

# LGSS JOINT COMMITTEE



**Date: Thursday, 19 January 2017**

**Democratic and Members' Services**  
Quentin Baker  
LGSS Director: Lawand Governance  
Shire Hall  
Castle Hill  
Cambridge  
CB3 0AP

**14:00hr**

**Wyboston Lakes Training & Conference Centre, Great  
North Road, Wyboston, Bedfordshire, MK44 3AL**

## **AGENDA**

**Open to Public and Press**

- |          |   |                  |
|----------|---|------------------|
| <b>1</b> | <b>Apologies for absence and declarations of interest</b> |                  |
| <b>2</b> | <b>Minutes - 17th November 2016</b>                       | <b>3 - 8</b>     |
| <b>3</b> | <b>LGSS Statement of Accounts</b>                         | <b>9 - 110</b>   |
| <b>4</b> | <b>LGSS ISA260</b>  | <b>111 - 136</b> |
| <b>5</b> | <b>LGSS Law ISA260</b>                                    |                  |

*to follow*

The LGSS Joint Committee comprises the following members:

Councillor Ric Brackenbury Councillor Robin Brown Councillor Keith McLean Councillor Robert Middleton Councillor Bill Parker and Councillor Bob Scott Councillor Roger Hickford Councillor Noel Kavanagh and Councillor Ian Manning

*For more information about this meeting, including access arrangements and facilities for people with disabilities, please contact*

Clerk Name: Daniel Snowdon

Clerk Telephone: 01223 699177

Clerk Email: [daniel.snowdon@cambridgeshire.gov.uk](mailto:daniel.snowdon@cambridgeshire.gov.uk)

The County Council is committed to open government and members of the public are welcome to attend Committee meetings. It supports the principle of transparency and encourages filming, recording and taking photographs at meetings that are open to the public. It also welcomes the use of social networking and micro-blogging websites (such as Twitter and Facebook) to communicate with people about what is happening, as it happens. These arrangements operate in accordance with a protocol agreed by the Chairman of the Council and political Group Leaders which can be accessed via the following link or made available on request: <http://tinyurl.com/ccf-film-record>.

Public speaking on the agenda items above is encouraged. Speakers must register their intention to speak by contacting the Democratic Services Officer no later than 12.00 noon three working days before the meeting. Full details of arrangements for public speaking are set out in Part 4, Part 4.4 of the Council's Constitution <http://tinyurl.com/cambs-constitution>.

The Council does not guarantee the provision of car parking on the Shire Hall site and you will need to use nearby public car parks <http://tinyurl.com/ccf-carpark> or public transport

**LOCAL GOVERNMENT SHARED SERVICES JOINT COMMITTEE: MINUTES**

**Date:** Thursday, 17th November 2016

**Time:** 2.00pm – 4.00pm

**Place:** Wyboston Lakes Training & Conference Centre, Wyboston

**Present:** Cambridgeshire County Council (CCC): Councillors  
Roger Hickford and Ian Manning

Milton Keynes Council (MKC): Councillors Ric Brackenbury, Keith McLean  
and Robert Middleton (Vice-Chairman)

Northamptonshire County Council (NCC): Councillors Robin Brown  
(Chairman), Graham Lawman and Bob Scott.

**Others in attendance:**

Quentin Baker (LGSS Director of Law and Governance), Matt Bowmer (LGSS Director of Finance), Robin Bates (LGSS Head of Revenue and Benefits), Andrew Cardoza (KPMG), Martin Cox (LGSS HR Director), Ian Farrar (LGSS Director of IT Services), Nicole Jones (Corporate Director Finance Milton Keynes Council), John Kane (LGSS Managing Director), Jon Lee (Head of Finance, Northamptonshire County Council), Chris Malyon (LGSS Chief Finance Officer, Cambridgeshire County Council), Daniel Snowdon (LGSS Democratic Services Officer).

**Apologies:** Councillors Noel Kavanagh and Bill Parker (Councillor Graham Lawman substituting).

**120/16 DECLARATIONS OF INTEREST**

None.

**121/16 MINUTES – 18TH AUGUST 2016**

The minutes of the meeting held on 18th August 2016 were agreed as a correct record and signed by the Chairman.

**122/16 LGSS 2016/17 BUDGET MONITORING**

The Joint Committee received the monthly budget monitoring report. Officers offer finance session for Members. Officers drew attention to page 13 of the report that stated the forecast outturn variance of £400k, split between LGSS Services and trading contracts. The pressure on the trading arm of LGSS, officers explained was recognised

at the start of the financial year and therefore reserves were to be drawn upon to cover. The pressure on LGSS Services of £150k represented an improvement on the same position last year and plans were in place to address the pressure.

During discussion Members:

- Questioned whether part year savings would be realised from the implementation of Altair. Officers confirmed that part year savings would not be realised and confirmed that payroll had been migrated to the system and work was progressing to host the system internally, thus avoiding external hosting charges.
- Confirmed issues regarding the LGSS Programme Team had been resolved following some duplication of savings.

It was resolved to:

1. Note the financial monitoring position as at 30 September 2016.
2. Note the summary position on carry forward balances.

## **123/16 LGSS STATEMENT OF ACCOUNTS UPDATE**

The Joint Committee received an update on the progress on the audit of the 2015/16 LGSS Statement of accounts, and on the objection to the 2014/15 LGSS Statement of Accounts. Members were informed that following the objection raised in relation to the 2014/15 accounts, they had yet to be signed off. Officers drew attention to paragraph 3.4 of the report that suggested a further meeting of the Joint Committee be convened in January 2017 in order to approve the accounts following the completion of the audit. Members noted that this was the first year LGSS Law accounts had been produced and work had been undertaken with KPMG regarding the format. Members were informed that issues surrounding pension liabilities had now been resolved with Northamptonshire and Cambridgeshire County Councils acting as guarantors for any deficit.

During the course of discussion Members:

- Noted that a provisional view regarding the objection had been issued and a response had been received that raised further points that had to be addressed.
- Noted that the objection process had been costly in terms of officer time and expense incurred by the additional work undertaken by KPMG.
- Confirmed that the costs of any subsequent legal action following the conclusion of the objection would be incurred by KPMG and the Public Sector Audit Appointments (PSAA) and not LGSS.
- Questioned the level of risk posed regarding similar objections occurring in subsequent years. Officers explained that once the current objection had been resolved then there was no further risk of LGSS accounts receiving objections

although as a Cambridgeshire resident it was possible that the objector may challenge Cambridgeshire County Council accounts in the future.

- Confirmed that the LGSS Joint Scrutiny Committee had also received a report on the objection.
- Questioned whether it was necessary for an external audit to be carried out as the LGSS accounts were no longer required to be separately prepared and audited following the implementation of the Local Audit and Accountability Act 2014. Officers explained that the auditing of the accounts lent credibility to them and was valued by parent authorities, the current customer base and potential customers. It also demonstrated that LGSS was professionally run.

It was resolved to note and comment on the report.

## **124/16 ERP GOLD UPDATE**

Members received a presentation that provided an update with regard to the ERP Gold Build which was the new HR and Finance system that would replace Oracle and SAP which had both reached the end of their respective contracts. Projected savings over 7 years totalled £9.86m.

The project was large scale and complex. Members noted the planned time line for the roll-out of ERP Gold and that 2 data centres had been set up that would provide resilience in case of one failing and that User Acceptance Testing (UAT) was underway. Payroll was being run in parallel with current runs and checked for any discrepancies; each one then fully investigated.

The target implementation date was 1<sup>st</sup> April 2017 and Have to go live on 1<sup>st</sup> April. Large amounts of work had been completed in preparation for the launch date and the system would be open early to ensure a smooth transition.

Members noted that the ERP Gold system would change the way in which expenses were claimed and work was being undertaken with Democratic Services to provide Member support.

In response to Member questions:

- It was confirmed that there was a clear change control process in place.
- Officers explained that projected savings were lower in the first year due to the overlap of contracts. Following the first year projected savings were £1.5m per annum.
- It was confirmed that the system fully integrated with other local authority systems and designed to be resilient with external back-ups taking place regularly.

It was resolved to note the update provided.

## **125/16 EXCLUSION OF PRESS AND PUBLIC**

It was resolved unanimously to:

Exclude the press and public from the meeting for the following items of business on the grounds that they contain exempt information under Paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972, as amended, and that it would not be in the public interest for this information to be disclosed- information relating to the financial or business affairs of any particular person (including the authority holding that information)

## **126/16 REVENUE AND BENEFITS OUTLINE BUSINESS CASE**

The Joint Committee received a report providing the outline business case for revenue and benefits.

It was resolved:

- a) To approve the establishment of a dedicated Joint Committee for LGSS Revenues and Benefits as described in the body of the report, with the purpose of having oversight for the provision of shared services relating to LGSS Revenue and Benefits services.
- b) Delegate responsibility to the LGSS Managing Director to:
  - i) Agree the financial model principles set out in section 5 of the report
  - ii) Agree the foundation, start-up business case and associated savings for members to include at this stage Milton Keynes Council, Northampton Borough Council and LGSS
  - iii) Complete the formation of a Revenues and Benefits Joint Committee, the governance principles for such as set out in section 4 of the report.
- c) Acknowledge the use of previously earmarked carry forwards to fund the founding LGSS shareholders (i.e. Cambridgeshire County Council and Northamptonshire County Council) capital investment requirements as set out in section 5 of the report.

## **127/16 NORWICH PDA REVIEW**

The Joint Committee considered the partnering and delegation arrangements (PDA) with Norwich City Council.

It was resolved unanimously:

- a) To note the proposal for the renewal of the collaborative partnership (or arrangement), between Norwich City Council and Northamptonshire and Cambridgeshire County Council and Milton Keynes Council, for the provision of 'in scope' services as listed in the body of the report.
- b) To note the proposed model for the collaborative partnership (arrangement) and confirm its approval and to note any changes to the staffing structures for the implementation of the new arrangement.
- c) To approve the new PDA with Norwich subject to:
  - i) The negotiation and agreement of appropriate terms delegated to the LGSS Managing Director, the LGSS Director of HR, Director of Finance, Director of IT and the Director of Law and Governance in consultation with the Chairman and Vice-Chairman of the Joint Committee.
  - ii) The preparation, approval and completion of any necessary legal documentation.

#### **128/16 INITIAL ENGAGEMENT UPDATE**

The LGSS Managing Director updated the Joint Committee regarding initial engagement that had taken place.

It was resolved:

To note the update provided by the LGSS Managing Director.

#### **129/16 LGSS JOINT COMMITTEE AGENDA PLAN**

Members received the Joint Committee agenda plan.

It was resolved to note the agenda plan.

#### **130/16 DATE OF NEXT MEETING**

Members noted that a meeting of the Joint Committee would take place on 19 January 2017 at which the 2015/16 accounts would be presented. Members were informed that due to a meeting of the Full Council of Northamptonshire County Council taking place on the same day as the LGSS Joint Committee it was therefore necessary to move the meeting. Following discussion Members resolved to move the meeting to 2pm on 23 March 2017.

Chairman



**LGSS Statement of Accounts**

**To:** LGSS Joint Committee

**Date:** 19<sup>th</sup> January 2017

**From:** LGSS Finance

**Purpose:** To present the Joint Committee with:

- a) The final 2014-15 LGSS Statement of Accounts for approval subject to the conclusion of the public objection; and
- b) The final 2015-16 LGSS Statement of Accounts for the Committee for approval prior to KPMG issuing their audit opinion.

**Recommendation:** 1: The Joint Committee note the progress in relation to the public objection on the 2014-15 LGSS Statement of Accounts following KPMG's investigations; and

2: That the Joint Committee delegate authority to approve the 2014-15 and 2015-16 LGSS Statement of Accounts to the Chair of the Joint Committee and the Director of Finance, subject to there being no material changes required upon the conclusion of the public objection.

**1. Background**

- 1.1 LGSS produces its own annual Statement of Accounts alongside the accounts that are produced by each authority in their own right. The LGSS accounts encompass LGSS income and expenditure from within each of the host authorities, and also consolidates the LGSS Law accounts. Whilst the single entity accounts of each council include the proportion of LGSS attributable to each authority, the LGSS Statement of Accounts show the combined position across all of the LGSS operational budgets (in other words excluding the managed budgets that LGSS manages on behalf of the host authorities).
- 1.2 The LGSS Statement of Accounts presented as an appendix to this report cover the period up to 31<sup>st</sup> March 2016, and therefore do not include Milton Keynes Council which became an LGSS shareholder authority on 1<sup>st</sup> April 2016.
- 1.3 From 1 April 2015, the implementation of the Local Audit and Accountability Act 2014 has meant that joint committees are no longer required to have their accounts separately prepared and audited. Consequently, for the 2015-16 financial year and onwards, production of formal accounts by LGSS is no longer statutorily required.

However LGSS has decided to continue to produce accounts as it is committed to accountability and transparency. As these are not statutory accounts they sit outside of the requirements of the Accounts and Audit Regulations 2015, and therefore there is no statutory deadline for publication.

- 1.4 The relevant sections of the founding authority constitutions delegate responsibility to the LGSS Joint Committee for the approval of the Annual Report, which includes the Statement of Accounts.
- 1.5 The LGSS Statement of Accounts are externally audited by independent auditors. KPMG have been appointed to undertake this work. This audit has now been completed. KPMG's audit findings are set out in their report to those charged with governance. This is known as the ISA260 report.

## **2. Public objection to the 2014-15 Statement of Accounts**

- 2.1 Joint Committee Members will be aware that a member of the public submitted a formal objection to the 2014-15 LGSS Statement of Accounts. This was a lengthy and wide-ranging objection. It concerned a variety of matters including the method of preparation of the accounts, the judgements that had been made, and the accounting treatments in respect of income, expenditure, VAT and cash. The 2014-15 LGSS Statement of Accounts cannot be formally signed off until the conclusion of this objection.
- 2.2 Once an objection has been raised there is a formal process which must be followed. This is overseen by Public Sector Audit Appointments (PSAA), which is responsible for the functions previously undertaken by the Audit Commission.
- 2.3 Following the submission of the objection KPMG undertook further audit testing. Officers provided further information to KPMG and answered questions on the points raised in the objection letter.
- 2.4 KPMG issued their response outlining their preliminary findings to the objector in May/June 2016. The objector then had 30 days to respond, during which time a further letter to KPMG was submitted.
- 2.5 KPMG then considered the content of this second letter, and officers provided further information to KPMG in relation to the points raised.
- 2.6 An update was provided to the Joint Committee at the 17<sup>th</sup> November meeting. At that point the objection remained in progress. Subsequently officers have had further meetings with KPMG and have provided additional information to answer the remaining questions.
- 2.7 At the time of writing LGSS has not received confirmation that the objection has been concluded. It is currently going through KPMG's internal review process and will then be reviewed by the PSAA. Once that process is complete KPMG will issue a final response to the objector outlining their findings.
- 2.8 To date no changes have been required to the 2014-15 LGSS Statement of Accounts as a result of the objection. For completeness the 2014-15 accounts are re-presented to the Joint Committee as Appendix 1 to this report. This document is the same as the accounts that were presented to the Joint Committee on 10<sup>th</sup> September 2015.
- 2.9 The 2014-15 LGSS Statement of Accounts cannot be formally completed until the conclusion of the public objection. At the meeting on 10<sup>th</sup> September 2015 the

Committee resolved to delegate the authority to approve the 2014-15 accounts to the Director of Finance and the Chair of the Joint Committee, subject to no material changes being required to the document. The Joint Committee is recommended to maintain this delegation until the conclusion of the public objection. As set out in paragraph 2.8 no changes have been made to the 2014-15 accounts to date. If any material changes were to be required then the accounts will be re-presented to the Joint Committee.

### **3. Audit of the 2015-16 LGSS and LGSS Law Statement of Accounts**

- 3.1 As per the update provided to the Joint Committee on 17<sup>th</sup> November 2016, the audit fieldwork on the 2015-16 accounts has been undertaken by KPMG. This work started later than originally timetabled. The audit of the host authorities' accounts had to take precedence due to their statutory deadline of 30<sup>th</sup> September. As the LGSS accounts do not have the same statutory deadline the decision was taken to delay the commencement of the LGSS audit until the audit of the council accounts had been completed.
- 3.2 As at 17<sup>th</sup> November this work was still in progress. The audit of the 2015-16 accounts is now reaching completion. The final 2015-16 Statement of Accounts is presented to the Joint Committee in Appendix 2. This incorporates a number of changes from the draft set of accounts that were circulated in August. These are set out in section 4.
- 3.3 KPMG have also undertaken a separate audit of the accounts produced by LGSS Law. This audit has been completed and LGSS Law's accounts were signed off in December. The final LGSS accounts for 2015-16 consolidate the figures for LGSS Law into group accounts.
- 3.4 KPMG will not be able to issue their audit opinion on the 2015-16 LGSS Statement of Accounts until the public objection to the 2014-15 accounts has been concluded and the 2014-15 LGSS Statement of Accounts have been signed off.

### **4. Changes between the draft and final Statement of Accounts**

- 4.1 The draft 2015-16 LGSS Statement of Accounts were circulated to Joint Committee members on 9<sup>th</sup> August 2016. The final set of accounts following the conclusion of audit are presented in Appendix 2. There are a number of changes between the draft and final versions and these are set out below.
- 4.2 **Branding.** The branding/design of the document has been updated to incorporate the revised LGSS logo and colour scheme
- 4.3 **Managing Director introduction.** A foreword has been added, including an introduction by the LGSS Managing Director, John Kane.
- 4.4 **Comprehensive Income and Expenditure Statement.** The format/layout of this statement has been amended in order to comply with the requirements of the CIPFA Code of Practice. In the draft accounts the figures within this statement had been split across LGSS directorate headings (Finance, IT, Law Property & Governance etc). This was intended to aid the reader, as it would allow comparison to the management accounts which are presented on that basis. However this has had to be amended as under the Code all of LGSS's activity is classified as trading. Therefore it has been shown as Financing and Investment Income/Expenditure on the face of the statement in order to comply with the requirements of the Code. The split across directorate headings is now shown on a separate table within the accounts.

- 4.5 **Transactions with Related Parties.** This disclosure has been expanded. The budget allocated to LGSS by each of the councils is now shown. The value of intercompany transactions between LGSS and LGSS Law is also disclosed.
- 4.6 **External Audit Costs.** The cost of the additional audit work relating the 14-15 accounts and the public objection is now disclosed.
- 4.7 **Pension Schemes accounted for as a Defined Benefit Scheme.** This disclosure was not included in the draft accounts and has now been added. Since the production of the draft accounts the accounting treatment of the pension arrangements for LGSS Law has been confirmed. This has been accounted for as a defined benefit scheme, and consequently the Code requires that a number of disclosures are made which set out the net pension liability, movement in plan assets and defined benefit obligation. The assumptions used to calculate the LGSS Law pensions figures have also been disclosed.
- 4.8 **LGSS Law.** The final LGSS accounts incorporate any changes that have been made to LGSS Law's figures as a result of their audit. This has resulted in changes to the debtors, creditors, cash, and non current liability figures within the group accounts; and takes account of the confirmation of the pensions treatment for LGSS Law as set out above.
- 4.9 **Other adjustments.** There have been some small adjustments made to the debtors and creditors figures on the LGSS balance sheet to take account of the equalisation process. A £100k start-up loan to LGSS Law has been removed from the accounts as this loan was made by NCC rather than LGSS. These adjustments are set out within Appendix 2 of the auditors's ISA260 report.
- 4.10 All other amendments to the 2015-16 Statement of Accounts are individually immaterial.

## **5. Recommendations**

- 5.1 The Joint Committee is asked to note the progress in relation to the public objection to the 2014-15 LGSS Statement of Accounts.
- 5.2 As set out in paragraph 2.9 the Joint Committee is recommended to maintain the delegation of authority to approve the LGSS Annual Report 2014-15 to the Director of Finance and Chair of the Joint Committee, subject to the conclusion of the public inspection and no material changes being required.
- 5.3 The Joint Committee is recommended to delegate authority to approve the LGSS Annual Report 2015-16, including the Statement of Accounts and Annual Governance Statement, to the Director of Finance and the Chair of the Joint Committee, subject to no material changes being required to the accounts.

## **Appendices**

Appendix 1 – LGSS Annual Report 2014-15

Appendix 2 – LGSS Annual Report 2015-16



# **LGSS Annual Report 2014-15**

**By the Public Sector, for the Public Sector**



# **LGSS**

## **Statement of Accounts**

### **2014-15**

## CONTENTS

	Page
EXPLANATORY FOREWORD	5
INDEPENDENT AUDITORS' REPORT	7
STATEMENT OF RESPONSIBILITIES, CERTIFICATE AND APPROVAL OF ACCOUNTS	9
THE CORE FINANCIAL STATEMENTS	10
BALANCE SHEET	11
COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT	12
CASH FLOW STATEMENT	12
MOVEMENT IN RESERVES STATEMENT	13
NOTES TO THE CORE FINANCIAL STATEMENTS:	
1. <i>Accounting Policies</i>	14
2. <i>Accounting Standards That Have Been Issued but Have Not Yet Been Adopted</i>	18
3. <i>Critical Judgements in Applying Accounting Policies</i>	18
4. <i>Financing and Investment Income and Expenditure</i>	20
5. <i>Transfers to/from Earmarked Reserves</i>	20
6. <i>Debtors and Payments in Advance</i>	21
7. <i>Short-term Creditors and Receipts in Advance</i>	21
8. <i>Provisions</i>	21
9. <i>Amounts Reported for Resource Allocation Decisions</i>	22
10. <i>Trading Operations</i>	24
11. <i>Officers' Remuneration</i>	26
12. <i>Termination Benefits</i>	27
13. <i>Related Parties</i>	27
14. <i>External Audit Costs</i>	27
15. <i>Pension Schemes accounted for as defined contribution schemes</i>	27
16. <i>Prior Period Adjustment</i>	28
17. <i>Events after the Balance Sheet date</i>	28
ANNUAL GOVERNANCE STATEMENT	29
GLOSSARY	41

## EXPLANATORY FOREWORD

### INTRODUCTION

This Annual Report presents the financial statements for LGSS for the period 1 April 2014 to 31 March 2015 and gives a comprehensive summary of the overall financial position of LGSS.

### FINANCIAL CONTEXT

Financial performance is reported to the LGSS Joint Committee throughout the year, and these reports are available to view via the following web pages:

<http://www2.cambridgeshire.gov.uk/CommitteeMinutes/Committees/committee.aspx?committeeID=23>

<https://cmis.northamptonshire.gov.uk/cm5live/DecisionMakingCommittees/tabid/110/ctl/ViewCMISCommitteeDetails/mid/558/id/429/Default.aspx>

The Table below shows a five year financial profile for LGSS from 2013-14 through to the third year of the current LGSS Five Year Business Plan.

2013-14 was the first year of separately reported LGSS accounts as required by the Audit Commission and they received a clean audit opinion

<b>Table 1</b>	<b>2013-14</b>	<b>2014-15</b>	<b>2015-16</b>	<b>2016-17</b>	<b>2017-18</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Gross Spend	61,768	64,444	61,895	60,759	58,889
Gross Income	(37,196)	(41,108)	(41,768)	(41,968)	(42,168)
<b>Net Budget</b>	<b>24,572</b>	<b>23,336</b>	<b>20,127</b>	<b>18,791</b>	<b>16,721</b>
<b>Budget Reductions</b>	<b>(2,859)</b>	<b>(2,264)</b>	<b>(2,194)</b>	<b>(1,336)</b>	<b>(2,070)</b>
- Original Bus. Plan	(2,024)	(500)	(370)	(970)	(951)
- Further Efficiencies		(505)	(1,166)	(337)	(919)
- Trading	(835)	(1,259)	(658)	(29)	(200)
<b>Over-Achievement</b>	<b>(2,009)</b>	<b>(652)</b>			

- i) Net budget for 2011-12 was £32,361k, with efficiencies of £3,788k and an over-achievement against budget of £1,489k.
- ii) Net budget for 2012-13 was £27,173, with efficiencies of £1,785k, and an over-achievement against budget of £2,404k.

The over-achievement of savings has allowed for substantial reinvestment in the development of services which has improved the customer experience and enabled further efficiencies to be delivered by the innovative use of technology. For 2012-13 and 2013-14, a dividend was also paid to each of the host authorities. No dividend was paid for 2014-15.

## OUTTURN 2014-15

The Tables below show the summary outturn position for 2014-15 by Directorate, and the overall LGSS summary financial position. A reconciliation between the outturn position and the Comprehensive Income and Expenditure statement is shown within Note 9.

Table 2	Gross Exp Budget	External Income Budget	Internal Income Budget	Net Budget	Outturn	Variance
	£000	£000	£000	£000	£000	£000
Trading Account	2,409	(22,424)	(185)	(20,200)	(19,817)	383
Service Assurance	1,777	(31)	(95)	1,651	1,700	49
Finance	11,997	(4,076)	(501)	7,421	7,073	(348)
People, Transformation and Transactions	25,325	(1,809)	(2,969)	20,547	20,165	(382)
Information Technology	10,519	(39)	(1,666)	8,814	8,612	(202)
Law, Property and Governance	12,417	(1,249)	(6,061)	5,105	4,953	(152)
<b>Total LGSS</b>	<b>64,444</b>	<b>(29,628)</b>	<b>(11,478)</b>	<b>23,338</b>	<b>22,686</b>	<b>(652)</b>

Table 3	2012-13 Outturn £000	2013-14 Outturn £000	2014-15 Outturn £000
<b>Brought Forward (1 April) <sup>a</sup></b>	<b>(1,489)</b>	<b>(3,289)</b>	<b>(2,893)</b>
Reinvestment	604	2,402	2,091
Repayment to Trading Partners	0	184	0
Distribution of prior year dividend <sup>b</sup>	0	700	700
Actual Surplus	(2,404)	(2,009)	(652)
Carried Forward (31 March)	(3,289)	(2,012)	(754)
Reinvestment c/f	0	(881)	(1,251)
<b>LGSS Operational Reserves (31 March)</b>	<b>(3,289)</b>	<b>(2,893)</b>	<b>(2,005)</b>

- a. 2011-12 outturn was an over-achievement against budget of £1,489k, which was carried forward.  
b. These are the 2012-13 and 2013-14 dividends paid from reserves in the following financial year.

The Table below illustrates the planned use of reserves in 2015-16 to support the delivery of the LGSS Business Plan.

Table 4						
Theme	Directorate	Service Area	Title	2013-14 Carry Forward £000	2014-15 Carry Forward £000	Total Carry Forward £000
Investing	Cross- Cutting	Cross- Cutting	Various projects to deliver service improvement and Next Generation Working	(679)	(519)	(1,199)
Smoothing	Cross- Cutting	Cross- Cutting	Smoothing of trading income	(500)	(252)	(752)
Redundancy	Cross- Cutting	Cross- Cutting	Redundancy reserve	(54)	0	(54)
<b>Total</b>				<b>(1,233)</b>	<b>(771)</b>	<b>(2,005)</b>

---

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LGSS**

Left blank to insert auditor's report.

Left blank to insert auditor's report

## **STATEMENT OF RESPONSIBILITIES AND CERTIFICATE OF ACCOUNTS**

### **LGSS'S RESPONSIBILITIES**

LGSS is required to:

- Make arrangements for the proper administration of its financial affairs and to ensure that one of its officers has the responsibility for the administration of those affairs. In this entity, that officer is the Director of Finance;
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;
- Approve the Annual Report (Statement of Accounts and Annual Governance Statement).

I confirm that the Annual Report (Statement of Accounts and Annual Governance Statement) were discussed by the LGSS Joint Committee at its meeting on 10<sup>th</sup> September 2015 and were approved.

Councillor  
Chairman of the LGSS Joint Committee  
Date:

### **THE DIRECTOR OF FINANCE'S RESPONSIBILITIES**

The Director of Finance is responsible for the preparation of the business's statement of accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

In preparing this statement of accounts, the Director of Finance has:

- Selected suitable accounting policies and then applied them consistently;
- Made judgements and estimates that were reasonable and prudent;
- Complied with the Code.

