LGSS Annual Report 2014-15

By the Public Sector, for the Public Sector

LGSS
Statement of Accounts
2014-15

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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/cmis5live/DecisionMakingCommittees/tabid/110/ctl/ViewCMIS_CommitteeDetails/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

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

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 £000	External Income Budget £000	Internal Income Budget £000	Net Budget £000	Outturn £000	Variance £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)
Total LGSS	**64,444**	**(29,628)**	**(11,478)**	**23,338**	**22,686**	**(652)**

Table 3	2012-13 Outturn £000	2013-14 Outturn £000	2014-15 Outturn £000
Brought Forward (1 April) [a]	**(1,489)**	**(3,289)**	**(2,893)**
Reinvestment	604	2,402	2,091
Repayment to Trading Partners	0	184	0
Distribution of prior year dividend [b]	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)
LGSS Operational Reserves (31 March)	**(3,289)**	**(2,893)**	**(2,005)**

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)
Total				**(1,233)**	**(771)**	**(2,005)**

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LGSS

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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 10th September 2015 and were approved.

Councillor Mac McGuire
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 31st 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 31st 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
6,210	**Current Assets**		**5,824**
(3,548)	Short Term Creditors	7	(3,533)
(366)	Provisions	8	(286)
(3,914)	**Current Liabilities**		**(3,819)**
2,296	**Net Assets**		**2,005**
2,296	Usable Reserves	5	2,005
0	Unusable Reserves		0
2,296	**Total Reserves**		**2,005**

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 XXth 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
63,205	**(62,066)**	**1,139**	**(Surplus) / Deficit on Provision of Services**	**65,822**	**(65,531)**	**291**
		1,139	**Total Comp Income and Expenditure**			**291**

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
(2,994)	**Net increase or (decrease) in cash and cash equivalents**		**4,960**
(336)	Cash and equivalents at the beginning of the reporting period		(3,330)
(3,330)	**Cash and cash equivalents at the end of the reporting period**		**1,630**

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

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 Combinatinos 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
63,205	**(62,066)**	**1,139**		**65,682**	**(65,391)**	**291**

*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 £000	Transfers to Reserve £000	Transfers from Reserve £000	Closing Balance March 2014 £000
LGSS Operational Reserve	3,289	2,009	(3,105)	2,193
Cambridge Balance Legal (Replacement Reserve)	85	0	0	85
Cambridge Balance Finance (CIPFA Trainee)	62	0	(44)	18
Total LGSS Reserves	**3,436**	**2,009**	**(3,149)**	**2,296**

	Opening Balance Apr 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 Balance Legal (Replacement Reserve)	85	0	(85)	0
Cambridge Balance Finance (CIPFA Trainee)	18	0	(18)	0
Total LGSS Reserves	**2,296**	**653**	**(944)**	**2,005**

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
9,540	**Total Short Term Debtors**	**4,194**

. *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)
(3,548)	**Total**	**(3,533)**

8 Provisions

PDAs (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[a]	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)
Total LGSS	**62,619**	**(27,126)**	**(10,070)**	**25,423**	**23,414**	**(2,009)**

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

	Gross Exp Budget	External Income Budget	Internal Income Budget[a]	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)
Total LGSS	**64,444**	**(29,628)**	**(11,478)**	**23,338**	**22,686**	**(652)**

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)**
Total Income	**(38,442)**	**0**	**38,442**	**0**	**(62,063)**	**(62,063)**
Service expenses	61,856	646	(62,502)	**0**	62,502	**62,502**
Financing & Interest Investments				**0**	700	**700**
Total operating expenses	**61,856**	**646**	**(62,502)**	**0**	**63,202**	**63,202**
(Surplus) or deficit on the provision of services	**23,414**	**646**	**(24,060)**	**0**	**1,139**	**1,139**

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)**
Total Income	**(43,136)**	**0**	**43,136**	**0**	**(65,531)**	**(65,531)**
Service expenses	65,822	0	(65,822)	**0**	65,822	**65,822**
Financing & Interest Investments				**0**	0	**0**
Total operating expenses	**65,822**	**0**	**(65,822)**	**0**	**65,822**	**65,822**
(Surplus) or deficit on the provision of services	**22,686**	**0**	**(22,686)**	**0**	**291**	**291**

£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
LGSS Directorate						
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[a]	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[b]	0	(23,621)	(23,621)			
Total LGSS	**45,421**	**(44,491)**	**930**	**17,084**	**(17,574)**	**(491)**

	Total		
	Expenditure 2013-14	Income 2013-14	(Surplus) / Deficit 2013-14
	£000	£000	£000
LGSS Directorate			
Trading and Strategic Management	1,838	(18,832)	(16,994)
Service Assurance	1,798	(99)	1,699
Finance[a]	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[b]	0	(23,621)	(23,621)
Total LGSS	**62,505**	**(62,066)**	**439**

