	7,824	131,866	30,857

In April 2010 it was agreed that John Ransford would remain in post as Chief Executive until no later than the end of 2011, on revised contractual arrangements taking effect from 1 January 2011. His contract came to an end on 31 December 2011.

Carolyn Downs was appointed Chief Executive with effect from 21 November 2011.

Jo Miller served as Deputy Chief Executive until 2 January 2012.

Jenny Crighton served as Director of Strategy and Communications until 31 July 2010.

Rob Whiteman was appointed on 17 May 2010 and served as Managing Director of Improvement & Development Agency for Local Government until 25 September 2011.

Derek Allen served as Executive Director of the Company until 31 July 2011. The salary figure for 2012 includes a redundancy payment of £89,009. In addition, employer pension costs of £246,509 were payable in consequence of Mr Allen's redundancy.

Further details of the remuneration of named senior staff who were members of the senior management teams of companies controlled by the Association are disclosed in the financial statements of the respective companies. With effect from 1 June 2011, the senior management teams of the companies controlled by the Association were disbanded and day to day management of the Association and its related entities became the responsibility of a single senior team consisting of those named above.

LOCAL GOVERNMENT ASSOCIATION

NOTES TO THE FINANCIAL STATEMENTS

As at 31 March 2012

3. STAFF INFORMATION (CONTINUED)

The numbers of other staff who received remuneration of £50,000 or more are stated in the Table below. Remuneration excludes employer pension contributions but includes redundancy and all taxable benefits paid to or receivable by the employee. The 2012 figures include 2 staff (of which none were employed by the Association) (2011:10 staff of which 5 were employed by the Association) seconded to other organisations.

CONSOLIDATED	2012		UNAUDITED 2011	
	Remuneration including redundancy	Remuneration excluding redundancy	Remuneration including redundancy	Remuneration excluding redundancy
£50,000 - £54,999	34	29	44	40
£55,000 - £59,999	25	23	24	22
£60,000 - £64,999	28	23	26	21
£65,000 - £69,999	14	15	16	15
£70,000 - £74,999	5	4	11	12
£75,000 - £79,999	5	3	8	7
£80,000 - £84,999	3	1	3	2
£85,000 - £89,999	2	3	4	3
£90,000 - £94,999	2	1	12	12
£95,000 - £99,999	4	5	4	3
£100,000 - £104,999	4	2	4	3
£105,000 - £109,999	3	2	4	3
£110,000 - £114,999	1	-	1	-
£115,000 - £119,999	3	3	2	2
£120,000 - £124,999	1	-	1	-
£125,000 - £129,999	1	1	2	1
£130,000 - £134,999			1	1
£135,000 - £139,999			1	-

ASSOCIATION	2012		UNAUDITED 2011	
	Remuneration including redundancy	Remuneration excluding redundancy	Remuneration including redundancy	Remuneration excluding redundancy
£50,000 - £54,999	8	8	3	3
£55,000 - £59,999	4	3	6	5
£60,000 - £64,999	14	14	13	13
£65,000 - £69,999	5	5	7	6
£70,000 - £74,999	-	-	1	1
£75,000 - £79,999	1	1	1	1
£80,000 - £84,999	1	-	-	-
£85,000 - £89,999	-	1	1	1
£90,000 - £94,999	1	1	4	3
£95,000 - £99,999	2	3	3	3
£100,000 - £104,999	2	2	2	2
£110,000 - £114,999	1	-	1	-

LOCAL GOVERNMENT ASSOCIATION

NOTES TO THE FINANCIAL STATEMENTS

As at 31 March 2012

4. OPERATING SURPLUS

	CONSOLIDATED		ASSOCIATION	
	UNAUDITED			
	Year ended 31 March 2012 £000	Year ended 31 March 2011 £000	Year ended 31 March 2012 £000	Year ended 31 March 2011 £000
Operating surplus is after charging:				
Depreciation and amortisation	389	800	-	-
Auditor's remuneration - audit fee	44	59	12	11
	<u>433</u>	<u>859</u>	<u>12</u>	<u>11</u>

No fees were paid to the external auditor, Littlejohn LLP, for non audit services in the year.