The Director of Finance has also:

- Kept proper accounting records which were up to date;
- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

### **CERTIFICATE OF ACCOUNTS**

I certify that this Annual Report (Statement of Accounts and Annual Governance Statement) presents a true and fair view of the financial position of LGSS at 31 March 2015 and its income and expenditure for the year ended 31<sup>st</sup> March 2015, and authorise the accounts for issue.

Matt Bowmer  
Director of Finance  
Date:

## **THE CORE FINANCIAL STATEMENTS**

Our core financial statements follow the standardised format of the CIPFA Service Reporting Code of Practice (SeRCOP). In addition to this the statements contain appropriate detail to ensure they provide a meaningful comprehensive summary of the financial position of LGSS.

The Core Financial Statements are set out over the following three pages and are summarised below.

### **Balance Sheet**

This statement presents the value of the assets and liabilities recognised by LGSS as at 31 March 2015. LGSS does not own any capital assets - these belong to the respective host authorities.

The Balance Sheet therefore represents debtors, creditors and cash as a result of the activities carried out by LGSS. There are net assets of £2,005k attributable to LGSS as at 31<sup>st</sup> March 2015. There has been a prior period adjustment to the debtors figure for 2013-14 and details of this are set out in Note 16.

### **Comprehensive Income and Expenditure Statement**

This statement shows the cost of providing the services within LGSS in accordance with International Financial Reporting Standards.

The 2014-15 income and expenditure statement shows a deficit of £291k, which represents the net utilisation of reserves during the year. A further breakdown of the figures from the income and expenditure statement is shown in Note 10, which splits the figures into each LGSS Directorate and shows the cost of services provided to NCC and CCC, and trading with external partners through Partnership and Delegation agreements.

### **Movement in Reserves Statement**

This statement shows the movement in the year on the different reserves held by LGSS, analysed into 'usable' reserves (i.e. those that can be applied to fund expenditure) and 'unusable' reserves.

There has been a reduction of £291k in the reserves during the period. The LGSS Operational Reserve is the primary reserve, which is used to hold accumulated surplus/deficits on the provision of services, and to release funding back in to the service as reinvestment.

### **Cash Flow Statement**

The cash flow statement shows the changes in cash and cash equivalents of LGSS during the reporting period. The statement shows how LGSS generates and uses cash and cash equivalents for operating activities.

Cash and cash equivalents have increased during the period by £4,960k. Cash is held within the bank accounts of the two founding Councils.

## Balance Sheet as at 31 March 2015

31-Mar-14 (Restated)		Note	31-Mar-15
£000			£000
9,540	Short Term Debtors	6	4,194
(3,330)	Cash and Cash Equivalents		1,630
<b>6,210</b>	<b>Current Assets</b>		<b>5,824</b>
(3,548)	Short Term Creditors	7	(3,533)
(366)	Provisions	8	(286)
<b>(3,914)</b>	<b>Current Liabilities</b>		<b>(3,819)</b>
<b>2,296</b>	<b>Net Assets</b>		<b>2,005</b>
2,296	Usable Reserves	5	2,005
0	Unusable Reserves		0
<b>2,296</b>	<b>Total Reserves</b>		<b>2,005</b>

The Balance Sheet shows the value at the Balance Sheet date of the assets and liabilities recognised by LGSS. The net assets (assets less liabilities) are matched by the level of reserves held by LGSS. 'Usable' reserves are those reserves that may be used to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use. 'Unusable' reserves are those that are not able to be used to provide services and include those that hold unrealised gains and losses, where amounts only become available to use if assets are sold; and reserves that hold timing differences.

These financial statements were authorised for issue on XX<sup>th</sup> September 2015 by Matt Bowmer (Director of Finance)

## Comprehensive Income and Expenditure Statement

Gross Expenditure 2013-14	Gross Income 2013-14	Net Expenditure 2013-14		Gross Expenditure 2014-15	Gross Income 2014-15	Net Expenditure 2014-15
£000	£000	£000		£000	£000	£000
63,205	(62,066)	1,139	Financing and investment Income / Expenditure (Note 4 and Note 10)	65,822	(65,531)	291
<b>63,205</b>	<b>(62,066)</b>	<b>1,139</b>	<b>(Surplus) / Deficit on Provision of Services</b>	<b>65,822</b>	<b>(65,531)</b>	<b>291</b>
		<b>1,139</b>	<b>Total Comp Income and Expenditure</b>			<b>291</b>

This statement shows the accounting cost of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. The County Councils raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

## Cash Flow Statement

2013-14 (Restated) £000		2014-15 £000
(1,139)	Net surplus/(deficit) on the provision of services	(291)
	Adjust net surplus/deficit on the provision of services for non cash movements:	
(2,895)	(Increase) / Decrease in debtors	5,346
1,174	Increase / (Decrease) in creditors	(15)
(134)	Increase / (Decrease) in provisions	(80)
(1,855)		5,251
<b>(2,994)</b>	<b>Net increase or (decrease) in cash and cash equivalents</b>	<b>4,960</b>
(336)	Cash and equivalents at the beginning of the reporting period	(3,330)
<b>(3,330)</b>	<b>Cash and cash equivalents at the end of the reporting period</b>	<b>1,630</b>

The Cash Flow Statement shows the changes in cash and cash equivalents of LGSS during the reporting period. Cash is held within the bank accounts of the two founding Councils. The Cash Flow Statement has been prepared using the indirect method.

## Movement in Reserves Statement

	LGSS Reserve	Earmarked Reserves	Usable Reserves Total	Unusable Reserves Total
	£000	£000	£000	£000
<b>Balance at 31-Mar-13</b>	<b>3,288</b>	<b>147</b>	<b>3,435</b>	<b>0</b>
Movement in 2013-14:				
Surplus/(Deficit) on the provision of services	(1,139)	0	(1,139)	0
Other comprehensive income and expenditure	0	0	0	0
<b>Total comprehensive income and expenditure</b>	<b>(1,139)</b>	<b>0</b>	<b>(1,139)</b>	<b>0</b>
Adjustments between accounting and funding basis under regulations	0	0	0	0
<b>Increase/(decrease) before transfers to earmarked reserves</b>	<b>(1,139)</b>	<b>0</b>	<b>(1,139)</b>	<b>0</b>
Transfers to / (from) earmarked reserves (note 5)	44	(44)	0	0
<b>Increase/(decrease) in 2013-14</b>	<b>(1,095)</b>	<b>(44)</b>	<b>(1,139)</b>	<b>0</b>
<b>Balance at 31-Mar-14</b>	<b>2,193</b>	<b>103</b>	<b>2,296</b>	<b>0</b>
Movement in 2014-15:				
Surplus/(Deficit) on the provision of services	(291)	0	(291)	0
Other comprehensive income and expenditure	0	0	0	0
<b>Total comprehensive income and expenditure</b>	<b>(291)</b>	<b>0</b>	<b>(291)</b>	<b>0</b>
Adjustments between accounting and funding basis under regulations	0	0	0	0
<b>Increase/(decrease) before transfers to earmarked reserves</b>	<b>(291)</b>	<b>0</b>	<b>(291)</b>	<b>0</b>
Transfers to / (from) earmarked reserves (note 5)	103	(103)	0	0
<b>Increase/(decrease) in 2014-15</b>	<b>(188)</b>	<b>(103)</b>	<b>(291)</b>	<b>0</b>
<b>Balance at 31-Mar-15</b>	<b>2,005</b>	<b>0</b>	<b>2,005</b>	<b>0</b>

This statement shows the reserves held by the business, analysed into 'usable' and 'unusable'. The 'surplus/(deficit) on the provision of services line' shows the true cost of providing services. The 'increase/ decrease before transfers to/from earmarked reserves' line shows the LGSS Reserve before discretionary transfers.

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 1 Accounting Policies

#### 1.1 General Principles

The Statement of Accounts summarises LGSS's financial position for the year ended 31 March 2015.

LGSS is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2011. These regulations require the Statement of Accounts to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2014-15 (the Code) and the Service Reporting Code of Practice 2014-15 (SeRCOP), supported by International Financial Reporting Standards (IFRS).

In order to reflect statutory conditions, accounting standards are amended for specific statutory adjustments so that the accounts present a true and fair view of the financial position and transactions of LGSS. All accounting policies are disclosed where they are material.

#### 1.2 Qualitative Characteristics of Financial Statements

##### 1.2.1 Relevance

The accounts have been prepared with the objective of providing information about LGSS's financial performance and position that is useful for assessing the stewardship of public funds and for making financial decisions.

##### 1.2.2 Reliability

The financial information is reliable as it has been prepared so as to reflect the reality or substance of the transaction, is free from deliberate or systematic bias, is free from material error and has been prudently prepared.

##### 1.2.3 Understandability

These accounts are based on accounting concepts and terminology which require reasonable knowledge of accounting and local government. Every effort has been made to use plain language and where technical terms are unavoidable they have been explained in the glossary contained within the accounts.

##### 1.2.4 Materiality

The concept of materiality has been utilised in preparing the accounts so that insignificant items and fluctuations under an acceptable level of tolerance are permitted, provided that in aggregate they would not affect the interpretation of the accounts.

#### 1.3 Underlying Assumptions

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the Statement of Accounts and the

reported amounts of income and expenditure during the reporting period. Actual results could differ from those estimates.

Where it is necessary to choose between different estimation techniques, LGSS selects whichever technique is judged to be the most appropriate to its particular circumstances for the purposes of presenting the financial position in the accounts fairly. Estimates are used for debtors and creditors where invoices have yet to be issued or received.

### **1.3.1 Accrual of Income and Expenditure**

The financial statements, other than the cash flow, are prepared on an accrual basis. Income and expenditure is recognised in the accounts in the period in which it is earned or incurred, not as cash is received or paid. In particular:

- Revenue from the provision of services is recognised when LGSS can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to LGSS.
- Supplies are recorded as expenditure when they are consumed.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

### **1.3.2 Going Concern**

The accounts have been prepared on the assumption that LGSS will continue in existence for the foreseeable future.

## **1.4 Detailed Accounting Policies**

### **1.4.1 Cash and Cash Equivalents**

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours and investments whose maturity date is three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand.

### **1.4.2 Exceptional Items**

When items of income and expense are material, their nature and amount is disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement or in the notes to the accounts, depending on how significant the items are to an understanding of LGSS's financial performance.

### **1.4.3 Provisions**

Provisions are made where an event has taken place that gives LGSS a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential and a reliable estimate can be made of the amount of the obligation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that LGSS becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if LGSS settles the obligation.

### **1.4.4 Reserves**

LGSS sets aside specific amounts as reserves for future policy and business purposes or to protect against unexpected events. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service revenue account in that year, to be recorded against the Net Cost of Services in the Comprehensive Income and Expenditure Account. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against Council tax for the expenditure.

LGSS Reserves include:

- Earmarked reserves, which are set aside for specific purposes.
- General reserves, which are set aside for unexpected events.

### **1.4.5 Revenue Grants and Contributions:**

Revenue grants and contributions are matched in the Comprehensive Income and Expenditure Statement to the service expenditure to which they relate. Revenue grants received in advance of entitlement or meeting of conditions are treated as creditors (receipt in advance) until such time as they can be justifiably recognised as income and credited to the Comprehensive Income and Expenditure Statement. Grants to cover general expenditure are credited to the Comprehensive Income and Expenditure Statement after Net Cost of Services.

### **1.4.6 Employment Benefits**

#### **I. Benefits payable during employment**

Short term employee benefits are those due to be settled within 12 months of the year end. They include such benefits as wages and salaries, paid annual leave and

paid sick leave, for current employees and are recognised as an expense for services in the year in which employees render service to LGSS.

## **II. Termination Benefits**

Termination benefits are amounts payable as a result of a decision by LGSS to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy and are charged on an accruals basis to the relevant service line (or in discontinued operations) in the Comprehensive Income and Expenditure Statement when LGSS is demonstrably committed to the termination of the employment of an officer or group of officers or making an offer to encourage voluntary redundancy.

## **III. Post Employment Benefits**

### **Local Government Pension Scheme**

Contributions to the Local Government Pension Scheme payable during the period are charged to the Comprehensive Income and Expenditure Statement where employees are members of the scheme. However, as LGSS staff are formally employed by either Northamptonshire County Council or Cambridgeshire County Council the net pensions liability/asset is shown within the host authority's Statement of Accounts. Therefore no pensions liability/asset is recognised within LGSS's balance sheet.

### **1.4.7 Discretionary Benefits**

LGSS has no powers to make discretionary awards of retirement benefits in the event of early retirements, with such powers remaining with the respective County Councils. However, any liabilities estimated to arise as a result of an award to any member of staff will be accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

### **1.4.8 Value Added Tax (VAT)**

The Comprehensive Income and Expenditure Statement excludes any amounts related to VAT, as all VAT collected is payable to HM Revenue & Customs and all VAT paid is recoverable from them.

### **1.4.9 Events after the Reporting Period**

Events after the balance sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- Those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events.
- Those that are indicative of conditions that arose after the reporting period – the Statement of Accounts are not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

## 2 Accounting standards that have been issued but have not yet been adopted

The standards which have been introduced by the 2015-16 Code and will be effective from 1 April 2015 are not anticipated to have any impact on the LGSS financial statements. These are as follows:

### **IFRS 13: Fair Value Measurement**

### **IFRIC 21: Levies**

In addition to the above, the following issues have been included in the Annual Improvements to IFRSs 2011 – 2013 cycle:

### **IFRS 1: Meaning of effective IFRSs**

### **IFRS 3: Scope exceptions for joint ventures**

### **IFRS 13: Scope of paragraph 52 (portfolio exception)**

### **IAS 40: Clarifying the interrelationship of IFRS Business Combinations and IAS 40 Investment Property when classifying property as investment property or owner-occupied property**

All these revisions are effective for accounting years beginning on or after 1 January 2015 and are not anticipated to have a material impact on the LGSS financial statements.

## 3 Critical judgements in applying accounting policies

In applying the accounting policies set out in Note 1 LGSS has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Annual Report (Statement of Accounts and Annual Governance Statement) are in respect of:

### **Presentation of the Comprehensive Income and Expenditure Statement (CIES) -**

The Accounts have been prepared using the CIPFA Code of Practice on Local Authority Accounting (the Code) and the Service Reporting Code of Practice (SeRCOP). These specify the service headings to be included within the CIES. As LGSS is operating in a commercial environment all activity has been treated as trading activity; both with the founding authorities, Northamptonshire County Council and Cambridgeshire County Council, and with other partner bodies through Partnership and Delegation agreements. This trading activity falls outside of the services headings prescribed by SeRCOP, so SeRCOP specifies that within the CIES this is all shown within the Financing and Investment Income and Expenditure line. The dividend paid to the two authorities is also shown within this line of the CIES. A full breakdown of these trading figures is shown within Note 10, including the funding put into LGSS for the year by the two founding authorities.

**IAS19 / Pensions liabilities** – As LGSS is not a separate legal entity staff are formally employed by either of the two founding authorities, Northamptonshire County Council or Cambridgeshire County Council, and are entitled to join the Local Government Pension Scheme (LGPS). LGPS is a defined benefit plan. As LGSS itself is not an admitted body to LGPS it is not possible for LGSS to accurately identify its share of the underlying financial position and performance of the plan with sufficient reliability for accounting purposes. As such, the scheme has been accounted for as a defined contribution scheme within the LGSS accounts. Pension contributions paid during the period have been recognised within the CIES. Contributions paid during the year are shown in Note 15. There is no pensions

liability or pensions reserve shown within the LGSS balance sheet. The net pensions asset/liability and pensions reserve is shown within each authority's Statement of Accounts, depending on where the staff are formally employed. Similarly, IAS19 disclosures are shown within the Statement of Accounts of each authority.

**Fixed Assets** – Assets are resources controlled by an entity as a result of past events and from which future economic benefits are expected to flow to the entity. As LGSS is not a separate legal entity it does not own any fixed assets. Fixed assets are owned by the host authorities and partner authorities, who direct and control their use. LGSS does not have sole use, as the assets are also used by the host authorities and partner authorities, so the criteria for them to be accounted for as finance leases has not been met. Consequently these fixed assets are included within the statutory accounts of the relevant authority and no fixed assets are included within the LGSS accounts.

**LGSS Activity** – The LGSS accounts included activity related to LGSS operational budgets. Operational budgets encompass day to day LGSS activity and transactions with third parties. There are also managed budgets which LGSS administers on behalf of the partner organisations for which LGSS has or receives no benefit. Activity related to these managed budgets is included within the relevant organisation's statutory accounts and consequently is not included within the LGSS accounts.

**Compilation of the LGSS accounts** - LGSS is not a separate legal entity, but is operated through a joint committee arrangement governed by the two founding authorities, Northamptonshire County Council and Cambridgeshire County Council. Consequently LGSS does not have a separate accounting system or ledger, with transactions being recorded in the books of the two founding authorities. Separate LGSS revenue cost centres are held within the ledgers of each authority in order to identify LGSS expenditure and income. The balances on these cost centres are used to compile the LGSS Comprehensive Income and Expenditure Statement. Each authority sets a revenue budget for LGSS each year as part of their Medium Term Financial Planning process. Expenditure against these budgets is monitored throughout the year and is regularly reported to the LGSS Joint Committee. At the end of the financial year an equalisation process is undertaken to split revenues on a 50:50 basis between the two founding authorities. Any funding held for reinvestment in LGSS is transferred to the LGSS reserves. In order to identify LGSS balance sheet items, reports are run from each authority's financial system to identify debtors and creditors balances at the end of the financial year. The debtors and creditors attributable to LGSS activity are included within the LGSS balance sheet; along with provisions that are attributable to LGSS. As LGSS is not a separate legal entity it does not have its own bank account, with transactions going through the bank accounts of the two founding authorities. Therefore the cash figure on the LGSS balance sheet represents the cash balance within the two authority's accounts that is attributable to LGSS activity. This figure is derived from the other items on the LGSS balance sheet, and LGSS activity during the year. There is no physical cash transfer between the founding authorities and LGSS, as LGSS is not a separate legal entity.

## 4 Financing and Investment Income and Expenditure

Gross Expenditure 2013-14	Gross Income 2013-14	Net Expenditure 2013-14		Gross Expenditure 2014-15	Gross Income 2014-15	Net Expenditure 2014-15
£000	£000	£000		£000	£000	£000
62,505	(62,066)	439	Trading (see Note 10)	65,682	(65,391)	291
700	0	700	Dividend*	0	0	0
<b>63,205</b>	<b>(62,066)</b>	<b>1,139</b>		<b>65,682</b>	<b>(65,391)</b>	<b>291</b>

\*Financing and Investment expenditure of £700k in 2013-14 relates to a dividend payment of £350k to each of the two founding County Councils which was agreed by the Joint Committee.

For further details on trading, see Note 10.

## 5 Transfers to/from Earmarked Reserves

This note sets out the amounts set aside from the LGSS Operational Reserve to earmarked reserves and the amounts posted back from earmarked reserves to meet LGSS Operational Reserve expenditure.

	Opening Balance Apr 2013	Transfers to Reserve	Transfers from Reserve	Closing Balance March 2014
	£000	£000	£000	£000
<b>LGSS Operational Reserve</b>	3,289	2,009	(3,105)	2,193
<b>Cambridge Balance Legal (Replacement Reserve)</b>	85	0	0	85
<b>Cambridge Balance Finance (CIPFA Trainee)</b>	62	0	(44)	18
<b>Total LGSS Reserves</b>	<b>3,436</b>	<b>2,009</b>	<b>(3,149)</b>	<b>2,296</b>
	Opening Balance Apr 2014	Transfers to Reserve	Transfers from Reserve	Closing Balance March 2015
	£000	£000	£000	£000
<b>LGSS Operational Reserve*</b>	2,193	653	(841)	2,005
<b>Cambridge Balance Legal (Replacement Reserve)</b>	85	0	(85)	0
<b>Cambridge Balance Finance (CIPFA Trainee)</b>	18	0	(18)	0
<b>Total LGSS Reserves</b>	<b>2,296</b>	<b>653</b>	<b>(944)</b>	<b>2,005</b>

Legal Reserve: This is a pre-LGSS reserve that was accumulated on the CCC side and was earmarked for general asset replacement. LGSS Law pre-LGSS was

classified as a “trading unit” and there was a need to accumulate such reserves to ensure business continuity for the unit.

Finance Reserve: This is a pre-LGSS reserve that was accumulated on the CCC side and was earmarked for use in Finance predominantly for funding towards additional CIPFA trainee costs.

\*For a summary on the planned usage of the Operational Reserve, please see Table 4 within the Explanatory Foreword.

## 6 Debtors and Payments in Advance

2013-14 (Restated*) £000		2014-15 £000
17	Central Government Bodies	0
6,520	Other Local Authorities	3,296
7	NHS Bodies	14
2,996	Other Entities and Individuals	885
<b>9,540</b>	<b>Total Short Term Debtors</b>	<b>4,194</b>

. \*See Note 16

## 7 Short Term Creditors and Receipts in Advance

2013-14 £000		2014-15 £000
(7)	Central Government Bodies	(210)
(447)	Other Local Authorities	(2,209)
(11)	NHS Bodies	0
(3,083)	Other Entities and Individuals	(1,114)
<b>(3,548)</b>	<b>Total</b>	<b>(3,533)</b>

## 8 Provisions

PDA's (Partnership and Delegation Agreements) Income Provision of £209k has been utilised during the year. The customer PDA redundancy provision has been increased by £129k during the year, to safeguard against any future redundancies regarding a particular contract.

## 9 Amounts reported for resource allocation decisions

The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement is that specified by the Service Reporting Code of Practice (SeRCOP). However, decisions about resource allocation are taken by the LGSS Joint Committee on the basis of budget reports analysed across directorates. These reports are prepared on a different basis from the accounting policies used in the financial statements.

The income and expenditure of LGSS' directorates recorded in the budget reports for each year is set out in the following tables.

### Income and Expenditure 2013-14 as per Outturn Report 2013-14

	Gross Exp Budget	External Income Budget	Internal Income Budget <sup>a</sup>	Net Budget	Outturn	Variance
	£000	£000	£000	£000	£000	£000
Trading Account	3,257	(20,431)	(185)	(17,359)	(16,994)	365
Service Assurance	1,848	0	(100)	1,748	1,684	(64)
Finance	12,360	(4,578)	(730)	7,052	6,819	(233)
People, Transformation and Transactions	23,733	(1,099)	(2,124)	20,510	19,799	(711)
Information Technology	9,466	(32)	(1,397)	8,037	7,545	(492)
Law, Property and Governance	11,955	(986)	(5,534)	5,435	4,561	(874)
<b>Total LGSS</b>	<b>62,619</b>	<b>(27,126)</b>	<b>(10,070)</b>	<b>25,423</b>	<b>23,414</b>	<b>(2,009)</b>

### Income and Expenditure 2014-15 as per Outturn Report 2014-15

	Gross Exp Budget	External Income Budget	Internal Income Budget <sup>a</sup>	Net Budget	Outturn	Variance
	£000	£000	£000	£000	£000	£000
Trading Account	2,409	(22,424)	(185)	(20,200)	(19,817)	383
Service Assurance	1,777	(31)	(95)	1,651	1,700	49
Finance	11,998	(4,076)	(501)	7,421	7,073	(348)
People, Transformation and Transactions	25,326	(1,809)	(2,969)	20,548	20,165	(382)
Information Technology	10,519	(39)	(1,666)	8,814	8,612	(202)
Law, Property and Governance	12,416	(1,249)	(6,062)	5,105	4,953	(152)
<b>Total LGSS</b>	<b>64,444</b>	<b>(29,628)</b>	<b>(11,478)</b>	<b>23,338</b>	<b>22,686</b>	<b>(652)</b>

a Internal Income comprises recharging to the host authorities, and Organisational Workforce Development income.

The reconciliation shows how the figures in the analysis of directorate income and expenditure relate to the subjective analysis of the Surplus or Deficit on the Provision of Services included in the Comprehensive Income and Expenditure.

**2013-14 (Surplus)/deficit on the provision of services in Comprehensive Income and Expenditure Statement**

Reconciliation by Subjective Analysis	Directorate Analysis	Not reported to management	Amounts not included in Net Cost of Service	Net Cost of Services	Financing and Investment Income / Expenditure	Total
	£000	£000	£000	£000	£000	£000
Fees, charges & other service income	(38,442)		38,442	0	(38,442)	(38,442)
Government grants and contributions				0	(23,621)	(23,621)
<b>Total Income</b>	<b>(38,442)</b>	<b>0</b>	<b>38,442</b>	<b>0</b>	<b>(62,063)</b>	<b>(62,063)</b>
Service expenses	61,856	646	(62,502)	0	62,502	62,502
Financing & Interest Investments				0	700	700
<b>Total operating expenses</b>	<b>61,856</b>	<b>646</b>	<b>(62,502)</b>	<b>0</b>	<b>63,202</b>	<b>63,202</b>
<b>(Surplus) or deficit on the provision of services</b>	<b>23,414</b>	<b>646</b>	<b>(24,060)</b>	<b>0</b>	<b>1,139</b>	<b>1,139</b>

The £646k figure relates to an insurance recharge which was processed after the outturn report had been presented to the Joint Committee. Hence it is not included in the outturn position shown on page 6, but has been included within the CIES.

**2014-15 (Surplus)/deficit on the provision of services in Comprehensive Income and Expenditure Statement**

Reconciliation by Subjective Analysis	Directorate Analysis	Not reported to management	Amounts not included in Net Cost of Service	Net Cost of Services	Financing and Investment Income / Expenditure	Total
	£000	£000	£000	£000	£000	£000
Fees, charges & other service income	(43,136)	0	43,136	0	(43,136)	(43,136)
Government grants and contributions				0	(22,395)	(22,395)
<b>Total Income</b>	<b>(43,136)</b>	<b>0</b>	<b>43,136</b>	<b>0</b>	<b>(65,531)</b>	<b>(65,531)</b>
Service expenses	65,822	0	(65,822)	0	65,822	65,822
Financing & Interest Investments				0	0	0
<b>Total operating expenses</b>	<b>65,822</b>	<b>0</b>	<b>(65,822)</b>	<b>0</b>	<b>65,822</b>	<b>65,822</b>
<b>(Surplus) or deficit on the provision of services</b>	<b>22,686</b>	<b>0</b>	<b>(22,686)</b>	<b>0</b>	<b>291</b>	<b>291</b>

£291k represents the net usage of reserves during the year.

## 10 Trading Operations

Trading Operation figures are shown in the table below.

Services provided to the founding authorities, Northamptonshire County Council and Cambridgeshire County Council are shown separately to trading with other partners including Partnership and Delegation Agreements.

