EASTERN SHIRES PURCHASING ORGANISATION
A LOCAL AUTHORITY PURCHASING AND DISTRIBUTION CONSORTIUM
CONSORTIUM SECRETARY: JOHN SINNOTT, MA, Dipl. P.A., CHIEF EXECUTIVE, LEICESTERSHIRE COUNTY COUNCIL

Date:	23 August 2013
My Ref	PH/ESPO
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To: Members of the ESPO Finance and Audit Subcommittee

Dear Member,

ESPO FINANCE AND AUDIT SUBCOMMITTEE

A meeting of the Finance and Audit Subcommittee will be held on Tuesday, 3 September at 10.30 am in the Goscote Committee Room at County Hall, Glenfield, Leicester.

Yours faithfully,

for Consortium Secretary

AGENDA

1. Minutes of the meeting held on 3 June 2013. (Pages 3 – 8)

2. Declarations of interests in respect of items on this agenda.

3. To advise of any items that the Chairman has decided to take as urgent elsewhere on the agenda.

4. Statement of Accounts and Annual Governance Statement 2012/13. (Pages 9 - 74)

   (Joint Report of the Director and Consortium Secretary)

5. Management Accounts to July 2013. (Pages 75 - 80)

   (Report of the Director)

During discussion of Item 5 above, the Chairman will be asked to consider Item 8 on the agenda which will involve the likely exclusion of the public.

6. Progress against Internal Audit Annual Plan. (Pages 81 - 92)

(Report of the Consortium Treasurer)

7. Date of next meeting- Tuesday 19 November 2013.

<u>The public are likely to be excluded during the consideration of the following items of business in accordance with Section 100(A)(4) of the Local Government Act 1972 (Exempt Information):</u>

8. Supplementary Information Informing the Management Accounts to July 2013. (Pages 93 - 102)

(Report of the Director)

(Exempt under paragraphs 3 and 10 of Schedule 12(A))

Minutes of a meeting of the ESPO Finance and Audit Subcommittee held at County Hall, Glenfield, Leicestershire on Monday, 3 June 2013.

PRESENT

Cambridgeshire County Council

Cllr. J. Reynolds

Leicestershire County Council

Dr. R.K.A. Feltham CC

Lincolnshire County Council

Cllr. S. Rawlins

Leicester City Council

Cllr. J. Thomas

1. Election of Chairman for the municipal year 2013/14.

It was moved by Dr Feltham CC, seconded by Cllr Thomas and carried:-

"That Cllr J Reynolds be elected as Chairman of the Finance and Audit Subcommittee for the municipal year 2013/14."

Cllr J Reynolds - in the Chair

1. Minutes of the meeting held on 18 February 2013.

The minutes of the meeting held on 18 February 2013, having previously been circulated, were agreed as a correct record and signed.

3. To advise of any items that the Chairman has decided to take as urgent elsewhere on the agenda.

There were no urgent items for consideration.

4. Declarations of interests in respect of items on this agenda.

The Chairman invited members who wished to do so to declare any interest in respect of items on the agenda for the meeting.

No declarations were made.

5. Change to the Order of Business.

The Chairman sought and obtained the consent of the Subcommittee to vary the order of business from that set out in the agenda.

6. Draft Outturn 2012/13.

The Subcommittee received a joint report of the Director and Consortium Treasurer setting out the Draft Outturn for 2012/13. A copy of the report marked 'Item 5' is filed with these minutes.

Arising from discussion the following points were made:

(i) ESPO had experienced an improvement in store sales. This improvement was considered to be, in part, due to the development of ESPO's marketing activities;

(ii) Given that ESPO had a large number of customers which were schools, significant change in the education sector was considered to be a key strategic risk, although recent changes in the sector had not adversely impacted on the Organisation;

(iii) ESPO had put in place a process by which it could monitor how many schools had converted to academy status in each local authority area in which it operated;

(iv) It was important for ESPO to continue to offer value for money products and services to schools as they would continue to require resources regardless of whether they had converted to academy status;

(v) Full-time equivalent staffing levels had reduced; however, this reduction was masked because the costs for agency staff had increased. These costs were expected to decrease over the coming months;

(vi) ESPO's consulting services were considered to be a core service which provided particular value to Consortium Authorities. There was a need to further develop this area of business;

(vii) ESPO's Energy Governance Group monitored and set parameters for the organisation's activity in the energy sector. The Group comprised representatives from each Consortium Authority. The Subcommittee considered that it would be useful to incorporate information on ESPO's assurance procedures for energy within the report to be considered by the Management Committee;

(viii) With regard to the General Fund, at present there was no reason to believe that informal borrowing arrangements with Leicestershire County Council would need to be enacted.

RESOLVED:

(a) That the report be noted;

(b) That officers be requested to incorporate information on ESPO's assurance procedures for energy within the report to be considered by the Management Committee;

(c) That the Subcommittee recommends to the Management Committee for approval:-

(i) the draft out turn for 2012-13;

(ii) allocations from the operating surplus for 2012-13 as outlined in paragraphs 23 and 24 of the report;

(iii) payment of the dividend subject to approval of the accounts and confirmation of the basis for distribution as outlined in paragraphs 25 and 26 of the report.

7. Exclusion of the Public.

RESOLVED:

That under Section 100(A)(iv) of the Local Government Act 1972 the public be excluded from the meeting on the grounds that it will involve the likely disclosure of exempt information during consideration of the following item of business entitled:

'Supplementary Information Informing the Draft Outturn 2012/13' as defined in paragraphs 3 and 10 of Schedule 12A of the Act; and, in all circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

8. Supplementary Report Informing Draft Outturn 2012/13.

The Subcommittee considered a joint exempt report of the Consortium Treasurer and Director which set out information regarding ESPO's Draft Outturn which contained details of a commercially sensitive nature. A copy of the exempt report, marked 'Item 12', is filed with these minutes.

The exempt report was not for publication by virtue of paragraphs 3 and 10 of Section 12A of the Local Government Act 1972.

RESOLVED:

That the information contained within the report be noted.

[The meeting then reconvened into public session.]

9. Progress against Internal Audit Annual Plan 2012/13.

The Subcommittee received a report of the Consortium Treasurer the purpose of which was to give a summary of Leicestershire County Council's Internal Audit Service (LCCIAS) work and highlight audits where high importance recommendations had been made. A copy of the report marked 'Item 6' is filed with these minutes.

Arising from discussion the following points were noted:

(i) A review of Business Continuity was undertaken as part of the 2012/13 Audit Plan. This was to give assurances that arrangements were in place to ensure acceptable continuation of critical functions in the event of system failures or emergencies. ESPO had responded quickly to recommendations arising from the review. Members commented that the outcome of the review should be reported to the Management Committee;

(ii) Guidance on the Public Sector Internal Audit Standards had been produced and was being evaluated by the LCCIAS. A further report providing information on this matter would be submitted to a future meeting of the Subcommittee;

(iii) The Subcommittee was advised that, in the case of a whistleblowing investigation, the Internal Audit Service would report to members the outcome of the investigation at the earliest opportunity;

(iv) Audit work in respect of energy had been postponed to take place during 2013/14 at ESPO's request.

RESOLVED:

That the contents of the report be noted.

10. Internal Audit Annual Members' Report 2012/13.

The Subcommittee received a report of the Consortium Treasurer presenting the Internal Audit Service Annual Report for 2012-13. A copy of the report marked 'Item 7' is filed with these minutes.

RESOLVED:

That the Internal Audit Service Annual Report for 2012-13 be noted.

11. Internal Audit Plan 2013/14.

The Subcommittee received a report of the Consortium Treasurer presenting the Annual Internal Audit Plan 2013-14. A copy of the report marked 'Item 8' is filed with these minutes.

Arising from discussion the following points were noted:

(i) The Subcommittee noted the importance of monitoring new and emerging risks from professional and industry sources;

(ii) A review of ESPO's fleet operations was expected in the near future. Strategic changes to ESPO's fleet services would need approval by the Management Committee;

(iii) Costs associated with the work of the Leicestershire County Council's Internal Audit Service were comparable with other local government internal audit services.

RESOLVED:

(a) That the methodology used as a basis for developing the Internal Audit Plan be supported;

(b) That the ESPO Internal Audit Plan for 2013-14 be noted.

12. Mitigation of the Risk of Fraud.

The Subcommittee considered a report of the Director outlining ESPO's management of the mitigation of the risk of fraud. A copy of the report marked 'Item 9' is filed with these minutes.

RESOLVED:

That the contents of the report be noted.

13. Date of next meeting- Tuesday 3 September 2013.

It was noted that the next meeting would be held on 3 September 2013.

14. Exclusion of the Public.

RESOLVED:

That under Section 100(A)(iv) of the Local Government Act 1972 the public be excluded from the meeting on the grounds that it will involve the likely disclosure of exempt information during consideration of the following item of business entitled:

'Update from ESPO on reducing stock levels' as defined in paragraphs 3 and 10 of Schedule 12A of the Act; and, in all circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

15. Update from ESPO on reducing stock levels.

The Subcommittee considered an exempt report of the Director which provided an update on progress made on stock management procedures. A copy of the exempt report, marked 'Item 11', is filed with these minutes.

The exempt report was not for publication by virtue of paragraphs 3 and 10 of Section 12A of the Local Government Act 1972.

RESOLVED:

(a) That the information contained within the report be noted;

(b) That officers be asked to inform members of the value of stock held by ESPO which had become obsolete;

(c) That officers be requested to provide a further progress update on stock management procedures in six months' time.

10.30 am - 12.30 pm CHAIRMAN
03 June 2013

ESPO FINANCE AND AUDIT SUBCOMMITTEE – 3 SEPTEMBER 2013

DRAFT STATEMENT OF ACCOUNTS AND ANNUAL GOVERNANCE STATEMENT 2012/13

JOINT REPORT OF THE DIRECTOR AND CONSORTIUM TREASURER

Purpose of Report

1. This report sets out the Statement of Accounts and Annual Governance Statement for the financial year 2012/13.

Background

2. The Statement of Accounts for 2012/13 is prepared under the IFRS based code of practice on local authority accounting, consistent with the prior year. There have been no major changes in financial regulations that will affect ESPO this year. The following changes have not yet been implemented:
   · IAS 19 Employee Benefits (amended). This is applicable to accounting periods starting on or after 1 January 2013. The key change affecting local government pension scheme employers relates to the expected return on assets.
   · IAS 1 Presentation of Financial Statements (amended). The changes are presentational only and will not impact on any of the reported amounts in the Comprehensive Income and Expenditure Statement.

Draft Statement of Accounts and Annual Governance Statement 2012/13

3. The Draft Statement of Accounts and Annual Governance Statement for 2012/13 are attached as Appendix 1.

4. The Draft Statement of Accounts were distributed to members on 1st August 2013 in accordance with the minutes of the Management Committee meeting held on 27th June 2013. The Draft Annual Governance Statement was considered by the Management Committee at this meeting.

5. PriceWaterhouseCoopers (PWC) commenced final audit of the accounts on 5th August 2013 for two weeks. It is hoped that an oral update on audit progress can be submitted to members on 3rd September 2013.

6. Formal approval of the accounts is required from the Management Committee before the end of September 2013.

Key Points

- Value of Land and Buildings:- The Grove Park premises were re-valued at £10m (2011/12 - £10m) in accordance with professional guidelines. The outstanding long term loan now stands at £8.5m (2010/11 £9.0m).

- Cash at Bank:- Total cash balances were £9.22m (2011/12 £7.23m) an increase of 27.5%. The total dividend declared but not yet paid stands at £1.53m (2011/12 £3.49m).

- Net Assets:- Total net assets grew to £9.6m from £8.5m in the prior year. This is principally due to the surplus on provision of services of £1.1m.

- Post Balance Sheet Events:- None

Resources Implications

7. None

Recommendation

8. The Subcommittee is asked to note that the Management Committee will be asked to approve the Draft Statement of Accounts for 2012/13.

Equal Opportunities Implications

9. None

Background Papers

10. None

Officer to Contact

Mr B Roberts –Consortium Treasurer (Tel: 0116 305 7831)
Mr J Doherty – Director of ESPO (Tel: 0116 265 7930)

Appendices

Draft Annual Statement of Accounts
Annual Governance Statement

Explanatory Forward

Introduction

The published accounts of the Eastern Shires Purchasing Organisation (ESPO) are presented in this booklet.

About ESPO

ESPO is a Joint Committee set up under Section 102 of the 1972 Local Government Act. The member authorities at 31 March 2013 were Cambridgeshire, Leicestershire, Lincolnshire, Norfolk and Warwickshire County Councils together with Leicester and Peterborough City Councils.

ESPO's main objective is the provision of a professional, comprehensive, value for money purchasing, contracting and supplies service for member authorities and other public bodies under the provisions of the Local Authorities (Goods and Services) Act 1970.

In financial terms ESPO has a statutory obligation to recover its operating costs but to keep these at a minimum commensurate with the level of service required and the long-term development of the organisation. Any surplus which accrues is distributed to member authorities after a transfer to reserves, held as a working balance, in line with a formula agreed by ESPO's Management Committee.

Performance in 2012-2013

We are pleased to report continued growth. This has been achieved not only in stores turnover but also in the directs business and use of our framework contracts. This allows ESPO to continue investing in low prices, excellent service and high quality procurement expertise.

The statutory accounts reflect the results of customer's procurement activities through the value of invoiced sales which this year shows an 8.9% increase on the prior year to achieve a total of £94.0m, a record year for ESPO. Turnover on core sales of stores products remains strong and has recorded an increase in the year of 6.5% and this represents a twelfth successive year of growth in store sales. As part of our record sales year sales of Direct Catalogue products grew by 23.5%, partly as a result of the government led Phonics initiative.

Tight control has been maintained over spending both on staff and operating expenses, and this has resulted in a Net Surplus in the management accounts (as shown in Note 23 to this Statement of Accounts) of £2.7m. This enables the announcement of a £1.5m dividend distribution to members for 2012-2013. This is in addition to the £3.5m distributed in 2011-2012.

A revaluation of the Grove Park premises at the end of the financial year has resulted in no change to the valuation of £10m. This follows the increase reported in 2011-2012 of £0.6m.

Future Prospects

In order to mitigate the possible adverse effects of Local Authority spending constraints on future sales volumes ESPO continues to market its goods and services to a broad public sector audience within and beyond its member areas. This strategy supported the successful performance is 2012-2013 and will be continued in line with ESPO's four year strategy and the medium term financial plan.

ESPO's Accounts

The following accounting statements represent ESPO's accounts for the 2012-2013 financial year and have been prepared on a going concern basis. The statements and notes are presented in a way that is intended to meet the common needs of most users with the objective of showing the results of the stewardship and accountability of elected members and management for the resources entrusted to them.

Movement in Reserves Statement

This statement shows the movement in the year on the different reserves held by the Consortium, analysed into "usable reserves" (i.e. those that can be applied to fund expenditure) and other reserves. The Surplus or (Deficit) on the Provision of Services line shows the true economic cost of providing the authorities services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the amounts required to be charged to the General Fund Balance. The Net Increase/Decrease before transfers to earmarked reserves line shows the Statutory General Fund Balance before any discretionary transfers to or from earmarked reserves undertaken by the Consortium.

Comprehensive Income and Expenditure Statement:

This statement shows the accounting cost during the year of providing services in accordance with generally accepted accounting practices. It is fundamental to the understanding of the consortium's activities in that it summarises trading income and expenditure for the twelve months ending 31 March 2013 of all functions for which ESPO is responsible.