5. FINANCE DISCOUNTS

Under an agreement dated 22 January 1998 made between Association of Metropolitan Authorities (Properties) Ltd, Local Government Association (Properties) Ltd and the Association, the AMA property company contributed the net sale proceeds of its former property in Great Smith Street to the purchase of Local Government House by Local Government Association (Properties) Ltd. In recognition of this, authorities in membership of the LGA that were formerly members of the Association of Metropolitan Authorities receive a discount on their membership subscriptions. The discount increases every five years in line with inflation. Originally at the rate of £6,000 per authority, the discount was £6,700 in the years ending 31 March 2011 and 2012 but increased to £7,965 with effect from 1 April 2012.

6. TAXATION

The Association and the companies it controls are exempt from tax on their income and gains by virtue of their status as Local Authority Associations under Section 838(2) of the Income Tax Act 2007 and Section 984(2) of the Corporation Tax Act 2010. They are exempt from capital gains tax under Section 271(3) of the Taxation of Chargeable Gains Act 1992.

7. FIXED ASSETS

The Association does not own tangible fixed assets. The property from which it operates, Local Government House, Smith Square, London SW1 is owned by Local Government Association (Properties) Ltd, a related company. The Association pays rent to that company for its accommodation. Facilities within the accommodation are provided by Liberata Ltd under an agreement for the provision of services. The other trading companies that the Association controls now operate from the same property.

Depreciation is not provided on the freehold land of Local Government House and no depreciation has been charged on the residual value of the building totalling £13.4m as the amount would be immaterial in relation to its total value. The interest in Local Government House was externally valued at £17,750,000 on 12th October 2009 by BNP Paribas Real Estate.

Until May 2011, Improvement & Development Agency for Local Government operated from Layden House, Farringdon, London EC1, a building owned by Local Government Management Board. Layden House is now occupied by unrelated third parties who have been granted short term leases on normal commercial terms.

LOCAL GOVERNMENT ASSOCIATION

NOTES TO THE FINANCIAL STATEMENTS

As at 31 March 2012

TANGIBLE FIXED ASSETS

CONSOLIDATED	Freehold Land and Buildings	Fixtures, fittings and equipment	Total
	£000	£000	£000
Cost			
At 1 April 2011	24,804	5,133	29,937
Additions	-	35	35
Disposals	-	(154)	(154)
Transfer to Investment Properties	(4,793)	(3,118)	(7,911)
At 31 March 2012	20,011	1,896	21,907
Depreciation			
At 1 April 2011	4,264	2,099	6,363
Charge for year	262	127	389
Eliminated on disposal	-	(76)	(76)
Transfer to Investment Properties	(1,245)	(1,403)	(2,648)
At 31 March 2012	3,281	747	4,028
Net book value			
At 31 March 2012	16,730	1,149	17,879
At 31 March 2011	20,540	3,034	23,574

INVESTMENT PROPERTIES

CONSOLIDATED	2012 £000	2011 £000
Brought forward valuation	-	-
Transferred from fixed assets	5,263	-
Unrealised gain on revaluation	6,437	-
Carried forward valuation	11,700	-

The freehold land and building, Layden House, was valued at its open market value on a commercial rental use basis. The valuation was performed as at 31 March 2012 by an independent professional valuer, Farebrother Chartered Surveyors.

LOCAL GOVERNMENT ASSOCIATION

NOTES TO THE FINANCIAL STATEMENTS

As at 31 March 2012

8. INVESTMENTS IN JOINT VENTURES - GROUP

LOCAL PARTNERSHIPS LLP

Balance Sheet	31 March 2012 £000	31 March 2011 £000
Intangible Assets	-	10
Current Assets	2,426	1,623
Share of gross assets	<u>2,426</u>	<u>1,633</u>
Liabilities due within one year or less	(381)	(474)
Other	-	(291)
Loans and other Debts due to members	<u>(1,175)</u>	<u>(1,175)</u>
Share of gross liabilities	<u>(1,556)</u>	<u>(1,940)</u>
Share of net assets	<u>870</u>	<u>307</u>

The operating results for Local Partnerships LLP are shown below:

Profit and Loss Summary	Year ended 31 March 2012 £000	Year ended 31 March 2011 £000
Revenue	8,344	10,291
Operating costs	(5,860)	(11,323)
Interest Receivable	12	-
Operating profit / (loss)	<u>2,496</u>	<u>(1,032)</u>
Share of operating profit/ (loss)	<u>1,248</u>	<u>(516)</u>