	With NCC / CCC			With other Partners (Partnership & Delegation agreements)		
	Expenditure 2013-14	Income 2013-14	(Surplus) / Deficit 2013-14	Expenditure 2013-14	Income 2013-14	(Surplus) / Deficit 2013-14
	£000	£000	£000	£000	£000	£000
<b>LGSS Directorate</b>						
Trading and Strategic Management	59	(1,679)	(1,620)	1,779	(17,153)	(15,374)
Service Assurance	1,689	(99)	1,590	109	0	109
Finance <sup>a</sup>	10,955	(5,485)	5,470	1,415	0	1,415
People, Transformation and Transactions	17,702	(4,118)	13,584	6,499	(122)	6,377
Information Technology	3,873	(1,324)	2,549	5,339	(300)	5,039
Law, Property and Governance	11,143	(8,166)	2,978	1,943	0	1,943
Funding from host authorities <sup>b</sup>	0	(23,621)	(23,621)			
<b>Total LGSS</b>	<b>45,421</b>	<b>(44,491)</b>	<b>930</b>	<b>17,084</b>	<b>(17,574)</b>	<b>(491)</b>

	Total		
	Expenditure 2013-14	Income 2013-14	(Surplus) / Deficit 2013-14
	£000	£000	£000
<b>LGSS Directorate</b>			
Trading and Strategic Management	1,838	(18,832)	(16,994)
Service Assurance	1,798	(99)	1,699
Finance <sup>a</sup>	12,369	(5,485)	6,885
People, Transformation and Transactions	24,202	(4,240)	19,961
Information Technology	9,212	(1,624)	7,588
Law, Property and Governance	13,086	(8,166)	4,921
Funding from host authorities <sup>b</sup>	0	(23,621)	(23,621)
<b>Total LGSS</b>	<b>62,505</b>	<b>(62,066)</b>	<b>439</b>

	With NCC / CCC			With other Partners (Partnership & Delegation agreements)		
	Expenditure 2014-15	Income 2014-15	(Surplus) / Deficit 2014-15	Expenditure 2014-15	Income 2014-15	(Surplus) / Deficit 2014-15
	£000	£000	£000	£000	£000	£000
<b>LGSS Directorate</b>						
Trading and Strategic Management	122	(2,183)	(2,061)	1,591	(19,346)	(17,756)
Service Assurance	1,801	(100)	1,700	(1)	0	(1)
Finance <sup>a</sup>	12,416	(7,381)	5,035	2,042	0	2,042
People, Transformation and Transactions	16,900	(3,827)	13,073	7,199	(108)	7,091
Information Technology	4,706	(1,640)	3,067	5,806	(261)	5,545
Law, Property and Governance	11,669	(8,289)	3,380	1,572	0	1,572
Funding from host authorities <sup>b</sup>	0	(22,396)	(22,396)			
<b>Total LGSS</b>	<b>47,614</b>	<b>(45,816)</b>	<b>1,798</b>	<b>18,209</b>	<b>(19,715)</b>	<b>(1,507)</b>

	Total		
	Expenditure 2014-15	Income 2014-15	(Surplus) / Deficit 2014-15
	£000	£000	£000
<b>LGSS Directorate</b>			
Trading and Strategic Management	1,713	(21,529)	(19,816)
Service Assurance	1,800	(100)	1,699
Finance <sup>a</sup>	14,458	(7,381)	7,077
People, Transformation and Transactions	24,099	(3,935)	20,164
Information Technology	10,512	(1,901)	8,612
Law, Property and Governance	13,241	(8,289)	4,952
Funding from host authorities <sup>b</sup>	0	(22,396)	(22,396)
<b>Total LGSS</b>	<b>65,822</b>	<b>(65,531)</b>	<b>291</b>

a) The Finance Directorate includes Finance, Strategic Assets, and Pensions.

b) This represents the budget provided by NCC and CCC.

## 11 Officers' Remuneration

The numbers of employees whose remuneration, taxable expenses and severance pay (if applicable) was £50,000 or more during the year are detailed below:

2013-14 Total	Pay Band	2014-15 Total
8	£50,000 - £54,999	9
6	£55,000 - £59,999	8
6	£60,000 - £64,999	3
5	£65,000 - £69,999	4
2	£70,000 - £74,999	2
1	£75,000 - £79,999	5
2	£80,000 - £84,999	3
2	£85,000 - £89,999	4
2	£90,000 - £94,999	0
2	£95,000 - £99,999	2
1	£110,000 - £114,999	1
1	£115,000 - £119,999	1
0	£120,000 - £124,999	1
1	£125,000 - £129,999	0
0	£130,000 - £134,999	1
<b>39</b>	<b>Totals</b>	<b>44</b>

### Disclosure of remuneration for senior employees.

Senior employees are the LGSS Managing Director and LGSS Directors. Staff are employees of the host authorities, rather than LGSS itself.

Includes salary costs, expenses (travel and subsistence) and employer pension contributions.

Post holder information	CCC / NCC payroll	Notes	Salary <sup>c)</sup>	Allowances & Fees (including honoraria & SRO payments)	Expenses Allowances	Total Remuneration excluding pension contribution	Pension contributions	Total Remuneration including pension contribution
Senior Employees:			£000	£000	£000	£000	£000	£000
LGSS Managing Director	NCC		2014-15	132	3	135	16	151
			2013-14	129	4	133	16	149
LGSS Director of People, Transformation & Transactional Services	NCC	a)	2014-15	122	1	123	16	139
			2013-14	119	8	129	15	144
LGSS Director of Finance and Section 151 Officer NCC	NCC		2014-15	115	3	119	15	134
			2013-14	113	1	114	14	128
LGSS Director of Law and Property and Governance	CCC		2014-15	96	2	98	19	118
			2013-14	97	3	100	18	118
LGSS Director of IT	CCC	b)	2014-15	112	1	113	22	135
			2013-14	89	2	91	17	108

Notes:

- a) The Director of People, Transformation and Transactional Services figures for 2013-14 include £8k for managing two LGSS Directorates for a year as a result of the sudden departure of the Director of Operations whilst the LGSS directorate structure was reviewed and an MD and Director of IT were appointed.
- b) The LGSS Director IT was appointed to the post on 10/06/13.
- c) Salary paid is dependent on length of service and performance.

## 12 Termination Benefits

Total number of exit packages by cost band 2013-14	Total cost of exit packages in each band 2013-14 £000	Exit package cost band (including special payments)	Total number of exit packages by cost band 2014-15	Total cost of exit packages in each band 2014-15 £000
37	259	£0 – £20,000	8	78
10	296	£20,001 - £40,000	3	90
	555	<b>Total cost included in bandings</b>		168

## 13 Transactions with Related Parties

Central government has effective control over the general operations of each Council – it is responsible for providing the statutory framework within which the Councils operate and provides the majority of their funding in the form of grants. The funding that the two Councils put into LGSS is shown within Note 10.

LGSS operates with a business ethos of “By the public sector, for the public sector” and is governed by a Joint Committee including three elected Members from each County Council. The LGSS Management Board oversees the day to day and strategic operation of LGSS and comprises the Managing Director and five Directors who head up the Directorates.

It seeks to reduce the cost of business services through the consolidation of resources, process redesign and exploitation of technology.

The financial transactions of each Shareholder County are included in the respective County’s statutory accounts.

## 14 External Audit costs

2013-14 £000		2014-15 £000
23	KPMG LLP - audit services carried out by the appointed auditor	23

## 15 Pension Schemes accounted for as defined contribution schemes

LGSS staff are formally employed by either Northamptonshire County Council or Cambridgeshire County Council and are entitled to join the Local Government Pension Scheme (LGPS). LGPS is a defined benefit plan.

As LGSS itself is not an admitted body to LGPS it is not possible for LGSS to accurately identify its share of the underlying financial position and performance of the plan with sufficient reliability for accounting purposes. As such, the scheme has been accounted for as a defined contribution scheme within the LGSS accounts.

Pension contributions paid during the year have been recognised within the Comprehensive Income and Expenditure Statement. Contributions paid during 2014-15 in respect of LGSS staff employed by NCC were £2.5m, with an employers contribution rate of 12.8% of pensionable pay. (2013-14: £2.3m with a contribution rate of 12.8%). Contributions paid during 2014-15 in respect of LGSS staff employed by CCC were £2.7m, with an employers contribution rate of 20% of pensionable pay. (2013-14: £2.6m with a contribution rate of 19%)

The actuary bases the contribution rate on actuarial valuations that take place every three years. The last such valuation was at 31<sup>st</sup> March 2013.

## 16 Prior Period Adjustment

As set out within Note 3, reports are extracted from the financial systems of each of the founding authorities at the end of the financial year in order to identify LGSS debtors balances. The debtors which are attributable to LGSS activities are then included within the LGSS accounts. When reviewing these debtors reports during the compilation of the LGSS accounts it was identified that a small number of invoices had erroneously been labelled as being LGSS debtors during the compilation of the 2013-14 LGSS accounts.

The value of these debtors was £1,430k. Although these debtors had been included within the 2013-14 LGSS balance sheet in error, they had been raised against non-LGSS revenue cost centres within the financial ledger. Therefore they did not form part of the balance on the LGSS revenue cost centres that were used to compile the LGSS Comprehensive Income and Expenditure Statement (CIES) for 2013-14. Therefore the 2013-14 LGSS CIES did not require restating.

As set out in Note 3, LGSS does not have its own bank account, and the cash figure shown on the LGSS balance sheet is derived from the other LGSS balances. As the incorrect debtors figure had been used to derive the cash balance for 2013-14 it was also incorrect. Therefore the cash figure on the LGSS balance sheet also required restating by £1,430k.

The overall cash figure across the two authorities as a whole is unchanged. The adjustment as set out above is to the amount of cash within the founding authorities' accounts that was attributable to LGSS.

The effect of this restatement on the 2013-14 published LGSS accounts is as follows: Debtors -£1,430k. Cash +£1,430k.

## 17 Events after the Balance Sheet date

### LGSS Law

In August 2014 the LGSS Joint Committee approved the proposed conversion of LGSS Law into a trading unit operated as a limited company. The main reason for this conversion was to enable LGSS Law to grow, and meet its objectives of attracting new external clients in line with business case projections, continuing to improve quality of service to clients and making the company more cost efficient.

LGSS Law Ltd has now been incorporated and commenced trading on 1 April 2015. It is jointly owned by NCC and CCC, with each council owning 50 shares, and future surpluses will be distributed to NCC and CCC as dividends.

As an independent company regulated by the Solicitors Regulation Authority, LGSS Law Ltd is required to have separate accounts from those of its local authority owners and must employ a system of accounting processes which accords with the Solicitors Accounts Rules.

# Annual Governance Statement

## **ANNUAL GOVERNANCE STATEMENT**

### **Scope of Responsibility**

The LGSS Joint Committee is responsible for ensuring that its business is conducted in accordance with the law and proper standards and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Joint Committee also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, the Joint Committee is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, which includes arrangements for the management of risk.

The Joint Committee operates to Northamptonshire County Council's Code of Corporate Governance which is consistent with the principles of the CIPFA/SOLACE Framework Delivering Good Governance in Local Government.

This Annual Governance Statement explains how LGSS has complied with the Code and also meets the requirements of regulation 4.2 of the Accounts and Audit Regulations 2011 as amended by the Accounts and Audit (England) Regulations 2011 in relation to the publication of a statement on internal control.

### **The Purpose of the Governance Framework**

The governance framework comprises the systems and processes, culture and values, by which LGSS is directed and controlled and through which it accounts to. It enables LGSS to monitor the achievement of its priority outcomes and to consider whether those have led to the delivery of appropriate and cost effective services.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, core purpose and priority outcomes and can therefore only provide reasonable assurance of effectiveness. The system of internal control is based on an on-going process designed to:

- a) Identify and prioritise the risks to the achievement of LGSS's plans and priorities.
- b) Evaluate the likelihood of those risks occurring.
- c) Evaluate the impact should they occur.
- d) Manage the risks efficiently, effectively and economically.

The LGSS Business Plan/Strategic Plan delivers these points as part of the annual cycle. During 2015 Service Reviews have commenced for each service line in LGSS in addition to actively participating in the customer MTP. The governance framework has been in place in LGSS for the year ended 31<sup>st</sup> March 2015 and up to the date of approval of the annual report and statement of accounts.

## **The Governance Framework**

The key elements of the systems and processes that comprise the governance arrangements are described below:

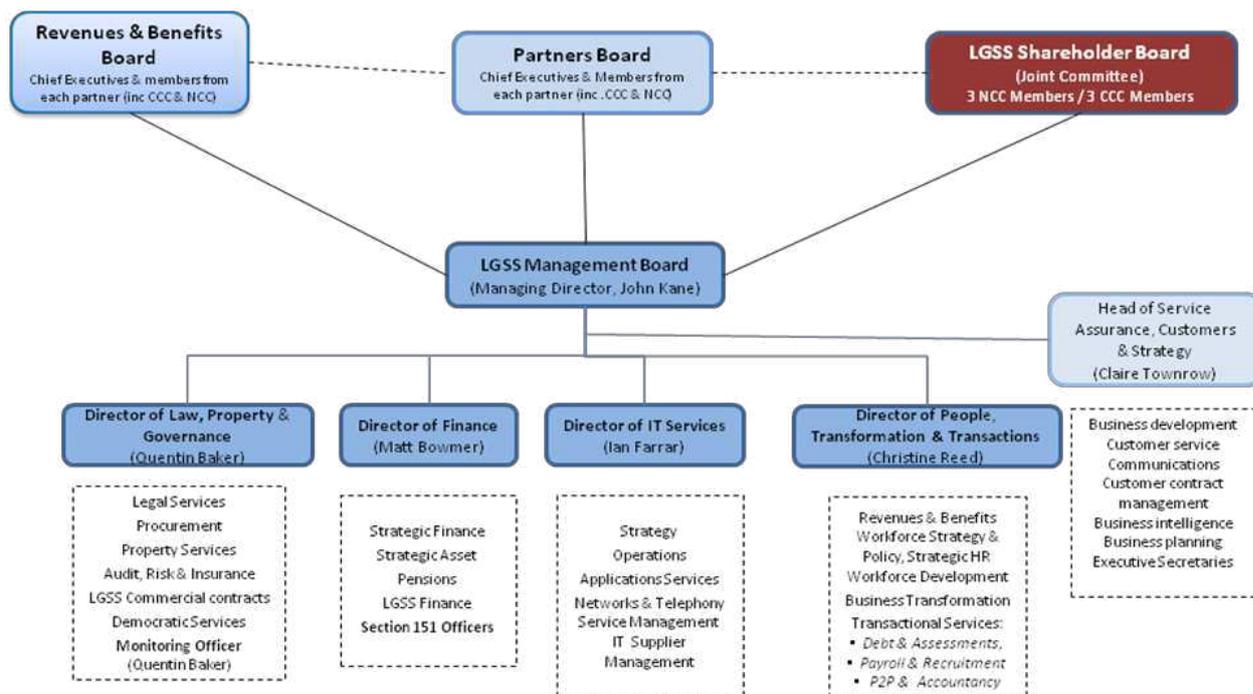
### **Creating and Implementing a Vision**

Good governance means developing and clearly communicating LGSS's plans and priorities to its key stakeholders. The following describes how LGSS achieves its objectives in order of priority:

1. CCC/NCC transformation and supporting customers via joint, collaborative business planning activity
  2. The refresh of the LGSS Business/Strategic Plan annually
  3. Management of LGSS Governance including the LGSS Management Board, LGSS Partners Board and Revenue and Benefits Board
- LGSS undertakes an annual planning process which takes account of the requirements of its client and customer councils and LGSS's objective of reducing unit costs through the expansion of LGSS. LGSS is an integral part of the mid term financial planning of both CCC and NCC to support the delivery of their business plans and delivering the reduction of costs against their priorities;
  - To ensure LGSS delivers its plans, the Service Assurance, Customers and Strategy Team co-ordinates a strong performance management framework to support the service delivery of each of the four LGSS directorates. This activity is summarised as follows:
    - Customer Satisfaction Framework
    - Customer Engagement and Service Improvement Plans for each of the directorates in LGSS
    - Business development, Initial engagement with potential new customers
    - Relationship management with existing customers including customer contract management (partner and delegation agreement)
    - LGSS business intelligence including performance reporting, trend analysis
    - LGSS communication and customer engagement

The following is a diagram of the LGSS Management and Governance Model:

## LGSS Management & Governance Model



### Review of Effectiveness

LGSS has undertaken a review of the effectiveness of its governance framework, including the system of internal control. This review is informed by the work of the LGSS Directors, the Head of Internal Audit and Risk Management’s annual reports.

Staff in Internal Audit and Risk Management has undertaken a basic compliance review to ensure that key aspects of LGSS’s Governance Framework have been applied during 2014-15. The key evidence to support the review of effectiveness is outlined below:

#### 1. Planning

LGSS operates a planning process which integrates all aspects of strategic, operational and financial planning which has the full involvement of the Joint Committee and all senior LGSS managers. This ensures financial plans realistically support the delivery of LGSS’s Business Plan in the short and medium terms.

LGSS has developed a five year business plan (2015/16 -2019/20), which it updates annually, which details its mission, values and priorities. The Business Plan was approved by the LGSS Joint Committee on 26<sup>th</sup> March 2015. Within this plan there are clear objectives in place for each Directorate which align with the business trading targets and the management of the client organisations finances.

## **2. Performance Management**

LGSS has operated a performance management framework during 2014-15 covering all key LGSS activities. On a quarterly basis key performance data including financial has been reported to the LGSS Management Board and to clients and customers in accordance with the customer contracts (Partner and Delegation Agreements) and detailed service specifications. All LGSS performance is reported to Joint Committee on a regular basis. The meetings are quarterly but with monthly Joint Committee workshops as provisional dates for any key issues which LGSS need to discuss with Joint Committee.

Additionally there is a workforce performance management process operating at all levels of LGSS including the management of staff personal performance through personal performance and development plan processes.

The Service Assurance, Customers and Strategy Team co-ordinates all aspects of operational performance management. This enhances the formalisation of key aspects of LGSS governance.

On a monthly basis a review of all performance standards is undertaken at strategic and directorate levels. On a quarterly basis overall performance is reported to the Management Board and the Joint Committee. Additionally individual client/customer performance data is reported to each client/customer in accordance with the relevant customer contracts.

### **Roles and Responsibilities of Members and Officers**

Good governance means elected members and officers working together to achieve a common purpose with clearly defined functions and roles. The following describes how LGSS achieves this:

- The Joint Committee is composed of 3 members appointed by each of the two client councils on a four yearly basis. The Joint Committee has an agreed Constitution which sets out how it operates and how decisions are made.
- The scheme of delegation in LGSS is based upon the delegations operating in the two client councils.
- Member and officer codes of conduct are complied with in accordance with the procedures operating in the Council which either the member is elected to or the officer employed by.
- The LGSS Management Board includes the Managing Director, four Directors, the Head of Service Assurance, Customers and Strategy and the Chief Executives of the two shareholder/partner councils.
- LGSS operates to the policies and procedures in place in each of the client councils to ensure that, as far as possible, its elected members and officers understand their respective responsibilities. New members and employees receive induction and continued training on key policies and procedures as these are developed within each of the client councils.
- All LGSS directors and heads of service have responsibility for maintaining a sound system of internal control within their area of responsibility.

## **Standards of Conduct and Behaviour**

Good governance means promoting appropriate values for LGSS and demonstrating the values of good governance by upholding high standards of conduct and behaviour. The following describes how LGSS achieves this:

- A standards committee is in place in each council to review any complaints regarding any councillors, including LGSS members and to promote high standards of conduct and observance of the member codes of conduct.
- Each council's employee code of conduct sets out managers' responsibilities to bring the code to the attention of their staff (through induction, training and instruction) and their responsibility to take appropriate action if an employee fails to follow the code. The codes include a requirement for LGSS officers of each council to declare any conflicts of interest and/or gifts or hospitality, which should be formally registered.
- Each client council has Anti Fraud and Corruption, Whistle-blowing, Money Laundering policies in place which apply to LGSS.
- LGSS's financial management is conducted in accordance with the Northamptonshire Budget and Policy Framework Procedure Rules, Financial Procedure Rules and Contract Procedure Rules. These rules set out the framework within which LGSS conducts its financial affairs and ensures proper financial arrangements are in place.
- The Joint Committee approves the LGSS budget before the start of each financial year. During the year, financial management information is reported to directorate management teams, the Management Board and the Joint Committee. Additionally all reports presented to the Joint Committee are also provided to the LGSS Overview Scrutiny Committees.
- The Chief Financial Officer role, required by Section 151 of the Local Government Act 1972 and other relevant legislation, is fulfilled by the LGSS Director of Finance, who is responsible for the preparation and publication of the LGSS Statement of Accounts and ensures that they conform to all statutory and professional requirements, codes of practice and deadlines. The LGSS Director of Finance is a member of the LGSS Management Board and has direct access to the LGSS Managing Director as appropriate.

## **Decision Making, Scrutiny and Risk Management**

Good governance means taking informed and transparent decisions that are effectively scrutinised and manage risk. The following describes how LGSS achieves this:

- The Joint Committee takes executive decisions in accordance with its terms of reference.
- The LGSS Overview Scrutiny Committees has the power to review and/or scrutinise decisions made or actions taken by the Joint Committee.
- LGSS is subject to internal audit review in accordance with the annual internal audit plans agreed by the audit committees of each of the client council's. LGSS Internal Audit operates in accordance with the Public Sector Internal Audit Standard. Internal Audit plans and prioritises its work chiefly using a risk based auditing approach and seeks to programme work based on risk, strength of control and materiality. Reports, including an

assessment of the adequacy of control and action plans to address weaknesses, are submitted to LGSS directors and to audit committees.

- LGSS complies with Northamptonshire County Council's risk management process which is underpinned by an approved Risk Management Policy and a Risk Management Statement of Required Practice (SORP). LGSS maintains a Strategic Risk Register and directorate risk registers which are required to be subject to regular formal review as outlined within the Risk Management SORP.

### **Developing Capacity and Capability of Members and Officers**

Good governance means developing the capacity and capability of Members and Officers to be effective. The following describes how LGSS achieves this:

- The councillors on the Joint Committee are supported by the councillor development activity of their parent councils. LGSS Management Board are invited to present at the councillor training/workshop sessions.
- Formal performance appraisal and development programmes operate within LGSS, dependent upon which client council each staff member is employed by. These programmes include identifying and meeting, as appropriate, the development needs of staff. There is an induction programme for new staff and a full comprehensive workforce development programme delivered at all levels in LGSS.

### **Engaging with Stakeholders**

- Good governance means engaging stakeholders to ensure LGSS delivers services which meet the needs of client and customer councils. LGSS operates to SLA s with all client and customer councils and has mechanisms for close client liaison at all times of the year.
- LGSS has developed its own website which seeks to identify it as a distinct (from the client councils) Support Service for public sector organisations. The website enables current and potential clients and customers to understand the nature of LGSS, what services it can provide and what skills, expertise and other resources it can offer.

## **3. The Joint Committee**

The Joint Committee is responsible for key decisions. The Joint Committee meets formally on a quarterly basis, with informal workshop meetings in the diary on a monthly basis and makes decisions that are in line with LGSS's overall policies and budget. The overriding principle is that the LGSS Joint Committee monitors that the Parties share costs, expenses and savings involved in LGSS, fairly, transparently and on an equal share basis. The Committee oversees the joint delivery of the delegated functions, with a view to their more economic, efficient and effective discharge. The constitution of the Joint Committee governs the operation of the delegation agreement. The Joint Committee receives regular monitoring reports on key aspects of control including performance and financial management.

Each Council nominates three elected Members and substitutes. The Member appointed as a substitute has full voting rights. Each Member complies with the Code of Conduct of their respective Council when acting as a Member of the Joint Committee. Each Council has three votes; The Chairperson of the Joint Committee is rotated on an annual cycle between each Council.

Meetings of the Joint Committee must be quorate with two Members of each Council being present. If there is a quorum of members present but neither the Chairperson nor the Vice Chairperson is present, the Members present shall designate one Member to preside as Chairperson for that meeting.

Joint Committee meetings are public meetings with the exception that the public may be excluded from a meeting where confidential information as defined in section 100A (3) of the Local Government Act 1972 or exempt information as defined in section 1001 of the Local Government Act 1972 would be disclosed to them.

The Joint Committee may delegate a function to a Sub-Committee or an Officer.

#### **4. LGSS Partner Board**

The purpose of the LGSS Partners Board is as a strategic partner discussion forum for stakeholder engagement at a political and senior officer level.

The Partners Board meet twice a year. There is an annual review of the Terms of Reference, to ensure they remain fit for purpose.

##### **Membership of the Partner Board**

- Chair of LGSS Joint Committee (to chair Partners Board)
- Vice-Chair of Joint Committee (or nominated substitute)
- Two attendees from each Partner organisation (or nominated substitute)
- Chief Executives of the founding LGSS authorities - Cambridgeshire and Northamptonshire County Councils
- LGSS Management Board

#### **5. LGSS Revenues and Benefits Board**

The LGSS Revenue and Benefits Board is an advisory / consultative group and does not hold decision making powers. The Revenues and Benefits Board meet twice each year. There will be a standing agenda, with the opportunity for members of the Revenues and Benefits Board to raise agenda items in advance for discussion at the meeting. It is a forum for:

- Stakeholder engagement at a political and senior office level, giving an opportunity for its members to feel that they can influence the strategic direction of the Revenue and Benefits service delivered by LGSS
- Customer feedback on the Revenue and Benefits service delivered by LGSS
- Discussion on how to develop the LGSS Revenue and Benefits service and wider partnership arrangements
- Sharing skills and knowledge
- Suggest items which might be considered by the LGSS Management Board

##### **Membership of the LGSS Revenues and Benefits Board**

- Chair – LGSS Director of People, Transformation and Transactional Services
- LGSS Head of Revenues and Benefits

- One Councillor and Senior Officer nominated from each LGSS customer
- One representative from LGSS Management Board

## **6. Overview and Scrutiny**

The Overview and Scrutiny function within LGSS is undertaken by the Joint Committee. They scrutinise the LGSS business plan and associated developments.

The Overview and Scrutiny Group role is as follows:

- Accountability – Holding LGSS to account for the discharge of its functions.
- Improvement – Investigating issues associated with LGSS and making recommendations that seek to improve the quality of services delivered through LGSS.

The membership of the Joint Committee consists of three councillors from both Cambridgeshire County Council and Northamptonshire County Council. Substitute members from each authority may be appointed to attend in their absence. The quorum for Joint Committee meetings is four members, made up of two members from both Cambridgeshire County Council and Northamptonshire County Council.

### **Parent Organisation Committees**

The committees at Cambridgeshire and Northamptonshire County Councils with responsibility for scrutinising corporate support functions will act as the parent committees for Overview and Scrutiny. Currently these are:

Cambridgeshire CC:            General Purposes Committee

Northamptonshire CC:      Finance & Resources Scrutiny Committee

The parent committee role includes the following functions:

- Agreeing the establishment of the Joint Committee and nominating members from the respective authority to serve on it.
- Agreeing the proposed work programme of the Joint Committee and incorporating the requirements of delivering this within its respective work programme.
- Receiving draft reports and recommendations from the Joint Committee for agreement prior to submission to Executive bodies.
- Maintaining an overview of the operation of the Joint Committee and proposing changes to the Joint Committee's terms of reference as necessary.

The parent committees will carry out this role on the basis of co-operation and communication and generally seek to avoid acting in what could reasonably be seen as a unilateral way.

The parent committees will retain the role of considering LGSS decisions that are called-in at their authority, and will have the option, in exceptional circumstances, to consider any other item of business relating to LGSS that they would prefer to consider as an individual scrutiny committee rather than through the Joint Committee. The Joint Committee will continue to operate for as long as the parent committees consider that there is value in the arrangement.

## **7. Management Board**

The Management Board met formally on a monthly basis throughout 2014-15 and was attended by the four LGSS Directors, the Head of Service Assurance and the Chief

Executives (or deputies) of the two client councils. On a fortnightly basis there are informal management board meetings where the Managing Director and his direct reports meet to discuss key topics.

### **8. Management**

Each LGSS director has provided a self assurance statement in respect of 2014-15 that:

- They fully understand their roles and responsibilities
- They are aware of the principal statutory obligations and key priorities of LGSS and of the client and customer councils which impact on their services
- They have made an assessment of the significant risks to the successful discharge of LGSS's key priorities.
- They acknowledge the need to develop, maintain and operate effective control systems to manage risks

### **9. Independent Assurance**

The LGSS Head of Internal Audit annually agrees the LGSS Internal Audit plan for the financial year with the Managing Director and the LGSS management team. This is in line with CCC and NCC policies and procedures.

Internal Audit has undertaken a number of reviews of activities undertaken within the LGSS environment. Review of the Head of Internal Audit and Risk Management's annual reports to the audit committees of the two client councils indicates that the general assurance level for the internal control over the systems and processes managed within the LGSS environment is substantial. In a small number of instances where the assurance level was moderate actions have been agreed with management which, when implemented, should raise the assurance level for these audit areas to substantial.

