



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: 11 November 2013
My Ref BS/ESPO
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To: Members of the ESPO Finance and Audit Sub Committee

Dear Member,

ESPO FINANCE AND AUDIT SUBCOMMITTEE

A meeting of the Finance and Audit Sub Committee will be held at on Tuesday, 19 November 2013 at 10.30 am in the Gartree Committee Room , County Hall, Glenfield, Leicester.

Yours faithfully,

B Smith

for Consortium Secretary

AGENDA

1. Minutes of the meeting held on 3 September 2013. (Pages 3 - 6)
2. Declarations of interest in respect of items on the agenda.
3. To advise of any other items which the Chairman has decided to take as urgent elsewhere on the agenda.

During discussion of Item 4 below, the Chairman will be asked to consider Item 9 on the agenda which will involve the likely exclusion of the public.

4. Management Accounts for the First Six Months of Trading. (Pages 7 - 12)
(Report of the Director)
5. Progress Against Internal Audit Annual Plan. (Pages 13 - 20)
(Report of the Consortium Treasurer)

Democratic Services ◦ Chief Executive's Department ◦ Leicestershire County Council ◦ County Hall
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6. Date of meetings for 2014.
7. Any other items which the Chairman has decided to take as urgent.
8. Exclusion of the Press and Public.

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):

9. Supplementary Information Informing the Management Accounts for the First Six Months of Trading. (Pages 21 - 29)
(Report of the Director)
(Exempt under Paragraphs 3 and 10 of Schedule 12A)
10. Four Year Medium Term Financial Strategy 2014/15 - 2017/18 and Annual Budget Planning. (Pages 31 - 36)
(Report of the Consortium Treasurer)
(Exempt under Paragraphs 3 and 10 of Schedule 12A)

Minutes of a meeting of the ESPO Finance and Audit Subcommittee held at County Hall, Glenfield, Leicestershire on Tuesday, 3 September 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. P. Westley

Peterborough City Council

Cllr. D. Seaton

16. Minutes of the meeting held on 3 June 2013.

The minutes of the meeting held on 3 June 2013, having previously been circulated, were agreed as a correct record and signed.

17. 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.

18. 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.

19. 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.

20. Statement of Accounts and Annual Governance Statement 2012/13.

The Subcommittee received a joint report of the Director and Consortium Treasurer setting out the Draft Statement of Accounts and Annual Governance Statement 2012/13 prior to their consideration by the Management Committee. A copy of the report marked 'Item 4' is filed with these minutes.

Arising from discussion the following points were made:

- (i) Members requested to be updated regularly on the numbers of new customers using ESPO. It was suggested that this information could be provided on the Balance Scorecard;
- (ii) The number of short term debtors had reduced. This was the result of efforts by ESPO to increase its cash balances;
- (iii) Very few suppliers with which ESPO worked became insolvent; however, in such circumstances ESPO might develop payment plans to enable suppliers to make rebate repayments; this approach was considered preferable to, for example, seeking repayment through legal action;
- (iv) ESPO members of staff operated under the terms and conditions of the Servicing Authority and as such did not receive any discretionary awards on retirement;
- (v) ESPO monitored the number of schools which remained customers following transition to academy status;
- (vi) The Subcommittee was reassured that actions in relation to identified areas for improvement within the Annual Governance Statement were underway or had already been completed;
- (vii) Members commented that it would be helpful for progress with regard to ESPO's succession planning for the senior management team to be reported to the Management Committee;
- (viii) ESPO received a low number of Freedom of Information requests;
- (ix) The Subcommittee noted that interviews by the external auditors with re-elected members and surveys of staff to evaluate knowledge of department and corporate principles, plans and policies had not been undertaken; as had been reported within Annual Governance Statement. The document would be updated to reflect this prior to its final consideration by the Management Committee.

RESOLVED:

- (a) That it be noted that the Draft Statement of Accounts for 2012/13 will be submitted to the Management Committee for approval at its meeting on 26 September 2013;
- (b) That the Director be thanked for the work he and his staff had undertaken to prepare the Draft Statement of Accounts and Annual

Governance Statement.

21. Management Accounts to July 2013.

The Subcommittee received a report of the Director setting out ESPO's Management Accounts to July 2013. A copy of the report marked 'Item 5' is filed with these minutes. [Further details informing the Management Accounts to July 2013, of a commercially sensitive nature, were considered under exempt business in Minute 23 below.]

