



EASTERN SHIRES
PURCHASING
ORGANISATION

A LOCAL AUTHORITY PURCHASING AND DISTRIBUTION CONSORTIUM

CONSORTIUM SECRETARY: JOHN SINNOTT, MA, DipI. P.A.,
CHIEF EXECUTIVE, LEICESTERSHIRE COUNTY COUNCIL

Date: 18 June 2014
My Ref: BS/ESPO
Please ask for: Ben Smith
Direct Dialling: (0116) 305 6225
e-mail: ben.smith@leics.gov.uk

To: Members of the ESPO Management Committee

Dear Member,

ESPO MANAGEMENT COMMITTEE

A meeting of the Management Committee will be held at on Thursday, 26 June 2014 at 10.30 am in the Guthlaxton County Hall, Glenfield. Leicestershire.

A buffet lunch will be provided after the meeting. Please telephone or email me (details above) by Monday 16 June to confirm that you require lunch and, if so, whether you have any special dietary requirements.

Yours faithfully,

Ben Smith

for Consortium Secretary

AGENDA

Item

Marked

1. Election of Chairman for the municipal year 2014/15.

Cllr. J. Reynolds has been nominated by Cambridgeshire County Council.

2. Election of Vice Chairman for the municipal year 2014/15.

Cllr. J. Clarke has been nominated by Warwickshire County Council.

3. Minutes of the meeting held on 6 March 2014.

(Pages 5 - 10)

4. To advise of any other items which the Chairman has decided to take as urgent elsewhere on the agenda.
5. Declarations of interests in respect of items on this agenda.
6. Partnership Agreement and the Withdrawal of Leicester City Council from the Consortium. (Pages 11 - 12)
(Report of the Consortium Secretary)
7. Draft Outturn 2013/14. (Pages 13 - 20)
(Joint Report of the Consortium Treasurer and Director)

During discussion of Item 7 above, the Chairman will be asked to consider Item 16 on the agenda which will involve the likely exclusion of the public.

8. Annual Report 2013/14. (Pages 21 - 28)
(Joint Report of the Director and Consortium Treasurer)
9. Draft Annual Governance Statement 2013/14. (Pages 29 - 44)
(Joint report of the Consortium Secretary and Treasurer)
10. Internal Audit Service Annual Report 2013-14. (Pages 45 - 60)
(Report of the Consortium Treasurer)
11. Annual Review of Organisational Approach to Risk Management 2013/14. (Pages 61 - 82)
(Report of the Director)

During discussion of Item 11 above, the Chairman will be asked to consider Item 17 on the agenda which will involve the likely exclusion of the public.

12. Director's Progress Report. (Pages 83 - 92)
(Report of the Director)

During discussion of Item 12 above, the Chairman will be asked to consider Item 18 on the agenda which will involve the likely exclusion of the public.

13. Date of Next Meeting - Thursday 26 September 2013 at 10.30 am.

To be held at ESPO, Grove Park.

14. Any other items which the Chairman has decided to take as urgent.

The public are likely to be excluded from the meeting during the consideration of the following items of business in accordance with the provisions of Section 100 (A) (4) of the Local Government Act 1972 (Exempt Information).

15. Logistics Review. (Pages 93 - 108)
(Report of the Director)
(Exempt under paragraphs 3 and 10 of Schedule 12(A))
16. Supplementary Information Informing the Draft Outturn 2013/14. (Pages 109 - 116)
(Joint Report of the Consortium Treasurer and Director)
(Exempt under paragraphs 3 and 10 of Schedule 12(A))
17. Supplementary Information informing the Annual Review of Organisational Approach to Risk Management 2013/14. (Pages 117 - 120)
(Report of the Director)
(Exempt under paragraphs 3 and 10 of Schedule 12(A))
18. Supplementary Information Informing the Director's Progress Report. (Pages 121 - 124)
(Report of the Director)
(Exempt under paragraphs 3 and 10 of Schedule 12(A))

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Minutes of a meeting of the ESPO Management Committee held at County Hall, Glenfield, Leicestershire on Thursday, 6 March 2014.

PRESENT

Cambridgeshire County Council

Cllr. J. Reynolds

Leicestershire County Council

Dr. R. K. A. Feltham CC and Mr. D. Snartt CC

Lincolnshire County Council

Cllr. S. Rawlins (in the chair) and Cllr. S. Ransome

Peterborough City Council

Cllr. J. Holdich OBE

Warwickshire County Council

Cllr. P. White and Cllr. D. Parsons

Norfolk County Council

Cllr. I. Monson

Apologies for absence

Cllr. D. Seaton – Peterborough City Council, Cllr. T. Jermy – Norfolk County Council, Cllr. B. Chapman – Cambridgeshire County Council

49. Minutes.

The minutes of the meeting held on 5th December, 2013, having previously been circulated, were taken as read, confirmed and signed as a correct record.

50. Urgent Items.

The Chairman reported that there were no urgent items for consideration.

51. Declarations of interest.

The Chairman invited those who wished to do so to declare an interest in respect of items on the agenda.

No declarations were made.

52. 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.

53. Procurement and Compliance.

The Chairman welcomed to the meeting Mr Kristian Smith, Assistant Director for Procurement and Compliance, ESPO, who delivered a presentation on procurement and compliance. A copy of the presentation is filed with these minutes.

Arising from the presentation and discussion, the following points were noted:

- (i) ESPO had made a significant contribution to the development of the new national procurement strategy;
- (ii) New relationships with Pro5 were evolving, to include a broader understanding of collaboration beyond that of just aggregation. This therefore removed artificial collaborative boundaries;
- (iii) ESPO was looking to develop its relationship with constituent bodies and customers into one which would see ESPO supporting or, if required, shaping future commissioning arrangements;
- (iv) Managing risk, particularly in an increasingly litigious environment, was essential. However, this needed to be balanced against the need to develop new and innovative approaches which, whilst carrying risk, offered the potential to generate efficiencies and savings;
- (v) Measures of success would include not just better value for money considerations but also other considerations such as using contracting and commissioning strategies to realise wider social and economic benefits for the locality.

RESOLVED:

That the presentation on the procurement and compliance strategy and the comments now made be noted.

54. Director's Progress Update.

The Management Committee considered a report from the Director updating members of the actions taken since the previous ESPO Management Committee meeting held on 5th December 2013. A copy of the report, marked 'item 5', is filed with these minutes.

With regard to the decision of Leicester City Council to withdraw from the Consortium, members were advised that a new draft agreement setting out the terms of the withdrawal was now being studied by the legal advisers of each constituent authority. It was noted that the existing Partnership Agreement required that all constituent authorities need to give approval to the document.

It was noted that in addition to the training provided to procurement staff to become Chartered Institute of Purchasing and Supply (CIPS) trained, ESPO was now exploring a range of training opportunities, including the possibility of introducing NVQ training for warehouse staff.

RESOLVED:

- (a) That the report be noted;
- (b) That Management Committee members be asked to ensure that their respective authorities take the necessary decisions to enable agreement to be reached on the terms for Leicester City Council to leave the Consortium.

55. 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 Progress Report of the Director' (item 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.

56. Supplementary Information Informing the Progress Report of the Director.

The Management Committee received a report of the Director which set out further supplementary information on item 5, Director's Progress Update. A copy of the exempt report, marked 'item 13', 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.

In response to questions the Committee was advised as follows:

- (i) The reduction of overall direct sales in the current year compared to the previous year was largely attributable to the ending of the Department for Education funding of the primary school phonics programme;
- (ii) The budget projections of 5% growth annually for the next few years were particularly ambitious against a backdrop of reductions in public sector budgets;
- (iii) The recent events in Ukraine and the impact this might have on gas prices and the GEMS contract was being monitored. The forward purchase of gas provided some protection but should the position deteriorate the panel established to look at major risks would be reconvened;
- (iv) The review of transport had only just been completed and a detailed report would be submitted to a future meeting. The initial indications were that the savings from contracting out the service were not as significant as originally thought and that a hybrid approach was the likely outcome;
- (v) The latest quarterly absence data was being verified and would be reported to the next meeting.

RESOLVED:

That the report be noted.

[The meeting then reconvened into public session.]

57. Draft Medium Term Business Strategy 2014-18.

The Management Committee considered a report of the Director which advised members of the Four-Year Business Strategy 2014-18 entitled 'Planning Our Future'. A copy of the report, marked 'item 6', is filed with these minutes.

The Management Committee also received a PowerPoint presentation from the Director which highlighted the key issues within the Plan. A copy of the presentation is also filed with these minutes.

In the ensuing discussion, the following points were made:

- (i) The projected growth of 20% over four years from stores and direct sales was challenging at a time of reduced customer spend. To achieve this level of growth would necessitate the exploration of new markets/customers but in doing so care would need to be taken to ensure costs were controlled and the new business ventures made a positive contribution;
- (ii) The public service ethos of ESPO was still important and this meant that it would continue to support smaller customers notwithstanding the fact that the cost of doing so meant much reduced margins. Work was under way on developing e-ordering capabilities and an improved web interface for customers would make the process more efficient and improve margins;
- (iii) Considerably more work was needed to build up the understanding of the ESPO brand and the range of its activities.

RESOLVED:

That the Medium Term Business Strategy 2014-18 be approved.

58. Forecast Outturn 2013/14 and Draft Medium Term Financial Strategy 2014/15 - 2017/18.

The Management Committee considered a report from the Director giving an update on the financial implications of the Four Year Medium Term Financial Strategy and presenting the 2014-15 budget and outline budgets for the following three years. A copy of the report, marked 'item 7', is filed with these minutes.

Arising from the presentation and discussion, the following points were noted:

- (i) That catalogue printing costs were covered by advertising income;
- (ii) That further savings were being achieved through transfer of a number of agency staff onto the ESPO staff establishment;

- (iii) That although ESPO was now in a positive cash position, the view of the senior management team, supported by the Consortium Treasurer, was that the cash was better used in investing and growing the business as opposed to paying down debt.

RESOLVED:

- (a) That the report be noted;
- (b) That the Four Year Medium Term Financial Strategy, which incorporates the recommended budget for 2014/15, and draft projected budgets for 2015/16, 2016/17 and 2016/17, be approved;
- (c) That the Director and Consortium Treasurer be thanked for the level of financial information and data provided in the report.

59. 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 Forecast Outturn 2013/14 and Draft MTFS 2014/15 – 2017/18' (item 14) 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.

60. Supplementary Information informing the Forecast Outturn 2013/14 and Medium Term Financial Strategy 2014/15 - 2017/18.

The Management Committee received a report of the Director and Consortium Treasurer which set out further supplementary information of a commercially sensitive nature regarding a more detailed analysis on item 7, ESPO's forecast outturn and budget. A copy of the exempt report, marked 'item 14', 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 report be noted.

[The meeting then reconvened into public session.]

61. Public Procurement and SMEs - Progress Update.

The Committee considered a report of the Consortium Treasurer updating members on progress against the SME action plan which it had agreed on 7 March 2013. A copy of the report, marked 'item 8', is filed with these minutes.