An assurance scoring mechanism is used to reflect the effectiveness of the Council's internal control environment. The table below details the five levels of assurance:

<b>Assurance Level</b>	<b>Assurance Criteria</b>
Full	There is a sound system of control designed to address the relevant risks with controls being consistently applied.
Substantial	There is a sound system of control, designed to address the relevant risks, but there is evidence of non-compliance with some of the controls.
Moderate	Whilst there is basically a sound system of control, designed to address the relevant risks, there are weaknesses in the system, that leaves some risks not addressed and there is evidence of non-compliance with some controls.
Limited	The system of control is weak and there is evidence of non compliance with the controls that do exist which may result in the relevant risks not being managed.
None	There is no system of internal control. Risks are not being managed.

## **10. External Audit**

Whilst LGSS is not a separate legal entity, the Audit Commission has advised that owing to the growth of LGSS, it should be subject to external audit review. Therefore as from 2013-14 KPMG LLP was appointed as LGSS External Auditor.

## **11. Risk Management**

LGSS complies with Northamptonshire County Council's risk management process which is underpinned by an approved Risk Management Policy and a Risk Management Statement of Required Practice (SORP). LGSS maintains a Strategic Risk Register and directorate risk registers which are required to be subject to regular formal review as outlined within the Risk Management SORP. There is an annual review of the risk registers and business continuity plans which are aligned to the respective shareholder processes.

There is an annual review of the LGSS strategic risk register by the Management Board and the LGSS Directorate risk registers are reviewed quarterly via Directorate Management Team meetings.

## **12. Developing Capacity**

LGSS has operated procedures during the period covered by this Statement to ensure training needs of staff are assessed against core competencies and any key training needs met. Additionally both client councils have provided or are in the process of providing appropriate training to Joint Committee councillors to enable them to effectively fulfil their duties in relation to LGSS and other activities.

## **13. Engagement**

LGSS has engaged with its clients and customers throughout the year via quarterly performance meetings and the Partner Board. These processes continue to be reviewed to ensure they meet the business needs of both clients and customers and LGSS itself. The LGSS website is current and appropriate to promote the LGSS offering.

## **Significant Governance Issues**

There are robust governance arrangements for LGSS based on the founding authorities financial policies and procedures based on and an integral part of the NCC and CCC portfolio and procedures.

## **Conclusion and Evaluation**

As Chair of the LGSS Joint Committee and LGSS Managing Director, we have been advised of the implications of the results of the review of the effectiveness of the Council's governance framework.

Our overall assessment is that this Annual Governance Statement is a balanced reflection of the governance environment and that an adequate framework exists within LGSS to ensure effective internal control is maintained. This is subject to both internal and external audit procedures.

We are also satisfied that there are appropriate plans in place to continue to deliver improvements to meet the governance arrangements requirement to meet the financial

policies and procedures and to seek continuous improvement in the system of internal control.

**Councillor**

**Chairman of the LGSS Joint Committee**

**Date:**

**John Kane**

**LGSS Managing Director**

**Date:**

## GLOSSARY

**Accrual.** An accrual is a sum included in our accounts to cover income or expenditure which belongs to the period covered by our accounts, but which was unpaid at the accounting date.

**Balance sheet.** A balance sheet is a summary of an organisation's financial position. It lists the values, in the books of account on a particular date, of all the organisation's assets and liabilities.

**Carry forward.** Amounts that are to be carried forward into the new financial year.

**CIPFA.** Chartered Institute of Public Finance and Accountancy

**Creditor.** This is someone we owe money to.

**Current assets.** These are short-term assets, such as debtors and bank balances.

**Current liabilities.** These are short-term liabilities which are due to be paid in less than one year such as bank overdrafts and money owed to suppliers.

**Debtor.** This is someone who owes us money.

**Deficit.** The amount by which expenditure exceeds income.

**Dividend.** The amount paid to the two founding authorities, split on a 50-50 basis.

**Earmarked reserve.** An earmarked reserve is money set aside for a specific purpose.

**LGSS Joint Committee.** The governing committee of LGSS, comprising three Councillors each from Northamptonshire County Council and Cambridgeshire County Council.

**LGSS Management Board.** Comprises the LGSS Managing Director and the four directors.

**Payment in advance.** A charge taken into account when preparing the financial statements, which are for benefits to be received in a period after the accounting date.

**Partnership and Delegation Agreement.** Partnership and Delegation Agreement is a shared service model, which takes shared services work from new customers through delegation of services agreements with other public bodies.

**Provision.** Money set aside in a set of accounts for liabilities, which are known to exist, but which cannot be measured accurately at the date of the accounts.

**Related party/parties.** This is a person or an organisation which has influence over another person or organisation.

**Reserves.** These are amounts set aside in one year's accounts, which can be spent in later years.

**Revenue.** Ongoing spending or income relating to the day to day activities of the organisation.

**SeRCOP.** Service Reporting Code of Practice. Issued by CIPFA. Local authorities are required to prepare their accounts in accordance with this.

**Surplus.** The remainder after taking away all expenses from income.

**The Code.** The Code of Practice on Local Authority Accounting in the United Kingdom (the Code) defines proper accounting practices for local authorities.

## FURTHER INFORMATION

For information please contact:

LGSS Finance  
Northamptonshire County Council  
8-10 The Lakes  
John Dryden House  
Northampton  
NN4 7YD

Telephone: 0300 126 1000

Email: [corporate.finance@cambridgeshire.gov.uk](mailto:corporate.finance@cambridgeshire.gov.uk)  
[accountancy@northamptonshire.gov.uk](mailto:accountancy@northamptonshire.gov.uk)

LGSS Finance  
Cambridgeshire County Council  
SH1304  
Shire Hall  
Cambridge  
CB3 0AP

Telephone: 0345 045 5200

You have the right to inspect our accounts each year before the external audit is completed. We advertise the dates during which you can inspect the accounts in the local press. Our accounts are audited by KPMG LLP. They are the auditors appointed by the Audit Commission.



# **LGSS Annual Report 2015-16**



# Contents

<b>1. MD Introduction</b>	<b>2. Narrative Statement</b>	<b>3. Core Statements</b>	<b>4. Group Accounts</b>	<b>5. Notes to the Accounts</b>	<b>6. Annual Governance Statement</b>
<b>Foreword by John Kane – LGSS Managing Director</b> Page 4	<b>Finance Directors Narrative Report</b> Page 15	<b>Comprehensive Income and Expenditure Statement</b> Page 21	<b>LGSS Group Accounts Notes</b> Page 26	<b>Supporting the Core Financial Statements</b> Page 27	<b>Annual Governance Statements</b> Page 40
<b>2015/16 At a glance</b> Page 5	<b>Independent Auditor’s Report</b> Page 18	<b>Balance Sheet</b> Page 23			
<b>About LGSS</b> Page 6		<b>Movement in Reserves Statement</b> Page 24			
<b>Customer Relationship Management</b> Page 7	<b>Statement of Responsibilities</b> Page 19	<b>Cash Flow Statement</b> Page 25			
<b>Future Developments</b> Page 10					
<b>Achievements</b> Page 12					

**Foreword by John Kane – LGSS Managing Director**



It is a pleasure to welcome you to our 2015/16 Annual Report and Statement of Accounts. It has been a busy year which has seen many exciting developments across our business, the most important of which came at the end of this financial year when we welcomed on board Milton Keynes Council as a full shareholding partner.

Earlier in the year the commencement of our partnership with Northamptonshire Healthcare NHS Foundation Trust facilitated opportunities to enable potential major synergies across Health and Care services for LGSS customers in our region. This supports our renewed 3 year contract with Olympus Care Services, further strengthening our delivery in the health and care sector. We also signed a contract with the Nene Clinical Commissioning Group.

I take great pride in how we have continued to support our customers to transform their business by providing the tools to ensure they can work in a more flexible and agile way, whether this is through workforce development programmes or the provision of new technologies. Work has continued at pace to support the Smarter Business Working programme in Cambridgeshire County Council and the Next Generation Working programme in Northamptonshire County Council – both vital programmes to ensure they can adapt to the ever changing demand placed on their services. We have also successfully implemented a mobile working programme in Norwich City Council.

I would also like to take this opportunity to congratulate one of our partners, Cambridgeshire County Council who were nominated at the 2016 LGC awards in the ‘Entrepreneurial Council’ category.

In April 2015, LGSS Law became LGSS Law Ltd under an ‘Alternative Business Structure’ licensed by the Solicitors Regulation Authority (SRA). As LGSS Shareholders, Cambridgeshire and Northamptonshire County Councils, and now Milton Keynes Council are one of the few local authorities in the country to be granted this status. This has given us the opportunity to create value for money across all of our customers. They have already added to their portfolio through the establishment of a shared legal service with Central Bedfordshire Council.

enhanced our customer satisfaction framework. This provides a robust framework which allows us to use the feedback we capture to inform our service improvement plans, in partnership with our customers.

I am proud of the contribution LGSS has made when working with others both at home and abroad. On a national level over the past couple of years, we have shared best practice with the Northern Ireland Civil Service (NICS), the Welsh Government and the UK Cabinet Office amongst others, whilst we also supported the consultation and launch of South East Business Services (SEBS) – a shared services partnership between East Sussex and Surrey County Councils. This is all in addition to circa 110 engagement discussions with like minded public sector customers interested in the LGSS model and associated growth.

In addition there has been interest in LGSS from overseas. During 2015 we hosted a visit from the Bay of Plenty in New Zealand, who were keen to learn about our Shared Services model as they look to establish their own shared services model.

My staff and I are continuing to adapt and change our service delivery in order to meet changing customer requirements. We continue to make significant investments in business systems, in particular our Agresso Enterprise Resource Planning (ERP) solution, LANDesk, Collaborative Planning and K2, the property services system. Our partnership with Unit 4 to develop Agresso as a Next Generation ERP system will enable us to deliver a system for HR and Finance which is agile to meet the varying needs of all our customers whilst also creating efficiencies.

I look forward to reporting on the progress of these investments and further innovative solutions LGSS delivers.

John Kane  
**Managing Director**

LGSS Pensions were chosen as the preferred provider to deliver pension administration services to Cambridgeshire & Peterborough Fire Authority.



LGSS commenced a new IT Managed Service partnering arrangement with Northamptonshire Health NHS Foundation Trust which will save £4.2 million over a 5 year period. The new partnership saw 68 members of staff transfer into LGSS IT.

Our Enterprise Resource Planning (ERP) Gold Build programme and design was approved and build of the system commenced. Due to go live in March 2017, it is anticipated that this will realise cumulative savings of £9.86 million over 7 years, split across our three shareholding organisations.



We launched our customer service desk solution, Let's Go Direct, to 3 customers – First for Wellbeing, Olympus Care Services and LGSS Law Ltd – as well as introducing further services to Cambridgeshire and Northamptonshire County Councils.



In January 2016 LGSS Law Ltd was selected as the chosen partner to provide shared legal services to Central Bedfordshire Council and resulted in 39 members of staff transferring into LGSS Law Ltd.



During 2015/16 LGSS Revenues and Benefits generated more than £340,000 in traded services through delivering initiatives on behalf of other organisations, including Single Persons Discount and Student Reviews.



2015/16 AT A GLANCE



IT Services supported customers to create a flexible working environment by rolling out more than 4,000 laptops and convertible devices across the business as well as commencing a smartphone rollout.

In April 2015, LGSS Law Ltd commenced trading as one of the first Local Authority Law firms in the UK, and currently has approximately 140 staff based at their new headquarters in Huntingdon.



Milton Keynes Council joined LGSS on 1st April 2016 to become our 3rd Shareholder. The partnership will collectively save more than £4.47m over the next 4 years through combining greater economies of scale, from sharing, co-designing and procuring new systems.

LGSS recorded a surplus of £204k for the financial year 2015/16, which will be reinvested to improve the services that LGSS delivers to its customers.



During 2015/16 LGSS operated gross budgets of £69.9 million in addition to managing budgets of £22.9 million on behalf of our customers.

## About LGSS

LGSS is a public sector shared service, wholly owned by Cambridgeshire County Council, Milton Keynes Council and Northamptonshire County Council and provides a range of business support services, both professional and transactional, to a variety of customers within the public sector including local councils, schools and academies, the health sector and Emergency services.

Founded in October 2010, LGSS is the result of the merger of the corporate business support services at Cambridgeshire and Northamptonshire County Councils, enabling the creation of a single, shared service providing all professional, transactional and operational services to both organisations.

Our vision is to become ‘The most highly regarded public sector shared service and business transformation ‘partner of choice’ for the public sector’. To support meeting this vision we have two key strategic themes which underpin our business plan over the next 5 years, which are:

- To become the ‘partner of choice’ for public sector shared services; and
- To grow our business with like-minded customers within the East of England region.

These strategic themes are essential to the long-term success of LGSS, in delivering our business plan and achieving our vision.

### Our business ethos

We pride ourselves on our business ethos, which is **‘For the public sector’**. We operate with an open partnership via a not for profit, joint risk and reward business model, which enables all savings to be shared between LGSS and its customers. This ensures that all efficiency savings remain within the public sector and enables LGSS to operate as a genuine trusted partner as opposed to private sector based alternatives.

### Our core region

LGSS growth is focused on the ‘LGSS region’, as shown in the map below, and within the wider public sector which means we stay very close to our customers and keep staff local. This enables better joined up and inter working relationships to be developed with each customer, regardless of their location and the sector they operate within.



Contains Ordnance Survey data © Crown copyright and database rights 2013.

## Customer Satisfaction Framework

Central to our customer relationship management is our Customer Satisfaction and Engagement Framework.

The key components of this are shown below. The framework ensures we receive feedback ranging from chief executive ‘strategic’ feedback to ‘in the moment’ service feedback whilst also overlaying key performance indicator data to ensure we maintain a rounded view of how we are performing with delivering services to our customers and enables us to proactively address service improvements to meet changing customer requirements.



An overview of each component of the framework is detailed below.

### Annual User Satisfaction Survey

An online annual ‘all user’ satisfaction survey is undertaken in September each year to provide customers the ability to rate the operational ‘day-to-day’ performance of LGSS services from the previous year.

### Executive Interview

In October a face to face interview delivered by the Head of Service Assurance, Customers and Strategy to the Chief Executive (or nominated other) of each customer organisation to explore items such as the strategic relationship, customer priorities, the LGSS brand value and the governance arrangements including specific key LGSS roles.

### User Satisfaction feedback

At the end of each service provision customers are invited to rate their experience of the transactional or professional service they used to enable us to measure the ‘in the moment’ satisfaction of a specific customer transaction.



### Comments, Compliments and Complaints

Comments, compliments and complaints arrive via a single point of contact and are then provided to the relevant Heads of Service/Individual within 24 hours.

### Key Performance Indicators

Each LGSS Service has performance measured by a set of Key Performance Indicators (KPIs) which look at specific targets and a ‘RAG’ status.

### Customer Issue Log

Customers can report contractual/performance issues to us at any time and we register and monitor all issues through to resolution and ensure customers are responded to in a timely fashion.

### Our Customers

We provide services to a wide range of customers across local government, health and social care, education, housing and emergency service sectors, including:



**Schools and Academies**



**What our customers say**

Here is a sample of some of the comments our customers have to say about LGSS.

*"We were the first city council to join forces with LGSS in 2012. Since that time we've worked together to continue to deliver services locally while at the same time saving money and keeping the majority of jobs within Norwich. This clearly demonstrates that public-public partnerships can be effective when it comes to delivering valuable services to our residents."*

**Clr Alan Waters, Leader of Norwich City Council**

*"I have always received an excellent service when in touch with members of IT Services, I find them knowledgeable and keen to help resolve any issues I have in a speedy manner."*

**User, Northampton Borough Council**

*"The staff here are all excellent and very knowledgeable in their field of work (Insurance Services)."*

**User, Cambridgeshire County Council**

*"Joint working has enabled a committed and professional relationship to be developed over a period of years which has been further enhanced by LGSS listening to our feedback."*

**Carolyn Kus, Managing Director, Olympus Care Services**

*"Joining LGSS is an excellent fit with some of MKC's ambitious plans for modern service delivery. There's some great experience and talented people across our organisations and we're looking forward to learning from each other."*

**Carole Mills, Chief Executive, Milton Keynes Council**

*"We are looking forward to working more closely with LGSS as we support our IT staff transferring to them. We believe this arrangement will be beneficial to all parties as our skilled and committed staff join with those at LGSS. This will give us access to a broader range of specialist skills and knowledge and enable us to continue to improve the quality of care we provide to the people of Northamptonshire."*

**Angela Hillery, Chief Executive, Northamptonshire Healthcare NHS Foundation Trust**

*"Have been using the services of Finance for 17 years now and always pleased with outcome. Very helpful, knowledgeable and accommodating."*

**User, Delapre Primary School, Northampton**

*"Members of the LGSS Procurement team have been highly professional, proactive and really have given first rate support to us in helping drive this project forward to a very successful outcome. The quality of their input to the project has been outstanding. Their performance in supporting us has left many here with a very favourable and positive impression of LGSS."*

**John Bridgwater, Strategic Procurement Adviser, Cambridge City Council**

## Future Developments

Business transformation and innovation are crucial elements of our strategic business plan. Where there is commonality between our customers we investigate and assess current processes in order to identify best practice and integrate, streamline, standardise and deploy the transformation across our customer base. This enables us to offer superior service levels combined with economies of scale in terms of technology, resources and efficiencies.

We are constantly seeking ways to improve the services we deliver, and have a wide range of programmes in place which will bring improvements in service delivery whilst also meeting the needs of our customers. Some of the key developments we are working on are detailed below.

### Next Generation Working/Smarter Business Programmes

The delivery of Smarter Business and Next Generation working principles across our two founding County Councils and wider partners is crucial to ensure we provide the IT infrastructure, skills and training to fully embrace flexible working.



Next Generation Working

The vision for our Next Generation Working programme is to create:

- A more flexible approach to how, when and where work gets done, with whom we work and the tasks we work on.
- A more flexible, mobile and productive workforce who are 'IT confident'.

- Office environments and IT resources suitable for more flexible and mobile ways of working.
- A 'digital first' approach, which makes information more easily accessible on line and reduces the need for paper documents, duplicate data entry and bureaucracy.

### Enterprise Resource Planning (ERP) solution



One of our key systems developments is the design, build and implementation of our Next Generation Enterprise Resource Planning (ERP) solution. The LGSS ERP 'Gold Build' is a shared service ERP system we are developing in partnership with Unit4 Business World software and has been designed around the principles of simplification, standardisation, automation and self service.

It will become a key offering of LGSS, which will bring potential customers both quantitative and qualitative benefits including:

- Single instance on shared infrastructure in the LGSS data centres / private cloud
- Shared service licence model with significant economies of scale and flexibility
- Full functionality across finance, purchasing, fixed assets, HR, payroll and management information
- Each organisation has their own separate 'client', a copy of the gold build, to ensure full data separation and security
- LGSS Business Systems provide functional management & support and a joint development roadmap, maintaining the Gold Build design principles with a single Design Authority
- Integration and interfaces with partner line of business systems through 'BizTalk' middleware technology

### **Health and Care IT and Systems**

A key area of development for LGSS is enhancing integration within the health and care sector by joining up health and care systems across different customers. Our partnership with Northamptonshire Healthcare NHS Foundation Trust has enabled us to develop our IT expertise within the health sector.

We are developing an IT and Systems Strategy for health partners which will enable us to create a Health and Care Systems Centre of Excellence.

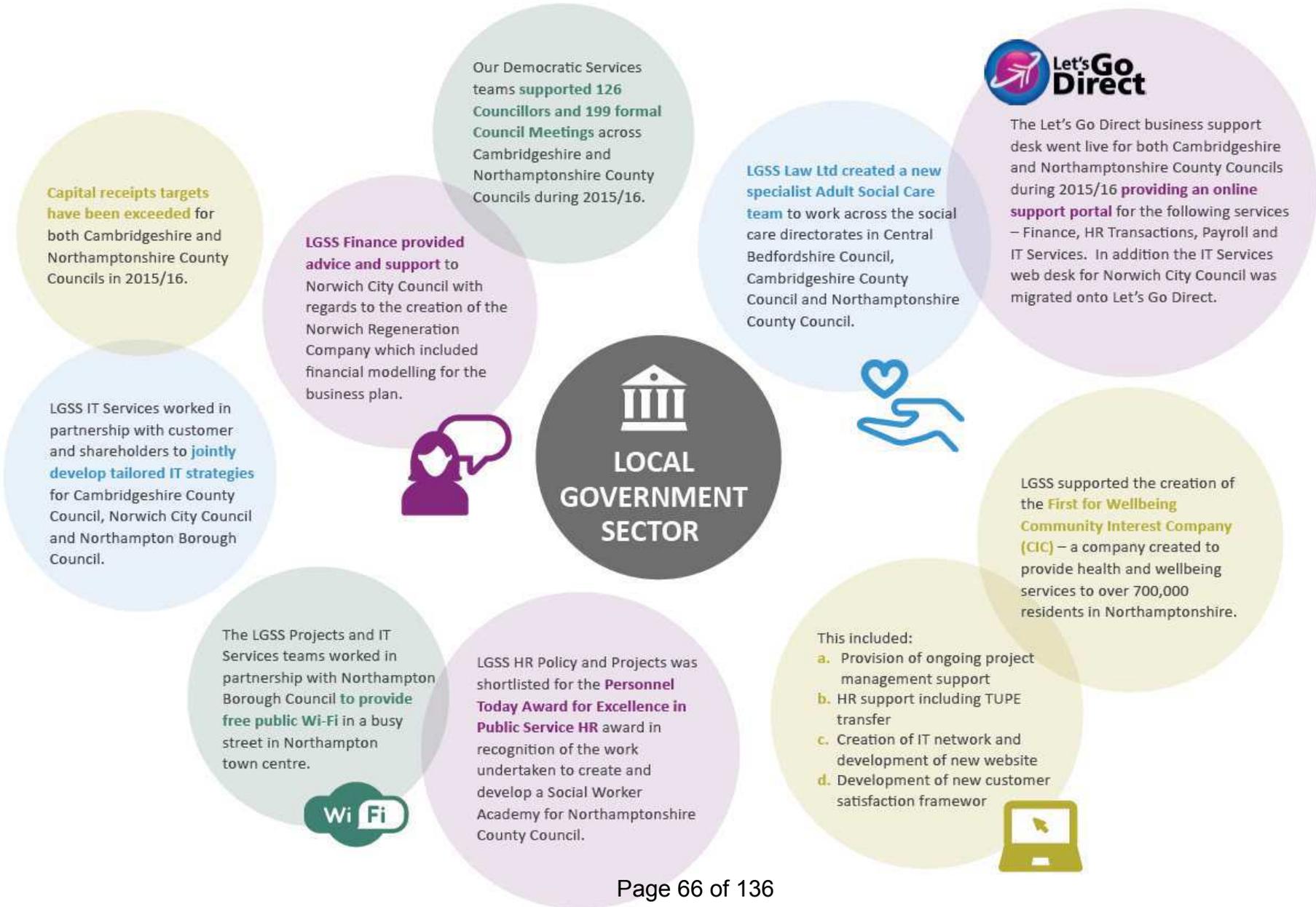
### **Pensions Upgrade**

Our Pensions Service are currently implementing the payroll module of the Altair pensions administration system. This will enable LGSS to offer a fully integrated payroll/administration solution to all customers and will create efficiencies such as reduced inter-system reconciliations.

It is anticipated that a merged payroll/admin database will be in place by March 2017. In addition there are plans to bring the hosting of the Altair platform in-house.

### **Legal Case Management system for LGSS Law Ltd**

We have selected our new case management system for LGSS Law Ltd, ICON, which will go live in early 2017.





**HEALTH AND CARE SECTOR**

LGSS Law Ltd has **commenced the delivery of services** for two Clinical Commissioning Groups (CCG) - Nene CCG and the Cambridgeshire and Peterborough CCG.



Following a successful tender process LGSS Law Ltd has been included on frameworks to **provide legal services** to the East and West Suffolk Clinical Commissioning Groups (CCG).

We launched Let's Go Direct, **our online customer service helpdesk solution**, in OCS, enabling members of staff to request help and support relating to services including HR and payroll, IT and Account Payable.



LGSS is midway through its **3 year contract with Olympus Care Services (OCS)** and has commenced development of a new offering for the new OCS business model which includes Adult Social Care services currently within Northamptonshire County Council.

Nene Clinical Commissioning Group renewed their contract with LGSS to undertake its Appointeeship and Deputyship service which **specifically supports people with Learning Disabilities** who receive continuing healthcare funding to enable them to live in their own home.



We commenced **provision of IT services** to support the delivery of Mental Health services in Bedford Prison.

During 2015/16 we worked with NHFT to **jointly develop an IT Strategy** and created a service catalogue to support new business growth and their IT needs going forward.



The partnership with NHFT will improve service capabilities and resilience for NHFT whilst also achieving **savings of up to £4.2 million over a 5 year period**. As part of this partnering arrangement 68 NHFT employees transferred to LGSS further expanding the skill set of LGSS IT Services.



LGSS signed a 5 year contract with Northamptonshire Healthcare NHS Foundation Trust (NHFT) to provide a Managed IT Service which sees **LGSS deliver IT services to over 4,000 NHFT employees** across Northamptonshire who in turn offer care to more than 700,000 people within the local community.



myEarly Learning

We developed an **Early Learning Pupil Premium eligibility checker** on the My Early Learning website, allowing parents and carers of 3 and 4 years olds to verify if they meet the eligibility criteria for free early learning places or access further funding for their child's nursery.

Since its launch 12 local authorities have signed up to use the My Early Learning website and during 2015/16 **over 6,000 applications were received through the portal.**



There are currently **92 schools and academies and two local authorities** signed up to use My Free School Meals which has resulted in over 10,000 successful applications.

We have continued to attract local authorities and academies to utilise our **My Free School Meals online solution** which allows local authorities and academies to verify that parents or carers meet the eligibility criteria for free school meals for their children.



EDUCATION SECTOR

**95% of Schools and Academies** renewed their service provision with LGSS for 2015/16.



We undertook a review of our Schools Service market offer and **revised and re-launched our Schools Brochure** for 2016/17.



We delivered **HR, Payroll, Finance and other ad-hoc services** to circa 300 schools and academies during 2015/16.

Overall User satisfaction with LGSS Services used by Schools and Academies remained at **99% satisfied for 2015.**



## LGSS Statement of Accounts 2015-16 Introduction

This Annual Report presents the financial statements for LGSS for the period 1 April 2015 to 31 March 2016 and gives a comprehensive summary of the overall financial position of LGSS, including LGSS Law Ltd. For the period covered by this annual report, LGSS had two shareholding partners (Cambridgeshire and Northamptonshire County Council), with Milton Keynes Council becoming a full legal partner on the 1 April 2016.

### 2015-16 Financial Outturn - LGSS

The financial outturn for LGSS was a £204k surplus for the financial year. As in previous years, challenging savings targets were incorporated into the budgets and whilst as a whole LGSS came in within budget, some service areas struggled to achieve the challenging targets, such as the trading account (£925k over budget).

This was more than offset by the over performance within the other service areas, such as finance (£600k under budget) and People, Transformation and Transactions (£565k under budget) through vacancy management and achieving one-off efficiencies during the year.

LGSS Operational Service Area	Expenditure	Income	Full Year	Full Year
	Budget	Budget	Budget	Variance
	£000	£000	£000	£000
Trading Account	2,507	(24,564)	(22,057)	925
Service Assurance	784	(16)	768	(73)
Finance	20,185	(9,244)	10,941	(600)
People, Transformation and Transactions	23,447	(2,961)	20,486	(565)
Information Technology	15,302	(2,433)	12,869	(107)
Law, Procurement and Governance	7,684	(5,658)	2,026	216
<b>Total LGSS</b>	<b>69,909</b>	<b>(44,876)</b>	<b>25,033</b>	<b>(204)</b>

Overall, the final position allowed an additional £20k to be added to the LGSS reserves (being the difference between the £204k surplus for the year and the utilisation of £184k of reserves in year), further strengthening the financial position of LGSS for the years ahead.