Arising from discussion the following points were made:

- (i) It was noted that, in respect of late orders, ESPO had experienced its best year for customer service;
- (ii) The Subcommittee was pleased to note actions being undertaken to reduce the costs of using agency staff.

RESOLVED:

That the contents of the report be noted;

22. 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 Management Accounts to July 2013' 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.

23. Supplementary Information Informing the Management Accounts to July 2013.

The Subcommittee considered an exempt report of the Director which set out information regarding the ESPO's Management Accounts which contained details of a commercially sensitive nature. A copy of the exempt report, marked 'Item 8', 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.]

24. Progress against Internal Audit Annual Plan.

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.

The Subcommittee was advised that the Head of Internal Audit Service had concluded his investigation into a minor whistle-blowing occurrence. He had reported his findings to the Consortium Treasurer and Consortium Secretary and they were both satisfied that the matter had reached a successful conclusion.

RESOLVED:

That the contents of the report be noted.

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

It was noted that the next meeting would be held on Tuesday 19 November 2013.

10.30 am - 11.40 am
03 September 2013

CHAIRMAN



ESPO FINANCE AND AUDIT SUBCOMMITTEE – 19 NOVEMBER 2013

MANAGEMENT ACCOUNTS FOR FIRST SIX MONTHS OF TRADING

REPORT OF THE DIRECTOR

Purpose of Report

1. This report sets out the results for the first six months of trading April to September 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 2013/14 – 2016/17.

Trading Summary

Income

2. Stores' sales value has increased this year to date by £1,140k (5.0%) to £23.7m compared to the prior year £22.6m. Compared to budget we are £400k ahead for the year to date or 1.7%.
3. Prices in Store sales were increased by 0.01% in the budget so the above represents a volume increase of 5.0% on the prior year. Last year sales grew by 7% including a 1.9% price increase giving a net volume increase of 5.1%. Thus after 18 months of the original 4 year plan stores volume has increased by approximately 10%. This is a good start on the stated four year objective of 20% growth in stores volume in the strategy paper.
4. Overall Direct sales are 3.3% down on budget and 8.6% 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 in Q1 had been deeper than expected and at that point we were 18% down on the prior year. Q2 has shown a substantial improvement as a result of a targeted campaign on Phonics and at the end of October the position had been completely recovered to the extent that we are now 6% ahead of budget and 1% ahead of prior year.
5. The margin on directs and major projects is £1,087k compared to a £1,167k budget and £1,341k in the prior year. The major reason for the adverse variance is Phonics as detailed in paragraph 4 above.
6. Rebate income is £1,778k which compared to budget is £104k favourable for the year to date and £53k up on the prior year.

8. Catalogue advertising is £841k compared to the prior year £864k and the budget of £889k. 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 £111k compared to a budget of £107k and prior year £130k. The costs to ESPO to set up MSTAR was £125k and Yorkshire Purchasing Organisation (YPO) has agreed to contribute 50% towards the total costs.
10. Overall gross mark up for store sales was 32.1% for the period which is 0.6% up on the prior year and 0.6% 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 £9,572k for the period compared to £9,413k budget and £9,462 in the prior year. As described above the principle reason for the variance to budget is down to rebate income and stores mark up.

Expenditure

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

<u>Scheme of Delegation</u> Improve scheme of delegation down to lower levels of management.	AD Finance	September 2013
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An improved Scheme of delegation has been implemented. In accordance with 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 September to facilitate such reviews are included in the exempt report.

Total Employee Costs

13. Compared to budget overall employee costs, including agency costs, are £5,149k compared to a budget of £5,110k and is thus an adverse variance of £39k. 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 £3,026k against a budget of £3,139k and prior year £3,007k. 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.

Surplus

16. Overall at £1,396k the surplus is broadly in line with budget at £1,163k but challenges will continue for the remainder of the year. A combined summary Profit and Loss Statement is included in Appendix 1.

Balance Sheet

12. A summary balance sheet as at the end of September is included in the exempt report.
13. Compared to the balance sheet as at 31/3/2013 stock has decreased from £4.5m to £3.8m. This is good from a cash perspective but less so from a stock availability perspective. In November we will be trialling a system developed in house to improve the stock optimisation process. Initially this will be done with ten suppliers for 4 weeks and if successful will be rolled out across the supplier base. A full rolling 12 month stock analysis is included in the exempt report
14. Debtors now stand at £3.3m higher compared to the year-end reflecting the surge in deliveries at the peak July period and the peak in September. These debts are collected in October and at the end of October the debtors were down to within £0.6m of the year-end balance.
15. The impact on increased stock and debtors has had an inevitable impact on cash and this is £2.2m lower than at the 31st March year end and stands at £7.0m. A trend analysis for cash compared to prior years is included in exempt report.
16. A detailed cash flow is also included in the exempt report.