The Association formed a joint venture, Local Partnerships LLP, with Partnerships UK plc in July 2009. The joint venture took over part of the business of Public Private Partnerships Programme Ltd, then a related company of the Association. In November 2009 Partnerships UK transferred part of its own business to Local Partnerships LLP. The Association's investment in Local Partnerships LLP originally consisted of Equity of £500,000 and £500,000 of 6% Convertible Loan Stock, repayable at par on 31 March 2029. An identical investment was made by Partnerships UK plc.

In May 2010, the Association approved a further investment of £300,000 Equity and £300,000 of 6% Convertible Loan Stock repayable at par on 31 March 2029. This investment was drawn down in June 2010 with Partnerships UK plc again making an identical investment.

On 1 August 2010, Partnerships UK plc transferred the whole of its interest in Local Partnerships LLP to HM Treasury. In December 2010 the Association and HM Treasury approved additional investment of £375,000 each in the form of 6% Convertible Loan Stock.

Local Partnerships LLP made losses in its first period of operation but has traded profitably in the year to 31 March 2012 following management action to restructure the business.

LOCAL GOVERNMENT ASSOCIATION

NOTES TO THE FINANCIAL STATEMENTS

As at 31 March 2012

GEOPLACE LLP

Balance Sheet	31 March 2012 £000	31 March 2011 £000
Fixed Assets	66	-
Intangible Assets	1,565	1,847
Current Assets	795	664
Share of gross assets	2,426	2,511
Liabilities due within one year or less	(490)	(162)
Loans and other Debts due to members	(1,161)	(2,349)
Share of gross liabilities	(1,652)	(2,511)
Share of net assets	775	(1)

The operating results for GeoPlace LLP are shown below:

Profit and Loss Summary	Year ended 31 March 2012 £000	Year ended 31 March 2011 £000
Revenue	9,459	-
Operating costs	(6,081)	(2)
Interest Receivable and Payable	(278)	-
Operating profit / (loss)	3,100	(2)
Share of operating profit/ (loss)	775	0

Under an agreement dated 17 November 2010, the Secretary of State for Communities & Local Government, acting through Ordnance Survey, entered into an agreement (the LLP Members' Agreement) with Improvement and Development Agency for Local Government (IDeA) and the Local Government Association, for the formation of a new joint venture, the limited liability partnership GeoPlace LLP. The purpose of the LLP is to create, manage and, through separate licensing arrangements with Ordnance Survey, commercially exploit a single definitive National Address Gazetteer. Ordnance Survey and Improvement and Development Agency for Local Government each contributed £1 by way of equity capital. Immediately prior to completion of the joint venture agreement, which took place on 31 March 2011, Improvement and Development Agency for Local Government and Ordnance Survey made loans to GeoPlace LLP of £1.500 million and £4.773 million respectively. These loans are unsecured, bear interest at a rate of 1.75% over LIBOR and are repayable in accordance with arrangements set out in the LLP Members' Agreement. Subject to the prior repayment of the members' loans, the distributable profits of GeoPlace LLP are allocated 25% to Improvement and Development Agency and 75% to Ordnance Survey.

As part of the arrangements for the joint venture, Local Government Information House Ltd (LGIH), a subsidiary of IDeA, acquired the entire issued share capital of Intelligent Addressing (Holdings) Ltd for a total consideration of £8.048m. Of this consideration, £1.250m is payable on

LOCAL GOVERNMENT ASSOCIATION

NOTES TO THE FINANCIAL STATEMENTS

As at 31 March 2012

31 March 2013. The net book value of the assets acquired was £1.259m. The business and assets of Intelligent Addressing (Holdings) Ltd's subsidiary were immediately transferred to LGIH and then, along with LGIH's business and staff, transferred to GeoPlace LLP in consideration of GeoPlace's agreement to fund the acquisition, including those elements of the purchase consideration that have not already been paid. Therefore, these balances receivable and payable are reflected as both debtors and creditors on the Consolidated Balance Sheet. GeoPlace's liabilities to Local Government Information House Ltd are guaranteed by Ordnance Survey. The transfers of business referred to above resulted in an impairment of £6.789m to the original investment and a subsequent profit on disposal of the combined business and assets of £6.789m, both of which were recognised in the Consolidated Income and Expenditure account for the year ended 31 March 2011.