## 2015-16 Financial Outturn - LGSS

### Reserves Position

Unlike a local authority, LGSS does not seek to hold reserves as a contingency for unforeseen circumstances. Instead, reserves are held to invest in long term service improvement to continually improve the services that LGSS delivers, facilitating better outcomes for its customers.

In 2015-16, reserves of £184k were utilised to support the delivery of future efficiencies. Of the favourable outturn variance of £204k, £53k will be used to top-up the redundancy reserve, with the balance being used to invest in IT infrastructure, (£56k), and infrastructure for development of the Learning Pool – the online training system for all LGSS customers, (£95k).

	2011-12 Outturn £000	2012-13 Outturn £000	2013-14 Outturn £000	2014-15 Outturn £000	2015-16 Outturn £000
Brought Forward (1 April)	0	1,489	3,289	2,893	2,005
Reinvestment	0	(604)	(2,402)	(2,091)	(2,005)
Repayment to Norwich City Council	0	0	(184)	0	0
Distribution of prior year dividend	0	0	(700)	(700)	0
Actual Surplus	1,489	2,404	2,009	652	204
<b>Balance at 31 March</b>	<b>1,489</b>	<b>3,289</b>	<b>2,012</b>	<b>754</b>	<b>204</b>
Planned Reinvestment	0	0	881	1,251	1,821
<b>LGSS Reserves at 31 March</b>	<b>1,489</b>	<b>3,289</b>	<b>2,893</b>	<b>2,005</b>	<b>2,025</b>

### Use of Reserves in Year

Theme	2015-16 LGSS	Reserves Drawn Down £000	Re-allocation of Reserves £000	Allocation of	
	Reserves £000			2015-16 Surplus £000	2016-17 Carry Forward £000
Reinvestment in Services	1,198	184	(68)	151	1,097
Smoothing	753	0	0	0	753
Redundancy	54	0	68	53	175
<b>Total LGSS Reserves</b>	<b>2,005</b>	<b>184</b>	<b>0</b>	<b>204</b>	<b>2,025</b>

In 2015-16, there was no requirement to draw down the Smoothing reserve, and therefore the balance has been carried forward to 2016-17

In 2015-16, Directors have been able to manage or absorb redundancy costs with their own service budgets, therefore there were no calls on the redundancy reserve in year. The redundancy reserve has been topped up to £175k for 2016-17 to support further service transformation in 2016-17 and going forward.

## 2015-16 Financial Outturn– LGSS Law



2015 was an important year for LGSS Law as the company was launched and commenced trading on 1st April. In common with many start up years it proved to be an eventful one and ultimately very successful. The first 12 months have been a period of significant transition and challenge in establishing a brand new law firm and putting in place all the necessary systems and governance to ensure that the services on offer are at least as robust and cost effective as any other provider in this sector.

Notwithstanding the fact of this being a very busy 12 months LGSS Law has delivered a number of positive results for its owners in the form of an increase in the number and quality of external clients and succeeding in being selected as merger partner of choice for the provision of Central Bedfordshire’s legal advice and support. The merger with Central Bedfordshire Council Legal will boost turnover by £2.3 million in 16-17 and provide additional capacity and geographical reach to further develop the business. LGSS Law also delivered a net benefit of around £1 million to its founding owners through cost reductions and profit generated.

In addition, the service continued to improve and received some very positive customer feedback in the annual survey.

### Financial Performance

During the its first year of operation, LGSS Law delivered a small net profit (excluding pensions adjustments) on turnover of more than £5.5m

The cost of delivering the LGSS Law service falls substantially upon its trained legal staff, with a mixture of PAYE, Agency and Direct Contract staff used to deliver the income and in total 129 fee earners were involved during the year.

The Balance Sheet shows that the company has a only few fixed assets – mainly IT equipment- and £1,464,000 in its bank account. Much of the bank account will be used to pay VAT and PAYE liabilities of £530,000 and Trade Creditors of £149,000 leaving £785,000 for other uses. This shows that the company is in a healthy short term financial position.

LGSS Law - Underlying Profit & Loss Statement (Excl. Pension Adjustments)	
	£000
Income	5,627
Cost of Services	4,131
<b>Gross Profit</b>	<b>1,496</b>
Overheads	1,491
<b>Net Profit before Tax</b>	<b>5</b>

## Independent auditor's report to the members of LGSS

Left blank to insert auditor's report

## Independent auditor's report to the members of LGSS

Left blank to insert auditor's report

## Statement Of Responsibilities And Certificate Of Accounts

### LGSS's Responsibilities

LGSS is required to:

- Make arrangements for the proper administration of its financial affairs and to ensure that one of its officers has the responsibility for the administration of those affairs. In this entity, that officer is the Director of Finance;
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;
- Approve the Annual Report (Statement of Accounts and Annual Governance Statement).

I confirm that the Annual Report (Statement of Accounts and Annual Governance Statement) were approved by the LGSS Joint Committee at its meeting on the 19<sup>th</sup> January 2017.

Councillor  
Chairman of the LGSS Joint Committee  
Date: 19th January 2017

### The Director Of Finance's Responsibilities

The Director of Finance is responsible for the preparation of the business's statement of accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

In preparing this statement of accounts, the Director of Finance has:

- Selected suitable accounting policies and then applied them consistently;
- Made judgements and estimates that were reasonable and prudent;
- Complied with the Code.

The Director of Finance has also:

- Kept proper accounting records which were up to date;
- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

### Certificate of Accounts

I certify that this Annual Report (Statement of Accounts and Annual Governance Statement) presents a true and fair view of the financial position of LGSS at 31 March 2016 and its income and expenditure for the year ended 31 March 2016, and authorise the accounts for issue.

Matt Bowmer  
LGSS Director of Finance  
Date: 19th January 2017  
Page 74 of 136

**The Core Financial Statements**

The Core Financial Statements are set out over the following five pages, and are prepared under the appropriate accounting standards relating to each entity. The statements contain the appropriate level of detail to ensure they provide a meaningful comprehensive summary of the financial position of LGSS.

**Comprehensive Income and Expenditure Statement**

<b>2014-15</b>	<b>2014-15</b>	<b>2014-15</b>		<b>2015-16</b>	<b>2015-16</b>	<b>2015-16</b>
<b>Gross</b>	<b>Gross</b>	<b>Net</b>		<b>Gross</b>	<b>Gross</b>	<b>Net</b>
<b>Expenditure</b>	<b>Income</b>	<b>Expenditure</b>		<b>Expenditure</b>	<b>Income</b>	<b>Expenditure</b>
<b>£000</b>	<b>£000</b>	<b>£000</b>		<b>£000</b>	<b>£000</b>	<b>£000</b>
65,822	(65,531)	291	Financing and Investment Income & Expenditure - LGSS	69,389	(69,409)	(20)
0	0	0	Financing and Investment Income & Expenditure - LGSS Law	5,289	(5,294)	(5)
<b>65,822</b>	<b>(65,531)</b>	<b>291</b>		<b>74,678</b>	<b>(74,703)</b>	<b>(25)</b>

This statement shows the cost of providing LGSS services, prepared under the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Local Authority Accounting 2015-16, which are based on International Financial Reporting Standards (IFRS). This is in line with the preparation of the annual accounts for both Northamptonshire and Cambridgeshire County Councils.

The 2015-16 income and expenditure statement shows a surplus of £25k, for the LGSS group, with £20k relating to the trading activity of LGSS and a surplus relating to the trading activity of LGSS Law of £5k, a limited company that started trading on 1 April 2015. The £25k has been added to the reserves of the LGSS group, with £20k added to the LGSS Reserve, and the £5k being added to the LGSS Law retained profit reserve.

The 2015-16 financial position represents an improvement on the financial position in 2014-15, where a £291k deficit was posted.

**Comprehensive Income and Expenditure Statement Continued**

In order to meet the requirements of the Code of Practice the Comprehensive Income and Expenditure Statement only allows one line per entity because both LGSS and LGSS Law exist as trading entities.

In order to facilitate greater understanding of these financial statements, the same figures have been shown against the same headings that are included with the internal reporting that is presented to Joint Committee periodically.

**Income and Expenditure as per Outturn Report 2015-16**

<b>14-15</b>		<b>Gross</b>	<b>External</b>	<b>Internal</b>	<b>Net</b>		<b>15-16</b>
<b>Variance</b>		<b>Expenditure</b>	<b>Income</b>	<b>Income</b>	<b>Budget</b>	<b>Outturn</b>	<b>Variance</b>
<b>£000</b>		<b>Budget</b>	<b>Budget</b>	<b>Budget</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
		<b>£000</b>	<b>£000</b>	<b>£000</b>			
536	Trading Account	2,507	(24,560)	(4)	(22,057)	(21,132)	925
99	Service Assurance	784	0	(16)	768	695	(73)
(321)	Finance	20,101	(7,458)	(1,786)	10,857	10,357	(500)
110	People, Transformation and Transactions	23,447	(1,777)	(1,184)	20,486	19,921	(565)
(82)	Information Technology	15,202	(302)	(2,131)	12,769	12,746	(23)
(51)	Law, Property and Governance	7,684	(1,036)	(4,622)	2,026	2,242	216
<b>291</b>	<b>Total LGSS</b>	<b>69,725</b>	<b>(35,133)</b>	<b>(9,743)</b>	<b>24,849</b>	<b>24,829</b>	<b>(20)</b>
0	LGSS Law	5,289	(5,289)	0	0	(5)	(5)
<b>0</b>	<b>Total LGSS Group</b>	<b>75,014</b>	<b>(40,422)</b>	<b>(9,743)</b>	<b>24,849</b>	<b>24,824</b>	<b>(25)</b>

A further breakdown of the figures from the income and expenditure statement is shown in Note 8, which splits the figures between the cost of services provided to NCC and CCC, and trading with external partners through Partnership and Delegation agreements.

## Balance Sheet

This statement presents the value of the assets and liabilities recognised by LGSS as at 31 March 2016.

The Balance Sheet therefore represents debtors, creditors and cash as a result of the activities carried out by LGSS. There are net assets of £2,030k attributable to the LGSS Group as at 31 March 2016.

The value of non-current assets of £1k relates to a small level of capital expenditure, for the start-up expenditure incurred when LGSS Law began trading. Assets used by LGSS to deliver services are owned by the respective host authorities.

Included within the LGSS Group Balance sheet is a loan facility between LGSS Law and Northamptonshire County Council, of which £950k was outstanding at the Balance Sheet date. In addition, as a member of the local government pension scheme, LGSS Law is required to recognise the associated pension liability within its balance sheet. At the 31<sup>st</sup> March 2016, this liability was valued at £466k.

<b>31-Mar-15 LGSS Group £000</b>		<b>31-Mar-16 LGSS £000</b>	<b>31-Mar-16 LGSS Group £000</b>
	<b>0 Non Current Assets</b>	<b>0</b>	<b>1</b>
4,194	Short Term Debtors (Note 4)	7,077	9,566
1,630	Cash and Cash Equivalents	0	1,465
<b>5,824</b>	<b>Current Assets</b>	<b>7,077</b>	<b>11,031</b>
(3,533)	Short Term Creditors (Note 5)	(4,168)	(6,702)
(286)	Provisions (Note 6)	(221)	(221)
0	Cash and Cash Equivalents	(661)	(661)
<b>(3,819)</b>	<b>Current Liabilities</b>	<b>(5,051)</b>	<b>(7,585)</b>
0	Long Term Creditors	0	(950)
0	Pension fund Liability (Note 15)	0	(466)
<b>0</b>	<b>Non Current Liabilities</b>	<b>0</b>	<b>(1,416)</b>
<b>2,005</b>	<b>Net Assets</b>	<b>2,025</b>	<b>2,030</b>
2,005	Usable Reserves (Note 7)	2,025	2,030
0	Unusable Reserves	0	0
<b>2,005</b>	<b>Total Reserves</b>	<b>2,025</b>	<b>2,030</b>

### Movement in Reserves Statement

	LGSS Reserve £000	Earmarked Reserves £000	LGSS Law Retained Profit £000	Useable Reserves Total £000
<b>Balance at 31-Mar-14</b>	<b>2,193</b>	<b>103</b>	<b>0</b>	<b>2,296</b>
Movement in 2014-15:				
Surplus/(Deficit) on the provision of services	(291)	0	0	<b>(291)</b>
Other Comprehensive Income and Expenditure	0	0	0	<b>0</b>
<b>Total comprehensive income and expenditure</b>	<b>(291)</b>	<b>0</b>	<b>0</b>	<b>(291)</b>
Transfers to/(from) earmarked reserves (note 7)	103	(103)	0	<b>0</b>
<b>Increase/(decrease) in 2014-15</b>	<b>(188)</b>	<b>(103)</b>	<b>0</b>	<b>(291)</b>
<b>Balance at 31-Mar-15</b>	<b>2,005</b>	<b>0</b>	<b>0</b>	<b>2,005</b>
Movement in 2015-16:				
Surplus/(Deficit) on the provision of services	20	0	5	25
Other Comprehensive Income and Expenditure	0	0	0	0
<b>Total comprehensive income and expenditure</b>	<b>20</b>	<b>0</b>	<b>5</b>	<b>25</b>
Transfers to/(from) earmarked reserves (note 7)	0	0	0	0
<b>Increase/(decrease) in 2015-16</b>	<b>20</b>	<b>0</b>	<b>5</b>	<b>25</b>
<b>Balance at 31-Mar-16</b>	<b>2,025</b>	<b>0</b>	<b>5</b>	<b>2,030</b>

This statement shows the movement in the year on the different reserves held by LGSS. All reserves held by LGSS at the 31 March 2016 are useable reserves.

There has been an increase of £20k in the LGSS Operational Reserve during the period. The LGSS Operational Reserve is the primary reserve, which is used to hold accumulated surplus/deficits on the provision of services, and to release funding back in to the service as reinvestment.

As LGSS Law Ltd is operating as a private limited company, a retained profit reserve has been created. This reserve can be used by LGSS Law to retain profits each year to re-invest in future years, or return to its shareholders as a dividend. On the 31 March 2016, this reserve stood at £5k.

### Cash Flow Statement

2014-15 LGSS Group £000		2015-16 LGSS £000	2015-16 LGSS Group £000
(291)	Net surplus/(deficit) on the provision of services	20	25
	Adjust net surplus/deficit on the provision of services for non cash movements:		
5,346	(Increase) / Decrease in debtors	(2,883)	(5,372)
(15)	Increase / (Decrease) in creditors	635	4,585
(80)	Increase / (Decrease) in provisions	(65)	(65)
<b>5,251</b>		<b>(2,313)</b>	<b>(852)</b>
	<b>4,960 Net increase or (decrease) in cash and cash equivalents</b>	<b>(2,293)</b>	<b>(827)</b>
(3,330)	Cash and cash equivalents at the beginning of the reporting period	1,630	1,630
	<b>1,630 Cash and cash equivalents at the end of the reporting period</b>	<b>(661)</b>	<b>804</b>

The cash flow statement shows the changes in cash and cash equivalents of LGSS during the reporting period. The statement shows how LGSS generates and uses cash and cash equivalents for operating activities.

Cash and cash equivalents for LGSS have decreased during the period by £2,487k. Cash is held within the bank accounts of the two founding Councils.

For LGSS Law Ltd, in its first year of trading has a cash balance of £1,465k at the balance sheet date.

## Notes to the Group Accounts

### 1. Group Boundary

LGSS Law Ltd was incorporated on the 3<sup>rd</sup> June 2014 and commenced trading on the 1 April 2015. The share capital of the company is split 50/50 between Northamptonshire County Council, and Cambridgeshire County Council, consistent with the ownership split for the main LGSS entity in 2015-16.

LGSS Law Limited is the only subsidiary of LGSS for accounting purposes, and has been consolidated into the LGSS Group Accounts.

### 2. Basis of Consolidation

The financial statements of LGSS Law Ltd have been consolidated with those of LGSS on a line by line basis; which has eliminated in full balances, transactions, income and expenses between LGSS and its subsidiary.

### 3. Business Activities of the Subsidiaries

LGSS Law Ltd is a provider of legal services, primarily to the public sector. In its first year, LGSS Law provided over 75,000 hours of high quality legal advice in a wide range of areas to over 100 public sector clients.

### 4. Accounting Policies

In preparing the group accounts, LGSS has ensured that the accounting policies of LGSS and LGSS Law are aligned (as detailed overleaf). The accounting policies for LGSS and LGSS Law are the same, with the exception of the following three policies which are applicable solely to LGSS Law:

**Pension Accounting** – LGSS Law is an admitted body to the Northamptonshire and Cambridgeshire Local Government Pension Schemes, and therefore as a result is required to account for any associated pension liabilities/benefits accrued as a result of membership of the pension scheme as outlined in FRS102.

However, both Northamptonshire County Council and Cambridgeshire County Council have guaranteed any pension liability, resulting in a matching asset being recognised if the pension schemes are in deficit.

**Corporation Tax** – As a public sector entity, LGSS is not liable to pay corporation tax on any surplus that it makes during a year. Conversely, LGSS Law is a private limited company, and therefore is subject to the normal business taxes applicable to an organisation trading in the United Kingdom.

The LGSS Law policy for accounting for Corporation Tax is below:-

Corporation Tax is accounted for in the year in which the trading surplus have taken place (after the application of capital allowances and the use of trading loss carry forwards, where appropriate).

As Corporation Tax is paid in the following financial year, the pre-audited estimated corporation tax liability is provided for by the raising of an accrual.

**Property, Plant and Equipment (PPE)** – LGSS utilises the assets of its customers in order to deliver services where appropriate, therefore has no ownership rights over PPE assets, which means that it has no PPE accounting policy.

The LGSS Law policy for accounting for PPE is below:-

All Non Current Assets to be depreciated over 5 years, with assets only to be revalued where it is expected the carrying value of the asset is materially different from its fair value.

### 5. Consolidation of the Group Accounts

Where applicable, figures relating to the LGSS Group and LGSS are provided side by side to highlight where the Group figures are different from the core LGSS entity. However, where there is no material benefit of including the information in the notes to the accounts, only the LGSS figure is shown.

# 1 Accounting Policies

## 1.1 General Principles

The Statement of Accounts summarises LGSS's financial position for the year ended 31 March 2016.

LGSS has prepared these Statement of Accounts in accordance with the Accounts and Audit Regulations 2015. These regulations require the Statement of Accounts to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2015-16 (the Code)

In order to reflect statutory conditions, accounting standards are amended for specific statutory adjustments so that the accounts present a true and fair view of the financial position and transactions of LGSS. All accounting policies are disclosed where they are material.

## 1.2 Qualitative Characteristics of Financial Statements

### 1.2.1 Relevance

The accounts have been prepared with the objective of providing information about LGSS's financial performance and position that is useful for assessing the stewardship of public funds and for making financial decisions.

### 1.2.2 Reliability

The financial information is reliable as it has been prepared so as to reflect the reality or substance of the transaction, is free from deliberate or systematic bias, is free from material error and has been prudently prepared.

### 1.2.3 Understandability

These accounts are based on accounting concepts and terminology which require reasonable knowledge of accounting and local government. Every effort has been made to use plain language and where technical terms are unavoidable they have been explained in the glossary contained within the accounts.

### 1.2.4 Materiality

The concept of materiality has been utilised in preparing the accounts so that insignificant items and fluctuations under an acceptable level of tolerance are permitted, provided that in aggregate they would not affect the interpretation of the accounts.

## 1.3 Underlying Assumptions

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the Statement of Accounts and the reported amounts of income and expenditure during the reporting period. Actual results could differ from those estimates.

Where it is necessary to choose between different estimation techniques, LGSS selects whichever method is judged to be the most appropriate to its particular circumstances for the purposes of presenting the financial position in the accounts fairly. Estimates are used for debtors and creditors where invoices have yet to be issued or received.

## 1.3.1 Accrual of Income and Expenditure

The financial statements, other than the cash flow, are prepared on an accrual basis. Income and expenditure is recognised in the accounts in the period in which it is earned or incurred, not as cash is received or paid. In particular:

- Revenue from the provision of services is recognised when LGSS can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to LGSS.
- Supplies are recorded as expenditure when they are consumed.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

### 1.3.2 Going Concern

The accounts have been prepared on the assumption that LGSS will continue in existence for the foreseeable future.

## 1 Accounting Policies Cont.

### 1.4 Detailed Accounting Policies

#### 1.4.1 Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours and investments whose maturity date is three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand.

#### 1.4.2 Exceptional Items

When items of income and expense are material, their nature and amount is disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement or in the notes to the accounts, depending on how significant the items are to an understanding of LGSS's financial performance.

#### 1.4.3 Provisions

Provisions are made where an event has taken place that gives LGSS a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential and a reliable estimate can be made of the amount of the obligation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that LGSS becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it

becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if LGSS settles the obligation.

#### 1.4.4 Reserves

LGSS sets aside specific amounts as reserves for future policy and business purposes or to protect against unexpected events. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service revenue account in that year, to be recorded against the Net Cost of Services in the Comprehensive Income and Expenditure Account. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against Council tax for the expenditure.

LGSS Reserves include:

- Earmarked reserves, which are set aside for specific purposes.
- General reserves, which are set aside for unexpected events.

#### 1.4.5 Revenue Grants and Contributions:

Revenue grants and contributions are matched in the Comprehensive Income and Expenditure Statement to the service expenditure to which they relate. Revenue grants received in advance of entitlement or meeting of conditions are treated as creditors (receipt in advance) until such time as they can be justifiably recognised as income and credited to the Comprehensive

Income and Expenditure Statement. Grants to cover general expenditure are credited to the Comprehensive Income and Expenditure Statement after Net Cost of Services.

#### 1.4.6 Employment Benefits

##### I. Benefits payable during employment

Short term employee benefits are those due to be settled within 12 months of the year end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, for current employees and are recognised as an expense for services in the year in which employees render service to LGSS.

##### II. Termination Benefits

Termination benefits are amounts payable as a result of a decision by LGSS to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy and are charged on an accruals basis to the relevant service line (or in discontinued operations) in the Comprehensive Income and Expenditure Statement when LGSS is demonstrably committed to the termination of the employment of an officer or group of officers or making an offer to encourage voluntary redundancy.

##### III. Post Employment Benefits

###### Local Government Pension Scheme

Contributions to the Local Government Pension Scheme payable during the period are charged to the Comprehensive Income and Expenditure Statement where employees are members of the scheme. However, as LGSS staff are formally employed by either Northamptonshire County Council or Cambridgeshire County Council the net pensions liability/asset is shown within the host authority's Statement of Accounts. Therefore no pensions liability/asset is recognised within LGSS's balance sheet.

## 1 Accounting Policies Cont.

### 1.4.7 Discretionary Benefits

LGSS has no powers to make discretionary awards of retirement benefits in the event of early retirements, with such powers remaining with the respective County Councils. However, any liabilities estimated to arise as a result of an award to any member of staff will be accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

### 1.4.8 Value Added Tax (VAT)

The Comprehensive Income and Expenditure Statement excludes any amounts related to VAT, as all VAT collected is payable to HM Revenue & Customs and all VAT paid is recoverable from them.

### 1.4.9 Events after the Reporting Period

Events after the balance sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- Those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events.
- Those that are indicative of conditions that arose after the reporting period – the Statement of Accounts are not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

## 2. Accounting standards that have been issued but have not yet been adopted

The standards which have been introduced by the 2016-17 Code and will be effective from 1 April 2016 are not anticipated to have any impact on the LGSS financial statements. These are as follows:

- **Amendments to IAS 19 *Employee Benefits (Defined Benefit Plans: Employee Contributions)***
- **Annual Improvements to IFRSs 2010 – 2012 Cycle Amendment to IFRS 11 *Joint Arrangements (Accounting for Acquisitions of Interests in Joint Operations)***
- **Amendment to IAS 16 *Property, Plant and Equipment and IAS 38 Intangible Assets (Clarification of Acceptable Methods of Depreciation and Amortisation)***
- **Annual Improvements to IFRSs 2012 – 2014 Cycle (see Appendix B of the ITC on the 2016/17 Code for further details)**
- **Amendment to IAS 1 *Presentation of Financial Statements (Disclosure Initiative)***
- **The changes to the format of the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement and the introduction of the new Expenditure and Funding Analysis**
- **The changes to the format of the Pension Fund Account and the Net Assets Statement.**

### 3. Critical judgements in applying accounting policies

In applying the accounting policies set out in Note 1, LGSS has been required to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Annual Report (Statement of Accounts and Annual Governance Statement) are in respect of:

#### **Presentation of the Comprehensive Income and Expenditure Statement (CIES)**

The Accounts have been prepared using the CIPFA Code of Practice on Local Authority Accounting (the Code). The internal management reporting structure has been used to present the Income and Expenditure statement, as this reflects the profit centres that operate within LGSS

As LGSS is operating in a commercial environment all activity has been treated as trading activity; both with the founding authorities, Northamptonshire County Council and Cambridgeshire County Council, and with other partner bodies through Partnership and Delegation Agreements.

**IAS19 / Pensions liabilities** – As LGSS is not a separate legal entity staff are formally employed by either of the two founding authorities, Northamptonshire County Council or Cambridgeshire County Council, and are entitled to join the Local Government Pension Scheme (LGPS). LGPS is a defined benefit plan. As LGSS itself is not an admitted body to LGPS it is not possible for LGSS to accurately identify its share of the underlying financial position and performance of the plan with sufficient reliability for accounting purposes. As such, the scheme has been accounted for as a defined contribution scheme within the LGSS accounts. Pension contributions paid during the period have been recognised within the income statement.

Contributions paid during the year are shown in Note 14. There is no pensions liability or pensions reserve shown within the LGSS balance sheet. The net pensions asset/liability and pensions reserve is shown within each authority's Statement of Accounts, depending on where the staff are formally employed. Similarly, IAS19 disclosures are shown within the Statement of Accounts of each authority.

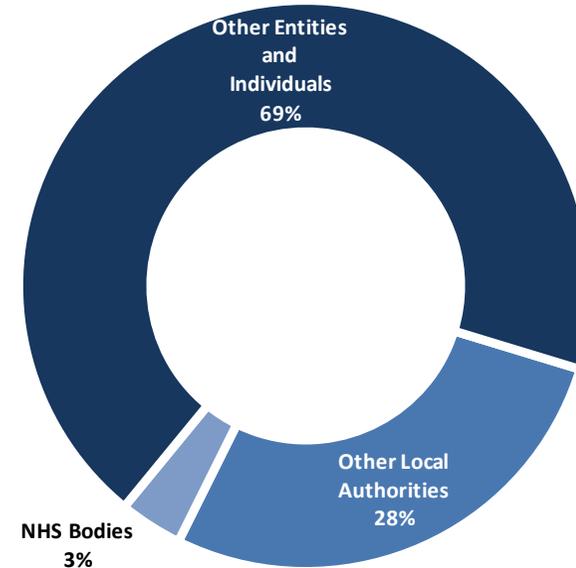
However, as LGSS Law is a separate legal entity as well as being an admitted member of the Northamptonshire and Cambridgeshire Local Government pension schemes, it is required to record its pension liability/asset on its balance sheet, as outlined in the notes to the group accounts on page 26.

**Fixed Assets** – Assets are resources controlled by an entity as a result of past events and from which future economic benefits are expected to flow to the entity. As LGSS is not a separate legal entity it does not own any fixed assets. Fixed assets are owned by the host authorities and partner authorities, who direct and control their use. LGSS does not have sole use, as the assets are also used by the host authorities and partner authorities, so the criteria for them to be accounted for as finance leases has not been met. Consequently these fixed assets are included within the statutory accounts of the relevant authority and no fixed assets are included within the LGSS accounts.

**LGSS Activity** – The LGSS accounts included activity related to LGSS operational budgets. Operational budgets encompass day to day LGSS activity and transactions with third parties. There are also managed budgets which LGSS administers on behalf of the partner organisations for which LGSS has or receives no benefit. Activity related to these managed budgets is included within the relevant organisation's statutory accounts and consequently is not included within the LGSS accounts.