The consortium recovers operating costs by the addition of a small on cost within the prices charged to customers and by retrospective rebates from suppliers. For dividend allocation purposes, this account is further analysed between "Stores" and "Procurement". The former relates to general consumable products which are supplied from stocks held by ESPO at its warehouse. Procurement covers all other trading activities, such as procuring more specialised products, providing procurement consultancy services and arranging framework contracts under which ESPO customers order directly from suppliers.

Balance Sheet:

The Balance Sheet shows the value as at the balance sheet date of the assets and liabilities recognised by the consortium. The net assets of the consortium (assets less liabilities) are matched by the reserves held by the consortium. Reserves are reported in two categories. The first category of reserves is usable reserves, i.e. those reserves that the consortium may use to provide services, subject to the need to maintain a prudent level of reserves. The second category of reserves is those that the consortium is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains or losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line "Adjustments between accounting basis and funding basis under regulations".

Cash Flow Statement:

This Cash Flow Statement shows the changes in cash and cash equivalents of the consortium during the reporting period. The Statement shows how the consortium generates and uses cash and cash equivalents as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the consortium are funded from the receipts for services provided by the consortium. Investing activities represent cash outflows that have been made for resources which are intended to contribute to the consortium's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the consortium.

Authorisation of Accounts:

The Statement of Accounts presents a true and fair view of the financial position of the authority at 31 March 2013 and its income and expenditure for the year ended 31 March 2013.

Date of Authorisation:

The accounts were authorised for issue on 30 June 2013 by J Doherty.

J. Doherty
Director of ESPO

Date: 26/9/2013

B. Roberts
Consortium Treasurer

Date: 26/9/2013

The Eastern Shires Purchasing Organisation Consortium's Responsibilities

The consortium is required to:

- Make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs; for the consortium that officer is the Director of Corporate Resources of Leicestershire County Council who is the Consortium Treasurer;
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;
- Approve the Statement of Accounts.

These accounts were approved at a meeting of the Consortium Management Committee on 26 September 2013.

Councillor S Rawlins
Chairman, ESPO Management Committee

Date: 26/9/2013

The Consortium Treasurer's Responsibilities

The Consortium Treasurer (Director of Corporate Resources of Leicestershire County Council) is the Chief Financial Officer for ESPO and is responsible for the preparation of the consortium's Statement of Accounts in accordance with proper accounting practices as set out in the CIPFA/LASAAC Code of Practice in Local Authority Accounting in the United Kingdom 2012/13.

In preparing this Statement of Accounts for the year ended 31 March 2013, the Consortium Treasurer has:

- Ensured that suitable accounting policies have been selected and applied consistently;
- Made judgements and estimates that were reasonable and prudent;
- Complied with the local authority SORP.

The Consortium Treasurer has also ensured that:

- Proper accounting records have been maintained and kept up to date;
- Reasonable steps were taken for the prevention and detection of fraud and other irregularities.

Movement in Reserves Statement
For the years ended 31st March 2012 and 2013

	General Fund Balance	Earmarked Projects Reserves	Earmarked Repairs & Renewals Reserve	Earmarked Property Maintenance Reserve	Earmarked Pay Harmonisation	Earmarked Legal Claim	Strategic Review Implementation	Total usable Reserves	Unusable Reserves	Total Authority Reserves	Note
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	
Balance at 31st March 2011 Carried Forward	**2,137**	**625**	**1,553**	**188**	**520**	**500**	**400**	**5,923**	**891**	**6,814**	
Movement in Reserves during 2011-12											
Surplus on provision of services	1,101							1,101		1,101	
Other Comprehensive Income and Expenditure (Surplus on revaluation of property)									585	585	
Total Comprehensive Income and Expenditure	1,101							1,101	585	1,686	
Adjustments between accounting basis & funding basis under regulations	(24)	(127)	(274)					(425)	425	0	6
Net Increase/Decrease before Transfers to Earmarked Reserves	1,077	(127)	(274)					676	1,010	1,686	
Transfers to/from Earmarked Reserves	(642)	(272)	485	429						0	7
Increase/Decrease in 2011-12	435	(399)	211	429	0	0	0	676	1,010	1,686	
Balance at 31st March 2012 Carried Forward	**2,572**	**226**	**1,764**	**617**	**520**	**500**	**400**	**6,599**	**1,901**	**8,500**	
Movement in Reserves during 2012-13											
Surplus on provision of services	1,046							1,046		1,046	
Other Comprehensive Income and Expenditure (Surplus on revaluation of property)								0	92	92	
Total Comprehensive Income and Expenditure	1,046							1,046	92	1,138	
Adjustments between accounting basis & funding basis under regulations	(30)		(43)					(73)	73		6
Net Increase/Decrease before Transfers to Earmarked Reserves	1,016		(43)					973	165	1,138	
Transfers to/from Earmarked Reserves	(630)	366	623	426	(520)	(265)					7
increase/Decrease in 2012-13	386	366	580	426	(520)	(265)	0	973	165	1,138	
Balance at 31st March 2013 Carried Forward	**2,958**	**592**	**2,344**	**1,043**	**0**	**235**	**400**	**7,572**	**2,066**	**9,638**	

Comprehensive Income and Expenditure Statement
For the year ended 31 March 2013

2011-12 Gross Expenditure	2011-12 Gross Income	2011-12 Net (Income) Expenditure		2012-13 Gross Expenditure	2012-13 Gross Income	2012-13 Net (Income) Expenditure	Note:
£000	£000	£000		£000	£000	£000	
28,639	(39,157)	(10,518)	Central Stores	30,950	(41,725)	(10,775)	
39,979	(47,186)	(7,207)	Other Customer & Client Receipts	44,951	(52,245)	(7,294)	
68,618	(86,343)	(17,725)	Total	75,901	(93,970)	(18,069)	
9,121		9,121	Employees	9,831		9,831	24 30
213		213	Other Employee Expenses	214		214	
565		565	Premises	630		630	
1,430		1,430	Transport	1,494		1,494	
1,699		1,699	Equipment	1,275		1,275	
354		354	Office Expenses	383		383	
949		949	Other Expenses	1,173		1,173	
146		146	Support Service Charges	147		147	
83,095	(86,343)	(3,248)	**Net Cost of Services**	91,048	(93,970)	(2,922)	
1,731	(9)	1,722	Other Operating expenditure	1,530	(2)	1,528	8
446	(21)	425	Financing and Investment Income and expenditure	421	(73)	348	9
85,272	(86,373)	(1,101)	**Surplus on Provision of Services**	92,998	(94,045)	(1,046)	
		(585)	Surplus or deficit on revaluation of Property, Plant and Equipment assets			(92)	10
		(585)	**Other Comprehensive Income and Expenditure**			(92)	
		(1,686)	**Total Comprehensive Income and Expenditure**			**(1,138)**	

Balance Sheet
For the year ended 31st March 2013

	31 March 2012	31 March 2013	Note
	£000	£000	
Property, Plant & Equipment	11,232	10,962	10
Intangible Assets	274	203	11
Long Term Assets	11,506	11,165	
Inventories:			
Central Stores Stocks	4,441	4,540	13
Short Term Debtors	10,279	7,951	14
Cash and Cash Equivalents	7,229	9,219	15
Current Assets	21,949	21,710	
Short Term Borrowing	(1,055)	(906)	12
Short Term Creditors	(9,283)	(10,559)	12,16
Other Current Liabilities	(5,478)	(3,093)	16
Current Liabilities	(15,816)	(14,558)	
Long Term Borrowing	(9000)	(8,500)	12,32
Other Long Term Liabilities	(139)	(179)	12
Long Term Liabilities	(9,139)	(8,679)	
Net Assets	8,500	9,638	
Usable Reserves	6,599	7,572	17
Unusable Reserves	1,901	2,066	18
Total Reserves	8,500	9,638	

The notes on pages 10 to 46 form part of the Statement of Accounts.

Cash Flow Statement
For the year ended 31 March 2013

2011/12		2012/13	Note:
£000		£000	
(1,101)	Net Surplus on the provision of services	(1,046)	
(2,305)	Adjustments on provision of services for non-cash movements	(5,265)	19
(416)	Adjustments for items included in the net surplus on the provision of services that are Investing and Financing activities	(346)	19
425	Net cash flows adjustments to operating activities	3844	20
(3,397)	Total net cash flow from operating activities	(2,813)	
527	Investing Activities	145	21
625	Financing Activities	678	22
(2,245)	Net increase in cash and cash equivalents	(1,990)	
4,984	Cash or cash equivalents at the beginning of the reporting period	7,229	15
7,229	Cash or cash equivalents at the end of the reporting period	9,219	15

Notes to the Accounts

1. Accounting Policies

a. Introduction

The principles and practices of accounting require a Statement of Accounts to be prepared which give a true and fair view of the financial position and performance and cash flows of the organisation. The Statement of Accounts are prepared with due regard to the following:

- Understandability – Allowing the stakeholder to interpret the financial position of the organisation.
- Relevance – Providing relevant financial information which aid user's to form predictions about the outcomes of past, present, and future events or to confirm or correct prior expectations.
- Materiality - An item of information is material to the Statement of Accounts if its misstatement or omission might reasonably be expected to influence assessment of the organisation.
- Reliability - Providing financial information that rests on the faithfulness with which it represents what it purports to represent, coupled with an assurance for the user that it has that representational quality, is free from material error, is neutral and which has been prudently prepared.
- Comparability – The Statement of Accounts are consistent and are comparable with prior years.

The Statement of Accounts, other than the Cash Flow Statement have been prepared on an Accruals basis, the effect of transactions and other events are recognised when they occur and they are recorded in the accounting records and reported in the financial statements in the periods to which they relate.

The Statement of Accounts have also been prepared on the assumption that Eastern Shires Purchasing Organisation will continue in operational existence into the foreseeable future and the accounting policies have been consistently applied.

b. General Principles

The Statement of Accounts summarises ESPO's transactions for the 2012/13 financial year and its position at the year end of 31 March 2013. ESPO is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2003 (updated 2012), which those regulations require 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 2012/13 and the Service Reporting Code of Practice 2012/13, supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under section 12 of the 2003 Act.

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

The purpose of this statement is to explain the basis for the recognition, measurement and disclosure of transactions and other events in the organisation's accounts.

c. Accruals of Income and Expenditure:

The organisation's trading activity is accounted for in the year that it takes place and not when cash payments are made or received. In particular:

Revenue from the sales of goods is recognised when ESPO transfers the significant risks and rewards of ownership to the purchaser and it is likely that economic benefits associated with the transaction will flow to ESPO.

Revenue from the provision of services is recognised when ESPO can measure reliably the percentage of completion of the transaction and it is probable that economic benefits associated with the transaction will flow to ESPO.

Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption; they are carried as inventories on the Balance Sheet.

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.

Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.

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.

Income and expenditure are posted to the relevant service revenue account unless they represent capital receipts or capital expenditure.

d. 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. Cash equivalents are investments that mature in one month 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 Cash Flow Statement, cash and cash equivalents may be shown net of any temporary bank overdrafts that are repayable on demand and form an integral part of the organisation's cash management.

e. Exceptional Items

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

f. Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

Prior period adjustments may arise as a result of a change in accounting policy or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current or future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events or conditions on the organisation's financial position or financial performance. When a change is made it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy has always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

g. Charges to Revenue for Non-Current Assets

For statutory accounting purposes, services, support services and trading accounts are debited with the following amounts to record the cost of holding non-current assets during the year:

- Depreciation attributable to the assets used by the relevant service
- Revaluation and impairment losses on assets used by the service where there are no accumulated revaluation gains in the Revaluation Reserve against which the losses can be written off
- Amortisation of intangible fixed assets

For the determination of its income requirements, ESPO is not required to include depreciation, revaluation and impairment losses or amortisation. For management accounting purposes, these are replaced by revenue contributions to the Earmarked Repairs and Renewals Reserve and Earmarked Property Maintenance Reserve for the replacement of non current and intangible fixed assets.

h. Employee Benefits

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 annual sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees and are recognised as an expense for services in the year in which employees render service to the organisation. An accrual is made for the cost of holiday entitlement (or any form of leave e.g. time off in lieu) earned by employees but not taken before the year end which employees carry forward into the next financial year. The accrual is made at the wages or salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

The Local Authority Pension Scheme

In accordance with the International Accounting Standard 19 – Employee Benefits (IAS 19), ESPO is required to disclose certain information concerning assets, liabilities, income and expenditure related to pension schemes for its employees. This information is included within the Leicestershire County Council Statement of Accounts for 2012/13 as staff are employees of Leicestershire County Council in the council's role as servicing authority for the organisation and no separate apportionment is made of pension scheme assets and liabilities in respect of ESPO staff.

Discretionary Awards

ESPO has restricted powers to make discretionary awards of retirement benefits in the event of early retirement. Any liabilities estimated to arise as a result of an award to any member of staff are 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.

i. Events after the Balance Sheet date

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 is 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.

j. Financial Instruments

Financial Liabilities

Financial liabilities are recognised on the balance sheet when ESPO becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective rate of interest is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

For most of the borrowings that ESPO has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

Financial Assets

ESPO possesses only one type of financial Asset - Loans and receivables. These are assets that have fixed or determinable payments but are not quoted in an active market.

Loans and receivable are recognised on the Balance Sheet when ESPO becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and subsequently measured at amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest received are based on the carrying amount of the asset, multiplied by the effective rate of interest for the instrument.

For most of the loans that ESPO has, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest); and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the relevant service (for receivables specific to that service) or the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The impairment is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the assets original interest rate.

Any gains or losses that arise on the de-recognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

k. Classification of Assets and Liabilities

(i) Assets are classified as current where the following circumstances apply:

- ESPO expects to realise the asset or intends to sell or consume it in its normal operating cycle,
- ESPO holds the asset primarily for the purpose of trading,
- ESPO expects to realise the asset within 12 months after the reporting period,
- The asset is cash or cash equivalent unless the asset is restricted from being exchanged or used to settle liabilities for at least 12 months after the reporting period.

All other assets are classified as long term.

(ii) Liabilities are classified as current where the following circumstances apply:

- ESPO expects to settle the liability in its normal operating cycle,
- ESPO holds the liability primarily for the purpose of trading,
- The liability is due for settlement within 12 months after the reporting period,
- ESPO does not have an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

All other liabilities are classified as long term.

l. Intangible Assets

Expenditure on non-monetary assets that do not have physical substance but are controlled by ESPO as a result of past events (e.g. software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the organisation.

ESPO has no internally generated intangible assets. Any future expenditure on such assets will be capitalised where it can be measured reliably as attributable to the asset and will be restricted to the development phase.

Expenditure on the development of websites is not capitalised if the website is solely or primarily intended to promote or advertise the organisation's goods or services.

Intangible assets are initially measured at cost. Amounts are only revalued where the fair value of the assets held by ESPO can be determined by reference to an active market. In practice no intangible assets held by ESPO meet this criterion, and they are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. As asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The gains or losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account.

m. Inventories

Inventories are included in the Balance Sheet at the lower of cost or net realisable value. Where the inventory is deemed to be obsolete the item is then written off. The cost of inventories is assigned using the weighted average costing formula. ESPO inventories are held as Stores Stocks at Grove Park Enderby for resale.

n. Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

Where the lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Finance Leases

Property, plant and equipment held under finance leases is recognised in the Balance Sheet at the commencement of the lease at its fair value measured at the leases inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Any initial direct costs of this organisation are added to the carrying amount of the asset. Premiums paid on entry into the lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred.

