

## **LGA consolidated financial statements for the year to 31 March 2014**

### **Purpose of report**

For members to agree, prior to the accounts being adopted at the LGA General Assembly on 8 July 2014.

### **Summary**

The LGA consolidated financial statements for the year ended 31 March 2014 have been produced and are expected to receive an unqualified audit opinion by Littlejohn LLP. The Audit Committee is able to recommend the accounts for adoption to the Leadership Board and General Assembly, following their meeting with the external auditor on 3<sup>rd</sup> June. The accounts are presented at **Appendix A**.

The attached report provides a commentary on the accounts and the LGA's overall financial performance for the year.

Members are also asked to review the external auditors' report to the Leadership Board, which is included at **Appendix B**.

### **Recommendation**

That LGA Leadership Board agrees the LGA's consolidated accounts for 2013/14.

### **Action**

Head of Finance and Business Management.

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## **LGA consolidated financial statements for the year to 31 March 2014**

### **Background**

1. This is the third year for which consolidated financial statements have been prepared for the LGA and its associated companies following the decision that consolidation was now appropriate in the light of the integration of the operations of these organisations as a single entity. These comprise the accounts of the Association itself along with those of the IDeA, LGIH and the two property companies, LGA (Properties) Ltd and LGMB.
2. The consolidated financial statements also disclose the position of the LGA as a stand-alone entity through incorporation of the Association's Income and Expenditure account and Balance Sheet.
3. The aim is for all the company accounts that feed into the LGA's consolidated accounts to be adopted by the respective company boards in June, to ensure that a fully verified set of accounts is presented to the General Assembly.
4. Representatives of Littlejohn LLP, the appointed auditors, will be in attendance at the Leadership Board's meeting. Their report on the audit of the LGA and all its associated companies is included at **Appendix B**.
5. The following paragraphs provide commentary on the information disclosed in the financial statements and highlight the most significant points.
6. Members of the Leadership Board and the individual company boards will also receive a report of the observations of the Audit Committee which met on 3<sup>rd</sup> June to review all the final accounts. The Audit Committee's feedback to Leadership Board is included below.

### **LGA**

7. The consolidated accounts show the LGA and its related bodies made an operating surplus of £5.479 million before financing income and costs (-£0.846 million), contributions from joint ventures (£1.350 million), proceeds from the sale of shares (£0.128 million) and adjustments relating to additional pension contributions (-£4.268 million). These reconciling items result in a trading surplus of £1.843 million as reported in the monthly management accounts, which was achieved as a result of a programme of cost saving measures agreed at the start of the financial year, following the last minute announcement of a £2 million reduction in RSG topslice.

8. The operating surplus of £5.479 million translates into the result shown in the financial statements – an overall surplus of income over expenditure of £5.079 million - by means of further adjustments reflecting the LGA's share of the surpluses realised by its two joint ventures, Local Partnerships LLP and GeoPlace LLP, and the adjustments required to account for the pension scheme deficit in accordance with accounting standards.
9. Gains and losses that relate to changes in the actuarial assumptions used to calculate pension scheme liabilities are not taken into account in the Income and Expenditure Account but are shown separately. The overall pension fund deficit reported in the accounts has increased by £16.367 million to £91.937 million. This reflects a reduction of £2.837 million in the LGA's pension deficit with the Merseyside and West Sussex Pension Funds to £33.759 million; and an increase in the IDeA's pension deficit with the Camden Pension Fund of £19.204 million to £58.178 million. In line with FRS 17 accounting standards, the valuation in the accounts values assets at market value on 31 March 2014, and liabilities using a discount rate based on the return available on AA corporate bonds, also at the balance sheet date. This valuation is therefore subject to market performance on a specific date.
10. The triennial valuation carried out at 31 March 2013 valued the pension deficit at £70.684 million. With this valuation, assets are valued according to the methodology set out in the Funding Strategy Statement of each LGPS fund; and liabilities are valued using an agreed discount rate based on the experience of the fund and assumptions over when gilt yields will return to more normal levels. While the FRS 17 valuation has an impact on the net worth of the LGA, as reported in the annual accounts, it is the triennial valuation that has a tangible impact on the LGA's finances, in that this valuation determines the level of additional contributions to each of the pension funds. For the three years from 2014/15 is set to reduce by over 10% per annum as compared with the previous three year period. This overall reduction is due mainly to the favourable terms secured from the Merseyside Pension Fund.
11. The accounts also show the revaluation gain of £5.150 million relating to the Layden House property. As this property is now treated as an investment, we are required to account for it at its current market value of £17.550 million rather than at its previous book value.
12. Overall income decreased from £73.110 million to £66.100 million due mainly to the reduction in Revenue Support Grant top-slice and the loss of other grant income. Subscription income also fell by £0.739 million (a reduction of 6.7 per cent) following the introduction of a loyalty discount.
13. The LGA's two joint ventures have both made a useful contribution to income. Local Partnerships LLP has successfully clawed back its previous losses. GeoPlace LLP traded ahead of plan and following the repayment of all of its loan funding ahead of schedule in 2012/13, paid a dividend of £1.350 million during 2013/14.