Recommendations

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

Equal Opportunities Implications

None have been identified.

Officers to Contact

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

List of Appendices

Appendix 1 Combined Summary P&L

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<u>COMBINED PRELIMINARY RESULTS</u>			01/09/13		<u>Appendix 1</u>		
	<u>MONTH</u>		<u>YEAR TO DATE</u>				
	ACTUAL	BUDGET	PRIOR YEAR	ACTUAL	BUDGET	PRIOR YEAR	
	£000	£000	£000	£000	£000	£000	
<u>INCOME</u>							
Stores Sales	4,262.6	3,886.2	3,863.0	23,695.5	23,298.6	20,410.0	
Less stores	3,306.3	2,934.2	2,921.0	17,940.6	17,723.6	15,518.0	
STORES T	<u>956.3</u>	<u>952.0</u>	<u>942.0</u>	<u>5,754.9</u>	<u>5,575.0</u>	<u>4,892.0</u>	
	28.9%	32.4%	32.2%	32.1%	31.5%	31.5%	
Rebates fr	277.9	174.3	200.0	1,778.3	1,674.1	1,685.0	
Margin on I	252.2	197.0	383.0	1,086.6	1,167.0	1,377.0	
Catalogue .	2.4	2.2	12.0	841.0	889.6	873.0	
Other Incor	11.7	10.4	35.0	111.5	107.4	82.0	
CUSTOMER	<u>544.2</u>	<u>383.9</u>	<u>630.0</u>	<u>3,817.5</u>	<u>3,838.2</u>	<u>4,017.0</u>	
<u>TOTAL INCOME</u>	<u>1,500.5</u>	<u>1,335.9</u>	<u>1,572.0</u>	<u>9,572.4</u>	<u>9,413.2</u>	<u>8,909.0</u>	
<u>EXPENDITURE</u>							
EMPLOYEES							
Staff	829.7	817.0	700.0	4,535.1	4,939.5	4,278.0	
Agency/Cc	99.8	33.6	63.0	614.4	171.1	330.0	
Total	<u>929.4</u>	<u>850.6</u>	<u>763.0</u>	<u>5,149.4</u>	<u>5,110.5</u>	<u>4,608.0</u>	
OVERHEAD EXPENSES							
Stores	348.5	333.9	269.0	1,966.4	1,864.0	1,995.0	
CP	130.0	148.2	157.0	1,060.1	1,275.4	1,003.0	
Total	<u>478.5</u>	<u>482.1</u>	<u>426.0</u>	<u>3,026.5</u>	<u>3,139.3</u>	<u>2,998.0</u>	
<u>TOTAL EXPENDITURE</u>	<u>1,407.9</u>	<u>1,332.7</u>	<u>1,189.0</u>	<u>8,175.9</u>	<u>8,249.9</u>	<u>7,606.0</u>	
<u>TRADING SURPLUS</u>	<u>92.6</u>	<u>3.2</u>	<u>383.0</u>	<u>1,396.5</u>	<u>1,163.3</u>	<u>1,303.0</u>	

EMPLOYEES NUMBERS (Full-time equivalents):

Stores	163	168	185	160	168	194
Purchasing	101	126	88	98	126	89
Indirects	80	76	62	76	76	62
TOTAL EMF	<u>344</u>	<u>370</u>	<u>335</u>	<u>334</u>	<u>370</u>	<u>345</u>
Income per I	4,366.0	3,609.0	4,693.0	28,676.0	25,431.0	25,789.0
Average Cos	2,414.0	2,207.0	2,090.0	13,585.0	13,345.0	12,384.0

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ESPO FINANCE AND AUDIT SUBCOMMITTEE –
19 NOVEMBER 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.

Background

2. The Consortium Treasurer (the Treasurer) is responsible for the proper administration of ESPO's financial affairs. Rule 15 imposes 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 and governance 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.
3. 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

4. Progress against the plan up to the end of October 2013, is shown in **Appendix 1**. The 'opinion' is what level of assurance can be given that material risks are being managed.
5. 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.
6. **Appendix 2** summarises for completed audits the objectives, findings and conclusion/opinion and for audits in progress gives the objective and current position.