Lease payments are apportioned between:

- A charge for the acquisition of the interest in the property, plant and equipment – applied to write down the lease liability, and
- A finance charge (debited to the Financing Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

Property, Plant and Equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the assets estimated useful life (where ownership of the asset does not transfer to the organisation at the end of the lease).

A prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore substituted by a revenue contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

Operating Leases

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefiting from the use of the leased property, plant or equipment. Charges are made on a straight line basis over the life of the lease; even if this does not match the pattern of payments (eg there is a rent-free period at the commencement of the lease).

o. Property, Plant and Equipment

Assets that have a physical substance and are held for use in the supply of goods or services or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

Recognition

Expenditure on the purchase or enhancement of property, plant and equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to ESPO and the costs of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (ie repairs and maintenance) is charged as an expense when it is incurred. The minimum purchase value for recognition as a non-current asset is £5,000. Purchases of plant and equipment below this value are charged to revenue in the year of purchase.

Measurement

Assets are initially measured at cost, comprising:

- The purchase price
- Any costs attributable to bringing the asset to the location and condition for it to be capable of operating in the manner intended by management

ESPO does not capitalise borrowing costs incurred whilst assets are under construction. All ESPO Property, Plant and equipment has been purchased and were not subject to exchanges or donations.

Assets are carried in the Balance Sheet at fair value, determined as the amount that would be paid for the assets in its existing use. Where non property assets that have short useful lives or low values (or both), depreciated historical cost is used as a proxy for fair value.

The warehouse and offices premises at Grove Park are included at fair value and are revalued annually to ensure that the carrying amount is not materially different from their fair value at the year end. Various Chartered Surveyors in the Property Services Division of Leicestershire County Council's Resources Department carry out the valuation. The current property value used in the 2012/13 accounts is based on a certificate issued by the Council's Head of Property Services Division as at 31 March 2013. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains, except that gains may be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a service.

Where decreases in value are identified they are accounted for by:

- Where there is a balance of revaluation gain for the asset in the revaluation reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount at the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

The revaluation Reserve contains revaluation gains recognised since April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

Impairment

Assets are assessed at each year end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall

Where impairment is identified, they are accounted for by:

- Where there is a balance of revaluation gains for assets in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

Depreciation

Depreciation is provided on all Property, Plant and Equipment by the systematic allocation of their depreciable amounts over their useful lives. An exception is made of assets without a determinable finite life (ie freehold land) and assets that are not yet available for use (ie assets under construction).

Depreciation is calculated on the following bases:

- Buildings – straight line allocation over the useful life of the property as estimated by the valuer
- Vehicles, plant and equipment – a percentage of the value of each class of assets in the balance sheet, as advised by a suitably qualified officer.

Where an asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on the assets and the depreciation that would have been chargeable based on their historical costs being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Disposals and non-current assets held for sale

No assets were identified as available for sale assets at the date of the balance sheet or in the prior accounting year.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet is written off to the Other Operating Expenditure line in Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of the disposal).

p. Provisions, Contingent Liabilities and Contingent Assets

Provisions

Provisions are made where an event has taken place that gives the organisation 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. for instance, ESPO may be involved in a court case that could eventually result in the making of a settlement or a payment of compensation.

Provisions may be charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that ESPO 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 in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated in made), the provision is reversed and credited back to the relevant service.

Contingent Liabilities

A contingent liability arises where an event has taken place that gives ESPO a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the organisation. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured.

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

Contingent Assets

A contingent asset arises where an event has taken place that gives ESPO a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the organisation.

q. Reserves

ESPO sets aside specific amounts as reserves for future policy purposes or to cover contingencies. The reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When Expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement.

Certain reserves are retained to manage the accounting processes for non-current assets, financial instruments, and employee benefits and do not represent resources for the organisation – these reserves are explained in the relevant policies.

r. VAT and Climate Change Levy (CCL)

VAT incorporated to the Comprehensive Income and Expenditure Account is limited to irrecoverable sums.

Income excludes any amounts related to CCL that, as a Deemed Utility, ESPO collects from its customers on behalf of HM Revenue and Customs and all CCL collected is payable to them.

2. Accounting Standards that have been issued but have not yet been adopted

The CIPFA Code of Practice on Local Authority Accounting requires the organisationl to disclose information relating to the impact of an accounting change that will be required by a new standard that has been issued by 1 January 2013 but not yet adopted by the Code for the relevant year. The following changes have not yet been implemented:

- IAS 19 Employee Benefits (amended). Applicable to accounting periods starting on or after 1 January 2013. The key change affecting local government pension scheme employers relates to the expected return on assets.
- IAS 1 Presentation of Financial Statements (amended). The changes are presentational only and will not impact on any of the reported amounts in the CIES.

3. Critical Judgements in Applying Accounting Policies

In applying the accounting policies set out in Note 1, the organisation has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are:

- ESPO's premises at Grove Park, Enderby has been subject to a revaluation as at 31 March 2013 by the Property Department of Leicestershire County Council (the organisation's servicing authority). The resulting valuation of £10m is the same as the prior year.

4. Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty

The Statement of Accounts contains estimated figures that are based on assumptions made by ESPO about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the organisation's Balance Sheet at 31 March 2013 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainty	Effect if Actual Results differ from Assumptions
Property, Plant and Equipment	Assets are depreciated over useful lives that are dependent upon assumptions of business requirements and upkeep expenditure on individual assets.	If the useful lives of assets reduces depreciation increases and the carrying amount of the asset falls. It is estimated that the annual depreciation charge for the premises would increase by £1,200 for every year that useful lives had to be reduced.
Debtors	At 31 March 2013, ESPO had a balance of sales ledger debtors of £6.7m. A review of overdue debts has identified that impairment for doubtful debts of £164,000 was appropriate in relation to amounts due from commercial organisations. However, it is not certain that such an allowance will be sufficient.	If an additional 1% of customers become insolvent, the amount of the impairment for doubtful debts would require an additional £67,000 to be set aside as an allowance.
Stocks	Stocks of catalogue products are	If 10% of the products for

	held in anticipation of sales to customers. The catalogue is re-issued annually and products may be added or deleted. Stocks held at 31 March 2013 in excess of one year sales may not be included in subsequent catalogues. The write down in value of stocks held in excess on one year amounted to £94,000. This value is based on an estimate of sales over the next 12 month period. However, it is not certain that sales forecasts are accurate; that the products will not be included in the next catalogue and that the write down is sufficient or excessive.	which excess stocks have been identified are included in the catalogue for 2013/14, the resulting reduction in stock write down would be £9,400.
Reserves	There is an uncertainty to the amount of reserves created as the amounts are based on estimates.	The position is regularly reviewed.

5. Events after the Balance Sheet Date

The Statement of Accounts was authorised for issue by the Consortium Treasurer on 26 September 2013. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2013, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information. No significant post balance sheet events have occurred.

6. Adjustments between the Accounting Basis and Funding Basis under Regulations

This note details the adjustments that are made to the total comprehensive income and expenditure recognised by the ESPO in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the authority to meet future capital and revenue expenditure.

2012/13	**Usable Reserves**								
	General Fund Balance	Earmarked Projects Reserves	Earmarked Repairs & Renewals Reserve	Earmarked Property Maintenance Reserve	Earmarked pay Harmonisation	Earmarked Legal Claim	Strategic Review Implementation	**Total Movement in Usable Reserves**	Movement in Unusable Reserves
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Adjustments primarily involving the Capital Adjustment Account:									
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement;									
Charges for depreciation and impairment of non current assets	509							509	(509)
Amortisation of intangible assets	71							71	(71)
Proceeds of sales of non current assets as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	61							61	(61)
Gain/loss on disposal of non current assets	(2)							(2)	2
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:									
Statutory provision for financing of capital investment (Grove Park)	(500)							(500)	500
Statutory provision for financing leased capital investment	(166)							(166)	166
Use of General Fund to finance new capital expenditure	(8)							(8)	8
Adjustments involving the Earmarked Reserves:									
Use of reserves to finance new capital expenditure			(43)					(43)	43
Adjustment involving the Accumulated Absences Account:									
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	5							5	(5)
Total Adjustments	**(30)**	**0**	**(43)**	**0**	**0**	**0**	**0**	**(73)**	**73**

2011/12 comparative figures	Usable Reserves								
	General Fund Balance	Earmarked Projects Reserves	Earmarked Repairs & Renewals Reserve	Earmarked Property Maintenance Reserve	Earmarked Pay Harmonisation	Earmarked Legal Claim	Strategic Review Implementation	**Total Movement in Usable Reserves**	Movement in Unusable Reserves
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Adjustments primarily involving the Capital Adjustment Account:									
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:									
Charges for depreciation and impairment of non current assets	550							550	(550)
Amortisation of intangible assets	51							51	(51)
Proceeds of sales of non current assets as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	79							79	(79)
Gain/loss on disposal of non current assets	(9)							(9)	9
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:									
Statutory provision for financing of capital investment (Grove Park)	(500)							(500)	500
Statutory provision for financing leased capital investment	(116)							(116)	116
Use of General Fund to finance new capital expenditure	(74)							(74)	74
Adjustments involving the Earmarked Reserves:									
Use of reserves to finance new capital expenditure		(127)	(274)					(401)	401
Adjustment involving the Accumulated Absences Account:									
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(5)							(5)	5
Total Adjustments	**(24)**	**(127)**	**(274)**	**0**	**0**	**0**	**0**	**(425)**	**425**

7. Transfers to/from Earmarked Reserves

This note sets out the amounts set aside from the General Fund in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund expenditure in 2012/13.

	Balance at 1 April 2012	Transfers in 2012/13	Capital Transfers out 2012/13	Revenue Transfers out 2012/13	Balance at 31 March 2013
	£000	£000	£000	£000	£000
Earmarked Projects Reserve	226	1,215	(76)	(773)	592
Earmarked Repairs and Renewals Reserve	1,764	639	(42)	(17)	2,344
Earmarked Property Maintenance Reserve	617	437		(11)	1,043
Earmarked Pay Harmonisation	520			(520)	0
Earmarked Legal Claim	500			(265)	235
Strategic Review Implementation	400				400
Total	**4,027**	**2,291**	**(118)**	**(1,586)**	**4,614**

2011/12 Comparative Figures:

	Balance at 1 April 2011	Transfers in 2011/12	Capital Transfers out 2011/12	Revenue Transfers out 2011/12	Balance at 31 March 2012
	£000	£000	£000	£000	£000
Earmarked Projects Reserve	625	100	(499)		226
Earmarked Repairs and Renewals Reserve	1,553	522	(311)		1,764
Earmarked Property Maintenance Reserve	188	435	(6)		617
Earmarked Pay Harmonisation	520				520
Earmarked Legal Claim	500				500
Strategic Review Implementation	400				400
Total	**3,786**	**1,057**	**(816)**	**0**	**4,027**

8. Other Operating Expenditure

2011/12 £000		2012/13 £000
1,731	Dividend payable to member authorities	1,530
(9)	Gains/losses on disposal of non current assets	(2)
1,722	**Total**	1,528

9. Financing and Investment Income and Expenditure

2011/12 £000		2012/13 £000
446	Interest payable and similar charges	421
(21)	Interest receivable and other similar income	(73)
425	**Total**	348

10. Property, Plant and Equipment

Movements in Balances

Movements in 2012/13

	Land and Buildings	Vehicles, Plant and Equipment	Total Property, Plant and Equipment
Cost or Valuation	£000	£000	£000
At 1 April 2012	10,000	3,437	13,437
Additions		206	206
Revaluation Increase/(decrease) recognised in the Revaluation Reserve			
Revaluation Increase/(decrease) recognised in the Capital Adjustment Account			
Derecognition – disposals		(157)	(157)
At 31 March 2013	**10,000**	**3,486**	**13,486**
Accumulated Depreciation and Impairment			
At 1 April 2012	0	(2,205)	(2,205)
Depreciation charge	(92)	(417)	(509)
Impairment losses/(reversals) recognised in the Capital Adjustment Account	92		92
Derecognition – disposals		98	98
At 31 March 2013	**0**	**(2,524)**	**(2,524)**
Net Book Value:			
At 31 March 2013	**10,000**	**962**	**10,962**
At 31 March 2012	**10,000**	**1232**	**11,232**

Comparative Movements in 2011/12:

	Land and Buildings	Vehicles, Plant and Equipment	Total Property, Plant and Equipment
Cost or Valuation:	£000	£000	£000
At 1 April 2011	9,500	3,359	12,859
Additions		404	404
Revaluation Increase/(decrease) recognised in the Revaluation Reserve	7		7
Revaluation Increase/(decrease) recognised in the Capital Adjustment Account	493		493
Derecognition – disposals		(326)	(326)
At 31 March 2012	**10,000**	**3,437**	**13,437**
Accumulated Depreciation and Impairment:			
At 1 April 2011	0	(1,996)	(1,996)
Depreciation charge	(85)	(466)	(550)
Impairment losses recognised in the Revaluation Reserve	85		85
Derecognition – disposals		257	257
At 31 March 2012	**0**	**(2,205)**	**(2,205)**
Net Book Value:			
At 31 March 2012	**10,000**	**1,232**	**11,232**
At 31 March 2011	**9,500**	**1,363**	**10,863**

Depreciation:

The following useful lives and depreciation rates have been used in the calculation of depreciation:

1. Land and Buildings – 70 years
2. Vehicles, Plant and Equipment – 4 to 10 years

Capital Commitments:

At 31 March 2013, there were no contractual commitments in 2012/13 for the acquisition of tangible or intangible assets.

Revaluations:

ESPO undertakes an annual revaluation programme to ensure that the value of the premises at Grove Park, Enderby is correctly measured at fair value. The valuation was carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institute of Chartered Surveyors.

	Land and Buildings £000	Vehicles, Plant and Equipment £000	Total Property, Plant and Equipment £000
Historical cost	0	3,486	3,486
Valued at fair value at 31 March 2013	10,000		10,000
Total Cost or Valuation	**10,000**	**3,486**	**13,486**

11. Intangible Assets

ESPO accounts for its software as intangible assets, to the extent that the software is not an integral part of a particular IT system and accounted for as part of the hardware item of Property, Plant and Equipment. The intangible assets only include purchased licences.

All software is given a finite useful life, based on assessments of the period that the software is expected to be of use to the organisation. The useful life assigned to all major software used by ESPO is 5 years.

The carrying amount of intangible assets is amortised on a straight line basis. The amortisation of £70,539 charged to revenue in 2012/13 was charged as a service overhead cost under the heading "Equipment" in the Comprehensive Income and Expenditure Statement.