The £1.259m net book value of the assets acquired in the Intelligent Addressing companies was initially represented by a debt due from LGIH. LGIH's intention is to liquidate these companies, which are now its subsidiaries, during 2012. In anticipation of this event, the members and directors of the subsidiary companies have passed a resolution to waive the debts due to them from LGIH. Consequently LGIH has recognised a gain of £1.259m with respect to the waived obligations to those companies and has fully written down its investment in the subsidiaries by the same amount.

GeoPlace LLP commenced trading on 1 April 2011 and has traded profitably in the year to 31 March 2012.

9. INVESTMENT IN JOINT VENTURE - ASSOCIATION

	Equity £000	Debt £000	Total £000
Investment in Local Partnerships LLP			
Year ended 31 March 2011			
Opening balance	300	500	800
Invested in year	300	675	975
Impairment charged in year	-	-	-
	<u>600</u>	<u>1,175</u>	<u>1,775</u>
Carrying value	600	1,175	1,775
	<u><u>600</u></u>	<u><u>1,175</u></u>	<u><u>1,775</u></u>
Year ended 31 March 2012			
Opening balance	600	1,175	1,775
Invested in year	0	0	0
Impairment charged in year	-	-	-
	<u>600</u>	<u>1,175</u>	<u>1,775</u>
Carrying value	600	1,175	1,775
	<u><u>600</u></u>	<u><u>1,175</u></u>	<u><u>1,775</u></u>

10. STOCKS

	CONSOLIDATED		ASSOCIATION	
	2012 £000	2011 £000	2012 £000	2011 £000
Goods for resale	39	158	-	-
	<u>39</u>	<u>158</u>	<u>-</u>	<u>-</u>
	<u><u>39</u></u>	<u><u>158</u></u>	<u><u>-</u></u>	<u><u>-</u></u>

LOCAL GOVERNMENT ASSOCIATION

NOTES TO THE FINANCIAL STATEMENTS

As at 31 March 2012

11. DEBTORS

	CONSOLIDATED		ASSOCIATION	
	2012 £000	2011 £000	2012 £000	2011 £000
Trade debtors	1,672	4,118	241	1,463
Due from related entities	-	-	320	1,406
Loan to LGA (Properties)			100	200
Due from Joint Ventures				
- Trading	7	1	-	-
- Loans	1,250	2,000	-	-
Other debtors	551	1,385	148	1,002
Prepayments and accrued income	2,886	2,154	1,710	1,022
	<u>6,366</u>	<u>9,659</u>	<u>2,519</u>	<u>5,093</u>

12. SHORT TERM INVESTMENTS

Surplus cash balances held by the Association and companies it controls are pooled and lent to financial institutions on the Association's approved counterparty list. Investments are typically for periods not exceeding twelve months and as such the loan amount is a reasonable assessment of fair value. Lending of up to £3m of the total funds held for up to one year is permitted. The counterparty list is currently restricted to major UK financial institutions, the larger UK building societies, and AAA-rated money market funds. The Association's Investment Strategy strictly applies credit limits for all financial institutions on the approved counterparty list to ensure that investments are diversified. No credit limits were exceeded during the year and the Association does not expect any losses on short term investments.

13. CREDITORS

	CONSOLIDATED		ASSOCIATION	
	2012 £000	2011 £000	2012 £000	2011 £000
Amounts falling due within one year				
Accounts payable and accruals	5,482	7,368	1,706	2,599
Income received in advance	4,307	8,181	162	836
Other creditors	3,526	4,567	583	19
Owed to related entities	-	-	14	1,656
Owed to Joint Ventures - Loan	-	812	-	-
	<u>13,315</u>	<u>20,928</u>	<u>2,465</u>	<u>5,110</u>
Amounts falling due beyond one year				
1 to 2 Years	918	700	218	-
2 to 5 years	2,753	2,100	653	-
More than 5 years	13,232	13,060	872	-
	<u>16,903</u>	<u>15,860</u>	<u>1,743</u>	<u>-</u>

LOCAL GOVERNMENT ASSOCIATION

NOTES TO THE FINANCIAL STATEMENTS

As at 31 March 2012

14. PROVISIONS FOR LIABILITIES

In the year to 31 March 2011 the Association and the companies under its control undertook a major restructuring in response to an anticipated significant reduction in funding. A restructuring provision was set up to cover the cost of redundancies which had been agreed with members of staff on or before 31 March 2011. The provision remaining at 31 March 2012 includes an amount to cover a small number of further redundancies that had been agreed prior to the year end.