RESOLVED:

- (a) That progress against the action plan be noted;
- (b) That the Chief Officer Group recommendation to continue the development of this workstream within future Senior Officer Group workplans be supported;
- (c) That the inclusion of appropriate SME performance data within the ESPO balanced score card be approved.

62. Proposed Changes to the Contract Procedure Rules.

The Committee considered a report of the Director, Consortium Secretary and Consortium Treasurer seeking approval to revised Contract Procedure Rules for ESPO which had been updated in order to align with those of the Servicing Authority. A copy of the report, marked 'item 9', is filed with these minutes.

RESOLVED:

That the recommended revisions to ESPO's Contract Procedure Rules, contained in Appendix B to the report, be approved.

63. Items referred by the Finance and Audit Subcommittee.

The Chairman of the ESPO Finance and Audit Subcommittee advised that all of the issues considered by the Subcommittee had been reflected in the papers before the Management Committee today.

64. Chairman's Announcement - Mr. B. Roberts.

The Committee were advised that Mr Brian Roberts would shortly be handing over his duties as ESPO's Consortium Treasurer to Mr Chris Tambini who would be taking over Section 151 responsibilities at Leicestershire County Council. The Committee extended their thanks to Mr Roberts for all his hard work assisting in the development of ESPO into the organisation it was today and offered him their best wishes for the future.

65. Date of Next Meeting.

It was noted that the next meeting of the Management Committee would be held at the ESPO offices on Thursday 26th June 2014 at 10.30 am.



ESPO MANAGEMENT COMMITTEE –
27 JUNE 2014

PARTNERSHIP AGREEMENT AND THE
WITHDRAWAL OF LEICESTER CITY COUNCIL
FROM THE CONSORTIUM

REPORT OF THE CONSORTIUM SECRETARY

Purpose of Briefing Note

1. The purpose of this report is to update members on the withdrawal of Leicester City Council from the ESPO Consortium and progress in amending the draft Consortium Agreement since its last meeting on 5 March 2014.

Background

2. Leicester City Council took a decision to withdraw from the ESPO Consortium in September 2013 in light of a decision by that Authority to rely less on national framework solutions in favour of public contracts with local suppliers.
3. As a result, it decided that being part of the ESPO management Committee was not consistent with its intended future direction.
4. Leicester City Council however, has confirmed its on-going commitment to using ESPO's services, frameworks and catalogue, including engaging ESPO on a project-by-project basis. It is choosing to do this as a non-member authority rather than as a member authority, and will review its usage in due course, as commitments fall away.
5. The operational relationship between ESPO and Leicester City Council has remained 'business as usual' whilst its terms of exit are discussed. Future decisions regarding engagement in ESPO procurement solutions will be taken as they arise.

Exit from the Consortium

6. Led by Warwickshire County Council, legal representatives of the authorities, meeting as the Legal and Governance Group have prepared a new Agreement to allow for Leicester City Council to leave the Consortium without serving a full period of notice and subject to

payment of the dividend for 2013/14 and indemnities as to liabilities which may arise.

7. The terms of that Agreement are acceptable to the members of ESO and the Management Committee will be further updated at the meeting.

New Consortium Agreement

8. Following the departure of Leicester City, the remaining six Consortium Authorities are now in a position to sign the draft Consortium Agreement which the Management Committee recommended to its Constituent Authorities in March 2013. That process is ongoing with the new Agreement expected to be in place over the summer of 2014.

Resources Implications

9. No resource implications of concern have been identified arising from the departure of Leicester City from the Consortium.

Recommendation

10. The Committee is asked to note the contents of the report.

Equal Opportunities Implications

11. None.

Background Papers

12. Progress Report of the Director – ESPO Management Committee on 5 December 2013

Officer to Contact:

David Morgan, County Solicitor
David.morgan@leics.gov.uk, 0116 3056007



ESPO MANAGEMENT COMMITTEE – 26th JUNE 2014

DRAFT OUTTURN 2013/14

REPORT OF THE CONSORTIUM TREASURER

Introduction

1. This report sets out the draft outturn for 2013/14 with explanations for the more significant variances to prior year, budget and forecast. Members should note that the outturn will be subject to external audit. A summary profit and loss statement (P&L) is presented below:

	<u>YEAR TO DATE</u>		
	ACTUAL	BUDGET	PRIOR YEAR
	£000	£000	£000
TOTAL SALES	95,605.3	94,199.8	94,019.2
TOTAL MARGIN	19,329.4	17,823.2	18,643.4
Margin %	20.2%	18.9%	19.8%
TOTAL EXPENDITURE	16,946.6	16,005.6	15,959.6
TRADING SURPLUS	2,382.8	1,817.5	2,683.8

Trading Summary

Income

	<u>YEAR TO DATE</u>		
	ACTUAL	BUDGET	PRIOR YEAR
	£000	£000	£000
<u>SALES</u>			
STORES	42,333.8	42,254.0	40,316.1
DIRECT	21,625.5	21,132.4	23,296.1
GAS	25,472.5	25,639.7	24,404.2
CATALOGUE ADVERTISING	930.5	896.3	918.5
REBATE INCOME	5,049.7	4,073.8	4,858.0
MISCELLANEOUS INCOME	193.2	203.7	226.3
<u>TOTAL SALES</u>	95,605.3	94,199.8	94,019.2

2. Overall the organisation's invoiced turnover for the year including rebates was £95.6m. This was 1.7% higher than the prior year which was primarily due to higher store sales, gas and rebates offset by lower directs.
3. Stores' sales value has increased this year, compared to the prior year, by £2m (5%) to £42.3m. Sales to member authorities including academies have increased by 2%, while sales to other authorities have increased by 8%.
4. The growth in store sales was thus principally achieved in non-member areas.
5. As a result of the Department of Education Phonics initiative coming to an end in October 2103 the Directs catalogue products business decreased to £21.6m from £23.3m the prior year, a fall of 7.2%. This national initiative was co-ordinated by ESPO on behalf of the Pro5 consortium.
6. Rebate income was £5.0m an increase of £0.2m on prior year. This has been achieved while continuing to reduce rebate margin from our suppliers.
7. Catalogue advertising was £0.9m and was consistent with the prior year. This is a good performance at a time when pressures on advertising income are considered strong.
8. Compared to budget overall sales are £1.4m higher driven by higher rebates £0.9m and higher directs £0.5m.
9. Compared to forecast overall sales are £4.1m lower driven by lower gas sales £4.0m as a result of the warmer winter. This also impacted sales of salt from the warehouse.

Margin

10. Stores margin (mark up) increased to 33.6% compared to 32.3% last year. This was mainly driven by the Sinclair deal on paper which resulted in a better buying price but lower rebate. The switch from rebates to margin as a result of this was approximately £200k
11. Directs margin fell to 9.7% as a percentage of sales compares to 10.8% last year. This was driven by a discount offer on Phonics in October which increased sales and market share but lowered margins. The margin is budgeted to return to over 10% for 2014-15.
12. Total margin was £19.3m against a budget of £17.8m, mainly as a result of higher rebates but also improved store sales margin.
13. Compared to forecast total margin was £0.9m higher driven once again by higher rebates and improved stores margin.

Expenditure

14. Total expenditure increased by £0.9m compared to last year. The key elements of this are as follows:

- Transport costs increased by £0.3m. This is mainly as a result of the aged fleet but also down to increased carrier costs. The issue of “to follow” orders also had an impact as stock levels fell over the summer months and stock availability suffered as a result.
 - Last year ESPO had a net credit on car lease annual rental of £0.1m as a result of a release of accruals. This year the charge is £0.1m which is the actual cost and was budgeted.
 - Higher IT Repairs and Maintenance costs as these contracts came up for renewal.
 - Higher catalogue and marketing costs as we invest and develop these areas.
15. Compared to budget total expenditure was £0.9m higher. The key elements of this are as follows:
- Higher agency costs over the key summer peak period.
 - Higher transport costs linked to the aged fleet.
 - Increased car lease balloon payments.
16. Compared to forecast total expenditure was £0.6m higher, the key elements of this are as follows:
- Higher agency costs in the final quarter
 - Higher transport costs, linked to carriers and the aged fleet.

Summary

17. The Net Surplus for the year was £2.4m which is £0.6m higher than budget and £0.3m higher than forecast. Whilst £0.3m lower than last year this is as a result of increased expenditure and lower directs offset by higher rebates and improved stores margins.
18. Further information which informs the Draft Outturn 2013/14, of a commercially sensitive nature, is contained elsewhere on the agenda for this meeting, this includes:
- a) Detailed breakdown of the year on year sales movement
 - b) Detailed breakdown of the overhead expenditure
 - c) Analysis by Service Lines
 - d) Detailed Balance Sheet
 - e) Staffing Analysis

Service Line Analysis

19. The net surplus for Stores was £1.01m against a forecast of £1.01m so broadly in line with no significant variances.
20. Framework Contracts achieved a surplus of £0.9m against a forecast of £0.2m. This was driven entirely by higher rebates achieved at year end.
21. Energy and Fuels operating surplus was £0.5m against a forecast of £0.7m. The shortfall is entirely down to reduced gas sales in the final quarter.

22. The detailed Service Line Analysis is included in the exempt part of the report elsewhere on the agenda.

Allocations from Operating Surplus

23. A continued further allocation of £0.4m is proposed to be used for the Building Capital Provision. The provision is necessary to ensure the building is maintained at the highest possible standard with funds allocated and available to meet general repairs and capital replacements/ improvements. This is consistent with the prior year and the MTFS.
24. It is proposed to deliver a return to members in excess of the forecast in March 2014. The forecast was for a surplus of £2.1m less the £0.4m for the building provision. This would leave a £1.7m forecast surplus of which members receive 80% or £1.4m. The extra surplus actually generated is proposed to be partly retained for investment in the business. It is thus proposed that a further £100k is set aside for a warehouse automation project. This will be subject to a detailed paper for consideration by the Management Committee in due course.

Distribution of Surplus:

25. The breakdown of the distribution of the surplus is thus as follows:

£m

Operating Surplus	2.4
Building Provision	0.4
Warehouse Automation	<u>0.1</u>
Net Surplus	1.9
General Fund	0.4
Dividend	1.5

26. The amount available for distribution after the above allocations to reserves is £1.90m of which 80% (£1.5million) is attributable to member authorities as a dividend. Year on year the member dividend has thus been maintained at the prior year level. Based on previous usage and subject to audit the breakdown of the dividend by member is

	<u>2013-14</u>
	<u>Proposed</u>
	<u>Distribution</u>
£	
Cambridgeshire	229,240
Leicester City	203,996
Leicestershire	207,492
Lincolnshire	230,412
Norfolk	336,190
Peterborough City	92,107
Warwickshire	206,823
Total	1,506,260

ESPO Balances

27. The General Fund balance is primarily to meet any adverse trading conditions, provide funding for stock balances and other expenditure prior to the receipt of income. Established practice is that 20% of operating surplus is added to this fund up to a maximum of 5% of turnover. For 2013/14 £0.35m has been added to the General Fund balance representing 20% of surplus. The level of General Fund balance is expected to increase annually until the agreed maximum is retained according to the approved funding formula, this is not expected to be reached during the period of the current MTFS.