The movement on Intangible Asset balances during the year is as follows:

	31/03/2012 Purchased Software £000	31/03/2013 Purchased Software £000
Balance at start of year:		
• Gross carrying amount	325	527
• Accumulated amortisation	(202)	(253)
Net carrying amount at start of year	123	274
Additions – Purchases.	202	0
Amortisation for the period	(51)	(71)
Net carrying amount at end of year	274	203
Comprising:		
• Gross carrying amount	527	527
• Accumulated amortisation	(253)	(324)
	274	203

12. Financial Instruments

The following categories of financial instruments are carried in the Balance Sheet:

	Long-Term		Current	
	31 March 2012	31 March 2013	31 March 2012	31 March 2013
	£000	£000	£000	£000
Loans and Receivables: Financial assets carried at contract amounts including Cash and Cash Equivalents			17,508	17,170
Total Debtors	0	0	17,508	17,170
Borrowings: Financial Liabilities at amortised cost	9,000	8,500	1,055	906
Total Borrowings	9,000	8,500	1,055	906
Other Long Term Liabilities: Finance Lease liabilities	139	179		
Total other long term liabilities	139	179	0	0
Other Short Term financial Liabilities: Financial liabilities carried at contract amounts			13,203	12,154
Total Short term Liabilities	0	0	13,203	12,154

Income, Expense, Gains and Losses:

The gains and losses recognised in the Consolidated Income and Expenditure Account in relation to financial instruments are made up as follows:

	2011/12		2012/13	
	Financial Liabilities	Financial Assets	Financial Liabilities	Financial Assets
	Measured at amortised cost	Loans and Receivables	Measured at amortised cost	Loans and Receivables
	£000	£000	£000	£000
Interest expense payable on long term loan	(429)		(404)	
Bank interest payable on leased assets loans	(17)		(17)	
Bank and short term investment interest receivable		21		73
Net gain/(loss) for the year	(446)	21	(421)	73

Fair Values of assets and Liabilities

Financial liabilities and financial assets represented by loans and receivables and long term creditors are carried in the Balance Sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments, using the following assumptions:

- Estimated interest rate at 31 March 2013 of 3.12% for loans from Leicestershire County Council based on equivalent rates for loans from the PWLB and a rate of 7.6% for equipment loans based on equivalent commercial rates.
- No early repayment or impairment is recognised.
- Where an instrument will mature in the next 12 months, carrying amount is assumed to approximate to fair value.
- The fair value of trade and other receivables is taken to be the invoiced or billed amount.

The fair values calculated are as follows:

	31 March 2012		31 March 2013	
	Carry Amount	Fair Value	Carry Amount	Fair Value
	£000	£000	£000	£000
Financial Liabilities – Premises loan from Leicestershire County Council	9,667	10,656	9,157	10,522
Other Long-term creditors	156	156	163	163

Where the fair value is less than the carrying amount, this arises because the organisation’s borrowings include a number of fixed rate loans where the interest payable is lower than the rates available for similar loans at the balance sheet date.

Loans and Receivables:

The fair value of trade and other receivables is taken to be the invoiced or billed amount which is the same as the carrying amount on the Balance Sheet.

13. Inventories

ESPO holds Stores stocks of products for resale to customers. The value of these stocks is as follows:

	2011/12	2012/13
	£000	£000
Balance at start of year	4,435	4,441
Purchases	28,728	30,977
Recognised as an expense in the year	(28,543)	(30,588)
Written off balances	(179)	(290)
Balance at year end	4,441	4,540

14. Short Term Debtors

The following represents an analysis of the amounts due to ESPO:

31 March 2012		31 March 2013
£000		£000
	Current Debtors	
1,448	Reserved Debtors	1,424
8,976	Sundry Debtors	6,691
0	Tax Debtor	0
(145)	Less provision for bad debts	(164)
10,279	**Total**	**7,951**
	Analysis of Bad debts Provision	
(86)	Opening Balance as at 1 April	(145)
(85)	I & E Charge for the Year	(67)
26	Less Bad Debts Written off	48
(145)	Closing Balance as at 31 March	(164)

15. Cash and Cash Equivalents

31 March 2012		31 March 2013
£000		£000
1	Cash held by ESPO	1
1,088	Bank current accounts	329
6,140	Bank short-term deposit account	8,889
7,229	**Total Cash and Cash Equivalents**	**9,219**

16. Short-Term Creditors and Other Current Liabilities

31 March 2012		31 March 2013
£000		£000
	Supplier balances:	
305	• Other local authorities	18
6,004	• Other entities and individuals:	7,293
4,048	Reserved creditors and suspense accounts	4,047
636	Taxes and duties	535
3,496	Member authority dividends	1,529
272	Payroll deductions	232
14,761	**Total**	13,654

17. Usable Reserves

Movements in ESPO's usable reserves are detailed in the Movement in Reserves Statement and in Notes 6 and 7 above.

ESPO reserves have been established to meet operating deficits and to finance major one-off expenditure and replacement of assets. The Usable Reserves held by ESPO at 31 March 2013 are as follows:

(i) General Fund:

The reserve provides working capital to finance ESPO's trading activities. Standard practice is that, on acceptance of the annual accounts by member authorities, the annual surplus is allocated to this account after making deductions of any amounts transferred to Earmarked, Vehicle/Equipment and Stores Maintenance Reserves and of amounts payable to member authorities as annual dividend.

Member authorities' dividend is normally calculated as 80% of the annual surplus after transfers to other reserves. The retained balance is not available for distribution to member authorities and is held to offset any unbudgeted deficits. The maximum value of the general fund determined by Members was set at 5% of turnover.

(ii) Earmarked Projects:

Amounts authorised by member authorities to be allocated from annual surpluses to provide for the funding of major capital expenditure and development projects.

(iii) Vehicles/Equipment:

This reserve provides funding for the replacement purchases of vehicles and other capital equipment and equalises the effect of annual spending variations on annual surpluses by means of an annual charge to revenue calculated on the expected asset life and replacement cost.

(iv) Stores Maintenance:

This reserve provides funding for major building repairs, for which ESPO as beneficial owner is responsible and equalises the effect of annual spending variations on annual surpluses by means of an annual charge to revenue.

(v) Staff Pay Harmonisation:

This reserve provides funding for the expected costs associated with closure of the staff annual bonus scheme.

(vi) Legal Claim:

This reserve provides funding for the organisation's anticipated legal costs in defending a claim in respect of the termination of a design and marketing agreement.

(vii) Strategic Review Implementation:

This reserve provides funding for the implementation of recommendations following a strategic review of the organisation undertaken by Deloitte and agreed by ESPO Management Committee.

18. Unusable Reserves

31 March 2012		31 March 2013
£000		£000
7	Revaluation Reserve	99
1,988	Capital Adjustment Account	2,065
(94)	Accumulated Absences Account	(98)
1,901	**Total**	2,066

Revaluation Reserve

The Revaluation Reserve contains the gains made by ESPO arising from increases in the value of its property. The balance is reduced when assets with accumulated gains are:

- Revalued downwards or impaired and the gains are lost
- Used in the provision of services and the gains are consumed through depreciation, or
- The asset is disposed of and the gains realised.

The Reserve contains only gains accumulated since 1 April 2007, the date the Reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

	2011/12	2012/13
	£000	£000
Balance at 1 April	0	7
Difference between the fair value depreciation and historical cost depreciation:	7	
Revaluation gains on Property, Plant and Equipment		92
Balance at 31 March	7	99

Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provision. The account is debited with the cost of acquisitions, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The accrual is credited with the amounts set aside by the organisation as finance for the costs of acquisition, construction and enhancement.

The Account contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.

Note 6 provides details of the source of all the transactions posted to the account, apart from those involving the Revaluation Reserve.

2011/12 £000	Capital Adjustment Account	2012/13 £000	
990	**Balance at 1 April**		1,988
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:		
(551)	• Charges for depreciation of non current assets	(509)	
577	• Net Revaluation gains and (Impairment losses) on Property, Plant and Equipment	0	
(51)	• Amortisation of intangible assets	(71)	
	• Revenue expenditure funded from capital under statute		
(69)	• Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(59)	
(94)		(639)	
	Net written out of the cost of non-current assets consumed in the year		
	Capital financing applied in the year:		
127	• Use of Major Project Earmarked Reserve to finance new capital expenditure	0	
274	• Use of the Repairs and Renewals Earmarked Reserve to finance new capital expenditure	43	
617	• Statutory provision for the financing of capital investment charged against the General Fund	665	
74	• Capital Expenditure charged against the General Fund	8	
1,092		716	
1,988	**Balance at 31 March**		2,065

Accumulated Absences Account

The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year e.g. annual leave entitlement carried forward at 31 March.

Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

2011/12 £000		2012/13 £000	
(99)	**Balance at 1 April**		(94)
99	Settlement or cancellation of accrual made at the end of the preceding year	94	
(94)	Amounts accrued at the end of the current year	(98)	
5	Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(4)	
(94)	**Balance at 31 March**		(98)

19. Reconciliation of the Surplus on the Comprehensive Income and Expenditure Statement to Revenue Activities Cash flow

2011-12		**2012-13**	
£000	**Non cash Transactions:**	£000	
(602)	Depreciation of non-current assets	(580)	
5	Movement on short-term accumulating compensated absences adjustments	(4)	
(597)			(584)
	Revenue items on an accruals basis:		
5	Increase/(decrease) in stocks	99	
3,060	Increase/(decrease) in debtors	(2,328)	
(2,737)	Decrease/(increase) in creditors	(1,321)	
(223)	Decrease/(increase) in tax creditor	99	
(1,813)	Decrease/(increase) in other current liabilities	(1,231)	
(1,708)			(4,682)
(2,305)	**Total adjustment to net surplus on the provision of services for non-cash movements**		(5,266)
	Adjustments for items included in the net surplus on the provision of services that are Investing and financing activities		
(425)	Interest payable (net)	(348)	
9	Surplus on disposal of non-current assets	2	
(416)			(346)

20. Cash Flow Statement – Adjustments to Operating Activities

The cash flows for operating activities include the following items:

2011/12		2012/13
£000		£000
(21)	Interest Received	(73)
446	Interest paid	421
0	Dividends paid	3,496
425	**Net cash flows from operating activities**	3,844

Note: The dividend declared for 2009/10, 2010/11 and 2011/12 totalling £3.496m has been paid to member authorities during 2012/13.

21. Cash Flow Statement – Investing Activities

2011/12		2012/13
£000		£000
606	Purchase of Property, Plant and Equipment and intangible assets	206
(79)	Proceeds from the sale of property, plant and equipment and intangible assets.	(61)
527	**Net cash flows from investing activities**	145

22. Cash Flow Statement – Financing Activities

2011/12		2012/13
£000		£000
116	Cash payments for the reduction of outstanding finance lease liabilities	166
509	Repayment of short and long-term borrowing	512
625	**Net cash flows from financing activities**	678

23. Amounts Reported for Resource Allocation Decisions

The analysis of the income and expenditure on the face of the Comprehensive Income and Expenditure Statement is that specified by the Best Value Accounting Code of Practice. However, decisions about resource allocation in 2012/13 were taken by ESPO's Senior Management Team on the basis of financial reports analysed across its two main operating divisions. These reports are prepared on a different basis from the accounting policies used in the financial statements. In particular:

- Charges are made in the Management Trading Accounts for the replacement of non-current plant and equipment and intangible assets based on the expected cost of replacement. A Renewals Reserve holds the accumulated charges and purchases of replacements are charged to this reserve.

- No charges are made in relation to depreciation of the Grove Park premises, or for revaluation gains or impairment losses (whereas depreciation on all non current and intangible assets, revaluation and impairment losses in excess of the balance on the Revaluation Reserve and amortisations are charged in the Comprehensive Income and Expenditure Statement).

- Repayments of the capital and interest elements of the premises loan and of finance leases are treated as a rental charges in the Management Trading Accounts (whereas the interest elements are included as Financing and Investment Expenditure in the Comprehensive Income and Expenditure Statement and the capital elements are included in the Movement in Reserve statement and identified in Note 6).

- Charges are made in the Management Trading Accounts for purchases of additional non current and intangible assets for which there are no amounts provided within Renewals or Earmarked Reserves (whereas these purchases are excluded from the Comprehensive Income and Expenditure Statement and are included in the Movement in Reserve statement and identified in Note 6).

- No charges are made in the Management Trading Accounts for revenue expenditure on major development projects where an earmarked reserve has been established and approved by the Management Committee (whereas such expenditure is included within the Comprehensive Income and Expenditure Statement and reversed out in the Movement in Reserve statement and identified in Note 7).

- No charges are made in the Management Trading Accounts for dividend payments to member authorities.

The income and expenditure of the organisation's principal trading divisions recorded in the Management Trading Accounts for the year is as follows:

Management Trading Account:

2011/12				2012/13		
Stores	Central Purchasing	Total		Stores	Central Purchasing	Total
£000	£000	£000		£000	£000	£000
(39,182)	(47,256)	(86,438)	Sales Income	(41,729)	(52,366)	(94,095)
28,639	39,978	68,617	Cost of Sales	30,950	44,951	75,901
(10,543)	(7,278)	(17,821)	Gross Margin on Sales	(10,779)	(7,415)	(18,194)
			Service Expenditure:			
3,807	5,320	9,127	Employees	4,580	4,871	9,451
45	169	214	Other Employee Expenses	33	181	214
1,254	275	1,529	Premises	1,275	288	1,563
1,754	191	1,945	Transport	1,870	172	2,042
434	530	964	Equipment	356	383	739
38	323	361	Office Expenses	49	339	388
351	521	872	Other Expenses	327	584	911
121	25	146	Support Service Charges	110	36	146
718	(718)	0	Service Recharges	750	(750)	0
8,522	6,636	15,158	Total Expenditure	9,350	6,104	15,454
(2,021)	**(642)**	**(2,663)**	**Net Surplus**	**(1,429)**	**(1,311)**	**(2,740)**

Reconciliation of Management Trading Account to Cost of Services in the Comprehensive Income and Expenditure Statement

This reconciliation shows how the figures in the Management Trading Account relate to the amounts included in the Comprehensive Income and Expenditure Statement.

2011/12				2012/13		
Stores £000	Central Purchasing £000	Total £000		Stores £000	Central Purchasing £000	Total £000
(39,182)	(47,256)	(86,438)	**Income as per ESPO Management Accounts**	(41,729)	(52,366)	(94,095)
0	21	21	Interest receivable included under Sales Income	0	73	73
25	54	79	Disposals of non current assets included under Sales Income	4	57	61
(5)		(5)	Interest credited to Earmarked Funds	(9)		(9)
(39,162)	(47,181)	(86,343)	**Gross Income as per the Comprehensive Income and Expenditure statement**	(41,734)	(52,236)	(93,970)
37,161	46,614	83,775	**Expenditure as per ESPO Management Accounts**	40,299	51,056	91,355
(400)	(100)	(500)	Capital elements of the premises loan repayments included under Premises	(400)	(100)	(500)
0	(112)	(112)	Capital elements of the leased assets repayments included under Transport	0	(161)	(161)
0	(4)	(4)	Capital elements of the leased assets repayments included under Office Expenses	0	(5)	(5)
(504)	(50)	(554)	Amounts transferred to Earmarked, Repairs & Renewals and Maintenance Reserves for future capital expenditure included under Equipment	(520)	(55)	(575)
(343)	(103)	(446)	Interest payable included under Other Expenses	(404)	(16)	(420)
(56)	0	(56)	Non current assets purchases included under Transport	0	0	0
(18)	0	(18)	Non current assets purchases included under Equipment	(8)	0	(8)
			Plus expenditure not included in Management Accounts. Included in the Comprehensive Income and Expenditure Statement:			
500	101	601	Depreciation of non current assets and amortisation of intangible assets included under Equipment	489	91	580
(4)	(1)	(5)	Compensated absences included under Employees	(5)	9	4
414	0	414	Earmarked Reserves revenue expenditure included under equipment	602	176	778
36,750	46,345	83,095	**Gross Expenditure as per the Comprehensive Income and Expenditure statement**	40,053	50,996	91,048
(2,412)	**(836)**	**(3,248)**	**Surplus on Net Cost of Services as per ESPO Statement of Accounts**	**(1,681)**	**(1,241)**	**(2,922)**

There is no segmental reporting of the organisation's assets and liabilities as these are not segregated for management reporting.