	CONSOLIDATED UNAUDITED		ASSOCIATION	
	2012 £000	2011 £000	2012 £000	2011 £000
Balance at 1 April	(2,241)	-	(75)	-
Arising during year	(241)	(2,936)	-	(519)
Utilised during year	2,241	695	75	444
	<u>(241)</u>	<u>(2,241)</u>	<u>0</u>	<u>(75)</u>

15. STATEMENT OF MOVEMENTS ON ACCUMULATED FUNDS

	CONSOLIDATED UNAUDITED		ASSOCIATION	
	2012 £000	2011 £000	2012 £000	2011 £000
Balance at 1 April	(40,496)	(95,376)	(17,086)	(36,232)
Movement on reserves	-	(1,263)	-	252
Surplus of income over expenditure for the year	5,106	21,200	2,973	9,074
Unrealised gain on revaluation in respect of investment property	6,437	-	-	-
Actuarial gain/(loss)	(8,748)	34,943	(7,392)	9,820
	<u>(37,701)</u>	<u>(40,496)</u>	<u>(21,505)</u>	<u>(17,086)</u>

As explained in Note 18, there are restrictions on the distribution of the accumulated surpluses of the companies directly controlled by the Local Government Association. The Association's constitution does not provide for the payment of dividends and allows any surplus of assets over liabilities to be distributed only in the event of a winding up and dissolution.

Accumulated funds are allocated as follows:

	CONSOLIDATED UNAUDITED		ASSOCIATION	
	2012 £000	2011 £000	2012 £000	2011 £000
Accumulated funds excluding pension liability	29,273	20,361	9,294	8,335
Pension liability	(66,974)	(60,857)	(30,799)	(25,421)
	<u>(37,701)</u>	<u>(40,496)</u>	<u>(21,505)</u>	<u>(17,086)</u>

LOCAL GOVERNMENT ASSOCIATION

NOTES TO THE FINANCIAL STATEMENTS

As at 31 March 2012

16. PENSION COMMITMENTS

The Local Government Association and companies under the Association's control are admitted bodies to three local government pension funds: the Merseyside Pension Fund, administered by Wirral Metropolitan Borough Council; the London Borough of Camden Pension Fund; and the West Sussex County Council Pension Fund. These funds are administered in accordance with the Local Government Pension Scheme Regulations 1997. Details of the calculation of the deficit relating to each fund are given below.

In addition, the Association and its predecessor bodies have incurred pension liabilities that are outside the funded benefits provided by the relevant pension schemes. These other unfunded liabilities were estimated by an actuary at 31 March 2012 as £1.852m (2011 £1.860m). The unfunded liabilities are being paid annually over the remaining lives of the pensioners concerned.

The most recent formal actuarial reviews in relation to the funds were at 31 March 2010. 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. The assumptions made by the actuaries (Mercer Ltd (M) for the Merseyside fund and Hymans Robertson (HR) for the Camden and West Sussex funds) are stated below.

Investment returns

The investment returns on the funds used in calculating the year end assets were in the range 2.39% to 4.50% (2011, 7.20% to 8.7%).

Major categories of plan assets as a percentage of total plan assets were in the ranges

	31 March 2012	31 March 2011
Equities	59.1% to 78.0%	60.7% to 81.0%
Bonds (HR)	13.0% to 14.0%	12.0% to 14.0%
Government Bonds (M)	15.7% to 15.7%	10.7%
Other Bonds (M)	4.0% to 4.0%	6.7%
Property	7.0% to 9.3%	5.0% to 7.9%
Cash	1.0% to 2.2%	2.0% to 2.3%
Other (M)	9.7% to 9.7%	11.7%

a) Actuarial assumptions

Full actuarial valuations were carried out at 31 March 2010 and updated to 31 March 2012 by qualified independent actuaries.