Finance and Audit Sub Committee

28. This report, together with a supplementary report containing commercially sensitive information was considered by the Finance and Audit Subcommittee on 10th June 2014. Arising from discussion, the following principal points were noted;-
- i. That officers should be congratulated on another record year of stores growth;
 - ii. That the £0.4 m allocated to building provision was part of an ongoing fund to provide provision for a new ESPO warehouse at the end of its current projected 25 year lifespan. This was a separate allocation to that of the mortgage repayments for that of the existing building;

Recommendation

28. The Management Committee is asked to:
- (a) approve of the draft out turn for 2013/14;
 - (b) approve the allocations from the operating surplus for 2013/14 as outlined in paragraphs 23 and 24 of this report;
 - (c) approve payment of the dividend, subject to approval of the accounts in September 2014, as outlined in paragraphs 25 and 26 of this report;

Officers to Contact

Mr J Doherty – Director (Tel: 0116 265 7930)

Mr C Tambini – Treasurer to the Consortium (Tel: 0116 305 7831)

List of Appendices

Appendix 1 – ESPO Management Accounts for Year End 31 March 2014

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COMBINED PRELIMINARY RESULTS

	Mar-14			YEAR TO DATE		
	MONTH		PRIOR YEAR	ACTUAL	BUDGET	PRIOR YEAR
	ACTUAL	BUDGET				
	£000	£000	£000	£000	£000	£000
SALES						
STORES	3,290.2	2,805.8	2,536.4	42,333.8	42,254.0	40,316.1
DIRECT	1,916.9	1,765.3	2,089.8	21,625.5	21,132.4	23,296.1
GAS	3,112.9	4,928.5	3,530.6	25,472.5	25,639.7	24,404.2
CATALOGUE ADVERTISING	2.6	0.0	5.8	930.5	896.3	918.5
REBATE INCOME	1,077.2	669.6	648.0	5,049.7	4,073.8	4,858.0
MISCELLANEOUS INCOME	(1.2)	14.3	(16.1)	193.2	203.7	226.3
TOTAL SALES	9,398.6	10,183.5	8,794.5	95,605.3	94,199.8	94,019.2
Cost of Sales						
STORES	2,173.7	2,133.8	1,950.9	31,680.1	32,037.0	30,467.7
DIRECT	1,704.9	1,587.9	1,911.6	19,526.2	19,034.2	20,790.6
GAS	3,302.5	4,863.9	3,413.2	25,125.0	25,303.4	24,117.5
CATALOGUE ADVERTISING	0.0	0.0	0.0	0.0	0.0	0.0
REBATE INCOME	0.0	0.0	0.0	0.0	0.0	0.0
MISCELLANEOUS INCOME	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL COST OF SALES	7,181.1	8,585.6	7,275.7	76,331.4	76,374.7	75,390.3
Margin						
STORES	1,116.5	672.0	585.5	10,653.7	10,217.0	9,848.4
DIRECT	211.9	177.4	178.2	2,099.3	2,098.2	2,505.5
GAS	(189.6)	64.6	117.3	347.5	336.3	286.7
CATALOGUE ADVERTISING	2.6	0.0	5.8	930.5	896.3	918.5
REBATE INCOME	1,077.2	669.6	648.0	5,049.7	4,073.8	4,858.0
MISCELLANEOUS INCOME	54.3	14.3	(16.1)	248.7	203.7	226.3
TOTAL MARGIN	2,273.0	1,597.8	1,533.1	19,329.4	17,823.2	18,643.4
Margin %	24.2%	15.7%	17.4%	20.2%	18.9%	19.8%
EXPENDITURE						
EMPLOYEES						
Staff	825.0	814.3	1,205.6	9,304.2	9,828.7	9,560.5
Agency/Contract	97.0	27.3	62.4	1,085.3	323.1	830.0
Total	922.0	841.6	1,268.0	10,389.5	10,151.8	10,390.4
OVERHEAD EXPENSES						
Stores	452.6	306.7	229.7	4,095.4	3,684.1	3,837.5
CP	576.6	148.1	70.6	2,461.6	2,169.8	1,731.7
Total	1,029.2	454.8	300.3	6,557.0	5,853.8	5,569.2
TOTAL EXPENDITURE	1,951.2	1,296.4	1,568.3	16,946.6	16,005.6	15,959.6
TRADING SURPLUS	321.8	301.4	(35.2)	2,382.8	1,817.5	2,683.8
EMPLOYEES NUMBERS (Full-time equivalents):						
Stores	170	168	162	163	168	170
Purchasing	102	126	85	97	126	88
Indirects	81	76	82	81	76	83
TOTAL EMPLOYEES	352	371	329	341	370	340
Income per Employee (FTE)	£ 6,450.0	4,312.0	4,654.0	56,723.0	48,136.0	54,767.0
Average Cost per Employee	2,341.0	2,197.0	3,660.0	27,304.0	26,545.0	28,085.0

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ESPO MANAGEMENT COMMITTEE – 26th JUNE 2014

DIRECTOR'S ANNUAL REPORT 2013-14

REPORT OF THE DIRECTOR

Purpose of Report

1. To present to members the draft Director's Annual Report for 2013-14.

Background

2. The Annual Report has been prepared in the same format as the prior year and reflects a focus on mission statement, values, governance and staffing issues as well as a summary of financial results.

Annual Report Contents

3. The report focusses first on what ESPO's mission statement is followed by a vision of the organisation in the future. It sets out in clear terms to the reader the journey that ESPO is engaged on for all stakeholders of the organisation.
4. The next section covers financial reporting and a summary of the trading results. This includes some historical performance data so readers can identify some important trends.
5. Following this the report covers the key marketing activity that has been engaged in over the previous twelve months. This indicates to the reader the brand development activities that have been engaged in as well as specific targeted marketing.
6. The next section covers significant matters which should be brought to the attention of the reader. This includes the revaluation of the land and buildings. An update on the four year medium term financial strategy is also included setting out the strategic objectives of the organisation.
7. Finally the last section covers our long service employees and retirees. This recognises the vital contribution of ESPO's staff.

Resources Implications

8. None

Recommendation

9. Members are asked to note the contents of the revised Annual Report for 2013-14.

Equal Opportunities Implications

10. None

Background Papers

11. None

Officer to Contact

John Doherty, Director
j.doherty@espo.org 0116 2657931

Appendices

Draft Annual Report

ANNUAL REPORT 2013/14

INTRODUCTION

ESPO is a local authority purchasing consortium. Our purpose and objectives are to provide our Member Authorities and other client bodies with a comprehensive, cost effective contracting and procurement service, covering a diverse range of commodities, products and services, as well as offering a complete and professional procurement consultancy, and assisting clients with complex procurement projects.

The Mission Statement is set out as:

'To work in partnership with our stakeholders to drive Value-for-Money for the Public Sector, through comprehensive procurement solutions'

ESPO's objective is to demonstrate its ability to deliver value for money services to our customers. In doing this we must ensure that our Member Authorities achieve a reward commensurate with the risk they share as ultimate funders of ESPO.

Value for money services will be achieved by ensuring a competitive offering is delivered by collaboration and recognising in some instances others can do it better. Achieving competitiveness will be delivered through improved efficiencies, focusing on the customer by improving service offering, listening and delivering what they need, and by understanding, managing and working with our supply chains.

Both risk and performance management are an integral part of day-to-day operations. Risk management at ESPO is monitored and reviewed through a compliance process featuring a business case methodology and a risk strategy which is managed through the senior management team to the ESPO Management Committee.

ESPO will target an annual 3.5% return on capital.

Underpinning all of the above will be through retaining our loyal staff and continuously developing their capabilities.

OUR VISION

ESPO operates across the public sector in the UK, providing a comprehensive and cost effective procurement service for local authorities, schools and academies, voluntary and community organisations and charities. We understand the need to embrace fully the needs of our Member Authorities and our customers and to ensure that their economic, social and environmental requirements are met.

'To be the first choice provider of Public Sector procurement solutions'

We will achieve this by bringing together a mix of commercialism, market insight, category expertise, and best practice sourcing. ESPO will work with all of its stakeholders, to engage markets and thereby achieve optimum outcomes for the benefit of its customers. ESPO will proactively challenge current practice, serving as a focal point for collaboration (where commercially sensible), bringing leadership and articulating new commissioning and sourcing strategies. We are committed to a programme of Continuous Improvement in our own operations as we seek to be the purchasing agent of choice in the local government/public sector.

ACCOUNTABILITY AND FINANCIAL REPORTING

Local Authorities are governed by a rigorous structure of controls to provide stakeholders with the confidence that public money has been properly accounted for. As part of this process of accountability, the organisation is required to produce a set of accounts in order to inform stakeholders that it has properly accounted for all public money it has received and spent and that its financial standing is on a secure footing.

FINANCIAL STATEMENTS

The financial activity of the Organisation in relation to the service it provides is shown through a number of key financial statements and notes:

Core Statements

The Movement in Reserves Statement shows the movement in year on the different reserves held by the Organisation.

The Comprehensive Income and Expenditure Statement summarises the income and expenditure of the Organisation during the year.

The Balance Sheet shows the value as at the 31st of March 2014 of the assets and liabilities recognised by the Organisation. The net assets of the Organisation (assets less liabilities) are matched by the reserves held by the Organisation.

The Cash Flow Statement shows the changes in cash and cash equivalents of the Organisation during the reporting period. The statement shows how the Organisation generates and uses cash and cash equivalents by classifying cash flows between operating, investing and financing activities.

The Annual Governance Statement sets out the framework designed to ensure that the Organisation operates a sound system of internal control which facilitates the effective exercise of its operations, and which includes arrangements for the management of risk. Whilst it is not a requirement to be part of this Statement of Accounts it is attached to this statement to aid the user to better understand the governance arrangements in force within the Organisation.

TRADING RESULTS

The spending restrictions imposed on local authorities by central government have continued to bite and this trend is expected to continue with further central government challenges expected. In addition the transfer of schools from Local Authority control to Academy status has continued and is expected to accelerate as we progress towards 2015.

ESPO has performed strongly in 2013-14 in all aspects of our business including consumables, directs, energy and broader procurement solutions. We continue to demonstrate our commitment to, and understanding of, the broader procurement needs of our stakeholders as evidenced by the increased uptake of our 500 plus frameworks and contracts, both regionally and nationally.

In the letting of these frameworks and contracts, ESPO has successfully balanced the requirements of the Social Value Act, observed sensible financial vetting procedures, established commercial value for customers by aggregating customer demand, and critically understood the local needs in member areas with respect to supporting local businesses.

Our awareness of the local employment challenges faced by members is evidenced by 55% of successful tenders having been secured by small and medium sized enterprises (SMEs) in the last 12 months through ESPO.