24. Officers Remuneration

a) Apart from the senior officers who are listed in note b) below, there were no officers in either 2011/12 or in 2012/13 whose emoluments met or exceeded £50,000. Therefore this table has been omitted.

b) The following table sets out the remuneration disclosures for senior officers whose salary is less than £150,000 but equal or more than £50,000 per year:

Postholder Information (Post Title)	Salary (inc fees & allowances)	Compensation Payments	Benefits in Kind (e.g. Car Allowances)	Total Remuneration excluding pension contributions	Pension contributions	Total Remuneration including pension contributions
2012/13	£	£	£	£	£	£
Director	74,485	0	0	74,485	13,854	88,339
Deputy Director	67,322	2,019	2,085	71,426	13,902	85,328
Assistant Director (Commodity)	70,490	4,495	2,592	77,577	13,111	90,688
Assistant Director (Finance)	74,910	0	0	74,910	13,933	88,843
Interim Assistant Director (Operations)	50,911	3,332	0	54,243	9,469	63,712
Interim Commercial Manager	51,663	3,100	2,575	57,338	9,609	66,947
Interim Commercial Manager	51,663	3,100	2,081	56,844	9,609	66,453
	441,444	16,046	9,333	466,823	83,487	550,310

NOTE: In 2012/13 the Director of ESPO commenced on the 1st September 2012. The Assistant Director (Operations) changed his hours from full-time to part-time to assist and complete the handover for the new Interim Assistant Director (Operations) who commenced in May 2012. His salary for 2012-13 did not exceed £50,000 and therefore the above table reflects this. The Assistant Director (Commodity) commenced flexible retirement from the 1st February 2013; therefore the above table reflects this.

2011/12 Comparatives						
	£	£	£	£	£	£
Deputy Director	64,211	0	2,436	66,647	11,494	78,141
Assistant Director (Commodity)	71,694	0	2,372	74,066	12,833	86,899
Assistant Director (Finance)	62,732	0	2,674	65,406	10,160	75,566
Assistant Director (Operations)	62,907	0	2,591	65,498	11,712	77,210
	261,544	0	10,073	271,617	46,199	317,816

EXIT PACKAGES

The number of exit packages with the total cost per band and total cost of compulsory and other redundancies are set out in the table below:

Exit Package Cost Band	Number of Compulsory Redundancies		Number of Other Departures Agreed		Total Number of Exit packages by Cost Band		Total Cost of Packages in Each Cost Band	
	2011/12	2012/13	2011/12	2012/13	2011/12	2012/13	2011/12	2012/13 £000
£0 - £20,00	0	0	0	1	0	1	0	15
Total	**0**	**0**	**0**	**1**	**0**	**1**	**0**	**15**

25. External Audit Costs

Eastern Shires Purchasing Organisation incurred the following audit fees:

	2011/12	**2012/13**
	£000	£000
Fees payable to external auditors with regard to external audit services and statutory inspection carried out by the appointed auditor under the Audit Commission's *Code of Audit Practice* in accordance with section 5 of the Audit Commission Act 1998.	24	14
A rebate of £1,300 was received from the Audit Commission.		

26. Related Parties

ESPO is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the organisation or to be controlled or influenced by ESPO. Disclosure of these transactions allows readers to assess the extent to which ESPO might be constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with ESPO.

Members

Members of the Management Committee have a direct control over ESPO financial and operating policies. No payments are made by ESPO to any members of the Management Committee. During 2012/13 no members had an interest in any work or services commissioned by ESPO. Contracts were entered into in full compliance with the organisation's standing orders.

Officers

During 2012/13 no officers declared a pecuniary interest in any contractual or financial transactions.

Other Public bodies [subject to common control by central government]

Debtors:

ESPO provides goods and services to all member authorities and as a consequence amounts due from member authorities including LEA schools for such transactions amounted to £2.824m as at 31 March 2013 (£3.728m as at 31 March 2012) and are included in 'Sundry Debtors' as detailed in note 14 to the Statement of Accounts. The amounts owing from each member authority are as follows:

Analysis of Sundry Debtor Balances	31 March 2012	31 March 2013
	£000	£000
Member Authorities:		
Cambridgeshire County Council	371	375
Leicester City Council	474	275
Leicestershire County Council	713	466
Lincolnshire County Council	673	528
Norfolk County Council	789	805
Peterborough City Council	154	95
Warwickshire County Council	554	280
Total	3,728	2,824

Sales:

The value of sales to member authorities, including LEA schools, for services provided by ESPO are included within the value of Gross Income in the Consolidated Income and Expenditure Statement and amounted to £42.29m for 2012/13 (£41.65m for 2011/12). The following is a breakdown by individual member authority:

Analysis of sales to member authorities.	2011/12	2012/13
	£000	£000
Member Authorities:		
Cambridgeshire County Council	5,813	6,197
Leicester City Council	4,460	4,401
Leicestershire County Council	7,548	6,462
Lincolnshire County Council	6,322	6,758
Norfolk County Council	9,496	10,079
Peterborough City Council	2,094	2,123
Warwickshire County Council	5,916	6,265
	41,649	42,285

Creditors:
Amount due to member authorities for services they provided to ESPO amounted to £0.02m as at 31 March 2013 (£0.31m at 31 March 2012) and are included within the value of 'Supplier Account Balances' as detailed in the Short-Term Creditors note to this Statement of Accounts.

Analysis of Supplier Account Balances.	31 March 2012	31 March 2013
	£000	£000
Member Authorities:		
Norfolk County Council	0	0
Warwickshire County Council	0	0
Leicestershire County Council	179	18
Leicester City Council	130	0
	309	18

Please note that the analysis of amounts due to member authorities included in note 26 of the 2011/12 accounts was incorrect. The prior year comparatives above have been restated.

Purchases:
The value of purchases from member authorities for services they provided to ESPO are included within the value of Gross Expenditure in the Consolidated Income and Expenditure Statement and amounted to £1.57m for 2012/13 (£1.78m for 2011/12. The following is a breakdown by individual member authority:

Analysis of purchases from member authorities.	2011/12	2012/13
	£000	£000
Member Authorities:		
Cambridgeshire County Council	4	28
Leicester City Council	108	27
Leicestershire County Council	1,654	1,512
Lincolnshire County Council	0	0
Norfolk County Council	0	0
Peterborough City Council	0	0
Warwickshire County Council	10	3
	1,776	1,570

Please note that the analysis of purchases from member authorities included in note 26 of the 2011/12 accounts was incorrect. The prior year comparatives above have been restated.

27. Capital Expenditure and Capital Financing

ESPO finances the purchase of routine replacement non current and intangible assets from the Vehicles and Equipment Renewals Reserve or the Stores Maintenance Reserve.

Purchases of additional non current and intangible assets may be financed from Earmarked Reserves when these form part of development projects approved by the Management Committee. Other purchases of additional non current and intangible assets are financed from revenue.

Financing of capital expenditure on non current and intangible assets:

2011/12			**2012/13**	
Intangibles	Vehicles & Equipment		Intangibles	Vehicles & Equipment
£'000	£'000		£'000	£'000
	205	Financed from Revenue		
127		Financed from Earmarked Reserves	0	163
198	76	Financed from Vehicle & Equipment Reserves	43	0
325	281		43	163

Capital expenditure commitments:	31 March, 2012 £000	31 March, 2013 £000
The organisation had no commitments during 2012/13 for the purchase of non current assets in the following financial year, 2013/14.	0	0

28. Leases

Finance Leases

The organisation has acquired its motor car fleet and selected office copiers under finance leases. Copiers below the minimum capital purchase value of £5,000 continue to the treated as operating leases.

The assets acquired under these finance leases are carried as Property, Plant and Equipment in the Balance Sheet at the following amounts:

31 March 2012		31 March 2013
£000		£000
272	Vehicles, Plant and Equipment	306

The organisation is committed to making payments under these finance leases comprising of the long-term liability for the interest in the property acquired by ESPO and finance costs that will be payable by ESPO in future years while the liability remains outstanding. The minimum lease payments are made up of the following amounts:

	31 March 2012	31 March 2013
	£000	£000
Finance lease liabilities (net present value of minimum lease payments):		
• Current	0	0
• Non current	301	266
Finance costs payable in future years	31	33
Minimum lease payments	332	299

The minimum lease payments will be payable over the following periods:

	Minimum Lease Payments		Finance Lease Liabilities	
	31 March 2012	31 March 2013	31 March 2012	31 March 2013
	£000	£000	£000	£000
Not later than one year	179	104	162	87
Later than one year and not later than five years	153	195	139	179
	332	299	301	266

Operating Leases

ESPO has acquired office copiers and food vendors by entering into operating leases, with a typical life of 5 years.

The future minimum lease payments due under non-cancellable leases in future years are:

	2011/12	2012/13
	£000	£000
Not later than one year	7	8
Later than one year and not later than 5 years	10	3
Minimum lease payments	17	11

The expenditure charged to the Equipments line in the Comprehensive Income and Expenditure Statement during the year in relation to these operating leases was:

	2011/12	2012/13
	£000	£000
Minimum lease payments	10	3

29. Impairment Losses

During this financial year ESPO had no recognised Revaluation Gains in relation to its premises at Grove Park, Enderby. The premises have been valued on a fair value basis at £10.0 m by the Property Services Department of Leicestershire County Council at 31 March 2013. A similar valuation was carried out at 31 March 2012 resulting in an Revaluation Gain of £585,000. The prior year gain is included within the Consolidated Income and Expenditure Statement. There has been no change of use during this period and the organisation continues to utilise the premises as its operational head quarters, warehouse and distribution centre.

30. Pensions

The staff of ESPO are employed by Leicestershire County Council, on a rechargeable basis, although ESPO determines the staffing levels. Employees are eligible for membership of the Local Government Pension Scheme administered by Leicestershire County Council. A separate fund value is not identified for ESPO employees and therefore sufficient information is not available for this organisation to account for the plan as a defined benefit scheme.

Details of the Leicestershire County Council defined benefits pension fund are contained within the authority's annual Statement of Accounts which are available on line from www.leics.gov.uk. The latest fund actuarial valuation at 31 March 2010 identified that the funds assets were sufficient to meet approximately 80% of the liabilities accrued up to that date. An increase in common contribution rates from 16% to 20% of pensionable pay resulted from the actuarial valuation and applied from 1 April 2011.

The pension costs that are charged to ESPO's accounts in respect of these employees are equal to the contributions paid to the funded pension scheme. In addition ESPO has made arrangements for the payment of added-years pensions to certain retired employees outside the provisions of the scheme, on an unfunded basis.

In 2012/13 ESPO paid an employer's contribution of £1,054,349, (2011/12 - £1,035,303), into the Pension Fund, representing an average 18.6% of total pensionable pay. The rate of contribution was based upon the actuarial review as at March 2010 and resulted in an employer's contribution rate being set at 17.9% for 2011/12, 18.6% for 2012/13 and 19.3% for 2013/14.

In addition, ESPO is responsible for all pension payments relating to added-years benefits it has awarded, together with the related increases. In 2012/13 these amounted to £10,913, (2011/12 - £10,376), representing 0.2% of pensionable pay.

31. Contingent Liabilities

There are no contingent liabilities.

32. Nature and Extent of Risks Arising from Financial Instruments

The organisation's activities expose it to a variety of financial risks:

- Credit risk – the possibility that other parties might fail to pay amount due to ESPO.
- Liquidity risk – the possibility that ESPO might not have funds available to meet its commitments to make payments.
- Market risk – the possibility that financial losses might arise from changes in such measures as interest rates.

The organisation only generates income through its commercial activities therefore risk management focuses on the unpredictability of customer demand and on maintaining its reputation for service quality and value for money. The effective risk management of financial instruments is vital to ensure the necessary funding and resources are available to support these activities. Risk management is carried out by the Senior Management Team under policies approved by the ESPO Management Committee and in compliance with the financial regulations and policies of Leicestershire County Council, the organisation's servicing authority.

Credit Risk

Credit risks arise from deposits with banks and from credit exposures to the organisation's customers. Deposits are made with banks that are approved by the servicing authority and that meet Leicestershire County Council rating requirements.

The maximum exposure to credit risk in relation to ESPO's investments in banks and building societies is 100% of its investments, but this cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principle sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of irrecoverability applies to all of ESPO's deposits but there was no evidence at 31 March 2013 that this was likely to crystallise.

Customers are assessed, taking into account their legal status, past experience and other factors with individual credit limits being set for catalogue customers in accordance with internal ratings. Due to the nature of the transactions, limits are not enforced on energy billing and on turnover rebates due from contracted suppliers. As at the Balance Sheet date no customers' credit terms have been renegotiated that would otherwise be past due.

The following analysis summarises the organisation's potential maximum exposure to credit risk, based on default and un-collectability over the past 6 years, adjusted to reflect current market conditions.

	Amount at 31 March 2013 £000	Historical experience of default %	Historical experience adjusted for market conditions at 31 March 2013 %	Estimated maximum exposure to default and un-collectability 31 March 2013 £000	Estimated maximum exposure at 31 March 2012 £000
Bank Deposits	329	0	0	0	0
Investments (see Note 15)	8,889	0	0	0	0
Customers	6,485	0.97%	0.48%	31.1	157.1
				31.1	157.1

Where applicable, no credit limits were exceeded during the reporting period and ESPO does not expect any losses from non-performance in relation to bank deposits. ESPO normally allows credit terms of between 14 and 45 days for customers.

A total of £1.34m of the balance of £6.49m was overdue at 31 March 2013 and can be analysed as follows:

Aged Analysis of financial assets that are past due as at the reporting date but not impaired (Overdue debtors):

	31 March 2012 £000	31March 2013 £000
Less than one month overdue	1,031	949
Between one and three months	116	290
More than three months overdue	61	97
	1,208	1336

Impairment of financial assets:

A bad debt provision is established following a review of individual customers' debts as at the balance sheet date and a proportionate value of impairment is determined according to the individual circumstances including customers' legal status. Debts are usually considered 100% impaired when customers have entered into liquidation. A summary of the provision is included within Note 14 – Short Term Debtors.

Liquidity Risk

In order to support seasonal trade variations ESPO has an informal treasury arrangement with Leicestershire County Council (its servicing authority) that provides ready access to liquid funds for short-term borrowing at market interest rates.

ESPO moved to new premises at Grove Park, Enderby, Leicestershire in February 2006. This property is owned by Leicestershire County Council on behalf of the organisation as a consequence of ESPO's status which does not permit the legal ownership of assets.

Leicestershire County Council financed the purchase with long term borrowing from the Public Works Loan Board which ESPO, as the beneficial owner of the property, has committed to recompense to the council in instalments that equal their repayments to the PWLB for the duration of the loan. The loan is subject to interest rates charged between 4.4% to 4.65% pa.

Maturity analysis of financial liabilities:

	Total Long-Term Outstanding at 31 March 2012 £'000	Total Long -Term Outstanding at 31 March 2013 £'000
Lender:		
• Leicestershire County Council	9,000	8,500
Analysis of Maturity of this loan:		
• Between one and two years	500	500
• Between two and five years	1,500	1,500
• Between five and ten years	2,500	2,500
• In ten years or more	4,500	4,000

Market Risks:

Interest Rate Risk:
ESPO is exposed to interest rate risk in terms of its exposure to rate movements on its investments and short-term borrowings. The impact on the Income and Expenditure Account of rate changes on interest receivable and interest payable on such transactions is nominal in relation to ESPO turnover. For example, the effect of a 1% increase in rates would be an increase in income on investments of £49,000. The effect of a 1% decrease would have the opposite effect.

The effect of interest rate exposure is recognised within the annual budget and regularly monitored by management.