The range of assumptions used by the actuaries was:

	31 March 2012 % per annum	31 March 2011 % per annum
Pension increase rate	2.5% to 3.3%	2.8% to 3.3%
Salary increase rate	4.0% to 4.8%	4.4% to 5.1%
Discount rate	4.8% to 5.6%	5.6%
Inflation assumption	2.5% to 3.3%	2.8% to 3.4%
Expected return on assets (HR only)	5.7% to 5.8%	6.9% to 7.0%

LOCAL GOVERNMENT ASSOCIATION

NOTES TO THE FINANCIAL STATEMENTS As at 31 March 2012

16. PENSION COMMITMENTS (CONTINUED)

Mortality Rates*	31 March 2012 Years	31 March 2011 Years
Current Pensioners - Male	21.1 to 22.7	21.1 to 22.7
Current Pensioners - Female	23.2 to 24.2	23.2 to 24.2
Future Pensioners - Male	22.8 to 24.3	22.8 to 24.3
Future Pensioners - Female	25.6 to 26.4	25.6 to 26.4

*Mortality rate is the assumption of the life expectancy of a current pensioner aged 65 or of a future pensioner (now aged 45) in 20 years time.

b) Scheme assets

The deficit in the schemes and the range of expected rates of return were:

	Expected rate of return on assets 2012	Fair value at 31 March 2012 £000	Expected rate of return on assets 2011	Fair value at 31 March 2011 £000
Fair value of employer assets				
Equities	6.2%-7.0%	122,173	7.5%	123,718
Bonds (HR)	3.5%-4.3%	16,293	4.9%	15,118
Government Bonds (M)	3.1%-3.1%	7,128	4.4%	4,754
Other Bonds (M)	4.1%-4.1%	1,816	5.1%	2,977
Property	4.4%-6.0%	13,436	5.5%-6.5%	7,218
Cash	0.5%-3.5%	3,157	0.5%-4.6%	5,448
Other (M)	7.0%-7.0%	4,405	7.5%	6,133
Total Market Value of Assets		168,408		165,366

The above asset values are at bid value as required under FRS17.

Balance sheet	31 March 2012 £000	31 March 2011 £000
Fair value of employer assets	168,408	165,366
Present value of funded liabilities	(221,834)	(213,114)
Net (under)/overfunding in funded plans	(53,426)	(47,748)
Present value of unfunded liabilities	(8,382)	(8,199)
Unrecognised past service cost	(5,166)	(4,910)
Net Asset/(liability)	(66,974)	(60,857)

LOCAL GOVERNMENT ASSOCIATION

NOTES TO THE FINANCIAL STATEMENTS As at 31 March 2012

16. PENSION COMMITMENTS (CONTINUED)

Recognition in the Income and Expenditure Account	Year to 31 March 2012 £000	Year to 31 March 2011 £000
Current service cost	2,621	4,048
Interest cost	12,325	14,377
Expected return on employer assets	(11,261)	(11,145)
Past service cost/(gain)	0	(23,538)
Losses/(gains) on curtailments and settlements	1,456	1,177
Total	5,141	(15,081)
Actual return on plan assets	6,220	12,465
Recognition of defined benefit obligation	2012 £000	2011 £000
Opening defined benefit obligation	226,223	276,129
Current service cost	2,621	4,048
Interest cost	12,325	14,377
Contribution by members	1,074	1,524
Actuarial losses/(gains)	2,825	(39,059)
Past service costs/(gains)	0	(23,538)
Losses/(gains) on curtailments	1,738	1,177
Liabilities Extinguished on Settlements	(2,029)	0
Estimated unfunded benefits paid	(876)	(668)
Estimated benefits paid	(8,519)	(7,767)
Closing defined benefit obligation	235,382	226,223
Reconciliation of fair value of employer assets	2012 £000	2011 £000
Opening fair value of employer assets	165,366	157,336
Expected return on assets	11,261	11,145
Contributions by members	1,074	1,524
Contributions by the employer	7,062	7,244
Contributions in respect of unfunded benefits	710	668
Actuarial gains/(losses)	(5,119)	(4,116)
Assets distributed on settlements	(1,747)	0
Assets acquired in a Business Combination	(804)	0
Unfunded Benefits paid	(710)	(668)
Benefits paid	(8,685)	(7,767)
Closing fair value of employer assets	168,408	165,366