Stores' sales value has increased this year by £2,017k (5%) to £42.3million. Sales to member authorities including academies have grown by 2%, while sales

to other authorities have increased by 8%. The growth in store sales was thus principally achieved in non-member areas.

The Department of Education Phonics initiative which was launched in September 2011 finished in October 2013 and as a result the Directs catalogue products business decreased to £21.6million from £23.3million (including phonics sales) the prior year. This national initiative was co-ordinated by ESPO on behalf of the Pro5 consortium.

Overall the organisation's invoiced turnover for the year including rebates was £95.6million. This was 1.7% higher than the prior year which was primarily due to higher store sales, rebates and increased gas usage.

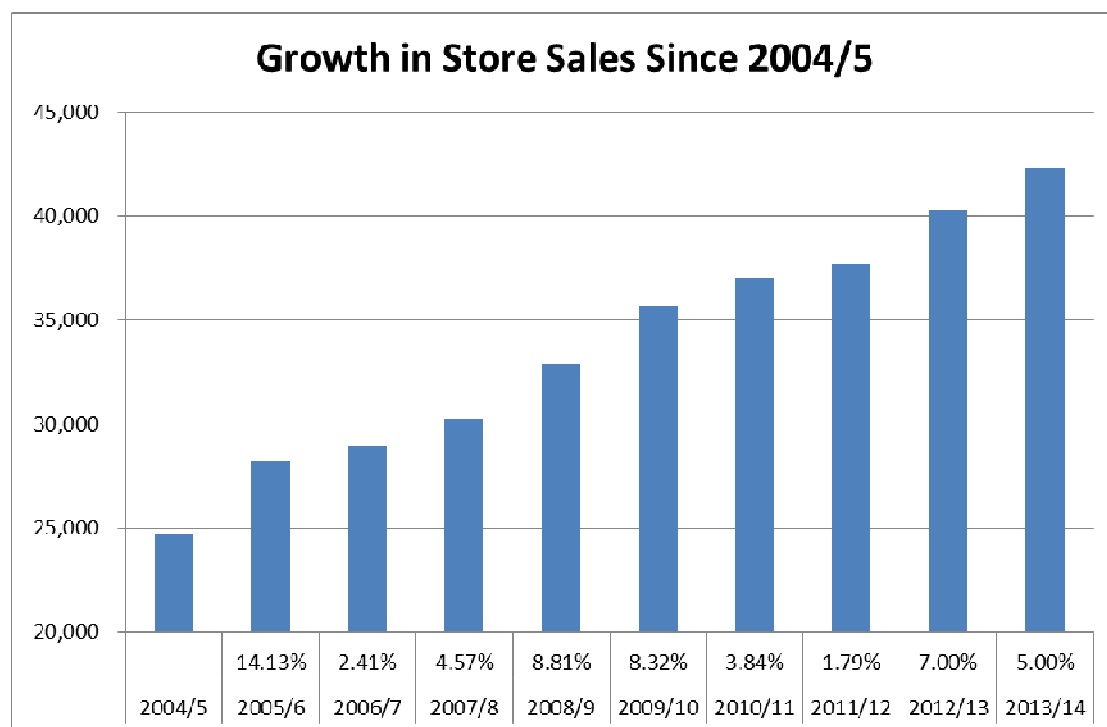
The reported statutory surplus of £xxmillion compares with the prior year of £2.7million and reflects continued investment in our procurement, IT and marketing capabilities, investment in value for money pricing for our stakeholders and growth in the business.

Net cash balances decreased by £0.7million during the year to £8.5million, this was after paying a £1.5million dividend to members in December 2013.

STORES

Stores sales of were just over £42.3m, an increase of 5% on last year.

The growth in Stores sales over the last ten years is illustrated in the following chart:



STORES PRICES

The chart below illustrates the price inflation for items held within Stores since 2003/04.

04/05	05/06	06/07	07/08	08/09	09/10	10/11	11/12	12/13	13/14
-0.35%	-0.18%	0.95%	1.66%	0.75%	4.54%	2.34%	3.10%	1.90%	0.03%

MARKETING ACTIVITY

This year we have attended various events, exhibitions and conferences which are detailed below; these are a mix of local regional and national events and continue to be part of the annual marketing plan for the organisation. Among those events we attended were:

School Business Managers Conference	Northamptonshire
Academies Show	London
School Business Managers Forum	London
Meet the Supplier Event	Warwickshire
Early Years Conference	London
Head Teachers Event	Rugby
National Association of School Business Managers	Cardiff
School Business Managers Exhibition	Milton Keynes
Midland Colleges Regional Meeting	ESPO
Headteachers Conference	Cambridge
Free Schools Conference	London
Local Authority Caterers Association	Birmingham
Newly Qualified Teachers Conference	Cambridge
Secondary Schools Business Managers	Leicester
School Bursars Roadshow	Leicestershire
Primary Headteachers Conference	Cambridge
Eco Conference	Norfolk
National Association of School Business Managers Conference	Leicestershire
Phonics Workshop	Warwick
Academies Show	Birmingham
Education Business Awards	London
Primary School Business Managers	Leicester City
Neopost Customer Event & Exhibition	ESPO
Education Show	Birmingham
Public Sector Show	London

SIGNIFICANT MATTERS

The land and buildings at Grove Park are in the process of being re-valued this year and will be completed prior to the closure of accounts on 30 June. The indicative valuation remains at £10million, the same as the prior year and hence no change.

The medium term financial strategy including the budget for 2014-15 was approved by the Management Committee in March 2014. The four year strategy focuses on value for money, growth and developing increased capability within the organisation to be the leading public sector procurement organisation in the country.

STAFFING

In reporting another successful year ESPO also recognises that this has only been possible by the continued effort and goodwill of ESPO's staff.

During 2014 the following staff will achieve 25 years' service with ESPO: Alan Hind, Jill Malony, Wendy Dilley, Mandy Sidwell, Janice Streather, Richard Tomlinson, Mark Woolerton and Margaret Geary.

I would also like to thank all those who retired during 2013/14 and wish them well. This includes Ed Walsh, Jenny Saville and Barbara Taylor.

Finally, I would like to acknowledge our Employee of the Year, Pravin Patel, Driver and our winner of the Outstanding Contribution Award, Michael Cree, Technical Specialist (IT). All permanent staff are eligible for these awards and the winners are chosen by their peers.

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ESPO MANAGEMENT COMMITTEE – 26th JUNE 2014

DRAFT ANNUAL GOVERNANCE STATEMENT 2013/14

REPORT OF THE CONSORTIUM TREASURER

Purpose of Report

1. To present to members the draft Annual Governance Statement for 2013-14. This has to be formally approved at the September 2014 Management Committee meeting alongside the Statement of Accounts.

Background

2. The process for preparing the Annual Governance Statement (AGS) was the subject of a “Hi” audit recommendation in May 2012. The process was thus completely revised and updated to include the latest recommendations from CIPFA and SOLACE. 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*.

Outcomes of Process for Preparing Annual Governance Statement

3. The AGS is structured around the six core principles of good governance as follows:

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

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

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

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

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

PRINCIPLE F: Engaging with stakeholders to ensure robust

accountability

4. For each of the six core principles we have identified:
 - Governance Mechanisms
 - Assurances Received
 - Weaknesses identified
5. To ensure this Annual Governance Statement presents an accurate picture of governance arrangements currently in place, each SMT member was required to complete a 'Governance Self Assessment', which provided details of the measures in place within their department to ensure compliance (or otherwise) with ESPO's Code of Corporate Governance. Where departments have identified specific 'areas of improvement', these are incorporated into a departmental action plan to discuss and prioritise implementation during the course of the next financial year.
6. A review of the effectiveness of the governance framework including the system of internal control has been carried out by the Head of Internal Audit Service. His findings are included in the report and indicate there has been a substantial strengthening of ESPO's governance arrangements and the general direction of travel for future governance arrangements is positive.
7. A number of areas for improvement have been identified indicative of the more robust approach taken this year. Progress against these areas of improvement will be reported to Members.

Resources Implications

8. None.

Recommendation

9. Members are asked to note the draft Annual Governance Statement for 2013-14

Equal Opportunities Implications

10. None

Officer to Contact

Mr C Tambini – Treasurer to the Consortium (Tel: 0116 305 7831)

Appendices

Draft Annual Governance Statement 2013-14



Annual Governance Statement 2013/14

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 2014 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 stewardship 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: <i>Evidence and documents that demonstrate compliance / good practice</i>	Assurances received	Weaknesses identified: <i>Areas for improvement</i>
<ul style="list-style-type: none"> • 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 	<ul style="list-style-type: none"> • Outcomes are delivered through Assistant Director plan’s 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 balanced scorecard. 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; • 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. 	<ul style="list-style-type: none"> • Improvements to Intranet and internet page. • Updated Balanced Scorecard to reflect new strategy.

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 stewardship throughout the organisation and be clear about member and officer 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 – <i>Evidence and documents that demonstrate compliance / good practice</i>	Assurances received	Weaknesses identified: <i>Areas for improvement</i>
<ul style="list-style-type: none"> • Job descriptions for: Director, CFO; Head of Internal Audit Service, AD Finance • 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 	<ul style="list-style-type: none"> • Draft 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. • Draft 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 ensures the 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. • Management Committee maintain oversight of management and stewardship of ESPO 	<ul style="list-style-type: none"> • Finalise agreement to Partnership Agreement and Constitution

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 – <i>Evidence and documents that demonstrate compliance / good practice</i>	Assurances received	Weaknesses identified: <i>Areas for improvement</i>
<ul style="list-style-type: none"> • 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 • Code of Corporate Governance 	<ul style="list-style-type: none"> • AGS produced by compiling and scrutinising information from Departmental Self Assessments 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. • Draft 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. 	<ul style="list-style-type: none"> • Further 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 stakeholder wants / needs;
- Ensure that an effective risk management system is in place;

Description of Governance Mechanisms – <i>Evidence and documents that demonstrate compliance / good practice</i>	Assurances received	Weaknesses identified: <i>Areas for improvement</i>
<ul style="list-style-type: none"> • Finance and Audit Subcommittee • 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 	<ul style="list-style-type: none"> • Finance and Audit Subcommittee 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 governance, risk management and internal control systems of ESPO are operating effectively. • Terms of References for Committees and decision making protocols have been approved by Management Committee and are detailed in the draft Constitution - records of decisions, with supporting materials available through the Principal Committee Officer • 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 Management 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. • External audit assurance from PWC • Chief Officer Group assurance 	<ul style="list-style-type: none"> •

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 – <i>Evidence and documents that demonstrate compliance / good practice</i>	Assurances received	Weaknesses identified: <i>Areas for improvement</i>
<ul style="list-style-type: none"> • Induction programme • Officer training and development plans • Availability and communication of activities • Performance reviews of officers • Workforce Planning • Member training and development 	<ul style="list-style-type: none"> • Induction available to all managers and staff. • 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 meetings with Director on quarterly basis. Also Members are invited to ESPO to review the business and meet officers. • Liaison Committee meetings 	<ul style="list-style-type: none"> • Workforce planning for relevant posts • Improved access to L&D activities for all stakeholders

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 – <i>Evidence and documents that demonstrate compliance / good practice</i>	Assurances received	Weaknesses identified: <i>Areas for improvement</i>
<ul style="list-style-type: none"> • Database of stakeholders • Annual report • Communication Strategy • Annual financial statements • Decision making and key documents • Freedom of Information Act publication scheme • ESPO Website • Best practice standards in recruitment and staff terms and conditions 	<ul style="list-style-type: none"> • Full public annual report providing information on outcomes and achievements . • ESPO recognise the importance to consult, involve and listen to stakeholders so that the organisation 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. • Agendas, non-exempt reports (including medium term financial and business strategies and other key policies) and minutes of the meetings of the Management Committee and Finance and Audit Subcommittee are publically available via the Servicing Authority’s website. • 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 policy and procedures. 	<ul style="list-style-type: none"> • Improvements to Intranet to ensure stakeholder awareness on all relevant issues.