14. Expenditure on staffing has increased although employee numbers have remained steady. The number of core funded posts was reduced at the start of the year, following the reduction in RSG topslice, with this reduction being offset by lower vacancy rates across the organisation and an increase in the number of employees on grant-funded programmes.
15. Other expenditure has been managed in line with budgets. An underspend on programme budgets was agreed at the start of the year in view of the need to adopt a prudent position given the continuing uncertainty about future funding and costs such as the additional pension contributions which were under negotiation during the year. This underspend has been achieved.
16. Other significant changes in the current financial year include the removal of the Leadership Centre for Local Government from the consolidated accounts to reflect the fact that it was no longer being managed as part of the LGA's integrated operations.
17. On 1 April 2013, following a decision of the Leadership Board and the board of the Local Authorities Coordinators of Regulatory Services (LACORS), the Association received the transfer of the business, assets and liabilities of LACORS to reflect the integrated operations of the LGA and its associated organisations.
18. The decision has also been taken to amalgamate the LGA's Pension Deficits Reserve into the General Reserve, given that the LGA's pension deficit far outweighed the value of the reserve, which stood at £4.525 million.

## **IDeA**

19. At the start of the financial year, following a decision taken by the LGA's Leadership Board and the IDeA Board, the operations of the Local Government Employers were merged with those of the IDeA.
20. IDeA made an operating surplus of £2.311 million in 2013/14. This profit translates into the overall surplus of £2.689 million shown in the financial statements by means of adjustments reflecting interest receivable, the dividend of £1.350 million from Geoplace and adjustments required to account for the pension scheme deficit.
21. As explained above, the IDeA's pension deficit with the Camden Pension Scheme has increased by nearly £20 million although the triennial valuation at 31 March 2013 saw a reduction in the pension deficit of £5.892 million to £33.082 million.
22. Overall, income decreased from £48.400 million to £40.958 million. This was mainly due to a reduction in government grants, including a reduction of £3.700 million in RSG topslice.

23. Expenditure on staffing was broadly in line with the previous year, at £10.922 million. Average staff numbers employed were 176 as compared with 178 in 2012/13.
24. The financial results in the audited accounts relate back to trading surplus of £1.651 million as reported in the monthly management accounts.

#### **LGIH**

25. The financial statements for LGIH show that the company has now completed its strategy of divesting itself of its major programmes of work, with the conclusion of the transactions relating to the creation of the Geoplace LLP joint venture. The final transactions in relation to IDeA Marketplace took place in January 2014 when LGIH received an offer from Proactis Group Ltd for its shares in EGS. Members approved the share sale and this resulted in the payment of £128,000 to LGIH.
26. As the Company no longer has any trading operations, in March 2014 the Directors of IDeA as the parent company approved the transfer to IDeA of the entire obligations, liabilities, rights, shareholdings and assets of LGIH to take effect during 2014/15, with a view to the Company becoming fully dormant.

#### **LGA (Properties) Ltd**

27. LGA (Properties) Ltd owns the freehold of Local Government House. The company's turnover of £2.198 million comprises rent received from the LGA, the IDeA and a number of external tenants. In accordance with the original lease to the LGA, the rent charged covers the cost of insuring the property and servicing the mortgage loans on it.
28. The surplus of £249,000 is due to rent paid in relation to the capital repayments on the mortgage, but also taking into account depreciation on the building.