Foreign Exchange Risk:
The organisation has no assets or liabilities denominated in foreign currencies as imports and exports are priced in sterling. Movements in exchange rates may impact on the sterling prices quoted by overseas suppliers although the extent of this influence is not calculable.

GLOSSARY OF TERMS

ACCOUNTING POLICIES

The specific principles, bases, conventions, rules and practices applied in preparing and presenting financial statements.

ACCRUALS

Requires that costs and revenues are recognised in the accounts when incurred or earned not when money is received or paid.

AMORTISED COST

The amortised cost of a financial asset or financial liability is

- the amount at which the asset or liability is measured at initial recognition (usually "cost")
- minus any repayments of principal,
- minus any reduction for impairment or un-collectability, and
- plus or minus the cumulative amortisation of the difference between that initial amount and the maturity amount.

BALANCE SHEET

The Balance Sheet represents the organisation's financial situation as at the Balance Sheet date. The Balance Sheet is composed of two main parts:

Net Assets and

Total Reserves.

CASH AND CASH EQUIVALENTS

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty within 24 hours. Cash equivalents are investments of less than 3 months from acquisition that are readily convertible to known amounts of cash with insignificant risk of a change in value.

CAPITAL EXPENDITURE

Capital expenditure represents expenditure on the construction, acquisition, development or improvement of Property, Plant and Equipment and of Intangible Fixed Assets.

CAPITAL RECEIPTS

Income received from the sale of capital assets.

COMPREHENSIVE INCOME AND EXPENDITURE ACCOUNT

A summary of the resources generated and consumed by the organisation in the year. It summarises trading income and expenditure for the relevant financial years of all functions for which ESPO is responsible.

CASH FLOW STATEMENT

The Cash Flow Statement summarises the inflows and outflows of cash and cash equivalents resulting from operations and from investing and financing activities. It also shows how the net cash flow from operations is related to the Net Surplus or Deficit on the Provision of Services.

CIPFA

The Chartered Institute of Public Finance and Accountancy is the lead body for setting standards in the public sector accounting practice.

CONTINGENT LIABILITIES

Contingent liabilities are possible future liabilities that will only become certain on the occurrence of some future event. A contingent liability is less certain than a provision: the latter is expected to occur, a contingent liability might occur.

Contingent liabilities are not shown in the Balance Sheet, but must be disclosed in the notes.

CREDITORS

Creditors are financial liabilities arising from goods or services that have been received but for which payment has not been made by the Balance Sheet date.

CURRENT ASSETS / LIABILITIES

Current liabilities are the debts the organisation owes which must be paid within one year. They are the opposite of current assets. Current Assets are assets that can be convertible in to cash at short notice.

DEBTORS

Debtors are amounts owed to the organisation where the services and goods have been delivered but payment has not been received by the Balance Sheet date.

DEPRECIATION

Depreciation is a non cash expense that reduces the value of an asset as a result of wear and tear, age or obsolescence.

FAIR VALUE

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

A statement of common accounting practice, devised by the International Accounting Standards Board, which is applicable to the majority of large organisations, both within the public and private sector.

GENERAL FUND

This is the organisation's main revenue fund. It provides the resources necessary to sustain the day-to-day business activities and thus pays for all administrative and operating expenses.

IMPAIRMENT

A loss in the value of a fixed asset, arising from physical damage such as a major fire or a significant reduction in market value.

INTANGIBLE FIXED ASSETS

Non financial fixed assets that do not have any physical substance but are identifiable and are controlled by the organisation through custody or legal rights (e.g. purchased software licences).

LEASING

A method of financing the acquisition of assets for e.g. equipment, vehicles and plant etc.

There are two forms of lease:

A finance lease involves payment by the lessee (the user) of the full cost of the asset together with a return on the finance provided by the lessor, usually payable over the anticipated life of the asset.

An operating lease involves the payment of a rental by a lessee for a period, which is normally less that the useful economic life of the asset.

LONG TERM BORROWING

Loans raised to finance capital spending which have still to be repaid.

MOVEMENT IN RESERVES STATEMENT

This statement represents the changes in the organisation's financial resources over the year and is analysed in to "usable reserves", those that can be applied to fund expenditure and "unusable reserves".

NET BOOK VALUE

This is the asset's original cost less the depreciation or amortisation.

NET WORTH (NET ASSETS/LIABILITIES)

This is the value by subtracting the total liabilities from the total assets in the Balance Sheet.

NON CURRENT ASSETS

An asset which is not easily convertible to cash within twelve months. Examples include Fixed and Intangible assets.

PROVISIONS

A provision is a liability of an uncertain timing or an amount.

PUBLIC WORKS LOAN BOARD (PWLB)

The Public Works Loan Board is a government agency which provides long term loans to local authorities, usually at advantageous interest rates.

REMUNERATION

All sums paid to an employee, including expenses, allowances and redundancy payments chargeable to UK income tax, and the monetary value of any other benefits received other than in cash.

REVENUE

Expenditure that ESPO incurs on the day to day costs of its goods and services including purchases for resale, salaries, premises costs, vehicles and other running expenses as well as charges to provide funds for renewals of non-current assets. This expenditure is funded from income generated from the supply of goods and services to customers.

UNUSABLE RESERVES

Unusable reserves are those which do not represent funding that is available to support service delivery. These reserves generally arise from statutory adjustments and the treatment of unrealised changes in the value of assets or liabilities.

USABLE RESERVES

A usable reserve represents resources the organisation can control in making service delivery decisions. Each usable reserve may have different restrictions upon its potential use, dependent upon decisions made by the organisation.

DRAFT Annual Governance Statement 2012/13

1. SCOPE OF RESPONSIBILITY

ESPO 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. ESPO 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, ESPO is responsible for putting in place proper arrangements for the governance of its affairs and facilitating the effective exercise of its functions, which includes arrangements for the management of risk.

ESPO has approved and adopted a code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE Framework *Delivering Good Governance in Local Government.* A copy of the code is on our website and this statement explains how ESPO has complied with the code and also meets the requirements of Accounts and Audit (England) Regulations 2011, regulation 4(3), which requires all relevant bodies to prepare an annual governance statement.

2. THE PURPOSE OF THE GOVERNANCE FRAMEWORK

The governance framework comprises the systems and processes, culture and values by which the Organisation is directed and controlled and its activities through which it accounts to, engages with and leads its communities. It enables the Organisation to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate services and value for money.

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, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of ESPO's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The governance framework has been in place at ESPO for the year ended 31 March 2013 and up to the date of approval of the annual report and statement of accounts. ESPO's governance environment is consistent with the six core principles of the CIPFA/SOLACE framework, within each principle we have identified the sources of assurance.

PRINCIPLE A: Focusing on the purpose of the organisation and on outcomes for our stakeholders and implementing a vision for the future.

Under this principle, there is a requirement to:

- Exercise strategic Chairmanship by developing and clearly communicating the organisation's purpose and vision and its intended outcome for stakeholders.
- Ensure that users receive a high quality of service whether directly, or in partnership, or by commissioning.
- Ensure the organisation makes best use of resources and that tax payers and service users receive excellent value for money.

Description of Governance Mechanisms: *Evidence and documents that demonstrate compliance / good practice*	**Assurances received**	**Weaknesses identified:** *Areas for improvement*
• Service/Business Plans supported by relevant strategies • Communication Strategy • Performance trends and reports on the progress of service delivery • Formal complaints policy and procedures that inform positive service improvement • Comparison of information on ESPO's economy, efficiency and effectiveness of services • Instruction on how to measure Value for Money	• Outcomes are delivered through department plans and strategies which set out objectives and targets in relation to ESPO's priority outcomes. • Communication strategy that is based on a brand survey of our customers allowing us to provide a better service to our stakeholders. • Performance trends reported through performance dashboards. Also trends identified in monthly and weekly financial reports. • Annual Report considered by members – supported by approved Medium Term Financial Strategy and Annual Statement of Accounts; • Formal complaints policy which ensures complaints are tracked and monitored. • A strategy which sets out how efficiencies included within the MTFS will be achieved; • Industry benchmarking measures undertaken in some departments to determine value for money.	• Review complaints arrangements to ensure lessons learned flow through to department action plans. • Enhance benchmarking against other organisations • Improve VFM measures throughout the organisation..

PRINCIPLE B: Members and officers working together to achieve a common purpose with clearly defined functions and roles

Under this principle, there is a requirement of ESPO to:

- Ensure effective Chairmanship throughout the organisation and be clear about executive and non-executive functions and of the roles and responsibilities of the scrutiny function;
- Ensure a constructive working relationship exists between organisation members and officers and that the responsibilities of members and officers are carried out to a high standard;
- Ensure relationships between the organisation, its partners and the public are clear so that each knows what to expect of the other.

Description of Governance Mechanisms – *Evidence and documents that demonstrate compliance / good practice*	**Assurances received**	**Weaknesses identified:** *Areas for improvement*
• Job descriptions for: Director, S151 Officer; Head of Internal Audit • Member/Officer Protocol • Constitution • Scheme of delegation, standing orders and financial regulations • Effective Director and Chairman pairing • Compliance with Role of Chief Financial Officer and Role of Head of Internal Audit • Monitoring officer provisions • Conditions of employment including; appraisal arrangements; pay and conditions policies; structured pay scales • Effective performance management system including progress on Key Performance Indicators and identifying areas of improvement • Business and financial planning process	• Constitution sets out ESPO's political structure and roles and responsibilities of the Committees, the Chief Officers and the rules under which they operate. There are specific job descriptions in place. • Constitution sets out 'Responsibility for Functions' including scheme of delegation to the Director. Also includes financial regulations and contract procedure rules. • Regular meetings take place between the Chairman, the Director and the servicing authority. • Assessment of compliance with the Statement on the Role of the CFO and Role of the Head of Internal Audit. • Monitoring Officer and CFO are responsible for ensuring an appropriate framework exists to ensure procedures are followed. • Employment Committee at LCC manage and govern all pay matters and are responsible for terms and conditions of service, including remuneration. Pay Policy Statement adopted from LCC ensures ESPO manages its policy on pay and benefits in a fair, non-discriminatory, consistent and transparent way. • Established finance function maintains sound financial frameworks and supports delivery of MTFS. • Performance reports to relevant committees.	• Finalise agreement to Constitution • Improve scheme of delegation down to lower levels of management

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PRINCIPLE C: Promoting values for the organisation and demonstrating the values of good governance through upholding high standards of conduct and behaviour

Under this principle, there is a requirement of ESPO to:

- Ensure organisation members and officers exercise Chairmanship by behaving in ways that exemplify high standards of conduct and effective governance;
- Ensure that organisational values are put into practice and are effective.

Description of Governance Mechanisms – *Evidence and documents that demonstrate compliance / good practice*	**Assurances received**	**Weaknesses identified:** *Areas for improvement*
• Annual Governance Statement • Member and Officers Codes of Conduct • Performance appraisal • Procedures for responding to behaviour complaints • Anti –fraud and anti-corruption policies • Standing orders and financial regulations • Register of Interests and Gifts and Hospitality – members and staff • Ethical awareness training and dealing with conflicts of interest • Communicating shared values with members, staff, the community and partners • Whistleblowing arrangements • Decision making practices/framework • Protocols for partnership working	• AGS produced by compiling and scrutinising information from Departmental Self Assessments, Corporate Assurance Statement and assurance from Internal Audit Service. • Members of individual authorities are subject to their own Code of Conduct • Adopted LCC Employee Code of Conduct.'Dignity At Work' Policy and Procedures provides employees with examples of unacceptable behaviour, and is complimented by other HR policies • Corporate Performance and Development Review (PDR) system in place to appraise the performance of all staff with completion rates monitored and reported. Managers align employees PDR priorities and objectives to the service, department and ESPO's priorities. • 'Leading for High Performance' programme underpins the approach to performance management and covers importance of maintaining strong ethical governance. • Adopted LCC Anti Fraud & Corruption Policy, Strategy and Procedures. • Constitution sets out 'Meeting Procedure Rules' and Financial Rules and Regulations • Organisational Values considered during the PDR, complimented by departmental notices displaying visions and achievements. "ESPO Matters" contains information for all staff. • Embedded 'Whistleblowing' procedures.	• Improve staff awareness of the various codes of conduct, customer care standards, Anti F&C Policy, Whistleblowing , Bribery and Officer and Member Protocol. • Refresh existing Anti F&C Policy, Strategy and Procedures

PRINCIPLE D: Taking informed and transparent decisions which are subject to effective scrutiny and managing risk

Under this principle, there is a requirement of ESPO to:

- Be rigorous and transparent about how decisions are taken and listening and acting on the outcome of constructive scrutiny;
- Have good-quality information, advice and support to ensure that services are delivered effectively and are what the community wants / needs;
- Ensure that an effective risk management system is in place;
- Use their legal powers to the full benefit of the stakeholders and communities in their area.

Description of Governance Mechanisms – *Evidence and documents that demonstrate compliance / good practice*	**Assurances received**	**Weaknesses identified:** *Areas for improvement*
• Finance and Audit Committee • Internal Audit function • Decision making protocols / records of decisions and supporting materials • Members' and officers' code of conduct • Terms of reference and membership • Training for committee members including information needs to support decision making • Calendar of dates for submitting, publishing and distributing timely reports • Approved Risk Strategy/Policy • Effective counter fraud arrangements • Legal advice provided by officers	• Finance and Audit Committee receive reports on the revenue budget and capital programme and performance reports in relation to targets and commitments and action plans arising from inspection and assessment reports. • Internal Audit Service annual plan of audits provide assurance that the internal control systems of ESPO are operating effectively. • Terms of References for Committees and decision making protocols are detailed in the Constitution - records of decisions and minutes are available through the LCC website. • ESPO's risk management framework recently aligned with local government best practice – providing assurance to senior management, Members and public that ESPO is mitigating the risks of not achieving key priorities. • Members of the Finance and Audit Committee actively engage and take interest in risk management, including detailed scrutiny of the Corporate Risk Register. • Monitoring of reports to ensure propriety of decision making and that legal advice is included where necessary and appropriate.	• Increase/Improve Risk management awareness throughout the organisation.

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PRINCIPLE E: Developing the capacity and capability of members and officers to be effective

Under this principle, there is a requirement of ESPO to:

- Make sure that members and officers have the skills, knowledge, experience and resources they need to perform well in their roles;
- Develop the capability of people with governance responsibilities and evaluating their performance, as individuals and as a group.
- Encourage new talent for membership of the organisation so that best use can be made of individuals' skills and resources in balancing continuity and renewal.

Description of Governance Mechanisms – *Evidence and documents that demonstrate compliance / good practice*	**Assurances received**	**Weaknesses identified:** *Areas for improvement*
• Induction programme • Officer training and development plans • Availability and communication of activities • Performance reviews of officers • Succession Planning • Member training and development	• Learning and Development Plans approved by LCC and are reviewed and updated on a periodic basis enabling LCC L&D service to respond to need not anticipated or known at the beginning of the training plan process. • Induction available to all managers and staff with core training provided for specific roles. • Relevant L&D activities communicated through intranet, email updates, newsletters, briefings and staff workers groups. • Corporate Performance and Development Review (PDR) system in place to appraise the performance of all staff with completion rates monitored and reported. Managers at all grades assessed against behaviours which underpin the management competency framework • Performance management and reporting systems in place at various levels, allowing outcomes to be cascaded and linked to individual development plans. • Member engagement meetings cover functional roles and responsibilities of ESPO	• Lack of succession planning in place for relevant posts

PRINCIPLE F: Engaging with stakeholders to ensure robust public accountability

Under this principle, there is a requirement of ESPO to:

- Exercise Chairmanship through a robust scrutiny function which effectively engages all local institutional stakeholders, including partnerships, and develops constructive accountability relationships;
- Take an active and planned approach to dialogue with and accountability to the public to ensure effective and appropriate service;
- Make best use of human resources by taking an active and planned approach to meet responsibility to staff.