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 2013-14, Leicestershire County Council Internal Audit Service (LCCIAS) provided internal audit service to ESPO.

LCCIAS has adopted the principles of the Public Sector Internal Audit Standards (the PSIAS) which were introduced from April 2013. The PSIAS require an annual internal audit plan to be developed using a risk based approach. For 2013-14, the ESPO plan was aligned to the contents of corporate and department risk registers and governance self-assessments to ensure current and emerging risks were adequately covered. The plan also allows for specific audits of the key financial systems (including IT controls) which the External Auditor uses to form their opinion that there has not been material misstatement in the financial accounts.

Internal Audit Service reports may contain recommendations for improvements. The number, type and importance of recommendations affects how the auditor reaches an opinion on the level of assurance that can be given that controls are suitably designed and applied effectively, and that material risks will likely not arise. The combined sum of individual audit opinions and other assurances gained, allows the Head of Internal Audit Service (HoIAS) to meet another PSIAS requirement to form the annual internal audit opinion on the overall adequacy and effectiveness of the Council's governance, risk and control framework (i.e. the control environment).

Governance related internal audit work

An opinion on whether good governance principles have been applied is based on the results of audits of AGS; elements of key ICT controls; fraud management; budget management; MTFs; attendance management; risk management and the role of the servicing authority. Recommendations were relatively minor and where they related to governance, it was to strengthen it, i.e. not to have to establish it.

The HoIAS attends Finance and Audit Subcommittee and appropriate Management Committee meetings to present audit plans and reports, which enables him to gauge ESPO Member governance at first hand. The HoIAS has regular discussions with the ESPO Director and Assistant

Director (Finance), the Consortium Treasurer (and where required the Consortium Secretary) on governance issues and related aspects of audits.

Based on the above, the HoIAS has concluded that nothing of such significance, adverse nature or character has come to his attention, and as such reasonable assurance is given that ESPO's governance arrangements are robust.

Risk management related internal audit work

The majority of audits planned and conducted were 'risk based' i.e. ensuring that ESPO management identifies, evaluates and manages risk to achieving its objectives i.e. ensuring controls are in place to reduce risk exposure. A specific audit of the ESPO risk management framework (corporate risk register) proved there were further improvements and good elements of risk management, although further embedding at operational level would strengthen arrangements. Recommendations have been implemented and a further follow up audit will take place before the end of the 2014-15 financial year to evaluate progress.

The HoIAS provides the External Auditor with an opinion on ESPO management of fraud risk. This was followed up with the specific audit of counter fraud arrangements with some minor recommendations.

A previous year's High Importance recommendation relating to business continuity was tested and confirmed as implemented.

Based on the above the HoIAS concluded that ESPO has acknowledged there is scope to continue improving its risk management framework. Additionally, management has agreed to implement all internal audit recommendations which further mitigate risk, therefore reasonable assurance is given that risk is managed.

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 including, payroll and stock management.

No findings were of such seriousness as to suggest a fundamental weakness in a main financial system.

Previous year's High Importance recommendations relating to rebates income processes were tested and confirmed as implemented.

Based on the above, the HoIAS has concluded that reasonable 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 2012/13 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 2012/13, 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 2013.

Organisational Governance and Performance Framework

The Senior Management Team and Management Committee receives a quarterly Balanced 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 HoIAS' 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 an Assistant Director and a senior manager to confirm their involvement;
- Selecting areas across the range of the six core principles to test if there was sufficient evidence to support the response;

The Role of the Chief Financial Officer (CFO)

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.

The Role of the Head of Internal Audit

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 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 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 Subcommittee 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 control 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 2013/14 were sound.

Progress on issues previously identified:

The table below describes the governance issues identified during 2012/13 and the progress made against this during 2013/14. These are not considered material governance issues:

Key Improvement Area	Update on position	Carry forward for 2014/15	Lead Officer
<u>Complaints</u> Review complaints arrangements to ensure lessons learned flow through to department action plans.	Completed	No	Director
<u>Benchmarking</u> Enhance benchmarking against other organisations by including cost base efficiency as well as competitive pricing.	Competitive pricing review carried out. Benchmarked Transport costs as part of review.	No	Director
<u>Value for Money</u> Improve VFM measures throughout the individual departments to ensure all stakeholders receive the best value for money service.	Progress made but an ongoing commitment	Yes	Director
<u>Constitution and Partnership Agreement</u> Finalise agreement to Constitution and Partnership Agreement with individual Members.	Expected to be finalised in June 2014	Yes	Monitoring Officer
<u>Scheme of Delegation</u> Improve scheme of delegation down to lower levels of management.	Implemented August 2013	No	AD Finance
<u>Internal Communication</u> Improve staff awareness of the various codes of conduct, customer care standards, Anti F&C Policy, Whistleblowing, Bribery and Officer and Member Protocol.	Policies on the intranet though issue of staff awareness still a concern	Yes	Director
<u>Anti Fraud & Corruption</u> 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.	Policies on the intranet though issue of staff awareness can be further improved	Yes	Director
<u>Risk Management</u> Improve risk management awareness throughout the organisation and continue to embed risk management at operational level.	Updated Risk strategy. Internal audit recommendations implemented. More regular and detailed	No	AD Finance

	SMT reviews		
<u>Succession Planning</u> There is a lack of succession planning for key posts. A review of key roles and responsibilities will be undertaken	New SMT in place though in some area's succession planning continues to be important	Yes	Director
<u>FOI requests</u> Improve handling of FOI requests such that a more robust procedure is in place.	Process reviewed and now compliant.	No	Director
<u>Stakeholder Database</u> Prepare database to ensure all areas of public accountability is properly administered.	Completed	No	Director
<u>Improve links to LCC website for Committee papers and minutes.</u> 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	Completed	No	AD Finance

Whilst the review of effectiveness concluded ESPO's overall financial management and corporate governance arrangements during 2013/14 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 2013/14 to carry forward for monitoring within 2014/15.

Key Improvement Area	Lead Officer	Deadline
<u>Constitution and Partnership Agreement</u> Finalise agreement to Constitution and Partnership Agreement with individual Members.	Monitoring Officer	June 2014
<u>Internal Communication</u> Improve staff awareness of the various codes conduct and other important issues by updating and developing the Intranet	Director	September 2014
<u>Anti Fraud & Corruption</u> Update all Anti-Fraud and Corruption policies in conjunction with LCC, ensuring specific ESPO concerns are addressed.	Director	September 2014
<u>Learning and Development</u> Improved access to L&D activities for all stakeholders	Director	December 2014
<u>Succession Planning</u> Workforce Planning for Key posts.	Director	December 2014

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



ESPO MANAGEMENT COMMITTEE – 26 JUNE 2014

INTERNAL AUDIT SERVICE – ANNUAL REPORT 2013-14

REPORT OF THE CONSORTIUM TREASURER

Purpose of Report

1. To provide the committee with an annual report on internal audit work conducted during 2013-14.

Background

2. The Consortium Treasurer (the Treasurer) is responsible for the proper administration of ESPO's financial affairs and has a specific responsibility for arranging a continuous internal audit of those affairs.
3. The Treasurer arranges for Leicestershire County Council's Internal Audit Service (LCCIAS) to provide internal audit for ESPO. LCCIAS must conform to internal audit professional standards. From April 2013 these are the Public Sector Internal Audit Standards (the PSIAS).
4. The PSIAS require the Head of Internal Audit Service (HoIAS) to provide an annual report to 'the Board' timed to support the preparation of the Annual Governance Statement, a draft of which is presented elsewhere on the agenda for this meeting and which will be presented as 'final' to the Management Committee at its meeting in September alongside the Statement of Accounts.
5. The PSIAS allow for a number of groups to satisfy the role of the Board but the standards define the Board as, 'The highest level of governing body charged with the responsibility to direct and/or oversee the activities and management of the organisation', and as such it is considered appropriate that the Management Committee approves the annual HoIAS report.

Annual Internal Audit Service Report

6. The annual report for 2013-14, containing summary performance data, is provided in Appendix 1.
7. The HoIAS report must include an annual internal audit opinion on the overall adequacy and effectiveness of the organisation's governance, risk and control framework (i.e. the control

environment) and a summary of the audit work from which the opinion is derived (including reliance placed on work by other assurance bodies). The full HoIAS opinion and the PSIAS definition of the control environment are included at appendix 2.

8. For 2013-14, whilst recognising further improvements are achievable, positive opinions were given in all three areas of the framework of governance, risk management and control.

Consideration by the Finance and Audit Subcommittee

9. The Finance and Audit Subcommittee considered and noted the Internal Audit Service Annual Report 2013/14 on 10 June 2014.
10. During discussion on progress made against the Internal Audit Annual Plan 2013-14, the Subcommittee noted there was continuing improvement with ESPO's governance, risk management and internal controls. Members queried whether there would come a time when internal audit resource was reduced to reflect the improvements made.
11. The HoIAS, Director of ESPO and Consortium Treasurer confirmed they were comfortable that the level of internal audit resource was sufficient to be able to provide a rounded overall opinion on the adequacy and effectiveness of ESPO's control environment. Whilst there was evidence of more stability, the nature and scale of ESPO's business (reflected in its corporate risk register and the recent agreement by Management Committee of a new Business Strategy covering 2014-18) required adequate internal audit resource. Nevertheless, a small reduction of 15 days is planned for 2014-15.
12. It should be noted that this version of the Annual Report differs to that presented to the Finance and Audit Subcommittee in that, as required by PSIAS, overall performance against the 2013/14 Internal Audit Annual Plan is also provided on the final page; that information having been provided to the Subcommittee elsewhere on the agenda for the 10 June meeting (pages 16 and 17 of those meeting papers refers).

Resources Implications

13. The budget for the provision of the internal audit service is contained within ESPO' Medium Term Financial Strategy under charges by the Servicing Authority.
14. Only 175 of the planned 200 days were provided. Explanations are given on the last page of Appendix 1 to this report. The effect was to reduce the charge to ESPO to £49,000.