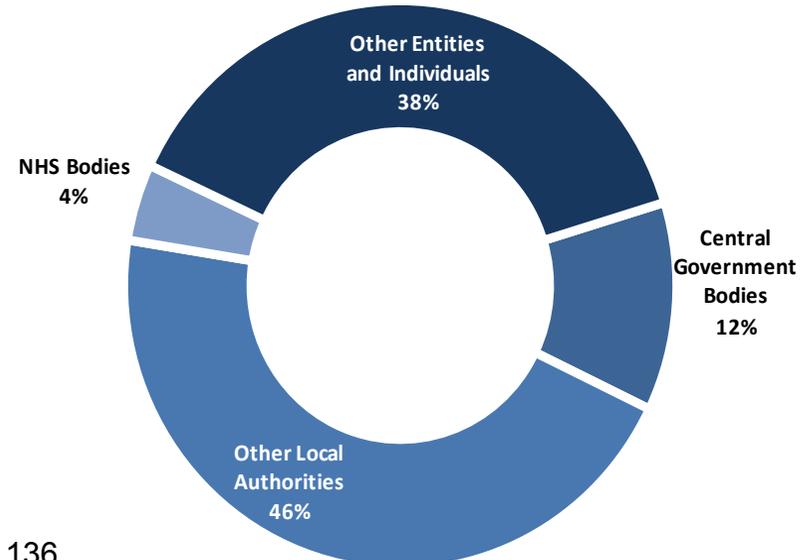
### 4 Debtors and Payments in Advance

2014-15 LGSS Group £000		2015-16 LGSS Group £000	2015-16 LGSS Group £000
-	Central Government Bodies	0	0
3,296	Other Local Authorities	1,953	2,535
14	NHS Bodies	253	253
885	Other Entities and Individuals	4,870	6,777
<b>4,195</b>	<b>Total Short Term Debtors</b>	<b>7,077</b>	<b>9,566</b>



### 5 Short Term Creditors and Receipts in Advance

2014-15 LGSS Group £000		2015-16 LGSS Group £000	2015-16 LGSS Group £000
(210)	Central Government Bodies	(544)	(545)
(2,209)	Other Local Authorities	(2,082)	(3,558)
0	NHS Bodies	(201)	(201)
(1,114)	Other Entities and Individuals	(1,757)	(2,814)
<b>(3,533)</b>	<b>Total Short Term Creditors</b>	<b>(4,584)</b>	<b>(7,118)</b>



### 6 Provisions

2014-15 LGSS £000	2015-16 LGSS £000
(366) Opening Provision	(286)
80 Provision Utilised in Year	65
<b>(286) Closing Provision</b>	<b>(221)</b>

LGSS has a provision for the potential redundancies that are required in order to deliver the required savings in relation to the contracts that it operates. In the 2015-16 financial year, £65k was drawn down, leaving a total provision of £221k at the balance sheet date.

At the balance sheet date, no provisions for LGSS Law Ltd were in place.

### 7 Transfers to/from Earmarked Reserves

	Opening Balance April 2014 £000	Transfers to Reserve £000	Transfers from Reserve £000	Closing Balance March 2015 £000
LGSS Operational Reserve	2,193	653	(841)	2,005
Cambridge Specific Reserves	103	0	(103)	0
LGSS Law Retained Profit	0	0	0	0
<b>Total LGSS Group Reserves</b>	<b>2,296</b>	<b>653</b>	<b>(944)</b>	<b>2,005</b>

	Opening Balance April 2015 £000	Transfers to Reserve £000	Transfers from Reserve £000	Closing Balance March 2016 £000
LGSS Operational Reserve	2,005	204	(184)	2,025
Cambridge Specific Reserves	0	0	0	0
LGSS Law Retained Profit	0	5	0	5
<b>Total LGSS Group Reserves</b>	<b>2,005</b>	<b>209</b>	<b>(184)</b>	<b>2,030</b>

## 8 Trading Operations

Trading Operation figures are shown in the table below.

Services provided to the founding authorities, Northamptonshire County Council and Cambridgeshire County Council are shown separately to trading with other partners including Partnership and Delegation Agreements.

Expenditure			Income (Surplus)/Deficit		
2014-15	2014-15	2014-15	2015-16	2015-16	2015-16
£000	£000	£000	£000	£000	£000
47,614	(45,816)	1,798	52,299	(50,631)	1,668
		<b>With NCC/CCC</b>			
		<b>With other Partners (Partnership &amp; Delegation agreements)</b>			
18,209	(19,715)	(1,506)	22,378	(24,072)	(1,693)
<b>65,823</b>	<b>(65,531)</b>	<b>292 Total</b>	<b>74,678</b>	<b>(74,703)</b>	<b>(25)</b>

Expenditure recorded between NCC/CCC and LGSS increased by £5.1m during the reporting period, with income increasing by £5.2m, resulting in an improvement on the deficit recorded to £1.7m for 2015-16.

During the same timescale, however, LGSS have been able to increase the trading activity with other partners, with income received from these sources increasing by £3.1m over the last year. However, expenditure has increased by £2.9m in order to deliver these contracts, therefore there is relatively small increase to the trading surplus achieved in 2015-16.

Taking both sources as a whole, LGSS and LGSS Law delivered a surplus of £25k, which is an improvement on the small deficit achieved in 2014-15 and consistent with the LGSS trading strategy.

## 9 Officers Remuneration

### Disclosure of remuneration for senior employees.

Senior employees are the LGSS Managing Director and LGSS Directors. Staff are employees of the host authorities, rather than LGSS itself.

The figures below include salary costs, expenses (travel and subsistence) and employer pension contributions.

Post holder information	Payroll	Notes	Basic	Honorarium	Allowances	Total	Pension	Total Remuneration
			Salary		& Expenses	Remuneration	contributions	including pension
			£000	£000	£000	excluding	£000	contribution
						pension		£000
						contribution		
LGSS Managing Director	NCC	2015-16	133		4	<b>137</b>	16	<b>153</b>
		2014-15	132		3	<b>135</b>	16	<b>151</b>
LGSS Director of People, Transformation & Transactional Services	NCC	2015-16	121	19	1	<b>141</b>	18	<b>159</b>
		2014-15	122		1	<b>123</b>	16	<b>139</b>
LGSS Director of Finance and Section 151 Officer	NCC	2015-16	116	3	1	<b>120</b>	15	<b>135</b>
		2014-15	115	3	1	<b>119</b>	15	<b>134</b>
LGSS Director of Law and Property and Governance	LGSS Law	2015-16	107		2	<b>109</b>	24	<b>133</b>
		2014-15	96		2	<b>98</b>	19	<b>117</b>
LGSS Director of IT	NCC	2015-16	114	13	3	<b>130</b>	15	<b>145</b>
		2014-15	112		1	<b>113</b>	22	<b>135</b>

### Notes

- a) Salary paid is dependent on length of service and performance
- b) The honorarium payment to the Director of People, Transformation & Transactional Services includes an amount (£9k) relating to work undertaken in 2014-15 that was paid in the 2015-16 financial year.

### 9 Officers Remuneration

The numbers of employees whose remuneration, taxable expenses and severance pay (if applicable) was £50,000 or more during the year are detailed below:

2014-15 LGSS Group	Pay Band	2015-16 LGSS	2015-16 LGSS Group
9	£50,000 - £54,999	10	11
8	£55,000 - £59,999	7	8
3	£60,000 - £64,999	5	6
4	£65,000 - £69,999	5	5
2	£70,000 - £74,999	1	2
5	£75,000 - £79,999	2	2
3	£80,000 - £84,999	4	4
4	£85,000 - £89,999	4	4
0	£90,000 - £94,999	0	0
2	£95,000 - £99,999	1	1
0	£100,000 - £104,999	1	1
0	£105,000 - £109,999	0	1
1	£110,000 - £114,999	0	0
1	£115,000 - £119,999	2	2
1	£120,000 - £124,999	0	0
0	£125,000 - £129,999	1	1
1	£130,000 - £134,999	0	0
0	£135,000 - £139,999	1	1
<b>44</b>		<b>44</b>	<b>49</b>

### 10 Termination Benefits

Total number of exit packages by cost band		Total cost of exit packages in each band (including special payments)		Total Number of exit packages by cost band		Total cost of exit packages in each band	
2014-15 LGSS		2014-15 LGSS		2015-16 LGSS		2015-16 LGSS	
		£000				£000	
8	78	£0-£20,000		18	158		
3	90	£20,001 - £40,000		5	138		
<b>11</b>	<b>168</b>	<b>Total cost included in bandings</b>		<b>23</b>	<b>296</b>		

### 11 Transactions with Related Parties

LGSS’s related parties are the shareholding authorities (Northamptonshire and Cambridgeshire County Council), and also LGSS Law who are consolidated into the LGSS Group accounts.

#### Northamptonshire and Cambridgeshire County Councils

Both authorities allocate funding to LGSS by identifying budgets within their budgeting processes. The LGSS Budget for each authority is shown in the table below.

By identifying budget within the County Council budgets, no cash transactions take place and therefore there were no amounts outstanding on the 31<sup>st</sup> March 2016

#### LGSS Law

As LGSS Law is consolidated into the LGSS accounts, the intercompany transactions between the two entities are outlined below. All transactions between LGSS and LGSS Law are invoiced, with LGSS Law raising invoices on a monthly basis for legal services delivered to its customers.

2014-15 Budget Allocated	2015-16 Budget Allocated
£000	£000
10,473	10,085
Cambridgeshire County Council	
12,860	14,764
Northamptonshire County Council	
<b>23,333</b>	<b>24,849</b>

	Amount Invoiced	Outstanding at the 31st March 2016
	£000	£000
Support Services Charged to LGSS Law	150	150
Legal Services Charged to LGSS	(333)	(123)
	<b>(183)</b>	<b>27</b>

## 12 Events after the Balance Sheet Date

On the 1 April 2016, Milton Keynes Council legally became a full partner of LGSS and a member of the joint committee. Milton Keynes Council will hold an equal number of shares as Northamptonshire and Cambridgeshire County Councils, with any dividends awarded being allocated based on the number of shares held.

Also as at the 1 April 2016, 50 LGSS Law Ltd shares were allocated to Central Bedfordshire Council, to allow them to become joint owners of LGSS Law Ltd along with Northamptonshire County Council and Cambridgeshire County Council. The additional shareholder is expected to lead to an additional £1.7m in income, with 35 lawyers and 5 support staff transferring into LGSS Law from Central Bedfordshire. The LGSS Law Ltd Articles of Association were also refreshed on the 1 April 2016, to incorporate the third shareholder and the impact on the decision making processes.

## 13 External Audit Costs

2014-15	2015-16
LGSS	LGSS
£000	£000
KPMG LLP - audit services carried out by the 23 appointed auditor	25
KPMG LLP - Audit Work relating to 2014/15	31
<b>23 Total External Audit Costs</b>	<b>56</b>

## 14 Pension Schemes accounted for as defined contribution schemes

LGSS staff are formally employed by either Northamptonshire County Council or Cambridgeshire County Council and are entitled to join the Local Government Pension Scheme (LGPS). LGPS is a defined benefit scheme.

As LGSS itself is not an admitted body to LGPS it is not possible for LGSS to accurately identify its share of the underlying financial position and performance of the plan with sufficient reliability for accounting purposes. As such, the scheme has been accounted for as a defined contribution scheme within the LGSS accounts.

Pension contributions paid during the year have been recognised within the Comprehensive Income and Expenditure Statement. Contributions paid during 2015-16 in respect of LGSS staff employed by NCC were £2.8m, with an employers contribution rate of 12.8% of pensionable pay. (2014-15: £2.5m with a contribution rate of 12.8%). Contributions paid during 2015-16 in respect of LGSS staff employed by CCC were £2.5m, with an employers contribution rate of 20.7% of pensionable pay. (2014-15: £2.7m with a contribution rate of 20%)

The actuary bases the contribution rate on actuarial valuations that take place every three years. The last such valuation was at 31 March 2013.

## 15 Pension Schemes Accounted for As A Defined Benefit Scheme

LGSS Law Ltd staff are entitled to join the Local Government Pension Scheme (LGPS) which is a defined benefit plan. Former employees of Northamptonshire County Council are members of the Northamptonshire County Council LGPS. All other employees who join the scheme are members of the Cambridgeshire County Council LGPS. The Net Pension Liability is guaranteed by the respective Local Authorities and not LGSS or LGSS Law. Details of the funds and their treatments in these financial statements are detailed overleaf:

## 15 Pension Schemes Accounted for As A Defined Benefit Scheme

### Net pension (liability)/asset

C'Shire LGPS 2015 £000	N'Shire LGPS 2015 £000	Total LGSS Law 2015 £000		C'Shire LGPS 2016 £000	N'Shire LGPS 2016 £000	Total LGSS Law 2016 £000
(3,407)	(3,071)	(6,478)	Defined benefit obligation	(3,439)	(2,989)	(6,428)
2,887	2,525	5,412	Plan assets	3,155	2,807	5,962
<b>(520)</b>	<b>(546)</b>	<b>(1,066)</b>	<b>Net pension liability</b>	<b>(284)</b>	<b>(182)</b>	<b>(466)</b>

The values of the net pension liability for LGSS Law has improved by £600k, from a deficit of £1,066k to a deficit of £466k, mainly due to an improvement in the actuarial assumptions (detailed overleaf) around the future value of the pension scheme liabilities of around £1m. This improvement has also contributed to a £162k non cash income adjustment to the comprehensive income and expenditure statement. Further details of the pension scheme liabilities (left table) and assets (right table) are detailed below:

### Movements in present value of defined benefit obligation

	C'Shire LGPS £000	N'Shire LGPS £000	Total LGSS Law £000
<b>At 1 April 2015</b>	<b>(3,407)</b>	<b>(3,071)</b>	<b>(6,478)</b>
Current service cost	(341)	(284)	(625)
Interest expense	(120)	(107)	(227)
Change in Financial Assumptions	526	537	1,063
Contributions by members	(97)	(64)	(161)
<b>At 31 March 2016</b>	<b>(3,439)</b>	<b>(2,989)</b>	<b>(6,428)</b>

### Movements in fair value of plan assets

	C'Shire LGPS £000	N'Shire LGPS £000	Total LGSS Law £000
<b>At 1 April 2015</b>	<b>2,887</b>	<b>2,525</b>	<b>5,412</b>
Interest income	101	88	189
Remeasurement: return on plan assets less interest income	(159)	(79)	(238)
Contributions by employer	229	209	438
Contributions by members	97	64	161
<b>At 31 March 2016</b>	<b>3,155</b>	<b>2,807</b>	<b>5,962</b>

## 15 Pension Schemes Accounted for as a Defined Benefit Scheme

Included within the Comprehensive income and expenditure statement is a net income of £162k.

	C'Shire LGPS 2016 £000	N'Shire LGPS 2016 £000	Total LGSS Law 2016 £000
Current service cost	(341)	(284)	(625)
Net Interest	(19)	(19)	(38)
Change in Actuarial Assumptions	367	458	825
<b>Total Income recognised in Comprehensive Income Statement</b>	<b>7</b>	<b>155</b>	<b>162</b>

To be able to calculate the estimated pension position and associated adjustment to the LGSS Law financial statements, a number of actuarial assumption have been made, with the key assumptions relating to investment performance and mortality assumptions. The assumptions relating to longevity underlying the pension liabilities at the balance sheet date are based on standard actuarial mortality tables and include an allowance for future improvements in longevity. The key assumptions used to calculate the LGSS Law pension values as at the 31<sup>st</sup> March 2016 are outlined in the two tables below:

Both Schemes 2015 %	Both Schemes 2016 %	C'Shire LGPS Male	C'Shire LGPS Female	N'Shire LGPS Male	N'Shire LGPS Female
3.3 Discount rate	3.6	22.5	24.5	22.3	24.3
2.5 Other material assumptions	2.2	24.4	26.9	24.0	26.6

## LGSS Annual Governance Statement

### 1. Scope of Responsibility

The LGSS Joint Committee is responsible for ensuring that LGSS business is conducted in accordance with the law and that public money is safeguarded, properly accounted for, and used economically, efficiently and effectively. The LGSS Joint Committee also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, taking into account economy, efficiency and effectiveness.

In discharging this overall responsibility, the Joint Committee is responsible for putting in place appropriate arrangements for the governance of its affairs and facilitating the effective exercise of its functions, which includes arrangements for the management of risk.

The LGSS Joint Committee operates to Northamptonshire County Council's Code of Corporate Governance which is consistent with the principles of the CIPFA/SOLACE Framework '*Delivering Good Governance in Local Government*'.

This Annual Governance Statement explains how LGSS has complied with the Code and also meets the requirements of regulation 4.2 of the Accounts and Audit Regulations 2011 as amended by the Accounts and Audit (England) Regulations 2011 in relation to the publication of a statement on internal control.

### 2. The Purpose of the Governance Framework

The governance framework comprises the systems, processes, culture and values by which LGSS is directed and controlled and through which it accounts to. It enables LGSS to monitor the achievement of its priority outcomes and to consider whether those have led to the delivery of appropriate and cost effective services.

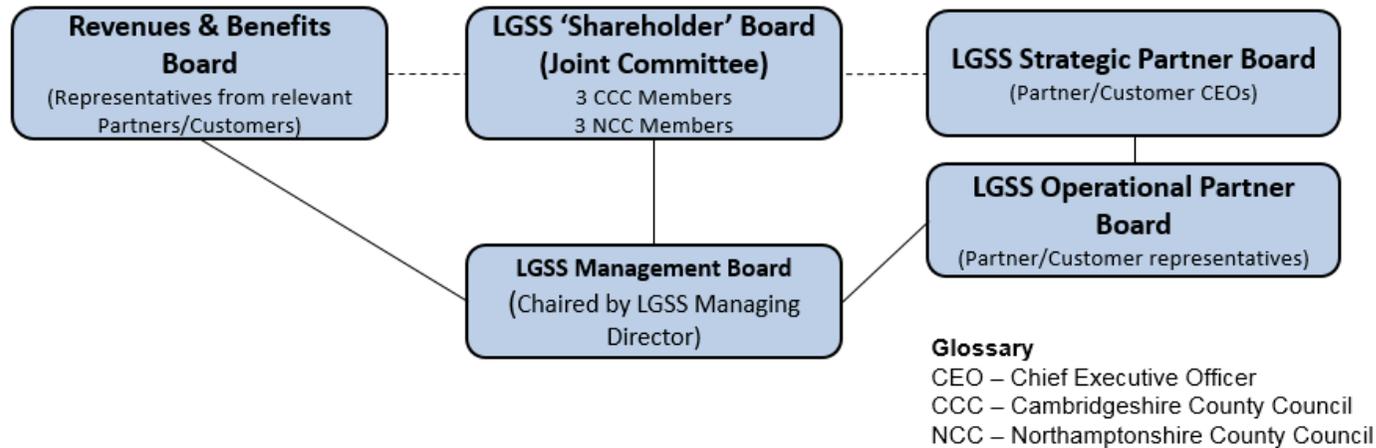
The system of internal control is a significant part of the framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, core purpose and priority outcomes and can therefore only provide reasonable assurance of effectiveness.

The system of internal control is based on an on-going process designed to:

- a) Identify and prioritise the risks to the achievement of LGSS plans and priorities;
- b) Evaluate the likelihood of those risks occurring;
- c) Evaluate the impact should they occur;
- d) Manage the risks efficiently, effectively and economically.

The LGSS Strategic Business Plan delivers these points as part of the annual cycle. The governance framework has been in place in LGSS for the year ended 31st March 2016 and up to the date of approval of the annual report and statement of accounts.

### 3. The Governance Framework



The key elements of the systems and processes that comprise the governance arrangements are described below.

#### 3.1 Roles and Responsibilities of Members and Officers

Good governance means elected Members and Officers working together to achieve a common purpose with clearly defined functions and roles. The following describes how LGSS achieves this:

LGSS Joint Committee comprises 6 Members appointed by each of the two shareholding councils on a four yearly basis – 3 each from Cambridgeshire and Northamptonshire County Councils. The Joint Committee has an agreed Constitution which sets out how it operates and how decisions are made.

The scheme of delegation in LGSS is based upon the delegations operating in the two client councils.

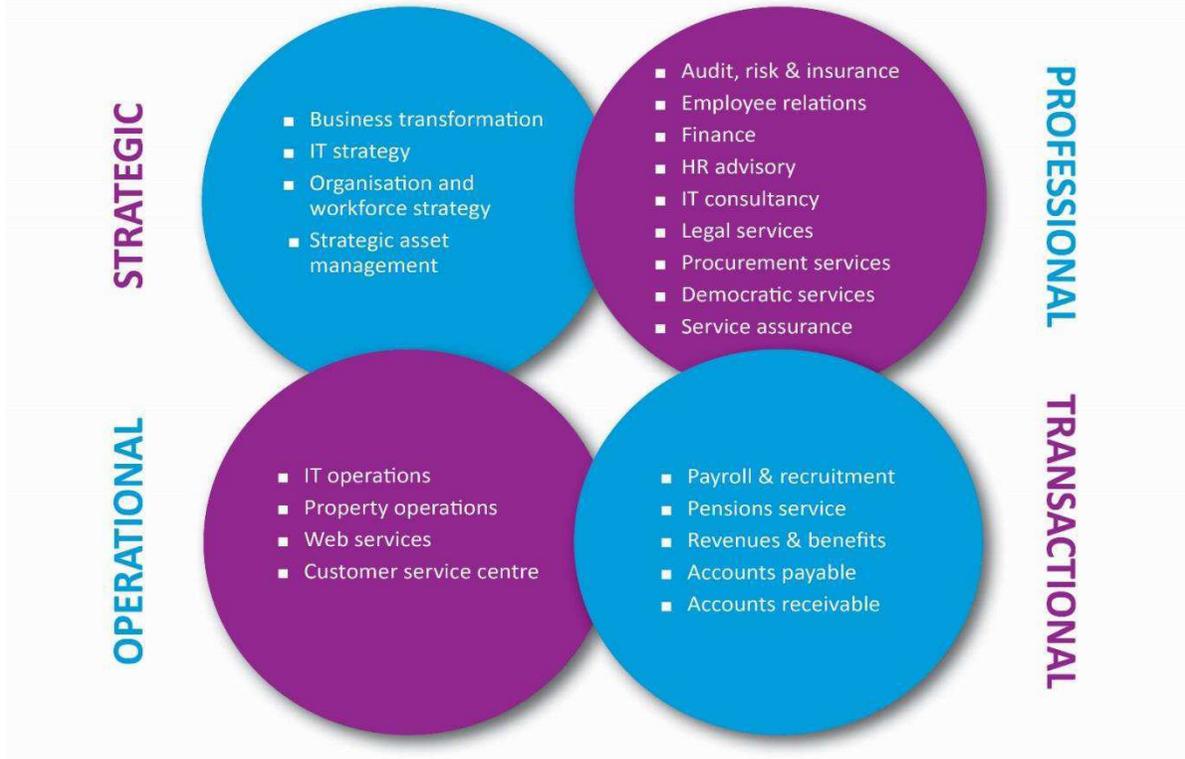
Member and Officer codes of conduct are complied in accordance with the procedures operating within the Council which either the Member is elected to or the Officer employed by.

LGSS operates to the policies and procedures in place in each of the client councils to ensure that, as far as possible, its elected Members and Officers understand their respective responsibilities. New Members and employees receive induction and continued training on key policies and procedures as these are developed within each of the shareholding councils.

All LGSS Directors and Heads of Service have responsibility for maintaining a sound system of internal control within their area of responsibility.

### 3. The Governance Framework cont.

## Our business services: breadth and scope



### 3.2 Standards of Conduct and Behaviour

Good governance means promoting appropriate values for LGSS and demonstrating the values of good governance by upholding high standards of conduct and behaviour. The following describes how LGSS achieves this:

A Standards Committee is in place in each shareholding council to review any complaints regarding any councillors, including LGSS Joint Committee Members, and to promote high standards of conduct and observance of the member codes of conduct (CCC and NCC).

Each council’s employee code of conduct sets out managers’ responsibilities to bring the code to the attention of their staff (through induction, training and instruction) and is their responsibility to take appropriate action if an employee fails to follow the code. The codes include a requirement for LGSS Officers of each council to declare any conflicts of interest and/or gifts or hospitality, which should be formally registered.

Each shareholding council has Anti-Fraud and Corruption, Whistle-blowing and Money Laundering policies in place which apply to LGSS.

### 3.3 Decision Making, Scrutiny and Risk Management

Good governance means taking informed and transparent decisions that are effectively scrutinised and manage risk. The following describes how LGSS achieves this:

The Joint Committee takes executive decisions in accordance with its terms of reference.

The two shareholding Councils have the power to review and/or scrutinise decisions made or actions taken by the Joint Committee.

LGSS is subject to internal audit review in accordance with the annual internal audit plans agreed by the audit committees of each of the client councils. LGSS Internal Audit operates in accordance with the Public Sector Internal Audit Standard. Internal Audit plans and prioritises its work chiefly using a risk based auditing approach and seeks to programme work based on risk, strength of control and materiality. Reports, including an assessment of the adequacy of control and action plans to address weaknesses, are submitted to LGSS directors and to audit committees.

LGSS complies with Northamptonshire County Council’s risk management process which is underpinned by an approved Risk Management Policy and a Risk Management Statement of Required Practice (SORP). LGSS maintains a Strategic Risk Register and directorate risk registers which are required to be subject to regular formal review as outlined within the Risk Management SORP.

### 3.4 Developing Capacity and Capability of Members and Officers

Good governance means developing the capacity and capability of Members and Officers to be effective. The following describes how LGSS achieves this:

The councillors on the Joint Committee are supported by the councillor development activity of their parent councils. Officers on the LGSS Management Board are invited to present at the councillor training/workshop sessions about appropriate topics.

Formal performance appraisal and development programmes operate within LGSS. These programmes include identifying and meeting, as appropriate, the development needs of staff. There is an induction programme for new staff and a full comprehensive learning and development programme delivered at all levels in LGSS.

### 3.5 Engaging with Stakeholders

LGSS proactively engages with each of its customers and applies the same processes to its shareholding organisations:

Good governance means engaging stakeholders to ensure LGSS delivers services which meet the needs of shareholding and customer councils. LGSS operates to Service Level Agreements with all partner and customer councils and has mechanisms for close customer engagement at all times of the year.

LGSS has a robust customer satisfaction framework.

LGSS has its own website which markets LGSS as a distinct business support service for public sector organisations regionally, separate from the two shareholding councils. The website enables current and potential customers to understand the LGSS business model, what services it can provide and what skills, expertise and other resources it can offer.

Good governance means developing and clearly communicating LGSS plans and priorities to its key stakeholders. The following describes how LGSS achieves its objectives in order of priority:

Delivery of CCC/NCC transformation and supporting customers via joint, collaborative business planning activity as described in the business case and service level agreements.

Annual refresh of the LGSS Strategic Business Plan.

Management of LGSS Governance including LGSS Joint Committee, LGSS Management Board and LGSS Partner Board.

LGSS undertakes an annual planning process which takes account of the requirements of its shareholding and customer councils along with the objective of reducing unit costs through the expansion of LGSS. LGSS is an integral part of the medium term financial planning processes of both CCC and NCC to support the delivery of their business plans and delivering the reduction of costs against their priorities;

To ensure LGSS delivers its plans, the Service Assurance, Customers and Strategy function co-ordinates the LGSS performance management framework to support the service delivery of each of the LGSS directorates. This activity is summarised as follows:

Delivery of the LGSS Customer Satisfaction Framework, which encompasses:

- Compliments, comments and complaints
- Annual survey of all users of LGSS services
- Annual Executive interview with each Customer Chief Executive
- ‘In the moment’ surveys of customers

Creation, monitoring and management of Service Improvement Plans for each of the LGSS directorates with quarterly reporting to customer senior management teams.