7. **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 Committee before 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.
8. There were not any new HI recommendations to report this quarter, and the audits planned to retest longstanding rebates HI's is not yet due to take place.

Recommendation

9. That the contents of the report be noted.

Equal Opportunities Implications

10. 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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Appendices

- | | | |
|------------|---|---|
| Appendix 1 | - | Summary of final internal audit reports issued 01.08 - 31.10.2013 |
| Appendix 2 | - | Summary audit objectives, findings and conclusions |
| Appendix 3 | - | Summary of Internal Audit High Importance Recommendations |

Summary of Final Internal Audit Reports Issued 01.07.2013 - 31.10.2013 - ESPO Appendix 1

<u>Sub-Function</u>	<u>Name</u>	<u>Final Issue</u>	<u>Audit Opinion</u>	<u>HI Recommendation</u>
Governance	Annual Governance Statement	20-Sep-13	Substantial	No
Information	Performance Management	15-Oct-13	Substantial	No

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Appendix 2

Summary audit objectives, findings and conclusions

Audits concluded or in progress at 31st October 2013

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

Audit title	Audit Objective	Findings	Conclusion/Opinion
Annual Governance Statement	To review the methodology applied to compile both the departmental statements and the co-ordinated corporate statement and ascertain there was sufficient supporting evidence.	There were adequate arrangements to demonstrate compliance to the principles of good governance outlined in the CIPFA/SOLACE Framework.	The work formed part of the HolAS annual opinion on the adequacy and effectiveness of the internal control environment, concluding 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.
Performance Management	To ensure that there was a framework to ensure compliance with the Constitution requirements including benchmarking.	The audit evaluated how the performance management framework had been designed and implemented and how responsibilities had been allocated. Whilst there is evidence of performance management against the ESPO four year business strategy, it is fragmented. Additionally, some agreed target measures are still being developed and are yet to be implemented and assigned for monitoring.	Provisional final report issued with substantial assurance. Management has accepted the findings.

Audits in progress at the end of October 2013

Audit title	Audit Objective – to ensure that...	Position
Medium Term Financial Strategy	There are robust processes for validating assumptions, monitoring achievements and reporting progress against efficiency projects.	Control evaluation
Business Forecasting	There is a robust framework for forecasting and acting on triggers	Terms of engagement agreed and the audit is due to start in mid-November.
Risk Management	The revised policy and framework is operating as intended and lines of defence are understood and complied with.	Planned
Servicing Authority	The servicing authority is achieving its requirements and objectives.	Planned. The Consortium Treasurer is keen for the audit to take place despite the revised agreement not yet being signed.
E-Tendering	The security requirements and audit trail are robust.	Underway with ad-hoc advice provided.
Energy	The requests of customers regarding meter points have been accurately transferred under the new gas portfolio. Additionally, that energy contracts are adequately governed.	Underway but awaiting further information from ESPO in order to progress the audit. Leicestershire representative on the Energy Governance Panel provided information from the September meeting. Will evaluate the adequacy and effectiveness of the information and how easily assurance can be gained by partners.
Attendance management	Procedures adhere to the corporate attendance management policy	Being scoped

Eastern Shires Purchasing Organisation (ESPO)

Appendix 3

Summary of Internal Audit High Importance Recommendations

Committee	Audit Title	Summary of Finding and Recommendation	Management Response	Action Date	Confirmed Implemented
Aug 2012	Rebates	<p>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.</p> <p>Recommended business processes to be established and subsequently documented to identify which area of the business should carry out various processes.</p>	A	July 12	Partly – processes have been documented IAS will further f/u compliance against processes
Aug 2012	Rebates	<p>For 'Dealing Direct' items, there is major reliance on the honesty of the supplier to provide accurate information about levels of turnover.</p> <p>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.</p> <p>Recommend: -</p> <ul style="list-style-type: none"> • 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

Eastern Shires Purchasing Organisation (ESPO)

		on factors such as materiality of business and the degree of financial stability of the supplier.			
Aug 2012	Rebates	<p>ESPO staff identified a lack of any rebate budget information being produced during the year.</p> <p>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</p>	A	October 12	<p>Yes</p> <p>However IAS to f/u whether further development is required</p>

Key to management response

A=Recommendation agreed; M=modified recommendation agreed; D=Assumed agreed; X=Not agreed

Audit/ESPO/F&ASC/13-14/November/Appendix 3/HI Progress Report

Last Revised 07/11/2013

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