Recommendation

11. That the Management Committee notes the Internal Audit Service annual report for 2013-14.

Equal Opportunities Implications

12. There are no specific equal opportunities implications contained within the annual summary of work undertaken.

Background Papers

Accounts and Audit Regulations (Amendment) 2011
The Public Sector Internal Audit Standards (2013)

Officer to Contact

Neil Jones	Telephone	0116 305 7629
Head of Internal Audit Service	Email	Neil.Jones@leics.gov.uk

Appendices

- Appendix 1 - Internal Audit Service Annual Report 2013-14
- Appendix 2 - The HoIAS' Annual Opinion on the adequacy and effectiveness of the control environment, and the PSIAS definition of the 'control environment'.

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ESPO

Leicestershire County Council Internal Audit Service Annual Report 2013-14



**Neil Jones CPFA, Head of Internal Audit Service,
Leicestershire County Council**

27 May 2014

LEICESTERSHIRE COUNTY COUNCIL**INTERNAL AUDIT SERVICE****ANNUAL REPORT 2013-14****Overall Opinion**

The Public Sector Internal Audit Standards 2013 (the PSIAS) require the Head of Internal Audit Service (HoIAS) to give an annual opinion on the overall adequacy and effectiveness of ESPO's control environment i.e. its framework of governance, risk management and control. No system of internal control can provide absolute assurance against material misstatement or loss, nor can Leicestershire County Council Internal Audit Service (LCCIAS) give absolute assurance, especially given limited resource. The work of LCCIAS is intended only to provide reasonable assurance on controls on the basis of the work undertaken.

Based on an objective assessment of the results of individual audits undertaken, actions by management thereafter, and the professional judgement of the HoIAS in evaluating other related activities, the following opinions have been drawn:-

Governance: -

Nothing of such significance, adverse nature or character has come to the HoIAS attention, and as such reasonable assurance is given that ESPO's governance arrangements are robust.

Risk management: -

ESPO has acknowledged there is scope to continue improving its risk management framework. Additionally, management has agreed to implement all internal audit recommendations which further mitigate risk, therefore reasonable assurance is given that risk is managed.

Internal financial and ICT controls: -

Reasonable 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.

Full details of the HoIAS opinion for 2013-14 are found in Appendix 2

A summary of the work undertaken by Leicestershire County Council Internal Audit Service (LCCIAS) during 2013-14 is detailed below.

Audit Requirement

Consortium Treasurer responsible for arranging continuous audit

ESPO's Consortium Agreement schedule 3 'Functions of the Servicing Authority', directs that the Servicing Authority (Leicestershire County Council) shall be responsible for arranging the provision of support services (including internal audit).

ESPO's Financial Regulations (including the Standard Financial Instructions) further provide that 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.

Background

Leicestershire CC internal auditors carry out the work

The Consortium Treasurer arranges for Leicestershire County Council's Internal Audit Service (LCCIAS) led by the Head of Internal Audit Service (HoIAS), to provide internal audit for ESPO. LCCIAS has adopted the principles of the Public Sector Internal Audit Standards 2013 (the PSIAS). LCCIAS works closely with the external auditor PricewaterhouseCoopers (PwC) so as to minimise duplication.

Giving assurance on ESPO's control environment

The PSIAS mandate that the HoIAS must provide an annual report to 'the Board' (Management Committee) timed to support the annual governance statement. The report must include an annual internal audit opinion on the overall adequacy and effectiveness of the organisation's governance, risk and control framework (i.e. the control environment) and a summary of the audit work from which the opinion is derived (including reliance placed on work by other assurance bodies). The PSIAS definitions of control and the control environment are found in Appendix 2.

Responsibility in respect of the control environment

It is the Director of ESPO's (the Director) responsibility to design, install and operate adequate arrangements for governance, risk management and control within appropriate constitutional frameworks; and to identify, assess and manage risks that are significant to the achievement of ESPO's objectives.

The Internal Audit Service's task is to carry out independent and objective 'assurance' type audits of the adequacy and effectiveness of these controls and, if necessary, highlight weaknesses and recommend improvements 'Consulting' type audits add value by allowing the auditor to give early commentary on management's design of controls in say a new system or process.

How Internal Audit Service plans its work

Much internal audit work can be planned. To this end an annual plan is produced, detailing the main areas of proposed work. The plan for 2013-14 was produced from a combination of: -

- Consultation about emerging risks, planned changes and potential problems with the Director, Assistant Director (Finance), the Consortium Treasurer and Secretary, and the External Auditor
- Evaluation of governance arrangements e.g. plans, committee reports, accounts, risk register and governance statements
- Comparisons against risks affecting similar purchasing consortia
- 'Horizon scanning' new and emerging risks from professional and industry sources.

A steady improvement in ESPO risk management and governance arrangements and the Director's recognition of responsibilities for internal control systems, allowed the HoIAS to utilise the information above, to devise the plan.

"Joint audit" work with PwC

Part of the plan requires that LCCIAS conducts annual audits on key elements of the general ledger and IT systems. These audits are undertaken in consultation with ESPO's External Auditors (PWC) to assist in their responsibility to form an opinion that ESPO's financial accounts are not materially mis-stated. PWC determines that the quality and scope of LCCIAS work is sufficient to contribute positively to ESPO's overall control environment and to allow them to place reliance on LCCIAS work.

Risk based auditing

LCCIAS uses a number of techniques to reach its opinions on what level of assurance can be provided that risks are being identified, evaluated and managed. Much work will be based around a "risk based" audit. With this technique key risks (based on likelihood and impact) are identified and agreed at the start of the audit. The quality of controls to mitigate these risks is then tested

High importance (HI) recommendations

Following audit testing, where risk levels are considered still to be significant, (in line with ESPO's own risk scoring methodology), then recommendations are designated as High Importance (HI). Action taken to implement the recommendation is always re-tested by LCCIAS.

No new HI recommendations were made in relation to 2013-14 audits, HI recommendations carried forward from prior year audits on business continuity and rebates processes, were confirmed as implemented during 2013-14.

ESPO member involvement

The Finance & Audit Subcommittee receives audit reports i.e. annual plan, quarterly progress against the plan (including progress against implementing HI recommendations), annual report (including the HoIAS opinion) and the review of effectiveness of the system of internal audit.

Management Committee receives the annual report and shall be responsible for approving the Internal Audit Charter for ESPO as part of PSIAS.

Summary of Work**Audits undertaken in 2013-14**

Annual Governance Statement

Work undertaken during the year is listed below

The audit evaluated the arrangements to demonstrate compliance to the principles of good governance outlined in the CIPFA/SOLACE Framework. The work formed part of the HoIAS 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

The audit evaluated how the performance management framework had been designed and implemented and how responsibilities had been allocated. Some recommendations around further aligning performance management against the ESPO four year business strategy, and further development and implementation of some agreed target measures.

Medium Term Financial Strategy

An audit of the processes for validating assumptions, monitoring achievements and reporting progress against efficiency projects. Recommended improvements to the framework for managing and monitoring projects contained within the Continuous Improvement Plan and reporting progress against the Plan to Finance and Audit Subcommittee

Risk Management	Whilst there was evidence that some risk management activities were operating adequately, there was further scope to improve effective embedded risk management into operational activity.
Business forecasting	There are adequate controls in place to ensure that forecasts and annual budgets are approved correctly and are reviewed on an annual basis. Responsibilities are clearly assigned and timescales agreed for preparation of the annual budget. Information used in the annual budget process is accurate and budget holders are consulted. Minor recommendations around reporting key assumptions and improving budget working papers to include reasons for any significant changes, and clearly identifying when savings are as a result of specific projects within the Efficiencies Programme.
Fleet management – Vehicle Operating Licence	Evaluation of controls and testing confirmed that ESPO is compliant with the Vehicle Operating Licence ‘General Conditions and Undertakings’
Trading performance & distribution of surplus	There is an adequate audit trail from the Combined Preliminary reports presented to the Senior Management Team (SMT) for February 2014 back to the General Ledger. A framework for the calculation and distribution of dividends payable to members exists. Verification of the dividends distributed will be subject to a short audit in the 2014/15 financial year.
Payroll changes	Variations to pay are adequately supported by appropriately authorised documentation and changes have been made in accordance with instructions. Recommended that ESPO investigates delays by East Midlands Shared Services in issuing contracts and ESPO management is reminded on procedures in relation to new starters and the use of e-notification forms
General ledger reconciliation	This audit is required by the External Auditor in their annual assessment of the likelihood of material misstatement in the Authority’s financial accounts. Concluded that accounting procedures are being applied to ensure the completeness and accuracy of the General Ledger.

Attendance management	Recommended ESPO develop absence performance metrics now that there is meaningful data also recommended to ensure consistent application of the Attendance Management Policy by managers and a more efficient method of informing payroll of absences
Budget management	The budget management framework was evaluated. Whilst the budget position is reported accurately to SMT regularly and discussed and there have been some delegations to Assistant Directors, the audit recommended that processes could be improved by introducing a longer timeframe for reviewing budgets, producing forecasts and the introduction of commitments.
Servicing Authority	The draft SLA and processes were evaluated. Recommendations around including responsibilities and naming of key officers, clarifying the basis of charges both proposed and invoiced and monitoring and reporting service provision
Anti-fraud and corruption	The scope contained a review of policies and procedures, awareness and training. Minor recommendations are reliant on developments at the Servicing Authority
IT General controls	The External Auditor relies on this audit in their annual assessment of the likelihood of material misstatement in the Authority's financial accounts. Assurance is partly obtained through review of the integrity of the ICT infrastructure and associated applications that either directly or indirectly contributes to the production of the financial statements. Substantial assurance that the ICT infrastructure is robust and that the range of controls expected by the External Auditor are well designed and consistently applied.
Stock management	Evaluation of controls designed to ensure optimum stock management and warehouse operations. A few recommendations about performance indicators and mitigating risks to the optimisation model. The External Auditor may choose to place reliance on this audit.
Rebates income	Annual audit to validate that ESPO has received rebate in line with what was expected based on suppliers' turnover. Some disparity was found and although values are not material, ESPO will have scope to follow up with suppliers.