Customer engagement and relationship management with existing customers including customer contract management (partner and delegation agreement).

Business intelligence including KPI performance reporting and trend analysis

LGSS communication and customer engagement

Business development and initial engagement with potential new customers



4. Review of Effectiveness

LGSS has undertaken a review of the effectiveness of its governance framework, including the system of internal control. This review is informed by the work of the LGSS Directors and the Head of Internal Audit and Risk Management’s annual reports.

Staff in Internal Audit and Risk Management have undertaken a basic compliance review to ensure that key aspects of LGSS’ Governance Framework have been applied during 2015-16. The key evidence to support the review of effectiveness is outlined below.

4.1 Planning

LGSS operates a planning framework that integrates all aspects of strategic, operational and financial planning and which has the full involvement of the LGSS Joint Committee, the shareholding councils and all senior LGSS managers. This ensures financial plans realistically support the delivery of LGSS Business Plan in the short and medium term.

LGSS has developed a five year business plan (2015/16 -2019/20), which is updated annually and details the mission, values and priorities of LGSS. The five year LGSS Business Plan was approved by the LGSS Joint Committee on 26<sup>th</sup> March 2015. Within this plan there are clear objectives in place for each Directorate which align with the business trading targets and the management of the client organisation’s finances.

4.2 Performance Management

The Service Assurance, Customers and Strategy function co-ordinates all aspects of operational performance management for LGSS. This enhances the formalisation of key aspects of LGSS governance.

The LGSS performance management framework for 2015-16 included delivery of the following key aspects:

Service delivery performance was reported to each customer organisation on a monthly or quarterly basis in accordance with the relevant customer contractual agreements.

Results and findings from the LGSS Customer Satisfaction Framework performance were reported to LGSS Joint Committee, LGSS Management Board and the senior management teams of all customer organisations.

Progress against delivery of LGSS Service Improvement Plans was reported to customers on a quarterly basis.

Additionally there is a workforce performance management process operating at all levels of LGSS including the management of staff personal performance through Performance Appraisal and Development Plan (PADP) processes which include annual and six monthly review meetings along with one to one meetings between line managers and employees.

4.3 LGSS Joint Committee

LGSS Joint Committee is responsible for key decisions. The Joint Committee meets formally on at least a quarterly basis and makes decisions that are in line with the overall policies and budget of LGSS. In addition, informal workshop meetings take place in between formal Joint Committee meetings as required.

During 2015/16 formal Joint Committee meetings were held on the following dates:

- 26<sup>th</sup> May 2015
- 25<sup>th</sup> June 2015
- 21<sup>st</sup> August 2015
- 10<sup>th</sup> September 2015
- 12<sup>th</sup> November 2015
- 28<sup>th</sup> January 2016
- 25<sup>th</sup> February 2016

The increase in Joint Committee meetings was in response to decision making requirements for the Milton Keynes Council business case.

Each Council nominates three elected Members and substitutes. The Member appointed as a substitute has full voting rights. Each Member complies with the Code of Conduct of their respective Council when acting as a Member of the LGSS Joint Committee. Each Council has three votes.

The Chairperson of the Joint Committee is rotated on an annual cycle between each 'shareholding' Council. Meetings of the Joint Committee must be quorate with two Members of each Council being present. If there is a quorum of Members present but neither the Chairperson nor the Vice Chairperson is present, the Members present shall designate one Member to preside as Chairperson for that meeting. The Joint Committee may delegate a function to a Sub-Committee or an Officer.

—Formal Joint Committee meetings are public meetings with the exception that the public may be excluded from a meeting where confidential information, as defined in section 100A (3) of the Local Government Act 1972, or exempt information as defined in section 1001 of the Local Government Act 1972, would be disclosed to them.

### LGSS Partner Board

LGSS Partner Board is a partner discussion forum for stakeholder engagement at a political and senior officer level.

Following the Partner Board meeting which took place on 26<sup>th</sup> May 2015 a review and refresh of the Partner Board forum was undertaken, creating two revised Partner Board forums:

- Strategic Partner Board
- Operational Partner Board

### Strategic Partner Board

The purpose of Strategic Partner Board is to enable strategic LGSS and Partner representatives to network and discuss nominated topics of common interest that will add value to the LGSS partnership at a strategic level. A review of the Terms of Reference takes place on an annual basis to ensure they remain fit for purpose.

LGSS Strategic Partner Board meets twice a year in June and November. The first meeting of the Strategic Partner Board took place on 12<sup>th</sup> November 2015.

Core members of the LGSS Strategic Partner Board are:

- Chair of LGSS Joint Committee (Chair)
- Vice-Chair of Joint Committee (or nominated substitute)
- Two attendees from each Partner organisation (or nominated substitute)
- Chief Executives of the founding LGSS authorities - Cambridgeshire and Northamptonshire County Councils
- LGSS Managing Director
- LGSS Head of Service Assurance, Customers and Strategy
- Board Secretary

The agenda for Strategic Partner Board takes an 'open forum' approach by providing:

—An opportunity to network and discuss items in an informal setting – round table with nominated topics of common interest.

—The agenda will include a 'Managing Director's' topic of interest for discussion amongst the group as well as a 'Partner' nominated discussion item.

### Operational Partner Board

The purpose of the LGSS Operational Partner Board is to focus on the common topics of interest across LGSS Partners and to discuss opportunities that will add value to the partnership. Operational Partner Board meets twice a year in July and December. The first meeting of the Operational Partner Board took place on 8<sup>th</sup> December 2015.

Core members of the LGSS Operational Partner Board are:

- LGSS Management Board
- One nominated Senior Responsible Owner (SRO) from each customer/partner organisation
- Board Secretary

**LGSS Revenues and Benefits Board**

The LGSS Revenues and Benefits Board is an advisory/consultative group and does not hold decision making powers. The Board meets twice a year and is a forum for:

Stakeholder engagement at a political and senior office level, giving an opportunity for its members to feel that they can influence the strategic direction of the Revenues and Benefits service delivered by LGSS

Customer feedback on the Revenues and Benefits service delivered by LGSS

Discussion on how to develop the LGSS Revenues and Benefits service and wider partnership arrangements

Sharing skills and knowledge

Suggest items which might be considered by the LGSS Management Board

There is a standing agenda, with the opportunity for members of the Revenues and Benefits Board to raise agenda items in advance for discussion at the meeting. Core members of the LGSS Revenues and Benefits Board are:

- LGSS Director of People, Transformation and Transactional Services (Chair)
- LGSS Head of Revenues and Benefits
- One Councillor and Senior Officer nominated from each LGSS Revenues and Benefits customer
- One representative from LGSS Management Board

**Overview and Scrutiny**

LGSS is subject to scrutiny by Northamptonshire County Council’s Overview & Scrutiny function. This is carried out by the Finance & Resources Scrutiny Committee, which is responsible for budget matters, corporate performance and corporate support functions.

The Committee scrutinises LGSS headline performance and the development and delivery of the LGSS Business Plan. The Committee may also choose to investigate issues associated with LGSS and make recommendations that seek to improve the quality of services that it delivers.

Executive decisions by the LGSS Joint Committee are subject to the Council’s call-in process, which enables decisions taken, but not yet implemented, to be referred to Overview & Scrutiny to review whether the decision-making process operated correctly. Any such call-ins would be considered by the Council’s Scrutiny Management Committee.

Due to their current committee structure, Cambridgeshire County Council does not have a separate scrutiny function. However, the General Purposes Committee undertakes regular monitoring of LGSS Managed budgets.

**LGSS Management Board**

The LGSS Management Board meets monthly formally with the following core attendees:

- Managing Director
- Director of Finance
- Director of IT Services
- Director of Law, Procurement and Governance
- Director of People, Transformation and Transactions
- Head of Service Assurance, Customers and Strategy
- Chief Executives of the two shareholder/partner councils.

In addition LGSS Management Board meets informally with all above attendees minus the Chief Executives of the shareholding councils.

- Each LGSS Director has provided a self assurance statement in respect of 2015-16 that:
- They fully understand their roles and responsibilities
- They are aware of the principal statutory obligations and key priorities of LGSS and of the client and customer councils which impact on their services
- They have made an assessment of the significant risks to the successful discharge of LGSS’ key priorities.
- They acknowledge the need to develop, maintain and operate effective control systems to manage risks

### Independent Assurance

The LGSS Head of Internal Audit annually agrees the LGSS Internal Audit Plan for the financial year with the Managing Director and the LGSS Management Board. This is in line with CCC and NCC policies and procedures.

Internal Audit has undertaken a number of reviews of activities undertaken within the LGSS environment. It should be noted that from September 2015, LGSS Internal Audit moved to giving two assurance opinions when completing audits:

- Control Environment Assurance
- Compliance Assurance

The tables below detail the five levels for each of these assurance opinions.

A review of the Head of Internal Audit and Risk Management’s 2015-16 annual reports to the audit committees of the two shareholding councils indicates that the control environment and compliance assurance levels for the internal control over the systems and processes managed within the LGSS environment are largely ‘substantial’.

In a small number of instances where the assurance level was deemed either as ‘good’ or ‘moderate’ actions have been agreed with management which, when implemented, should raise the assurance level for these audit areas to substantial.

Control Environment Assurance	
Level	Criteria definition
Substantial	There are minimal control weaknesses that present very low risk to the control environment
Good	There are minor control weaknesses that present low risk to the control environment
Moderate	There are some control weaknesses that present a medium risk to the control environment
Limited	There are significant control weaknesses that present a high risk to the control environment.
No Assurance	There are fundamental control weaknesses that present an unacceptable level of risk to the control environment

Compliance Assurance	
Level	Criteria definition
Substantial	The control environment has substantially operated as intended although some minor errors have been detected.
Good	The control environment has largely operated as intended although some errors have been detected
Moderate	The control environment has mainly operated as intended although errors have been detected.
Limited	The control environment has not operated as intended. Significant errors have been detected.
No Assurance	The control environment has fundamentally broken down and is open to significant error or abuse.

**4.9 External Audit**

Whilst LGSS is not a separate legal entity, the Audit Commission has advised that owing to the growth of LGSS, it should be subject to external audit review. Therefore as from 2013-14 KPMG LLP was appointed as LGSS’ External Auditor.

**4.10 Risk Management**

LGSS complies with Northamptonshire County Council’s risk management process which is underpinned by an approved Risk Management Policy and a Risk Management Statement of Required Practice (SORP). LGSS maintains a Strategic Risk Register and directorate risk registers which are required to be subject to regular formal review as outlined within the Risk Management SORP. There is an annual review of the risk registers and business continuity plans which are aligned to the respective shareholder processes.

There is an annual review of the LGSS Strategic Risk Register by LGSS Management Board and the LGSS Directorate risk registers are reviewed quarterly via Directorate Management Team meetings.

**4.11 Developing Capacity**

LGSS has operated procedures during the period covered by this Statement to ensure training needs of staff are assessed against core competencies and any key training needs met. Additionally both client councils have provided, or are in the process of providing, appropriate training to Joint Committee councillors to enable them to effectively fulfil their duties in relation to LGSS and other activities.

**4.12 Engagement**

LGSS has engaged with its customers throughout 2015/16 via the following channels:

- Monthly/Quarterly Customer performance meetings (as per Customer Contract) and presentations to the customer senior management teams
- LGSS Managing Director meetings with LGSS Joint Committee Chair/Vice-Chair
- Senior Responsible Officer (SRO) quarterly one to one meetings with Customer Chief Executive or nominated senior manager
- Client Services Manager (CSM) monthly one to one meetings with Customer Chief Executive or nominated senior Manager
- Strategic Partner Board
- Operational Partner Board
- LGSS Customer Feedback channel

In addition, the LGSS website is current and appropriate to promote the LGSS offering, and LGSS uses LinkedIn and Twitter.

**4.13 Significant Governance Issues**

There are robust governance arrangements for LGSS based on the founding authorities’ financial policies and procedures based on, and an integral part of, the NCC and CCC portfolio and procedures.

## 5. Conclusion and Evaluation

As Chair of the LGSS Joint Committee and LGSS Managing Director, we have been advised of the implications of the results of the review of the effectiveness of the Council's governance framework.

Our overall assessment is that this Annual Governance Statement is a balanced reflection of the governance environment and that an adequate framework exists within LGSS to ensure effective internal control is maintained. This is subject to both internal and external audit procedures.

We are also satisfied that there are appropriate plans in place to continue to deliver improvements to meet the governance arrangements requirement to meet the financial policies and procedures and to seek continuous improvement in the system of internal control.

Councillor  
Chairman of the LGSS Joint Committee  
Date:

John Kane  
LGSS Managing Director  
Date:

**Appendix 1: LGSS Joint Committee Terms of Reference**

**TERMS OF REFERENCE FOR THE LOCAL GOVERNMENT SHARED SERVICES (LGSS) JOINT COMMITTEE**

The LGSS Joint Committee is established pursuant to an agreement between Cambridgeshire County Council, Northamptonshire County Council, and Milton Keynes Council. The Joint Committee's remit is to have overall responsibility for the provision, to the Councils, of shared services through the LGSS arrangements.

The constitution of the Joint Committee is set out below, and the specific delegations to the Joint Committee and to the senior officers of the LGSS management team are set out in a scheme of delegation contained in Annex 'A'.

**Constitution of the Joint Committee**

1. Each of the Councils shall appoint three Members (being elected members of that Council) as its nominated Members of the Joint Committee. The Members appointed shall have full voting rights.
2. Each Council may nominate one or more substitute Members to attend any meeting in place of an appointed Member from that Council, subject to notification being given to the Secretary to the Joint Committee before the start of the meeting. The Member appointed as a substitute shall have full voting rights where the member for whom they are substituting does not attend. If a Council's nominated Members attend a meeting of the Joint Committee, any named substitute may also attend as an observer but shall not be entitled to vote.
3. Each Member of the Joint Committee shall comply with the Code of Conduct of their Council when acting as a Member of the Joint Committee.
4. Each of the Councils may remove any of its nominated Members or

substitute Members of the Joint Committee and appoint a different Member or substitute to the Joint Committee by giving written notice to the Secretary to the Joint Committee.

5. Each Council shall have three votes. These shall be exercised by the nominated Members who are elected members of the Council. In the absence of a Council's nominated Member, a vote may be exercised by the named substitute who is an elected member of the Council.
6. Each Member of the Joint Committee shall serve upon the Joint Committee for as long as he or she is appointed to the Joint Committee by the relevant Council but a Member shall cease to be a member of the Joint Committee if he or she ceases to be a Member of the Council appointing him or her or if the relevant Council removes him or her as a Member of the Joint Committee.
7. Any casual vacancies howsoever arising shall be filled by the Council from which the vacancy arises by notice in writing sent to the Secretary to the Joint Committee.
8. Meetings of the Joint Committee shall be held at the venue or venues as agreed by the Councils.
9. The appointment of a Chairman and a Vice Chairman shall be rotated between the Councils annually from 1st August each year as set out in the table below. The rotation process shall be repeated for subsequent years. The Members appointed as Chairman and Vice Chairman shall remain in their respective appointed roles until the first meeting taking place after the elapse of one year from their appointment unless either such Member ceases to be a Member of the Joint Committee.

	2015-16	2016-17	2017-18	2018-19
Joint Committee Chair	CCC	NCC	MKC	CCC
Joint Committee Vice Chair	NCC	MKC	CCC	NCC

10. The Joint Committee shall meet at least once every three months (quarterly) unless otherwise determined by the Joint Committee.
11. The Secretary to the Joint Committee may call additional meetings by providing at least five clear days' notice to Members of the Joint Committee, for the purposes of resolving urgent matters arising between the meetings of the Joint Committee. The Secretary to the Joint Committee must call a meeting of the Joint Committee if at least one Member of the Joint Committee from each Council requests it or the Head of Paid Service of each Council requests it.
12. Meetings shall be notified to Members of the Joint Committee by the Secretary to the Joint Committee.
13. The Secretary to the Joint Committee shall send electronically to all members and relevant officers of each Council the agenda for each meeting of the Joint Committee no later than five clear Business Days before the date of the relevant meeting. The Secretary to the Joint Committee shall send to all Members of the Joint Committee, to the Political Group Leaders of each Council and relevant officers of each Council, printed (or electronic if individually preferred) copies of the agenda for each meeting of the Joint Committee no later than five clear working days before the date of the relevant meeting.
14. The Secretary to the Joint Committee shall arrange for written minutes to be taken of each meeting of the Joint Committee and shall present them to the Joint Committee at its next meeting for approval as a correct record. If the Joint Committee confirms that the minutes contain an accurate record of the previous meeting, those minutes shall be signed by the Chairman or Vice-Chairman.
15. Meetings of the Joint Committee will commence at a time to be agreed by the Joint Committee.
16. A meeting of the Joint Committee shall require a quorum of one Member of each Council who are entitled to attend and vote. If there is a quorum of members present but neither the Chairman nor the Vice Chairman is present, the Members present shall designate one Member to preside as Chairman for that meeting.
17. Subject to the provisions of any enactment, all questions coming or arising before the Joint Committee shall be decided by a majority of the Council Members of the Joint Committee immediately present and voting thereon. Subject to the provisions of any enactment, in the case of an equality of votes the Chairman shall have a second or casting vote but before exercising this, the Chairman shall consider whether it is appropriate to defer the matter to the next meeting of the Joint Committee.
18. Any Member of the Joint Committee may request the Joint Committee to record the votes of individual Members of the Joint Committee on a matter for decision.
19. A Member when speaking shall address the Chairman. If two or more Members wish to speak, the Chairman shall call on one to speak. While a Member is speaking other Members shall remain silent.
20. A Member shall direct his/her speech to the question under discussion or to a personal explanation or to a point of order.
21. Only one amendment to a proposal may be moved and discussed at a time and no further amendment shall be moved until the amendment under discussion has been disposed of, providing that the Chairman may permit two or more amendments to be discussed (but not voted on) together if circumstances suggest that this course would facilitate the proper conduct of the Joint Committee's business.
22. If an amendment be lost, other amendments may be moved on the original motion. If an amendment be carried, the motion as amended shall take the place of the original motion and shall become the motion upon which any further amendment may be moved.

- 23. The order of business shall be indicated in the agenda for the meeting.
- 24. When a motion is under debate by the Joint Committee no other motion shall be moved except the following:
  - 24.1 to amend the motion;
  - 24.2 to adjourn the meeting;
  - 24.3 to adjourn the debate;
  - 24.4 to proceed to the next business;
  - 24.5 that the question be now put;
  - 24.6 that a Member be not further heard;
  - 24.7 by the Chairman that a Member do leave the meeting;
  - 24.8 a motion under Section 100(A)(4) of the Local Government Act 1972 to exclude the public;
  - 24.9 to postpone consideration of the item.
- 25. A Member may move without comment at the conclusion of a speech of another Member, "That the Committee proceed to the next business", "That the question be now put", "That the debate be now adjourned", or "That the Committee do now adjourn", on the seconding of which the Chairman shall proceed as follows:
  - 25.1 on a motion to proceed to next business; unless in his opinion the matter before the meeting has been insufficiently discussed put to the vote the motion to proceed to the next business
  - 25.2 on a motion that the question be now put; unless in his opinion the matter before the meeting has been insufficiently discussed he shall first put to the vote the motion that the question be now put
  - 25.3 on a motion to adjourn the debate or the meeting; if in his opinion the matter before the meeting has not been sufficiently discussed and cannot reasonably be sufficiently discussed on that occasion put the adjournment motion to the vote.
- 25.4 The ruling of the Chairman shall not be open for discussion.
- 26. Any member of the Councils who is not a Member of the Joint Committee is entitled to attend the Joint Committee but he/she shall not be entitled to vote, shall not take part in the consideration or discussion of any business, save by leave of the Chairman and comments will be recorded only on the direction of the Chairman. A Councillor who attends a meeting in this capacity will be entitled to remain in the meeting when a resolution excluding the public is in force.
- 27. Meetings of the Joint Committee will be open to the public except to the extent that they are excluded under paragraph 29.
- 28. Members of the public wishing to address the Joint Committee (or a subcommittee of the Joint Committee) on Part I reports contained within the agenda for the meeting shall be given the opportunity to do so subject to:
  - 28.1 the opportunity being extended to one person to speak in support of each agenda item and one person to speak against each agenda item when called to do so by the Chairman;
  - 28.2 an indication of the desire to speak on the agenda item being made by the person just prior to the meeting and the name supplied to the Committee Secretary in attendance (by means of the register), the first person registering to have precedence in the event of more than one person wishing to speak either for or against the agenda item;
  - 28.3 each person addressing the Joint Committee or subcommittee of the Joint Committee being limited to three minutes' speech;
  - 28.4 an opportunity being provided for an expression of a contrary view, even though no prior notice has been given, when a member of the public has spoken for or against the item;

- 28.5 in the event of the person having registered to speak on an agenda item not wishing to take up their right to speak on the agenda item because it was deferred, that person will automatically be given the right to speak on the agenda item at the next meeting of the Joint Committee or sub-committee of the Joint Committee; the Chairman of the meeting having discretion to rule that a person wishing to address the meeting shall not be heard if, in his/her opinion, that issue or the organisation or the person wishing to make representation on that issue has received an adequate hearing.
29. The public may be excluded from a meeting of the Joint Committee during an item of business whenever it is likely, in view of the nature of the business to be transacted or the nature of the proceedings, that, if members of the public were present during that item, confidential information as defined in section 100A(3) of the Local Government Act 1972 or exempt information as defined in section 100I of the Local Government Act 1972 would be disclosed to them.
30. The Joint Committee may delegate a function to a Sub-Committee or an officer.
31. Any contractual arrangements that relate to a Shared Service will be undertaken by one of the Councils on behalf of the other Councils and that Council will apply its own financial regulations and contract procedure rules until such time as the Joint Committee adopts its own financial regulations and contract procedure rules. The LGSS Director of the relevant Shared Service that is incurring the expenditure will normally determine which of the Councils' financial regulations and contract procedure rules will apply and in the event of any dispute or uncertainty the matter should be referred to the LGSS Managing Director for decision.
32. The Secretary to the Joint Committee shall provide governance and secretarial support services to the Joint Committee on such terms as may be agreed from time to time between the Councils. The Councils shall make available committee officers to provide administrative services at the meetings of the Joint Committee.
33. The Lawyer to the Joint Committee shall provide legal advice and support services to the Joint Committee on such terms as may be agreed from time to time between the Councils.
34. The Finance Officer to the Joint Committee shall provide financial support services to the Joint Committee on such terms as may be agreed from time to time between the Councils.





Visit us:  
[www.lgss.co.uk](http://www.lgss.co.uk)



Follow us:  
[@LGSSnews](https://twitter.com/LGSSnews)



Find us:  
[www.linkedin.com/company/lgss](http://www.linkedin.com/company/lgss)



# External Audit Report 2015/16

LGSS

January 2017



# Contents

The contacts at KPMG in connection with this report are:

**Andrew Cardoza**

*Director*

*KPMG LLP (UK)*

Tel: 07711 869 957

andrew.cardoza@kpmg.co.uk

**Daniel Hayward**

*Senior Manager*

*KPMG LLP (UK)*

Tel: 07776 101 412

daniel.hayward@kpmg.co.uk

**Harry Organ**

*Assistant Manager*

*KPMG LLP (UK)*

Tel: 07468 369 664

harry.organ@kpmg.co.uk

	<b>Page</b>
<b>Report sections</b>	
— Introduction	3
— Headlines	5
— Financial statements	8
<b>Appendices</b>	
1. Key issues and recommendations	16
2. Audit differences	22
3. Materiality and reporting of audit differences	23
4. Declaration of independence and objectivity	24



# Section one: Introduction



This document summarises the key issues identified during our audit of the financial statements for the year ended 31 March 2016 for LGSS.

### Scope of this report

This report summarises the key findings arising from our audit work at LGSS Joint Committee ('LGSS') in relation to LGSS's 2015/16 financial statements.

### Financial statements

Our *External Audit Plan 2015/16*, presented to you in July 2016, set out the four stages of our financial statements audit process.



This report focuses on the third stage of the process: substantive procedures. Our on site work for this took place during October and November 2016.

We are now in the final phase of the audit, the completion stage. Some aspects of this stage are also discharged through this report.

### Structure of this report

This report is structured as follows:

- Section 2 summarises the headline messages.
- Section 3 sets out our key findings from our audit work in relation to the 2015/16 financial statements of LGSS.

Our recommendations are included in Appendix one. We have also reviewed your progress in implementing prior year recommendations.

### Acknowledgements

We would like to take this opportunity to thank Officers and Members for their continuing help and co-operation throughout our audit work.



# Section two: Headlines



<p>This table summarises the 2015/16 headline messages for LGSS. Section three of this report provide further details on each area.</p>	<p><b>Proposed audit opinion</b></p>	<p>We anticipate issuing an unqualified audit opinion on LGSS's 2015/16 financial statements subject to the following be completed:</p> <ul style="list-style-type: none"> <li>— audit review of the consolidation of LGSS Law Limited;</li> <li>— conclusion of the work in relation to the objection to the 2014/15 financial statements; and</li> <li>— receipt of a signed management representation letter.</li> </ul> <p>At that time we also expect to report that your Annual Governance Statement complies with guidance issued by CIPFA/SOLACE in June 2007.</p>
<p><b>Audit adjustments</b></p>	<p>Our audit has identified a total of 3 audit adjustments. The impact of these adjustments is to:</p> <ul style="list-style-type: none"> <li>— Decrease in both Gross Income and Gross Expenditure by £100k with no net impact on the deficit on provision of services; and</li> <li>— Decrease in both Assets and Liabilities of LGSS of £416k with no impact on the net worth of LGSS as at 31 March 2016.</li> </ul> <p>We have included further details of the adjustments in Appendix two. We anticipate that these will be corrected by LGSS.</p> <p>We have raised a number of recommendations to support management in improving this process in the future and reducing the number of adjustments, these are summarised in Appendix one.</p>	
<p><b>Key financial statements audit risks</b></p>	<p>We identified the following risk to the financial statements in our 2015/16 External Audit Plan issued in July 2016:</p> <p><b>Completeness of Income</b></p> <p>This is the first year that LGSS has produced Group Accounts in order to consolidate its new subsidiary company, LGSS Law Limited.</p> <p>We have reviewed the plans in place to ensure complete and accurate accounting, including liaison with the subsidiary company in order to obtain sufficient and appropriate supporting information to support the process.</p> <p>We performed the audit of the subsidiary LGSS Law Limited and issued an unqualified audit opinion on 14 December 2016. At the time of this report we have not received the LGSS consolidation workings and therefore have not completed the audit of the consolidated numbers. We will provide a verbal update to the Committee on our work on the consolidation and if any issues have been identified.</p> <p>We worked with Officers throughout the year to discuss this key risk and our detailed findings are reported in section three of this report. There are no matters of any significance arising as a result of our audit work in this key risk area.</p>	



This table summarises the 2015/16 headline messages for LGSS. Sections three of this report provide further details.

**Accounts production and audit process**

We received a complete draft of the LGSS 2015/16 accounts by 30 June 2016. We agreed with management that the audit of LGSS should follow the completion of the audits of Northamptonshire and Cambridgeshire County Councils.

We commenced the LGSS audit on 10 October 2016 and were provided with amended draft accounts and also the vast majority of working papers when we commenced our on-site visit. However, some working papers were not received for two to four weeks. Generally the working papers met the standards of our *Accounts Audit Protocol* however, there were notable exceptions in relation to debtors and creditors where the working papers did not reconcile to the financial statements.

We found that officers generally responded to audit queries within one to weeks leading to some delays in the audit process. In some cases we did not receive evidence for four to five weeks after the request. This meant that we were unable to complete these areas of testing whilst we were still onsite, creating delays in the audit process.

We have raised a recommendation for the improvement of the financial reporting process and also re-issued one of our prior year recommendations regarding Closedown team capacity. Details can be found in Appendix one.

We have held a debrief with the Closedown Team on these matters, and will undertake a more detailed debrief with the Closedown team on conclusion of the audit. We would like to thank Officers for their assistance this year.