Description of Governance Mechanisms – *Evidence and documents that demonstrate compliance / good practice*	**Assurances received**	**Weaknesses identified:** *Areas for improvement*
• Database of stakeholders • Annual report • Communication Strategy • Annual financial statements • Freedom of Information Act publication scheme • ESPO Website • Best practice standards in recruitment and staff terms and conditions	• Full public annual report providing information on outcomes, achievements, satisfaction and progress against key priorities and plans. • ESPO recognise the importance to consult, involve and listen to stakeholders so that services can be improved and future plans made. • Communication strategy based on a brand survey. • The Account Statements set out the published statement of accounts of the Organisation year on year. The accounts have been produced in line with the various regulations that govern local organisation accounting. • Freedom of Information (FOI) and Environmental Information Regulations Policy underpin the key principles of the Information Management Strategy in that ESPO embraces a culture that is open, accessible and accountable, aiming to publish as much information as possible. FOI practices are in place to enable ESPO to meet obligations and aid understanding of public interests. • ESPO website is frequently used as a medium to inform and engage with the stakeholders and updates on the homepage direct users to key information. • Recruitment undertaken in accordance with LCC policies and procedures.	• Improve handling of FOI requests. • Update database of stakeholders • Improve links to LCC website for Committee papers and minutes.

3. REVIEW OF EFFECTIVENESS

ESPO has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the senior managers within ESPO who have responsibility for the development and maintenance of the governance environment, the Head of Internal Audit Service's annual report, and also by comments made by the external auditors and other review agencies and inspectorates.

The CIPFA Governance Framework details the key sources of typical systems and processes that an organisation can adopt to ensure it has an effective system of internal control. Using this guidance ESPO can provide assurance that it has effective governance arrangements, which have been established through the following:

Code of Corporate Governance

The Director has a duty to monitor and review the operation of the Code of Corporate Governance and as part of this process the Director ensures an annual assessment of the Organisation's compliance with the Code of Corporate Governance is undertaken.

Internal Audit Service

Background

During the financial year 2012-13, Leicestershire County Council Internal Audit Service (LCCIAS) provided internal audit service to ESPO. LCCIAS conformed to the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006 (the Code). The Code requires the Head of Internal Audit Service (HoIAS) to give an annual opinion on the overall adequacy and effectiveness of ESPO's internal control environment i.e. its framework of governance, risk management and control.

Governance related internal audit work

During the financial year 2012/12 a detailed audit of ESPO's approach to preparing its Annual Governance Statement (AGS) revealed areas for improvement. During 2012/13 based upon recommendations, relevant action has been undertaken to improve processes and this has been acknowledged by the HoIAS through the preparation of the current AGS

Implementation of the ESPO Change Programme, has included input by Member authorities, Servicing Authority specialists, ESPO management and LCCIAS and this has resulted in a stronger governance framework, with clear functions, roles, responsibilities and levels of delegation.

The formation and development of the Finance and Audit Subcommittee with its range of functions including receiving internal audit plans, reports and evaluations, has strengthened the governance, transparency and accountability of ESPO management, the Servicing Authority through the Consortium Treasurer and Secretary and the Head of Internal Audit Service.

The Head of Internal Audit Service has concluded based on the findings of work undertaken that overall, there has been a substantial strengthening of ESPO's governance arrangements and the general direction of travel for future governance arrangements is positive.

Risk management related internal audit work

During the year, detailed specific audits of ESPO's risk management framework and its business continuity arrangements were undertaken. Actions to implement improvement recommendations have been agreed and ESPO management has identified the area for continuing focus.

Other 'risk based' audits were conducted to ensure that ESPO management identifies, evaluates and manages risk to achieving its objectives i.e. ensuring controls are in place to reduce risk exposure. Examples included: processes for the financial vetting of suppliers; supplier performance monitoring; compliance with procurement directives; pre-employment checks and health and safety compliance. The HoIAS has concluded overall, that ESPO has a robust risk management framework but should continue to implement plans to improve awareness of risk management beyond strategic management level.

Internal Financial (and ICT) Controls related internal audit work

A number of financial system audits were undertaken on ESPO's general ledger activities and other operational financial systems. The HoIAS concluded overall that general assurance can be given that the operation and management of the core financial systems of ESPO are of a sufficient standard to provide for the proper administration of its financial affairs.

Risk management arrangements

Governance of Risk

ESPO's Code of Corporate Governance sets out a requirement to ensure that an effective risk management system is in place. In order for risk management to be most effective and become an enabling tool, ESPO must ensure a robust, consistent, communicated and formalised process is established.. The refresh of the framework aims to ensure that links to Departmental Risk Registers are strengthened, thereby ultimately improving the flow of risk information throughout the Organisation. This revision also included a refresh of the Corporate Risk Register and Risk Management Policy and Strategy – these along with supporting documentation, form an integrated framework that supports the ESPO in the effective management of risk.

The new structure will enhance the effectiveness of the current approach to managing risks by developing and applying a more quantitative approach to decision making processes throughout ESPO. In implementing a management of risk system, ESPO seeks to provide assurance to all our stakeholders that the identification, evaluation and management of risk play a key role in the delivery of our strategy and related objectives.

External Audit

ESPO's external auditors PricewaterhouseCoopers (PWC) gave detailed findings from their planned audit work of ESPO, to those charged with governance through:

Report to those charged with Governance

Under International Auditing Standards, external auditors are required to report to those charged with governance on the significant findings from their audit before giving their audit opinion, the purpose of which is to highlight any significant matters. The report concluded that no significant audit and accounting issues were identified and that there were no material deficiencies in internal control, leading to an overall unqualified opinion.

Audit opinion for the 2011/12 Statement of Accounts, incorporating value for money conclusion

The audit involves obtaining evidence about the amounts and disclosures in the statement of accounts sufficient to give reasonable assurance that the statement of accounts is free from material misstatement, whether caused by fraud or error. For 2011/12, ESPO's statement of accounts presented a true and fair view, in accordance with the relevant codes and regulation.

ESPO's Constitution includes Standing Financial Instructions, Contract Procedure Rules and Schemes of Delegation. These translate into key operational internal controls such as: control of access to systems, offices and assets; segregation of duties; reconciliation of records and accounts; decisions and transactions authorised by nominated officers; and production of suitable financial and operational management information. These controls demonstrate governance structures in place throughout the Organisation which contribute to the production of the Annual Statement of Accounts and positive opinion presented by our external auditors.

ESPO is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to regularly review the adequacy and effectiveness of these arrangements. Having regard to the guidance on the specified criteria by the Audit Commission, external auditors are satisfied that, in all significant respects, ESPO put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

Organisational Governance and Performance Framework

The Senior Management Team receives a quarterly Organisational Governance Scorecard, which includes information relating to:
- Audit and risk management;
- Information issues;
- Procurement;
- Employee related information;

Annual Governance Assurance Statements

The annual review of effectiveness requires the sources of assurance, which ESPO relies on, to be brought together and reviewed from both a department and corporate view.

To ensure this Annual Governance Statement presents an accurate picture of governance arrangements currently in place, senior managers were required to complete a 'Governance Self Assessment', which provided details of the measures in place within their area to ensure compliance (or otherwise) with ESPO's Code of Corporate Governance. Where specific 'areas of improvement' were identified, these have been incorporated into an action plan for management to discuss and prioritise during the course of the next financial year.

In order to assist the Head of Internal Audit Service's opinion on the adequacy and effectiveness of the Organisation's governance arrangements, sample checking of the returns and supporting evidence was conducted. This included:
- Discussion on how the self-assessment was conducted, co-ordinated, discussed and signed;
- Follow up with Directors' to confirm their involvement;
- Selecting areas across the range of the six core principles to test if there is sufficient evidence to support a department's response;
- Quick interviews with re-elected Members;
- Quick surveys of staff to evaluate their knowledge of department and corporate principles, plans and policies.

Findings were reported to a senior management group and concluded the following:-

<u>The Role of the Chief Financial Officer (CFO)</u>

CIPFA has issued the *CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010).* The statement sets out five principles that define the core activities and behaviours that belong to the role of the CFO and the governance requirements needed to support them. The CFO of ESPO is also the CFO of LCC.

ESPOs' financial arrangements fully conform to the governance requirements of the *CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010).* As CFO, the Director of Corporate Resources is a key member of the ESPO servicing authority liaison committee and is responsible for the proper administration of ESPO's financial arrangements and leads a fully resourced and suitably qualified Strategic Finance Function. The CFO is actively involved in and able to bring influence to bear on all material business decisions to ensure immediate and long term implications, opportunities and risks, are fully considered and in alignment with the MTFS and other corporate strategies. The CFO has completed an assurance statement, providing evidence against core activities and responsibilities which strengthen governance and financial management across the Organisation.

<u>The Role of the Head of Internal Audit</u>

CIPFA has issued the *CIPFA Statement on the Role of the Head of Internal Audit in Public Service Organisations (2010).* The statement sets out five principles that define the core activities and behaviours that belong to the role of the head of internal audit and the organisational requirements needed to support them. The Head of the Internal Audit Service for ESPO is also the Head of the Internal Audit Service for LCC.

ESPO's Internal Audit Service arrangements conform to the governance requirements of the *CIPFA Statement on the Role of the Head of Internal Audit in Public Service Organisations (2010).* The Head of Internal Audit Service (HoIAS) works with key members of the Senior Management Team to give advice and promote good governance throughout the organisation. The HoIAS attends the Finance and Audit Sub Committee and the Management Committee as and when required. The HoIAS also leads and directs the Internal Audit Service so that it makes a full contribution to and meets the needs of the Organisation and external stakeholders, escalating any concerns and giving assurance on ESPO's control environment. The HoIAS has completed an assurance statement, providing evidence against core activities and responsibilities which strengthen governance, risk management and internal audit across the Organisation.

We have been advised on the implications of the result of the review of the effectiveness of the governance framework by the above, and that the arrangements continue to be regarded as fit for purpose in accordance with the governance framework. The areas already addressed and those to be specifically addressed with new actions planned are outlined below.

4. GOVERNANCE ISSUES

This review of effectiveness has been informed by both Internal and External Audit and the conclusion of the review is that ESPO's overall financial management and corporate governance arrangements during 2012/13 are sound.

Progress on issues previously identified:

The table below describes the governance issues identified during 2011/12 and the progress made against this during 2012/13:

Issue	Update on position	Carry forward for 2013/14	Lead Officer
• Update the Constitution and Partnership Agreement including the introduction of a Code of Corporate Governance.	• An updated Constitution and Partnership Agreement has been prepared and submitted to members for approval. A Code of Corporate Governance has been adopted.	• Approval by individual Member Authorities	Monitoring Officer
• Sourcing arrangements with one or more other consortia including Government Procurement Service (GPS)	• A number of detailed discussions have been held with GPS and other PBO's.	• Continued development of these arrangements	Director
• Introduction of improved risk management procedures	• Updated Risk Management Statement presented to Members March 2013.	• Annual Review	Director
• Better engagement of member authorities with key issues.	• Regular face to face meetings between the Director and Members.	• Continuation of these arrangements	Director

Whilst the review of effectiveness concluded ESPO's overall financial management and corporate governance arrangements during 2012/13 are sound, the assurance gathering process identified key corporate areas of improvement. Implementing actions to address these will ensure that identified weaknesses within ESPO's current control environment will be strengthened, and further enhance our overall governance arrangements.

The table below describes identified areas for improvements during the review period 2012/13 to carry forward for monitoring within 2013/14.

Key Improvement Area	Lead Officer	Deadline
Complaints Review complaints arrangements to ensure lessons learned flow through to department action plans.	Director	December 2013
Benchmarking Enhance benchmarking against other organisations by including cost base efficiency as well as competitive pricing.	Director	March 2014
Value for Money Improve VFM measures throughout the individual departments to ensure all stakeholders receive the best value for money service.	Director	December 2013
Constitution and Partnership Agreement Finalise agreement to Constitution and Partnership Agreement with individual Members.	Monitoring Officer	September 2013
Scheme of Delegation Improve scheme of delegation down to lower levels of management.	AD Finance	September 2013
Internal Communication Improve staff awareness of the various codes of conduct, customer care standards, Anti F&C Policy, Whistleblowing, Bribery and Officer and Member Protocol.	Director	September 2013
Anti Fraud & Corruption ESPO assesses itself against the Audit Commission's Protecting the Public Purse' (PPP) and the National Fraud Authority (NFA) Counter Fraud checklist to increase understanding of fraud exposure and direct potential improvements. Refreshing and aligning ESPO's existing policy, strategy and procedures to guidance within the NFA Fighting Fraud Locally, Local Government Fraud Strategy, will enhance arrangements to create fraud awareness and further emphasise ESPO's zero tolerance towards fraud.	Director	September 2013
Risk Management Improve risk management awareness throughout the organisation and continue to embed risk management at operational level.	AD Finance	September 2013
Succession Planning There is a lack of succession planning for key posts. A review of key roles and responsibilities will be undertaken	Director	December 2013
FOI requests Improve handling of FOI requests such that a more robust procedure is in place.	Director	September 2013
Stakeholder Database Prepare database to ensure all areas of public accountability is properly administered.	Director	September 2013
Improve links to LCC website for Committee papers and minutes. Development and maintaining of ESPO website to establish a direct link to the LCC website to ensure that relevant Committee papers and minutes can be accessed and viewed	AD Finance	December 2013

5. CERTIFICATION

To the best of our knowledge, the governance arrangements, as defined above have been effectively operating during the year with the exception of those areas identified in Section 4. We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

John Doherty Director	Councillor S Rawlins Chairman, ESPO Management Committee

Agenda Item 5

ESPO FINANCE AND AUDIT SUBCOMMITTEE – 3 SEPTEMBER 2013

MANAGEMENT ACCOUNTS TO JULY 2013

REPORT OF THE DIRECTOR

Purpose of Report

1. This report sets out the results for the first four months of trading April to July 2013 as per the management accounts with explanations for the more significant variances to budget and the prior year.

Background

2. The Finance and Audit Subcommittee are updated quarterly on the financial performance of ESPO compared to budget and the targets set out in the four year Medium Term Financial Strategy.

Trading Summary

Income

3. Stores' sales value has increased this year to date by £427k (2.8%) to £15.5m compared to the prior year. Compared to budget we are £221k behind for the year to date or 1.4%.

4. Last year sales grew by 7% including a 1.9% price increase giving a net volume increase of 5.1%. Thus after 16 months of the original 4 year plan stores volume has increased by approximately 8%. This is a good start on the stated four year objective of 20% growth in stores volume in the strategy paper and at this point ESPO is ahead of schedule (on a straight line basis at this point 6.67% growth would be expected).

5. Overall Direct Sales are 8% down on budget and 18% down on last year. The reason for the fall is the reduction in activity in the Department of Education Phonics initiative. This was budgeted for but the slowdown has been deeper than expected. Analysis suggests that ESPO has not lost market share and the slowdown is consistent nationwide. A breakdown of sales by category within Directs against the prior year shows the following:

   Furniture is 7% higher
   Hardware is 11% higher
   Stationery is 37% down
   ICT 0% change.