Unplanned work	Three small pieces of work were undertaken – validating the accuracy of records migrated to the new gas contract; reporting a minor whistleblowing investigation and guidance on expense claims.
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Performance against the plan can best be shown in the table below: -

Table 1 : Overall performance against 2013-14 internal audit plan

	<u>Due</u>	<u>Complete @ 27/5</u>	<u>Incomplete</u>	<u>Plan days</u>	<u>Actual days</u>	<u>Net days</u>
B/fwd from 12-13	5	5	0	0	15	+15
Follow up HI recs	2	2	0	0	2	+2
Planned 13-14	25	16	9	185	130	-55
Unplanned 13-14	0	2	1	0	7	+7
Client mgt.	1	1	0	15	21	+6
Total	33	26	10	200	175	-25

Explanations for not providing the planned 200 days included a mix of untimely scheduling and having to balance against priorities for ESPO operations, key staff unavailability (especially in ICT audit at the start of the year) and 'overspends' closing off work. Nevertheless, a number of unplanned jobs compensated for the postponements and a wide spectrum of ESPO's risks was still been covered

Person to Contact about this Report

Neil Jones CPFA Head of Internal Audit Service
LCCIAS

neil.jones@leics.gov.uk
0116-305-7629

**The Head of Internal Audit Service's Annual Opinion
on the overall adequacy and effectiveness
of ESPO's control environment
2013-14**



**Neil Jones CPFA, Head of Internal Audit Service,
Leicestershire County Council**

27th May 2014

To the Consortium Treasurer

Background

During the financial year 2013-14, Leicestershire County Council Internal Audit Service (LCCIAS) provided internal audit to the Eastern Shires Purchasing Organisation (ESPO). LCCIAS adopts the principles of the Public Sector Internal Audit Standards 2013 (the PSIAS) which requires the Head of Internal Audit Service (HoIAS) to give an annual opinion on the overall adequacy and effectiveness of ESPO's control environment i.e. its framework of governance, risk management and control. The PSIAS definition of the control environment is to be found at the end of this document.

The HoIAS annual opinion is for a specific time interval i.e. 2013-14 and combines: -

- an objective assessment, based on the results of individual audits undertaken and actions taken by management thereafter. Individual audit opinions on what level of assurance can be given as to whether risk is being identified and adequately managed, are formed by applying systematic grading to remove any elements of subjectivity.
- the professional judgement of the HoIAS based on his evaluation of other related activities.

The results of the above, when combined, form the basis for the overall opinion on the adequacy of the ESPO control environment. No system of internal control can provide absolute assurance against material misstatement or loss, nor can LCCIAS give absolute assurance, especially given limited resource. The work of LCCIAS is intended only to provide reasonable assurance on controls on the basis of the work undertaken.

Governance related internal audit work

An opinion on whether good governance principles have been applied is based on the results of audits of AGS; elements of key ICT controls; fraud management; budget management; MTFS; attendance management; risk management and the role of the servicing authority. Recommendations were relatively minor and where they related to governance, it was to strengthen it, i.e. not to have to establish it.

The HoIAS attends Finance and Audit Subcommittee and appropriate Management Committee meetings to present audit plans and reports, which enables him to gauge ESPO Member governance at first hand. The HoIAS has regular discussions with the ESPO Director and Assistant Director (Finance), the Consortium Treasurer (and where required the Consortium Secretary) on governance issues and related aspects of audits.

HolIAS opinion: - Nothing of such significance, adverse nature or character has come to the HolIAS attention, and as such reasonable assurance is given that ESPO's governance arrangements are robust.

Risk management related internal audit work

The majority of audits planned and conducted were 'risk based' i.e. ensuring that ESPO management identifies, evaluates and manages risk to achieving its objectives i.e. ensuring controls are in place to reduce risk exposure. A specific audit of the ESPO risk management framework (corporate risk register) proved there were further improvements and good elements of risk management, although further embedding at operational level would strengthen arrangements. Recommendations have been implemented and a further follow up audit will take place before the end of the 2014-15 financial year to evaluate progress.

The HoIAS provides the External Auditor with an opinion on ESPO management of fraud risk. This was followed up with the specific audit of counter fraud arrangements with some minor recommendations.

A previous year's High Importance recommendation relating to business continuity was tested and confirmed as implemented.

HoIAS opinion: ESPO has acknowledged there is scope to continue improving its risk management framework. Additionally, management has agreed to implement all internal audit recommendations which further mitigate risk, therefore reasonable assurance is given that risk is managed.

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 including payroll and stock management.

No findings were of such seriousness as to suggest a fundamental weakness in a main financial system.

Previous year's High Importance recommendations relating to rebates income processes were tested and confirmed as implemented.

HoIAS opinion: Reasonable 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.

Dated 27th May 2014

Signed Neil Jones CPFA
Head of Internal Audit Service
Leicestershire County Council

The control environment

The Public Sector Internal Audit Standards 2013 (the PSIAS) contain the following definitions: -

Control

Any action taken by management, the board and other parties to manage risk and increase the likelihood that established objectives and goals will be achieved. Management plans, organises and directs the performance of sufficient actions to provide reasonable assurance that objectives and goals will be achieved.

Control Environment

The attitude and actions of the board and management, regarding the importance of control within the organisation. The control environment provides the discipline and structure for the achievement of the primary objectives of the system of internal control. The control environment includes the following elements: -

- Integrity and ethical values.
- Management's philosophy and operating style.
- Organisational structure.
- Assignment of authority and responsibility.
- Human resource policies and practices.
- Competence of personnel.



ESPO MANAGEMENT COMMITTEE 26TH JUNE 2014

**ANNUAL REVIEW OF ORGANISATIONAL APPROACH TO RISK
MANAGEMENT**

REPORT OF THE DIRECTOR

Purpose of Report

1. To annually review the Organisation's approach to risk management and approve changes or improvements to key elements of its processes and procedures'.

Background

2. The progress report of the Director presented to Management Committee on 7 March 2013 included an updated Risk Management Statement. This reinforced the role of the Management Committee in the risk management process.
3. A number of recommendations were identified as a result of a recent review by the Servicing Authority's (Leicestershire County Council) Internal Audit. None of these resulted in a Hi recommendation but the findings have been acted upon.

Risk

4. The current ESPO Risk Management Statement has been reviewed and updated and is attached at Appendix 1.
5. The resulting Corporate Risk Record, which contains commercially sensitive information, is contained in a supplementary exempt report elsewhere on the agenda for this meeting. An example of a Major Risk Record (MRR) is shown in Appendix 2.
6. The Corporate Risk Register is reviewed quarterly by ESPO's Senior Management Team (SMT). Any increased risk, or new risk identified that could have a material impact on ESPO's business will be immediately reported to the Chief Officer Group (COG), and where appropriate to the Management Committee.
7. ESPO is planning to formalise further its approach to the risk management relating to compliance and commercial activity, by way of a documented risk strategy. The objective is to have a clear approach, approved by Management Committee, which gives clear direction to decision making and planning both on individual procurements and broader forward looking strategies. It is

anticipated to be completed by the end of summer and shall be conceived with input through various stakeholders such as the Senior Officer Group (SOG), COG and ultimately the Management Committee for approval.

8. The strategy will have three fundamental aspects. Firstly an attempt to define and articulate a level of acceptable risk, secondly to consider preventative actions and lastly to review and document the mitigation actions available in the event of risk eventuating. The agenda is not one of trying to alter a risk appetite but to compliment the risk work already in place.
9. The risk strategy should formalise the approach to the day to day decision making happening through existing internal ESPO governance. A perceived benefit therefore will be that actions undertaken by ESPO to implement and work to the strategy not be seen as abstract actions or governance by its Member customers.

Resources Implications

10. None

Recommendation

11. Members are asked to:
 - a) note the contents of this report;
 - b) approve the revised Risk Management Statement.

Officer to Contact

John Doherty, Director
J.Doherty@espo.org
0116 265 7931

Chris Tambini, Consortium Treasurer
Chris.Tambini@leics.gov.uk
0116 305 7831

Appendices

Appendix 1 – Risk Management Statement
Appendix 2 – Example Major Risk Record

Eastern Shires Purchasing Organisation

RISK MANAGEMENT STATEMENT

Policy, Guidance and Register

Version Control

Version	Date	By whom	Changes	Comments
1	Feb 2007		Formulated	Committee March 2007
2	Jan 2012	DS	Review and Update	Circulation to SMT and Audit for comment
2b	Feb 2012	DS	Updated by strengthening commitment	Committee March 2012
2c	Feb 2013	CP	Review and Update	Committee March 2013
2d	May 2014	CP	Review and Update	Committee March 2014

Risk Management

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RISK MANAGEMENT POLICY

Definitions:

Eastern Shires Purchasing Organisation - “The Organisation”

Eastern Shires Purchasing Organisation’s Risk Management Policy - “The Policy”

Purpose of this document

1. The policy forms part of the Organisation’s internal control and corporate governance arrangements.
2. The policy explains the Organisation’s underlying approach to risk management, documents the roles and responsibilities of the Management Committee, the Director and Senior Management Team, and other key parties. It also outlines key aspects of the risk management process, and identifies the main reporting procedures.
3. In addition, it describes the process the Management Committee will use to evaluate the effectiveness of the Organisation’s internal control procedures.
4. The benefit of risk management is having the knowledge both to anticipate potential risk, but also to understand how through choice such risks can be minimised. ESPO’s aim is to reduce the effects of risk, and/or increase its ability to react by maximising its flexibility through responding whilst maintaining organisational stability. Risk management therefore not only includes the ability to anticipate forward events through the marshalling of data into intelligence but also involves developing the organisation’s capabilities through continuous improvement.

Underlying approach to risk management

5. The following key principles outline the Organisation’s approach to risk management and internal control:
 - the Management Committee has ultimate responsibility for overseeing the process of risk management within the Organisation as a whole and they will approve the Risk Management Strategy on an annual basis.
 - the Director and the Senior Management Team are responsible for anticipating and identifying, assessing and managing risk, and advising and implementing policies approved by the Management Committee. Managing Risk will involve ensuring controls are in place and are regularly monitored, and where documented on the Major Risk Record (MRR) further action is implemented. In addition the Director is responsible for alerting the Management Committee on new identified risks that are deemed to have a potential serious impact on ESPO business.

- the Organisation makes conservative and prudent recognition and disclosure of the financial and non-financial implications of risks
- the Director and Assistant Directors are responsible for ensuring good risk management practice within their divisions
- the Director will report to the Management Committee annually on the Corporate Risk Register.

Role of the Management Committee

6. The Management Committee has a fundamental role to play in the management of risk. Its role is to:
- i) Influence the culture of risk management within the Organisation.
 - ii) Determine the appropriate risk appetite or level of exposure for the Organisation.
 - iii) Approve major decisions affecting the Organisation's risk profile or exposure.
 - iv) Ensure that a Corporate Risk Register is established, including details of the actions taken to mitigate the risks identified.
 - v) Consider risks attached to proposals for new, or changes to, policies and service delivery arrangements
 - vi) Annually review the Organisation's approach to risk management and approve changes or improvements to key elements of its processes and procedures.

Role of the Director and Senior Management Team

7. Key roles of the Director and Senior Management Team are to:
- i) Establish, gain approval from the Management Committee and implement policies on risk management and internal control i.e. to ensure that an adequate risk management framework and associated control environment is in place. Liaise with the servicing authority on all aspects of risk management.
 - ii) Identify, evaluate, and manage the fundamental strategic risks faced by the Organisation for consideration by the Management Committee in line with the six strategic planks outlined in the ESPO strategy dated March 2014.
 - iii) Determine the level of risk appetite, currently set at 10.
 - iv) Ensure regular updating of the Corporate Risk Register and review MMRs and Action Plans.
 - v) Identify, evaluate, and manage all operational and strategic risks faced by the Organisation. These should be clearly identified as such on the organisation risk register.

