

## **LGA consolidated financial statements for the year to 31 March 2015**

### **Purpose of report**

For members to agree, prior to the accounts being adopted at the LGA General Assembly on 30 June 2015.

### **Summary**

The LGA consolidated financial statements for the year ended 31 March 2015 have been produced and are expected to receive an unqualified audit opinion by Littlejohn LLP. The final draft of the financial statements is presented for the Audit Committee to review, prior to these being agreed at Leadership Board on 10 June and adopted at the General Assembly on 30 June 2015. The audited financial statements for IDeA, LGIH, LGA (Properties) Ltd and LGMB are also presented for review, prior to these being presented for adoption to their respective company boards before the end of June. These sets of accounts are all included at **Appendix A - E**.

The attached report substantially reproduces that going to the Leadership Board and the company boards. Members of the Audit Committee are asked to review these accounts, and make any independent comment they consider appropriate to the Leadership Board or the relevant company boards.

Members are also asked to review the external auditors' report to the Leadership Board, which is enclosed with this agenda.

### **Recommendation**

The LGA Leadership Board agrees the LGA's consolidated accounts for 2014/15.

### **Action**

Executive Director.

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## **LGA consolidated financial statements for the year to 31 March 2015**

### **Background**

1. This is the fourth 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 operations of these organisations as a single entity.
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 reviewed by the Audit Committee and adopted by the respective company boards in June, to ensure that a fully verified set of accounts is presented to the General Assembly. The Committee is therefore being asked to review the LGA accounts and the property company accounts at this meeting along with the IDeA and LGIH accounts.
4. Representatives of Littlejohn LLP, the appointed auditors, will be in attendance at the Committee'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.

### **LGA**

7. The consolidated accounts show the LGA and its related bodies made an operating surplus of £7.626 million before financing income and costs (-£0.784 million), contributions from joint ventures (£1.786 million) and adjustments relating to additional pension contributions (-£5.340 million) and contract restructuring costs (-0.236m). These reconciling items result in a trading surplus of £3.052 million.
8. The main causes of the trading surplus are:
  - 8.1. Projected underspends to period 11 on Member Services - £90k; Political Group Offices - £17k; Finance & Policy - £350k, Workforce, Leadership & Productivity - £400k, Communications - £450k, Legal Services - £20k, Business Support & HR - £133k; and remaining contingency budget of £167k

- 8.2. Further underspends due to: delayed expenditure on building works at Local Government House - £1,200k; Finance & Policy - £200k; capitalisation of the LGA's investment in the Bonds Agency - £500k; and the recharge of set-up costs to the Public Sector Audit Appointments - £320k.
  - 8.3. Additional contribution to overheads from ring-fenced activity agreed in-year - £527k.
  - 8.4. These are offset by additional expenditure on the Liberata contract termination payment (provided for in the 2014/15 accounts) - £236k; and severance costs related to the March 2015 restructuring exercise - £680k.
9. The operating surplus of £7.626 million translates into the result shown in the financial statements – an overall surplus of income over expenditure of £8.381 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.
10. Gains and losses that relate to changes in the actuarial assumptions used to calculate pension scheme liabilities, as well as the excess contributions made to reduce historic deficits are not taken into account in the Income and Expenditure Account. These are shown separately in the statement of total recognised gains and losses. The overall pension fund deficit reported in the accounts has increased by £20.923 million to £112.860 million. This reflects an increase of £3.727 million in the LGA's pension deficit with the Merseyside Pension Funds to £37.504 million; and an increase in the IDeA's pension deficit with the Camden Pension Fund of £17.178 million to £75,356 million. In line with FRS 17 accounting standards, the valuation in the accounts values assets at market value on 31 March 2015, 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.
11. The accounts also show the revaluation gain of £4.450 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 £22 million rather than at its previous book value.
12. Overall income decreased from £66,100 million to £64,879 million due to the income arising from the Children's and Adult conference being run by the LGA in alternate years..
13. The LGA's two joint ventures have both made a useful contribution to income during 2014/15. Local Partnerships LLP making a dividend payment of £0.361 million. GeoPlace LLP paying a dividend of £1.425 million.

## **IDeA**

14. IDeA made an operating surplus of £5.040 million in 2014/15, before financing income and costs (£0.78 million), contributions from joint ventures (£1.425 million) and adjustments relating to additional pension contributions (-£2.465 million). These items result in a trading surplus of £4.078 million.
15. This profit translates into the overall surplus of £6,074 million shown in the financial statements by means of adjustments reflecting interest receivable, the dividend of £1.425 million from Geoplace and adjustments required to account for the pension scheme deficit.
16. As explained above, the IDeA's pension deficit with the Camden Pension Scheme has increased by £17 million as at 31 March 2015. The increase in liabilities in the last year has mainly been driven by the falling Discount rate (expected long term investment return) meaning more money is needed now to pay future benefits.
17. Overall, income increased from £40.958 million to £41.498 million. This was due to an increase in charged services offset by a reduction in government grants.

## **LGIH**

18. 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.
19. 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. Work is underway to achieve this and we expect the transfers to take place, and the company to be struck off in the first half of 2015/16.

## **LGA (Properties) Ltd**

20. LGA (Properties) Ltd owns the freehold of Local Government House. The company's turnover of £2.097 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.
21. 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**

22. LGMB owns the freehold of Layden House. The company's turnover of £1.137 million comprises rent received from a number of third party tenants. The company operated with a deficit of £45,000 for the year.
23. The freehold land and building was revalued at its open market value on a commercial rental use basis at £22 million, an increase of £4.550 million as compared with 31 March 2014.
24. 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.

#### **Audit opinion**

25. 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 the final draft 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.
26. The draft 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.
27. The auditors found in the course of their work that:
  - a. Disclosure of interest forms was not complete for all members, with some members' forms over one year old - We have accepted the recommendation and will remind members of the need to keep this information up to date each year.
  - b. Differences existed between intercompany balances in the various entities. – Accepted that in our initial drafts there is a difficulty in making sure all intercompany changes beyond this point are reflected in changes made to all companies and the consolidation. We will look to further automate the process for next year.
  - c. As with last year there is an irregular billing profile for the legal services provided by Bevan Brittain and which are recharged to councils – we have accepted the need to obtain invoices from Bevan Brittan more regularly, as well as then obtaining purchase orders from councils before the LGA issues invoices.
  - d. Of three shares issued in LGIH, one is held by LGMB along with the two shares held by IDeA, the Financial statements currently disclose the IDeA as the parent company. – we have accepted that this needs to be dealt with as part of the

actions to dissolve LGIH.

**Recommendation**

28. Members are asked to agree the financial statements for 2014/15 prior to their adoption at the LGA General Assembly on the 30<sup>th</sup> of June 2015.