	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
LGSS Directorate						
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[a]	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[b]	0	(22,396)	(22,396)			
Total LGSS	47,614	(45,816)	1,798	18,209	(19,715)	(1,507)

	Total		
	Expenditure 2014-15	Income 2014-15	(Surplus) / Deficit 2014-15
	£000	£000	£000
LGSS Directorate			
Trading and Strategic Management	1,713	(21,529)	(19,816)
Service Assurance	1,800	(100)	1,699
Finance[a]	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[b]	0	(22,396)	(22,396)
Total LGSS	65,822	(65,531)	291

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
39	**Totals**	**44**

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 [c)]	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		2014-15	122		1	123	16	139
		a)	2013-14	119	8	2	129	15	144
LGSS Director of Finance and Section 151 Officer NCC	NCC		2014-15	115	3	1	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		2014-15	112		1	113	22	135
		b)	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	**Total cost included in bandings**		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 31st 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 31st 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

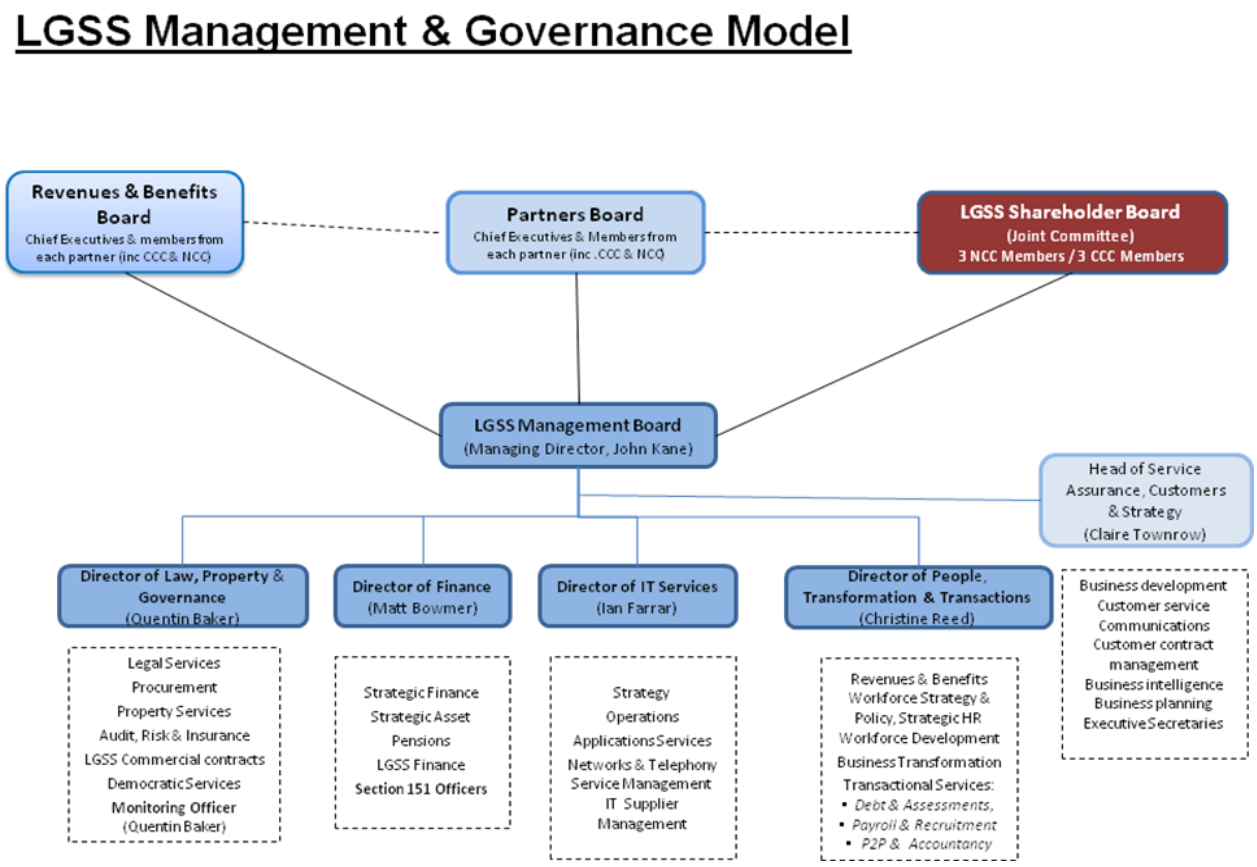
Good governance means developing and clearly communicating LGSS's plans and priorities to its key stakeholders. The following describes how LGSS achieves it's objectives in order of priority:

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:



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 26th 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:

Assurance Level	**Assurance Criteria**
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 Mac McGuire	**John Kane**
Chairman of the LGSS Joint Committee	**LGSS Managing Director**
Date:	**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

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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.