LOCAL GOVERNMENT ASSOCIATION

NOTES TO THE FINANCIAL STATEMENTS

As at 31 March 2012

Amounts for the current and previous accounting periods

	2012 £000	2011 £000	2010 £000	2009 £000	2008 £000
Fair value of employer assets	168,408	165,366	157,336	112,213	138,051
Present value of defined benefit obligation	(235,382)	(226,223)	(274,156)	(178,265)	(191,417)
Surplus /(deficit)	(66,974)	(60,857)	(116,820)	(66,052)	(53,366)
Experience gains/(losses) on assets	(5,119)	(4,226)	34,116	(34,352)	(10,237)
Experience gains/(losses) on liabilities	4,777	25,415	582	763	(14,656)

Amount recognised in statement of total recognised gains and losses (STRGL)

	2012 £000	2011 £000
Actuarial gains/(losses)	(8,748)	34,943
Increase/(decrease in irrecoverable surplus from membership)	-	-
Actuarial gains/(losses) recognised in STRGL	(8,748)	34,943
Cumulative actuarial gains and (losses)	(45,750)	(37,002)

The total of employer pension contributions estimated to be payable in 2012-13 is £6.362m (£2.750m of which relates to the Association).

17. CONTINGENT LIABILITIES

The Association has contingent liabilities in relation to the transactions under which Local Partnerships LLP was formed. If Local Partnerships LLP were to be wound up prior to August 2013, an amount not exceeding £300,000 would be payable to HM Treasury, the current partner in the joint venture. The repayable proportion is on a sliding scale and diminishes with time. There are also provisions under which the transfers of reserves from Public Private Partnerships Programme Ltd (4ps), a company formerly owned by the Association but now owned by Local Partnerships LLP, might become repayable if and to the extent that 4ps became unable to meet its liabilities as a result of those transfers.

LOCAL GOVERNMENT ASSOCIATION

NOTES TO THE FINANCIAL STATEMENTS

As at 31 March 2012

18. RELATED ENTITIES

The Association exercises control of the following entities, all companies limited by guarantee, by virtue of rights to appoint members of the company and all or a majority of the Board of Directors of the company:

Improvement & Development Agency for Local Government

Employers' Organisation for Local Government

Local Authorities' Co-Ordinators of Regulatory Services

Local Government International Bureau

Local Government Management Board

Local Government Association (Properties) Ltd

These financial statements consolidate the results of the Local Government Association, all the companies named above and The Local Government Information House Ltd, a company limited by shares which is wholly owned by Improvement & Development Agency for Local Government. The results of the Leadership Centre for Local Government, a registered charity, are also included in the consolidation.

With the exception of Local Government Management Board and Local Government Association (Properties) Ltd, the companies limited by guarantee named above all have provisions in their Memorandum of Association stating that, in the event of dissolution of the company, any surplus of assets over liabilities is to be transferred to the Local Government Association or some other local authority association having similar objects. The provisions relating to Local Government Management Board are that any surplus arising on winding up is to be transferred to the Local Government Association. The provisions relating to Local Government Association (Properties) Ltd are that any surplus arising on winding up is to be distributed to local authorities in equal shares.

In the case of the Leadership Centre for Local Government, although the Association does not have the right to appoint a majority of members of the company or a majority of the Board of Directors, it is considered that the Association and the Leadership Centre for Local Government are managed on a unified basis and for this reason the Resources Panel consider that consolidation is appropriate.

The Association is a member of Local Partnerships LLP, a limited liability partnership. The other member of Local Partnerships LLP is HM Treasury. The members share profits and losses equally.

Improvement & Development Agency for Local Government is a member of GeoPlace LLP, a limited liability partnership. The other member of GeoPlace LLP is Ordnance Survey. Both members have equal rights as regards the operation of the LLP and appointments to its Board of Directors, but Improvement & Development Agency for Local Government takes only a 25% share of profits and losses, with the balance going to Ordnance Survey.

19. POST BALANCE SHEET EVENTS

The Resources Panel are not aware of any material post balance sheet events other than those already stated.