**Completion**

At the date of this report our audit of the LGSS 2015/16 financial statements is substantially complete subject to completion of our final review procedures, and resolution of outstanding queries including those in respect of consolidation of LGSS Law Limited and final review of the 2015/16 financial statements.

We will provide a verbal update to the Committee on these areas.

Before we can issue our 2015/16 opinion we require a signed management representation letter. You are required to provide us with representations on specific matters such as your going concern assertion and whether the transactions in the accounts are legal and unaffected by fraud. We provide a draft of this representation letter to Director of Finance. We draw your attention to the requirement in our representation letter for you to confirm to us that you have disclosed all relevant related parties to us. We are asking management to provide specific representations including those relating to pension liabilities.

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of LGSS's 2015/16 financial statements.

The Committee should note that to issue our opinion on the 2015/16 financial statements will need to complete our work on the objection to the 2014/15 financial statements and as appropriate issue our opinion to those accounts.



# Section three: Financial Statements

# Proposed opinion and audit differences



Our 2015/16 audit has identified a total of two audit adjustments.

The impact of these adjustments has not yet been agreed as updated figures for cash, creditors and debtors are still to be provided by LGSS.

The wording of your Annual Governance Statement complies with guidance issued by CIPFA/SOLACE in June 2007.

## Proposed audit opinion

We anticipate issuing an unqualified audit opinion on LGSS's 2015/16 financial statements subject to the following being completed:

- audit review of the consolidation of LGSS Law Limited;
- conclusion of the work in relation to the objection to the 2014/15 financial statements; and
- receipt of a signed management representation letter.

## Audit differences

In accordance with ISA 260 we are required to report uncorrected audit differences to you. We also report any material misstatements which have been corrected and which we believe should be communicated to you to help you meet your governance responsibilities.

The final materiality (see Appendix two for more information on materiality) level for this year's audit was set at £650,000. Audit differences below £32,000 are not considered significant.

Our audit identified a total of three significant audit differences, which we set out in Appendix two. Management have confirmed that these will be adjusted in the final version of the financial statements.

The table on the right illustrates the total impact of audit differences on LGSS's balance sheet as at 31 March 2016.

## Balance sheet as at 31 March 2016

£ 000	Pre-audit	Post-audit
Short term debtors	7,287	7,077
Cash and cash equivalents	0	0
<b>Current Assets</b>	<b>7,287</b>	<b>7,077</b>
Short term creditors	(4,584)	(4,168)
Provisions	(221)	(221)
Cash and cash equivalents	(456)	(661)
<b>Current Liabilities</b>	<b>(5,262)</b>	<b>(5,051)</b>

In addition, we identified a number of presentational adjustments required to ensure that the 2015/16 accounts are compliant with the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 ('the Code'). We understand that LGSS will be addressing these where significant.

## Annual Governance Statement

We have reviewed the Annual Governance Statement and confirmed that:

- It complies with *Delivering Good Governance in Local Government: A Framework* published by CIPFA/SOLACE; and
- It is not misleading or inconsistent with other information we are aware of from our audit of the financial statements.

We have made a number of comments in respect of its format and content which LGSS has agreed to amend where significant.

# Significant audit risks



We have worked with LGSS throughout the year to discuss significant risks and key areas of audit focus.

This section sets out our detailed findings on those risks.

In our *External Audit Plan 2015/16*, presented to you in July 2016, we identified the significant risks affecting LGSS's 2015/16 financial statements. We have now completed our testing of these areas and set out our evaluation following our substantive work.

The table below sets out our detailed findings for each of the risks that are specific to LGSS.

### **Completeness of Income**

#### *Risk description*

LGSS is currently assessing whether they will be required to produce Group Accounts, in order to consolidate its new subsidiary company, LGSS Law Limited.

The Authority will need to ensure that they undertake a detailed and controlled review of the relationship that exists with LGSS Law Limited and assess whether consolidation is required, in order to ensure that the financial statements are prepared in accordance with the requirements of the CIPFA Code of Practice on Local Authority Accounting in the UK 2015/16 (the Code).

#### *Findings*

LGSS have assessed that they should produce Group Accounts to consolidate LGSS Law Limited. We have reviewed this against the Code and the *CIPFA Accounting for Collaboration* guidance and confirmed that LGSS Law Limited is not required to be consolidated.

# Significant audit risks



We have worked with LGSS throughout the year to discuss significant risks and key areas of audit focus.

This section sets out our detailed findings on those risks.

In our *External Audit Plan 2015/16* we reported that we would consider two risk areas that are specifically required by professional standards and report our findings to you. These risk areas were management override of controls and the fraud risk of revenue recognition.

The table below sets out the outcome of our audit procedures and assessment on these risk areas.

### Fraud risk of revenue recognition

Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk.

In our *External Audit Plan 2015/16* we reported that we do not consider this to be a significant risk for Local Authorities as there is unlikely to be an incentive to fraudulently recognise revenue.

This is still the case. Since we have rebutted this presumed risk, there has been no impact on our audit work.

### Management override of controls

Professional standards require us to communicate the fraud risk from management override of controls as significant because management is typically in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

Our audit methodology incorporates the risk of management override as a default significant risk. We have not identified any specific additional risks of management override relating to this audit.

In line with our methodology, we carried out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual.

### Findings

As a result of LGSS using two ledgers we have taken a substantive approach to our audit testing. There are therefore no matters arising from this work that we need to bring to your attention.

# Other areas of focus



In our External Audit Plan 2015/16, presented to you in July 2016, we identified two areas of audit focus.

These are not considered as significant risks but areas of importance where we would carry out some substantive audit procedures to ensure there is no risk of material misstatement.

We have now completed our testing. The table sets out our detailed findings for each of such areas of audit focus.

### Non Pay Expenditure

We will undertake additional work on understanding the Accounts Payable system and the reports generated from this system. We will also complete testing over key system controls.

#### Findings

We have performed substantive testing over non pay expenditure as included in the Comprehensive Income and Expenditure Statement. This included testing reports generated from the accounts payable system for accuracy and completeness. Our testing did not identify any materials errors in the non pay expenditure balance. The processes to produce the balance from the host ledgers resulted in figures which were materially complete and accurate.

### VAT Treatment

Following the objector challenge we consider VAT treatment by both host authorities to be a significant risk.

#### Findings

We have reviewed the management action taken to ensure VAT is treated consistently across both debtor balances. We have performed additional substantive testing over the treatment of VAT by both host authorities. Our testing did not identify any errors and VAT was treated consistently across both general ledgers.

# Accounts production and audit process



Overall, working papers met the specified standard however were at times complex and a clear audit trail was not always evident.

Generally, Officers dealt with audit queries within one to two weeks of inquiry. However, there were instances where queries were not dealt with in a sufficiently prompt manner which has resulted in long delays of up to five weeks.

## Accounts production and audit process

ISA 260 requires us to communicate to you our views about the significant qualitative aspects of LGSS's accounting practices and financial reporting. We also assessed LGSS's process for preparing the accounts and its support for an efficient audit.

Element	Commentary
<b>Accounting practices and financial reporting</b>	We consider that accounting practices are appropriate and incorporate those of LGSS Law Limited where applicable.
<b>Completeness of draft accounts</b>	<p>The draft accounts were provided by 30 June 2016. We received revised accounts on 10 October 2016 when we commenced our on-site audit work.</p> <p>The vast majority of working papers were made available to us when we commenced our on-site audit work on 10 October 2016.</p> <p>Notable exceptions to this included an analysis of cash and cash equivalents, a CIPFA code checklist and an analytical review of the net cost of services. These items were not available for two to four weeks.</p>
<b>Response to audit queries</b>	<p>Officers generally dealt with audit queries within one to two weeks of inquiry, which resulted in significant delays to the audit process.</p> <p>Evidence relating to some areas of sample testing took four to five weeks to be provided, such as Income, Creditors and Non Pay Expenditure. Again such significant delays have had an impact on our audit.</p>

Element	Commentary
<b>Quality of supporting working papers</b>	<p>Our <i>Accounts Audit Protocol</i>, which we issued in August 2016 and discussed with Group Accountant – Closedown, set out our working paper requirements for the audit.</p> <p>The quality of working papers provided was variable but overall met the standards specified in our <i>Accounts Audit Protocol</i>.</p> <p>As each balance required input from both host authorities, the supporting working papers were at times complex and a clear audit trail was not evident. There was also little evidence of management review of the working papers.</p> <p>Working papers relating to debtors and creditors initially provided did not tie into figures disclosed in the draft financial statements, these had been reissued by LGSS. An additional working paper was also required to reconcile the figures to the trial balance.</p> <p>These issues caused significant delays in the audit.</p>
<b>Group audit</b>	We have issued an unqualified opinion on the LGSS Law Limited financial statements. At the date of this audit report we have not received the consolidation workings for the LGSS financial statements. We will provide a verbal update to the Committee

As a result of the above we have raised a recommendation in respect of LGSS's working papers which is included in Appendix one.

We are currently discussing with Officers the impact of the delays in working papers and queries responses have had on the additional audit time incurred.



We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of LGSS's 2015/16 financial statements.

Before we can issue our opinion we require a signed management representation letter.

### Declaration of independence and objectivity

As part of the finalisation process we are required to provide you with representations concerning our independence.

In relation to the audit of the financial statements of LGSS for the year ending 31 March 2016, we confirm that there were no relationships between KPMG LLP and LGSS, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards requirements in relation to independence and objectivity.

We have provided a detailed declaration in Appendix three in accordance with ISA 260.

### Management representations

You are required to provide us with representations on specific matters such as your financial standing and whether the transactions within the accounts are legal and unaffected by fraud. We have provided a template to the Section 151 Officer for presentation to the Joint Committee. We require a signed copy of your management representations before we issue our 2015/16 audit opinion.

### Other matters

ISA 260 requires us to communicate to you by exception 'audit matters of governance interest that arise from the audit of the financial statements' which include:

- Significant difficulties encountered during the audit;
- Significant matters arising from the audit that were discussed, or subject to correspondence with management;
- Other matters, if arising from the audit that, in the auditor's professional judgment, are significant to the oversight of the financial reporting process; and
- Matters specifically required by other auditing standards to be communicated to those charged with governance (e.g. significant deficiencies in internal control; issues relating to fraud, compliance with laws and regulations, subsequent events, non disclosure, related party, public interest reporting, questions/objections, opening balances etc.).

There are no others matters which we wish to draw to your attention in addition to those highlighted in this report.



# Appendices

**Appendix one: Key issues and recommendations**

**Appendix two: Audit differences**

**Appendix three: Independence and objectivity**

# Key issues and recommendations

We have given each recommendation a risk rating and agreed what action management will need to take.

LGSS should closely monitor progress in addressing specific risks and implementing our recommendations.

We will formally follow up these recommendations next year.

## Priority rating for recommendations

<b>1</b>	<b>Priority one:</b> issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.	<b>2</b>	<b>Priority two:</b> issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.	<b>3</b>	<b>Priority three:</b> issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.
----------	--	----------	--	----------	---

No.	Risk	Issue and recommendation	Management response/responsible officer/due date
1	<b>1</b>	<p><b>LGSS Financial Systems</b></p> <p>As LGSS is not a separate legal entity it has been set up as a cost centre on the general ledgers of Northamptonshire County Council and Cambridgeshire County Council respectively. As a result the accounts closedown process is time-consuming, more complicated and less efficient than equivalent processes for similar organisations.</p> <p>Which in turn meant we were unable to place reliance on controls due to the requirement to test controls across two ledgers, and instead had to undertake much more time consuming substantive testing.</p> <p>In addition, due to the complex methodology used in compiling the Financial Statements this has led to the audit identifying a number of adjustments to be made by management and additional external audit testing to be performed.</p>	<p><b>Management response</b></p> <p>LGSS recognises that its accounting structure has become increasingly complex as it has expanded in recent years.</p> <p>LGSS will review its accounting structure and will explore the feasibility of setting up its own standalone General Ledger, in order to separate out its transactions from those of the councils.</p> <p>The overarching aim of LGSS when producing accounts is to make them as easy to read and understandable to the reader as possible. LGSS is committed to delivering this, and will continue to utilise the interim audit in order to run through proposed methodology with the external auditors and to work towards implementing changes to make the audit process smoother.</p> <p>LGSS will also explore the possibility of other potential changes to systems/processes, such as reviewing the feasibility of setting up its own bank account.</p>

## Key issues and recommendations (cont.)

No.	Risk	Issue and recommendation	Management response/responsible officer/due date
1 (cont.)		<p><b>Recommendation</b></p> <p>As LGSS continues to grow, bringing in Milton Keynes following the yearend, it is now time to critically consider the financial systems and processes used by LGSS and implement a structure and/or system and processes that are more appropriate to the nature and size of the organisation. This will help to improve the controls in operation, accuracy of data, efficiency of the closedown process and ultimately reduce costs to the organisation of time required to prepare the accounts.</p>	<p><b>Responsible Officer</b> LGSS Director of Finance / LGSS Head of Integrated Financial Services / LGSS Head of Business Planning and Finance.</p> <p><b>Due date</b> This will be a major undertaking, the review to be completed by June 2017 for implementation in 2017-18. The ERP Gold implementation needs to be completed first.</p>
2	2	<p><b>Quality of Prepared by Client working papers and responses to audit queries</b></p> <p>We have noted an improvement in the clarity of LGSS's workings with regard to consolidating the two ledgers into the LGSS Financial Statements.</p> <p>However, throughout the audit we identified a number of issues where working papers provided by LGSS could not be agreed to the Financial Statements and/or errors were identified. This created delays in the audit as we were unable to test balances as working papers were not sufficiently complete to enable robust audit testing to occur.</p> <p>Our requests for further audit evidence, such as invoices for sample testing, also had significant delays of up to 35 days from the date requested, causing further audit delays.</p> <p><b>Recommendation</b></p> <p>LGSS should review its closedown process for 2016/17 and carefully consider any stretch targets for completion of working papers. LGSS should review the capacity on the Closedown Team to meet such targets, taking into consideration the Finance Team's workload also.</p>	<p><b>Management response</b></p> <p>The preparation of the 2015-16 accounts has been the first year that LGSS has utilised an Integrated Closedown Team. This team has prepared the accounts for LGSS, NCC and CCC. Producing these accounts and managing the subsequent audits simultaneously across the organisations has been challenging.</p> <p>LGSS will undertake a full debrief following the conclusion of the 2015-16 audit, looking at lessons learned and continuing to implement improvements for the future.</p> <p>A restructure of the Finance directorate has just been completed. This has included further strengthening of the Closedown function, and due consideration has been given to ensure that the team is appropriately resourced.</p> <p>Consideration will be given to the scheduling of the accounts production process, and of the audit fieldwork, when compiling the 2016-17 Closedown timetable to ensure that adequate resources are available to fulfil the required tasks.</p> <p><b>Responsible Officer</b> LGSS Head of Integrated Financial Services</p> <p><b>Due date</b> Restructure completed December 2016. Other aspects to be completed prior to audit of 2016-17 Accounts.</p>

## Key issues and recommendations (cont.)

No.	Risk	Issue and recommendation	Management response/responsible officer/due date
3	2	<p><b>Compliance with the CIPFA code requirements</b></p> <p>2015/16 was the first year LGSS were not legally required to produce financial statements. However, LGSS decided that they would, in the interests of openness and good governance, continue to produce financial statements. In doing so they have elected to apply the CIPFA Code of Practice on Local Authority Accounting.</p> <p>However, in undertaking our audit we identified a number of instances where disclosures required under the Code had been omitted and therefore these were required to be corrected by management.</p> <p><b>Recommendation</b></p> <p>LGSS should ensure that it continues to comply with the accounting requirements of the Code and ensure that any changes to the requirements are reflected in future LGSS financial statements.</p>	<p><b>Management response</b></p> <p>LGSS will continue to use the CIPFA Code of Practice as the basis of preparation for its Statement of Accounts in order to allow comparability with the accounts of the County Councils, which are prepared on that basis.</p> <p>In preparing its accounts LGSS has sought to balance the requirements of the Code with the desire to make the accounts understandable to the reader. On occasions this has required judgements to be made on the way to present particular items. For example, as LGSS's operations are considered to be trading income/expenditure the Code requires that they be presented as Financing and Investment income/expenditure on the face of the Income and Expenditure Statement. This does not provide the reader of the accounts with a breakdown of these figures by Directorate heading, so this has been shown in an additional table within the accounts.</p> <p>As 2015-16 has been the first year that LGSS Law has been trading it has been the first year that group accounts have been prepared. Upon preparation of the draft accounts judgements were made regarding the disclosures that would be required in respect of the consolidated LGSS Law statements. Following discussion with the auditors during the course of the audit it was agreed that some additional disclosures would be required. These have been included in the final set of accounts. For example disclosures have been added in respect of the defined benefit pension scheme.</p> <p>For the preparation of the 2016-17 accounts Officers will discuss any potential changes in presentation with the auditors at an early stage in the preparation process, in order to minimise changes required during the audit.</p> <p><b>Responsible Officer</b> LGSS Closedown Group Accountant</p> <p><b>Due date</b> Prior to the production of the 2016-17 LGSS Statement of Accounts.</p>

# Key issues and recommendations (cont.)

No.	Risk	Issue and recommendation	Management response/responsible officer/due date
4	3	<p><b>Journal entries</b></p> <p>Journals can be requested by anyone within the LGSS Finance team without any prior management authorisation. There are no limits on the value of the journals. An annual review is in place however, the individual performing the review posts journals themselves, indicating a lack of segregation of duties. They are also required to review journals posted by more senior staff members, which they may be less likely to question or challenge if they seem unusual.</p> <p><b>Recommendation</b></p> <p>LGSS should consider exploring available options to improve its journal controls, including how the system can be utilised to support improved:</p> <ul style="list-style-type: none"> <li>• segregation of duties regarding the authorising, posting, reviewing and reconciling of journal entries;</li> <li>• access rights controlling who is authorised to record and approve journal entries along with the posting and authorisation limit; and</li> <li>• oversight of the journal entry-posting process by members of management including post-entry review based on a defined risk based approach.</li> </ul>	<p><b>Management response</b></p> <p>Journals can only be posted by staff with the appropriate responsibilities and sufficient professional knowledge. These staff are predominantly within the Finance, Pensions and Transactions teams. This functionality is not generally given to staff in the wider organisation.</p> <p>A validation process is undertaken prior to each journal being loaded. This checks that the template has been completed correctly and that the required information has been provided.</p> <p>Whilst there is no explicit approval at the point of entry, there are procedures in place to identify miss-postings retrospectively. Budget managers review the transactions posted against their budget groups as part of the monthly budget monitoring process. Finance Business Partner teams also scrutinise transactions and balances as part of this process.</p> <p>LGSS is currently in the process of implementing the ERP Gold system. Consideration will be given to ensure that an appropriate journal entry process is instigated in the new system.</p> <p><b>Responsible Officer</b> LGSS Director of Finance</p> <p><b>Due date</b> April 2017.</p>

# Follow up of prior year recommendations

We re-iterate the importance of the outstanding recommendations and recommend that these are implemented as a matter of urgency.

This appendix summarises the progress made to implement the recommendations identified in our ISA 260 Report 2014/15 and re-iterates any recommendations still outstanding.

Number of recommendations that were:	
Included in original report	3
Implemented in year or superseded	1
Remain outstanding (re-iterated below)	2

No.	Risk	Issue and recommendation	Status
1	2	<p><b>Supporting Working Papers</b></p> <p>This is the second year that LGSS financial statements were required to be produced. Whilst the majority of the working papers provided were of good quality, in a number of areas we did not receive the evidence requested as part of our Prepared by Client list at the start of our onsite audit. In particular, this relates to payroll information from Cambridgeshire County Council (week 2 of our audit), and working papers in regards to recharges and journals which were provided at the end of our official visit.</p> <p>Additionally, we note that whilst there has been some improvement in providing consistency between the two Authorities (NCC and CCC), a number of key working papers are still presented in different formats which results in additional queries and delays in selecting samples.</p> <p><b>Recommendation</b></p> <p>LGSS should instigate robust closedown procedures to ensure that all PBC requested working papers are provided at the start of the audit, are produced in a consistent manner for efficient auditing, and are of sufficiently high quality to reduce the number of subsequent queries arising.</p>	<p><b>Partially Implemented</b></p> <p>The majority of working papers requested in our <i>Accounts Audit Protocol</i> were provided to us at the start of our onsite audit.</p> <p>However, there were a numbers of items outstanding which had to be requested again during the audit. In addition a number of working papers provided did not reconcile to the draft statement of accounts; these had be reissued by LGSS.</p> <p>We have therefore re-raised this recommendation for 2015/16.</p>

# Follow up of prior year recommendations (cont.)

We re-iterate the importance of the outstanding recommendations and recommend that these are implemented as a matter of urgency.

This appendix summarises the progress made to implement the recommendations identified in our ISA 260 Report 2014/15 and re-iterates any recommendations still outstanding.

Number of recommendations that were:	
Included in original report	3
Implemented in year or superseded	1
Remain outstanding (re-iterated below)	2

No.	Risk	Issue and recommendation	Status
2	2	<p><b>Closedown Resourcing</b></p> <p>As noted in this report, during our audit visit, LGSS was subject to a number of queries arising from the public right of inspection.</p> <p>During this period, the two key Officers with responsibility for supporting the audit, had to prioritise their time in dealing with these elector queries.</p> <p>As an unfortunate result of this, we suffered delays in the completion of our audit, as LGSS took longer to respond to queries due to the fact that no other individual was able to assist in the resolution of these queries.</p> <p><b>Recommendation</b></p> <p>LGSS should reflect on this experience, and review its closedown process to ensure it has sufficient capacity of both time and resource to meet multiple commitments, including mitigation for unforeseen events such as public inspection queries, or other possibilities such as sick leave, annual leave etc.</p>	<p><b>Not Implemented</b></p> <p>Throughout the audit we encountered significant delays in receiving requested information.</p> <p>Notable examples include income and expenditure invoice samples requested, which took four to five weeks to be provided in full.</p> <p>We also encountered delays in our testing of termination benefits, as the key member of HR staff was absent with no other member of staff to help. This caused a delay of more than two weeks.</p> <p>We have therefore re-raised this recommendation for 2015/16.</p>

# Audit differences

This appendix sets out the audit differences.

The 2015/16 financial statements have been amended for all of the errors identified through the audit process.

We are required by ISA 260 to report all uncorrected misstatements, other than those that we believe are clearly trivial, to those charged with governance (which in your case is the joint committee). We are also required to report all material misstatements that have been corrected but that we believe should be communicated to you to assist you in fulfilling your governance responsibilities.

### Uncorrected audit differences

We are pleased to report that there are no uncorrected audit differences.

### Corrected audit differences

#### Material misstatements

No material audit differences were identified over the course of our audit work.

#### Non material audit differences

Our audit identified a number of non material errors in the 2015/16 financial statements. These have been discussed with management who have agreed to make this adjustments in the financial statements. We have raised a recommendation in Appendix one to support LGSS in reducing the number of adjustments in future financial reporting periods.

Impact					
No.	Income	Expenditure	Assets	Liabilities	Basis of audit difference
1	Dr Gross Income £100k	Cr Gross Expenditure £100k	Dr Cash £100k Cr Debtors £100k		Remove loan to LGSS Law incorrectly included in the LGSS financial statements.
2			Cr Cash £416k	Dr Creditors £416k	Adjustment for 2014/15 Equalisation payment.
3			Dr Cash £110k Cr Debtors £110k		Adjustment for 2015/16 Equalisation payment.
	<b>Dr £100k</b>	<b>Cr £100k</b>	<b>Cr £416k</b>	<b>Dr £416k</b>	<b>Total impact of adjustments</b>

A number of minor amendments focused on presentational improvements have also been made to the draft financial statements. The Finance Department are committed to continuous improvement in the quality of the financial statements submitted for audit in future years.

# Materiality and reporting of audit differences

For 2015/16 our materiality is £650k for LGSS's accounts.

We have reported all audit differences over £32k for LGSS's accounts to the Joint Committee.

### Materiality

The assessment of what is material is a matter of professional judgment and includes consideration of three aspects: materiality by value, nature and context.

- Material errors by value are those which are simply of significant numerical size to distort the reader's perception of the financial statements. Our assessment of the threshold for this depends upon the size of key figures in the financial statements, as well as other factors such as the level of public interest in the financial statements.
- Errors which are material by nature may not be large in value, but may concern accounting disclosures of key importance and sensitivity, for example the salaries of senior staff.
- Errors that are material by context are those that would alter key figures in the financial statements from one result to another – for example, errors that change successful performance against a target to failure.

We used the same planning materiality reported in our External Audit Plan 2015/16, presented to you in July, 2016.

Materiality for LGSS's accounts was set at £650k which equates to around one percent of gross expenditure. We design our procedures to detect errors in specific accounts at a lower level of precision.

### Reporting to the joint committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Joint Committee any misstatements of lesser amounts to the extent that these are identified by our audit work.

Under ISA 260, we are obliged to report omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

ISA 450 requires us to request that uncorrected misstatements are corrected.

In the context of LGSS, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £32k for LGSS.

Where management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Joint Committee to assist it in fulfilling its governance responsibilities.

# Declaration of independence and objectivity

Communicate all significant facts and matters that bear on KPMG LLP's independence and objectivity and to inform you of the requirements of ISA 260 (UK and Ireland) Communication of Audit Matters to Those Charged with Governance.

### Integrity, objectivity and independence

Professional ethical standards require us to communicate to you in writing at least annually all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place that, in our professional judgment, may reasonably be thought to bear on KPMG LLP's independence and the objectivity of Andrew Cardoza and the audit team.

### General procedures to safeguard independence and objectivity

KPMG's reputation is built, in great part, upon the conduct of our professionals and their ability to deliver objective and independent advice and opinions. That integrity and objectivity underpins the work that KPMG performs and is important to the regulatory environments in which we operate. All partners and staff have an obligation to maintain the relevant level of required independence and to identify and evaluate circumstances and relationships that may impair that independence.

Acting as an auditor places specific obligations on the firm, partners and staff in order to demonstrate the firm's required independence. KPMG's policies and procedures regarding independence matters are detailed in the *Ethics and Independence Manual* ('the Manual'). The Manual sets out the overriding principles and summarises the policies and regulations which all partners and staff must adhere to in the area of professional conduct and in dealings with clients and others.

KPMG is committed to ensuring that all partners and staff are aware of these principles. To facilitate this, a hard copy of the Manual is provided to everyone annually. The Manual is divided into two parts. Part 1 sets out KPMG's ethics and independence policies which partners and staff must observe both in relation to their personal dealings and in relation to the professional services they provide. Part 2 of the Manual summarises the key risk management policies which partners and staff are required to follow when providing such services.

All partners and staff must understand the personal responsibilities they have towards complying with the policies outlined in the Manual and follow them at all times. To acknowledge understanding of and adherence to the policies set out in the Manual, all partners and staff are required to submit an annual ethics and independence confirmation. Failure to follow these policies can result in disciplinary action.

### Auditor declaration

In relation to the audit of the financial statements of LGSS for the financial year ending 31 March 2016, we confirm that there were no relationships between KPMG LLP, LGSS, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards requirements in relation to independence and objectivity.

### Audit Fee

Our audit fee for 2015/16 was £24,500 plus VAT (£22,900 in 2014/2015, in addition to £33,000 fees billed to date with regards to work undertaken in order to respond to the objection raised in 2014/15).



[kpmg.com/uk](https://kpmg.com/uk)



The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

© 2017 KPMG LLP, a UK limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative (“KPMG International”), a Swiss entity. All rights reserved.

KPMG LLP is multi-disciplinary practice authorised and regulated by the Solicitors Regulation Authority. For full details of our professional regulation please refer to ‘Regulatory Information’ at [www.kpmg.com/uk](https://www.kpmg.com/uk)

The KPMG name and logo are registered trademarks or trademarks of KPMG International. | Create KGS: CRT064379A