6. Margin on directs and major projects is £767k compared to a £741k budget and £878k in the prior year. The major reason for the positive variance to budget is currently high levels of gas invoicing following unseasonal early year weather patterns and the acquirement of additional customers. Year to

date gas invoicing is 50% up on the prior year. The impact of Phonics is less marked as it is the lowest margin product in Directs.

7. Rebate income is £1.0m which is 8.4% down on the prior year. Compared to budget we are £287k adverse for the year to date though this seems to largely be down to phasing of receipts in the budget rather than a permanent reduction.

8. Catalogue advertising is £767k compared to the prior year £851k and the budget of £883k. The expectation is that the variance to budget will be closed by December 2013.

9. Other Income being mainly bank interest and contributions to MSTAR set up costs from YPO was £89k compared to a budget of £80k and prior year £94k. The cost to ESPO of setting up MSTAR was £125k and YPO have agreed to contribute 50% towards the total costs.

10. Overall gross mark up for store sales was 33.5% for the period which is 1.8% up on the prior year and 1.3% up on budget. The reason for the positive variance is higher than budgeted margin on stationary products as a result of a new procurement arrangement with our principle supplier.

11. Total income is £6.5m for the period compared to £6.8m budget and £6.5m in the prior year. As described above the principle reason for the variance to budget is down to rebate income.

Expenditure

12. As identified in the Annual Governance Statement for 2012-13 as follows:

Scheme of Delegation Improve scheme of delegation down to lower levels of management.	AD Finance	September 2013

An improved Scheme of delegation has been implemented. In accordance with Appendix 6 of the Constitution and the Financial Regulations for ESPO the Director has delegated expenditure authority down to the Assistant Director level. The Director has implemented regular budgetary review meetings with each Assistant Director to monitor and review performance against budget.

The reports generated for the end of July to facilitate such reviews are included as an appendix to the exempt report ‘Supplementary Information Informing the Management Accounts to July 2013’ set out elsewhere on the agenda for this meeting..

Total Employee Costs

13. Compared to budget overall employee costs, including agency costs, are £3.37m compared to a budget of £3.41m and is thus a favourable variance of £0.04m. It is important to point out however that the mix between agency and establishment labour was not in line with the budget and that agency labour is currently running substantially ahead of budget. The commitment to achieve the best possible customer service at the busiest delivery time of the year was partly behind the increased agency spend. It is recognised however the importance of having a stable ESPO employed workforce so action was taken to reduce significantly the number of agency staff at the end of July permanently.

Other Expenses

14. Across the organisation Other Expenses are a total of £2.0m against a budget of £2.2m and prior year £2.0m. The principle cause of the favourable variance to budget is the release of a bad debt provision related to YPO that was established at the end of 2012-13. This related to disputed rebate allocations dating back to 2009 and due to its age it was considered prudent to fully provide for the debt. After intensive negotiations ESPO is pleased to report that the debt has been paid in full and as a result the provision can be released.

15. There are no other significant variances to report. A full detailed analysis by account code and by Assistant Director is included in the exempt report 'Supplementary Information Informing the Management Accounts to July 2013' set out elsewhere on the agenda for this meeting. .

Surplus

16. Overall at £1.13m the surplus is broadly in line with budget at £1.18m but challenges will continue for the remainder of the year. A combined summary Profit and Loss Statement is included in Appendix 1.

Balance Sheet

17. A summary balance sheet as at the end of July is included in the exempt report 'Supplementary Information Informing the Management Accounts to July 2013' set out elsewhere on the agenda for this meeting .

18. Compared to the balance sheet as at 31/3/2013 stock has increased from £4.5m to £5.4m. This is seasonal and is actually lower than previous years. The increase is to ensure peak stock availability for our customers at the busiest time of the year. A full rolling 12 month stock analysis is included in the exempt report 'Supplementary Information Informing the Management Accounts to July 2013' set out elsewhere on the agenda for this meeting.

19. Debtors now stand at £2.67m higher compared to the year-end reflecting the surge in deliveries at the peak July period. These debts are collected in September when the schools return from the summer break.

20. The impact on increased stock and debtors has had an inevitable impact on cash and this is £1.4m lower than at the 31st March year end and stands at £7.8m. Last year the balance of cash was just under £10m at this time but it

included £3.5m of dividends waiting to be distributed, this year ESPO is holding £1.5m waiting to be distributed so year on year the cash balance is broadly comparable. A trend analysis for cash compared to prior years is included in exempt report ‘Supplementary Information Informing the Management Accounts to July 2013’ set out elsewhere on the agenda for this meeting. .

21. A detailed cash flow is included in the exempt report ‘Supplementary Information Informing the Management Accounts to July 2013’ set out elsewhere on the agenda for this meeting. .

Resources Implications

22. This report sets out ESPO’s management accounts for the first part of the financial year 2013/14.

Recommendations

23. The Subcommittee is asked to consider and comment on the contents of the report and the attached appendix.

Equal Opportunities Implications

24. None have been identified.

Officers to Contact

Mr J Doherty – Director (Tel: 0116 265 7930)
Mr C Pitt – Finance Director (Tel: 01162944073)

List of Appendices

Appendix 1 Combined Summary P&L

COMBINED PRELIMINARY RESULTS

	Jul-13 MONTH ACTUAL	BUDGET	PRIOR YEAR	YEAR TO DATE ACTUAL	BUDGET	PRIOR YEAR
	£000	£000	£000	£000	£000	£000
INCOME						
Stores Sales	4,875.7	5,156.2	4,868.0	15,541.5	15,762.7	15,114.0
Less stores Cost of Sales	3,650.9	3,898.2	3,682.0	11,642.6	11,920.7	11,477.0
STORES TRADING SURPLUS	1,224.7	1,258.0	1,186.0	3,898.9	3,842.0	3,637.0
	33.5%	32.3%	32.2%	33.5%	32.2%	31.7%
Rebates from Suppliers	303.3	431.5	390.0	997.9	1,285.3	1,090.0
Margin on Directs & Major Projects	222.1	232.8	242.0	767.2	741.2	878.0
Catalogue Advertising	1.2	2.2	5.0	764.4	882.9	851.0
Other Income	14.2	10.9	8.0	89.3	80.0	94.0
CUSTOMER & CLIENT RECEIPTS	540.7	677.5	645.0	2,618.8	2,989.4	2,913.0
TOTAL INCOME	1,765.5	1,935.5	1,831.0	6,517.7	6,831.4	6,550.0
EXPENDITURE						
EMPLOYEES						
Staff	785.5	824.7	718.0	2,940.9	3,298.0	2,857.0
Agency/Contract	275.1	34.1	79.0	435.9	114.6	260.0
Total	1,060.6	858.8	797.0	3,376.8	3,412.6	3,117.0
OVERHEAD EXPENSES						
Stores	476.1	328.2	349.0	1,320.0	1,258.1	1,358.0
CP	265.6	148.9	162.0	690.3	979.0	647.0
Total	741.8	477.1	511.0	2,010.3	2,237.1	2,005.0
TOTAL EXPENDITURE	1,802.4	1,335.8	1,308.0	5,387.1	5,649.7	5,122.0
TRADING SURPLUS	**(36.9)**	**599.6**	**523.0**	**1,130.6**	**1,181.7**	**1,428.0**

EMPLOYEES NUMBERS (Full-time equivalents):

	MONTH ACTUAL	BUDGET	PRIOR YEAR	YTD ACTUAL	BUDGET	PRIOR YEAR
Stores	158	168	176	159	168	176
Purchasing	92	126	91	88	126	89
Indirects	86	76	83	82	76	82
TOTAL EMPLOYEES	336	370	349	330	370	348
Income per Employee (FTE) £	5,262.0	5,229.0	5,249.0	19,773.0	18,457.0	18,816.0
Average Cost per Employee	2,341.0	2,228.0	2,186.0	8,922.0	8,910.0	8,696.0

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ESPO FINANCE AND AUDIT SUBCOMMITTEE – 3 SEPTEMBER 2013

INTERNAL AUDIT SERVICE - PROGRESS AGAINST THE 2013-14 INTERNAL AUDIT PLAN

REPORT OF THE CONSORTIUM TREASURER

Purpose of the Report

1. To give a summary of Leicestershire County Council's Internal Audit Service (LCCIAS) work to the Subcommittee and highlight any audits where high importance (HI) recommendations have been made and the position against implementing action.

2. To summarise the Head of Internal Audit Service's (HoIAS) investigation following a whistle-blowing occurrence.

Background

3. The Consortium Treasurer (the Treasurer) is responsible for the proper administration of ESPO's financial affairs. A specific responsibility for arranging a continuous internal audit is delegated to the Treasurer. Under its terms of reference the Finance and Audit Subcommittee should receive and review audit reports. The Subcommittee also monitors the adequacy and effectiveness of the internal audit service provided to ESPO. To achieve this, the Subcommittee is provided with periodic progress reports.

4. The audits undertaken are based on the annual internal audit plan. Variations to the plan can occur but need to be considered with and agreed by the Treasurer and the Director of ESPO.

Summary of Progress

5. Progress against the first quarter's work is shown in **Appendix 1.** The 'opinion' is what level of assurance can be given that material risks are being managed.

6. There are four classifications of assurance: full; substantial; partial; and little. A report that has a high importance (HI) recommendation would not normally get a classification above partial. Exceptions would be where the controls are sound but there is a high importance efficiency recommendation.

7. A brief summary of each individual audit objective, major findings and conclusions is shown in **Appendix 2**.

8. **Appendix 3** details HI recommendations and provides a short summary of the issues surrounding these. The relevant manager's agreement (or otherwise) to implementing the recommendation and implementation timescales is shown. Recommendations that have not been reported to the Subcommittee previously, or where LCCIAS has identified that some movement has occurred in a previously reported recommendation, are shown in **bold font.** Entries remain on the list until the auditor has confirmed (by specific re-testing) that action has been implemented.

9. There were no new HI recommendations. Following the recent audit of supplier verification, a further HI relating to rebates has now been closed. The remaining three HI recommendations in respect of rebates will be picked up in a follow up audit of the rebates processes later in the year.

<u>Head of Internal Audit Service (HoIAS) investigation following a whistle-blowing occurrence</u>

10. An ex-member of ESPO staff whistle-blew that an unauthorised scheme had been initiated to recompense a particular group of staff for losses they considered they had incurred whilst using their cars on ESPO business.

11. The HoIAS had concluded his investigation into the specific allegations and found them to be mostly proven. However, there was no question of fraud and the basis of the calculation for payment was rational. There was sufficient evidence to support claims made and (minor value discrepancies aside) amounts paid were accurate.

12. The HoIAS has reported to the Consortium Treasurer and Secretary for them to decide any action required.

<u>Resource Implications</u>

13. The HoIAS work to conclude the whistle-blowing investigation was unplanned and may impact on total time charged to ESPO, but that is unable to be confirmed until later in the year.

<u>Recommendation</u>

14. That the contents of the report be noted.

Equal Opportunities Implications

15. There are no discernible equal opportunities implications resulting from the audits listed.

Background Papers

Report to ESPO Management Committee on 27 September 2012 – Finance and Audit Subcommittee – Proposed terms of reference and indicative work plan

Officer to Contact

Neil Jones, Head of Internal Audit Service
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Email: neil.jones@leics.gov.uk

Appendices

Appendix 1	-	Summary of final internal audit reports issued 01.04 - 31.07.2013
Appendix 2	-	Summary audit objectives, findings and conclusions
Appendix 3	-	Summary of Internal Audit High Importance Recommendations

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Sub-Function	Name	Final Issue	Audit Opinion	HI Recommendation
Creditors	Rebates (Supplier Verification)	12-Jun-13	Substantial	No
ICT	Key ICT controls	19-Aug-13	Substantial	No

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Appendix 2

Summary audit objectives, findings and conclusions

Audits concluded or in progress at 31st July 2013

Audits where only the objective had previously been reported (June 2013 Subcommittee), which are now concluded

Rebates (supplier verification)

Objective is to give assurance that for a sample of suppliers, the levels of turnover indicated by the suppliers and consequently the level of rebate paid to ESPO by the supplier were accurate.

Findings & conclusion

Whilst the majority of authorities/customers that were contacted were able to confirm the accuracy of the turnover values given by suppliers, which rebates had been based on, several queries were raised from responses received back. The Heads of Category teams will be asked to consider and advise on the merits of following up the queries raised in respect of individual suppliers, as they will know their suppliers, markets, and the significance of any discrepancy in terms of the revenue stream for their category. A substantial assurance rating was given.

Key ICT Controls

This annual audit assists the External Auditors (PWC) to form an opinion on the risk of material misstatement in ESPO's financial accounts. The scope of the audit is driven by the external auditors requirements and covers for ICT purposes organisation and governance; risk management; security; change process; network security; logical access and user administration; privileges; systems development and data migration.

Findings & conclusion

Whilst there were a number of recommendations to strengthen internal control, none were considered to be high important and they were all accepted by management. A substantial assurance rating was given.

Audits in progress at the end of July 2013

Performance Management

The objective is to ensure that there is a framework to ensure compliance with the Constitution requirements including benchmarking.

Medium Term Financial Strategy

The objective is to ensure that there are robust processes for validating assumptions, monitoring achievements and reporting progress against efficiency projects

Business Forecasting

The objective is to ensure that there is a robust framework for forecasting and acting on triggers

Risk Management

The objective is to ensure that the revised policy and framework is operating as intended. Lines of defence are understood and complied with.

Annual Governance Statement

The objective is to ensure that there are adequate arrangements to demonstrate compliance to the principles of good governance outlined in the CIPFA/SOLACE Framework.

Servicing Authority

The objective is to ensure that the servicing authority is achieving its requirements and objectives

E-Tendering

To ensure that the security requirements and audit trail are robust

Energy

To confirm that the requests of customers regarding meter points have been accurately transferred under the new gas portfolio. Also, a follow up of the energy governance arrangements.

<u>Eastern Shires Purchasing Organisation (ESPO)</u>

<u>Appendix 3</u>

Summary of Internal Audit High Importance Recommendations

Committee	Audit Title	Summary of Finding and Recommendation	Management Response	Action Date	Confirmed Implemented
Aug 2012	Rebates	Inconsistent systems were operated to capture relevant data which created inefficiencies in the invoicing and sales ledger processes and a risk that all rebates actually due are not promptly and accurately collected and received. Recommended business processes to be established and subsequently documented to identify which area of the business should carry out various processes.	A	July 12	Partly – processes have been documented **IAS will further f/u compliance against processes**
Aug 2012	Rebates	For 'Dealing Direct' items, there is major reliance on the honesty of the supplier to provide accurate information about levels of turnover. There is also a higher risk of non-receipt of rebates, especially in the current economic climate, due to only collecting on an annual basis regardless of the perceived risk of supplier. Recommend: - • Supporting evidence substantiating rebates paid should form part of new contractual obligations for all suppliers. Current suppliers should be retrospectively requested to comply. • Consideration should be given to more regular rebate settlements for selected suppliers based	A	August 12	Partly – contracts are more robust but changes have not been embedded long enough to confirm compliance **Further audit work planned**

		on factors such as materiality of business and the degree of financial stability of the supplier.			
Aug 2012	Rebates	ESPO staff identified a lack of any rebate budget information being produced during the year. Recommended the development of robust management information and performance indicators in order to provide regular reporting to management team, which would also aid management decision making regarding the benefit or otherwise of each individual contract	A	October 12	Yes **However IAS to f/u whether further development is required**

Eastern Shires Purchasing Organisation (ESPO)

Key to management response
A=Recommendation agreed; M=modified recommendation agreed; D=Assumed agreed; X=Not agreed

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