#### **Local Government Management Board**

29. LGMB owns the freehold of Layden House. The company's turnover of £1.133 million comprises rent received from a number of third party tenants. The company operated with a deficit of £119,000 for the year.
30. The freehold land and building was revalued at its open market value on a commercial rental use basis at £17.550 million, an increase of £5.150 million as compared with 31 March 2013.
31. The accounts highlight the fact that following a detailed options appraisal, the board has agreed to the refurbishment of Layden House from 2016 in order to increase both the capital value of the building and its income base.

## **Representations**

32. The Chairman on behalf of the Leadership Board is required to make various representations to the auditors that all matters relevant to the accounts have been properly disclosed. A draft of this letter is included at Appendix 5 of the external auditors report, and will be tabled at the meeting. As well as seeking general representations on matters such as the completeness of the information supplied for audit and the appropriateness of the accounting policies and accounting estimates used, the auditors are seeking a number of specific representations. The specific representation sought from the Leadership Board as the body responsible for management of the LGA's resources is that:

- 32.1 With regard to the defined benefit pension scheme, the Board is satisfied that the actuarial assumptions underlying the valuation are consistent with their knowledge of the business and the scheme membership, active and retired.

## **Audit opinion**

33. A representative of the auditors will be in attendance at the meeting. As part of the audit process, the auditors report to the Leadership Board with their observations on the audit. A copy of this report (the ISA 260 communication) is presented to the Committee at **Appendix B**. This comments on the differences in figures that resulted in adjustments during the audit, on departures from generally accepted accounting practice and on recommendations for improvement of our financial management and reporting.

34. The report comments on one matter in which the accounts do not comply with generally accepted accounting practice – there is no separate detailed information on pension scheme assets and liabilities relating to the LGA only. The view of the Head of Finance and Business Management is that further lengthening of the pension disclosure information would add complexity without significantly increasing the reader's understanding. The auditors' view is that this element of non-compliance would not prevent them from giving an unqualified 'true and fair view' audit opinion.

35. The report sets out in detail at Appendix 2 a number of matters that arose in the course of the audit, with suggestions for improvements in the controls and procedures operated by each entity. These are summarised below:

- 35.1 There is an irregular billing profile for the legal services provided by Bevan Brittain and which are recharged to councils – we have accepted the recommendation that Bevan Brittain is asked to raise invoices on a more regular basis.
- 35.2 The basis for carrying forward deferred income balances from a number of "ring-fenced" projects was not clear – we have accepted the recommendation that deferred income balances should be regularly reviewed to ensure that income is recorded in the correct accounting period.

- 35.3 Expenses relating to Layden House and Local Government House were not always attributed to the appropriate company – we have accepted that expenses should be recorded in the correct entity.
- 35.4 The accounting treatment of the fixtures and fittings in Local Government House should be reviewed – we are not able to act on this recommendation as the detailed information as to the specific elements of the fixtures and fittings is no longer available to enable us to form a view on the appropriate rate of depreciation. We will however ensure that a detailed asset register is maintained for any future investment in the building to enable appropriate depreciation rates to be determined.
- 35.5 Of three shares issued in LGIH, one is held by LGMB along with the two shares held by IDeA – we have accepted the recommendation that LGIH's shareholding structure is established and appropriate disclosures made in the accounts.

#### **Feedback from the Audit Committee**

36. The LGA's Audit Committee met with the external auditors on 3<sup>rd</sup> June to review the consolidated accounts and the four sets of company accounts feeding into these accounts – IDeA, LGIH, LGA (Properties) Ltd and LGMB.
37. The Audit Committee identified the need for a small number of presentational changes which have now been made to the accounts.
38. The Audit Committee is therefore able to recommend the LGA's consolidated accounts for adoption to Leadership Board and General Assembly.

#### **Recommendation**

39. Members are asked to agree the financial statements for 2013/14 prior to their adoption at the LGA General Assembly on July 8<sup>th</sup> 2014.