- vi) Business Continuity and Procurement, Health and Safety – sit at Operational risk register level but flow into the Corporate Risk Register because of their significance. The responsibility for managing these is still at AD level but with scrutiny and challenge by Director as to movement on actions
- vii) Provide information in a timely manner to the Management Committee on the status of risks and controls.(Timing will depend on the level of risk, but at least annually, and where addition or new risks are evaluated and escalated (such as new procurement projects) then these will be approved prior to sign off)
- viii) To maintain awareness of and promote the risk management policy to all relevant staff (use of key documents published via intranet)
- ix) Arranging/providing risk management training as appropriate
- x) Ensure synergy with other “risk” systems, eg Health and Safety, business continuity and project management
- xi) Undertake an annual review of effectiveness of the system of internal control and provide a report to the Management Committee.

Role of Heads of Category

8. Key roles of the Heads of Category are to:

- i) Maintain awareness of risk management principles and take responsibility for managing risk within their own working environment
- ii) Apply risk management to those risks requiring further action, particularly new developments and “procurement or project” work
- iii) Maintain, and update where appropriate any project records of risk assessments undertaken and resulting action plans
- iv) Reporting systematically and promptly to their managers or SMT any perceived new risks or failures of existing control measures

Risk management as part of the system of internal control

9. The system of internal control incorporates risk management. This system encompasses a number of elements that together facilitate an effective and efficient operation, enabling the Organisation to respond to a variety of operational, financial, and commercial risks. These elements include:

a. Policies and procedures

Standard Operating Procedures and policies are used to improve business efficiencies and reinforce a standard approach to documents that are used externally, whilst at the same time underpinning internal control processes. The policies are approved by the SMT and implemented and communicated by senior management to staff. Written procedures support the policies where appropriate.

b. Reporting

Comprehensive reporting is designed to monitor performance, reviewing key risks where appropriate. Decisions to rectify concerns are made at regular meetings of the Senior Management Team, and the Management Committee if appropriate. Market information is vital for developing management knowledge as a core element of the business. The mastering of such information through the monitoring of the external environment goes hand-in-hand with a comprehensive

risk management process. Capturing and centralising such market intelligence will lead to developing better expertise and organisational capabilities, improving the quality of decision making, and enable a quick response to changing external conditions.

c. Business planning and budgeting

The business planning and budgeting processes are used to set targets, agree action plans, and allocate resources in order to achieve the long term objectives of the organisation articulated in the Business Strategy. Progress towards meeting business plan targets is monitored weekly/monthly depending on individual targets.

d. High level risk framework (strategic risks)

This framework is compiled by the Senior Management Team and helps to facilitate the identification, assessment and ongoing monitoring of risks fundamental to the Organisation. These are strategic risks that might impact on the high level, medium to long-term, goals and objectives of ESPO, together with those cross cutting issues that have potential to impact significantly on service delivery, business continuity and profit generation.

The Corporate Risk Register document is appraised annually in December with emerging risks being added as required, and improvement actions and risk indicators are monitored regularly.

e. Operational risk management

These have been considered as the following:

- Health and Safety (Office, warehouse, transport);
- Procurement Projects;
- Business Continuity.

The latter has both strategic and operational aspects and has been considered in **separate documentation**.

- i) Health and Safety Committee. To meet quarterly. The meeting will be chaired by the Assistant Director - Operations or the Warehouse Manager. In attendance will be the Director, trade union and staff representatives. The function of the Health & Safety Committee is to review the measures taken to ensure the health and safety at work of employees. The main objective of the Health & Safety Committee is to promote co-operation between staff and management in instigating, developing and carrying out measures to ensure the health and safety at work of the employees.

Specific Objectives of the Safety Committee are:

- The study of accident and notifiable disease statistics and trends, so that reports can be made to management on unsafe and unhealthy conditions and practices, together with recommendations for corrective action;
- Examination of safety audit reports on a similar basis;

- Consideration of reports and factual information provided by inspectors of the enforcing authority appointed under the Health and Safety at Work Act;
 - Consideration of reports which safety representatives may wish to submit;
 - Assistance in the development of works safety rules and safe systems of work;
 - A watch on the effectiveness of the safety content of employee training;
 - A watch on the adequacy of safety and health communication and publicity in the workplace;
 - The provision of a link with the appropriate enforcing authority;
 - To act as the main forum for fulfilment of the employer's legal duty to consult with Health & Safety Representatives;
 - To discuss and review the effect of new Health and Safety law and the organisation's proposals for implementing the new law;
 - To monitor and review the effectiveness of the organisation's safety policy;
 - To develop and agree health and safety standards and procedures applicable to the workplace;
 - To review the organisation and administration of any occupational health and safety services provided by the organisation.
 - Review of insurance or other such claims and recommend measures to reduce the likelihood of future claims
- ii) Procurement Projects. As ESPO has developed its procurement expertise it has moved (on behalf of customers) into larger more complex contracts. In response to this ESPO has developed a business case process that requires both reward and risk to be evaluated and assessed as part of the compliance process. Risk are assessed at a Pre-Procurement Panel and at Contracts Panel (contract award) and escalated where necessary to SMT and then to Committee. Supporting the tender process are a series of Standard Operating Procedures and a library of standard documentation. Procurement practice is discussed at the Senior Officers' Group, and the compliance process outlined.
- iii) Business Continuity

The following statements may be applicable for inclusion within the policy:

f. Fraud and Corruption

The organisation is set against fraud and corruption and is committed to an effective Anti Fraud and Corruption Strategy . Identification and addressing the risk of fraud and corruption are a key element within this risk management strategy.

g. Auditors

LCC Internal Auditors are required to report to the Director and Consortium Treasurer on internal controls and alert Management to any emerging issues. In addition, the Director and Treasurer oversee internal audit, external audit and management as required in their review of internal controls. They are therefore well-placed to provide advice to the Management Committee on the effectiveness of the internal control system, including the Organisation's system for the management of risk.

h. Internal audit programme

Internal audit is an important element of the risk management process. Apart from its normal programme of work, internal audit is responsible for aspects of the annual review of the effectiveness of the internal control system within the organisation.

i. External audit

External audit provides feedback to the Management Committee on the operation and adequacy of the internal financial controls reviewed as part of the annual audit.

j. Third party reports

From time to time, the use of external consultants will be necessary in areas such as marketing, IT systems and human resources. The use of specialist third parties for consulting and reporting can increase the reliability of the internal reporting systems.

k. Chief Officer Group (COG)

The COG consists of chief officers from all member authorities who meet regularly with the Organisation's senior management. The COG provides advice and guidance to facilitate the identification and assessment of procurement risks to the Organisation.

Annual review of effectiveness

10. The Management Committee is responsible for reviewing the effectiveness of internal control of the Organisation, based on information provided by the Director, Treasurer and auditors. Its approach is outlined below.
11. For the fundamental risks identified, the Director will seek the Management Committee's approval on the results of:
 - A review of the Organisation's prior year record on risk management and internal control
 - A Review of the risk profile for the coming year and of the adequacy of current internal control arrangements.
 - A recommendation, if required, for investment in further control arrangements.

12. In determining recommendations the Management Committee, the Director will consider the following aspects.
- a. Control environment:
 - The Organisation's objectives and its financial and non-financial targets
 - Organisational structure and calibre of staff available.
 - Culture, approach, and resources with respect to the management of risk
 - Delegation of authority
 - Public reporting.
 - b. On-going identification and evaluation of fundamental risks:
 - Timely identification and assessment of fundamental risks
 - Prioritisation of risks and the allocation of resources to address areas of high exposure.
 - c. Information and communication:
 - Quality and timeliness of information on fundamental risks
 - Time it takes for control breakdowns to be recognised or new risks to be identified.
 - d. Monitoring and corrective action:
 - Ability of the Organisation to learn from its problems
 - Commitment and speed with which corrective actions are implemented.
13. The Director prepares a report of his review of the effectiveness of the Organisation's internal control system within the Annual Statement of Accounts and presented to the Management Committee for consideration and approval (normally the Committee meeting in June, prior to the final approval of Accounts in September).

RISK MANAGEMENT GUIDE

Background

ESPO Management and staff have been facing and managing risk for over thirty years resulting in a successful organisation that has exploited opportunities to become one of the UK's largest local authority purchasing consortium.

However, in recent years there has been increasing focus on the corporate governance arrangements of both public and private companies with the aim of achieving greater transparency. This requirements is reinforced by the recommendation that local authorities should make a statement as to how they have complied with their local governance code, and how they have monitored the effectiveness of their corporate governance arrangements in their annual Statements of Accounts.

Risk Management provides assurance that:

- objectives are more likely to be achieved;
- damaging events will not happen or are less likely to happen; and
- beneficial events will be or are more likely to be achieved.

The risk management method enables:

- the identification and evaluation of risks;
- helps in setting acceptable risk thresholds;
- the identification of controls against such risks; and
- helps identify indicators that give early warning that a risk is becoming more serious.

Risk Definition

Risk is the threat or possibility that an action or event will adversely or beneficially affect the organisation's ability to achieve its objectives.

This definition links risk to achieving the strategic and business objectives and also identifies that risk management is not just about recognising and mitigating negative risks but also identifies risk-taking opportunities that may lead to positive benefits.

Risk can be seen as short term, such as an event, or a conjunction of events harmful to both tangible and intangible assets. It can be also be long term where there is a gradual disconnect between the organisation and its external environment.

Risk management is having the knowledge both to anticipate potential risk, but also to understand how through choice such risks can be minimised. ESPO's aim is to reduce the effects of risk, and/or increase its ability to react by maximising its flexibility through responding whilst maintaining organisational stability. Risk management therefore not only includes the ability to anticipate forward events through the marshalling of data into intelligence but also involves developing the organisation's capabilities through continuous improvement.

Internal controls

Internal controls are a range of regulations, procedures and policies the organisation uses to manage its work and any additional controls or mitigating actions taken to deal with a particular situation.

The aim of risk management is to ensure that these controls are effective in identifying, evaluating, monitoring and minimising the risks ESPO faces in its day-to-day activities or any future ventures.

The level of risk faced by an organisation before any internal controls are applied is known as the gross or raw risk.

The level of risk faced by ESPO after internal controls have been applied is known as the net or residual risk. Controls will not eliminate the risk but help us to manage it; therefore this is also known as the organisation's "exposure to risk".

The controls are those management actions taken to deal with a particular risk. A judgement is made on the numerical reduction to the raw risk score to produce the residual risk score.

Risk Indicators provide a series of 'warning lights' which provide early warning that action may be required to mitigate a particular risk through stronger internal controls, or if it is outside ESPO's control, to be aware of it and closely monitor.

ESPO also has to determine where it resides in terms of a spectrum ranging from 'risk-taking' to being 'risk averse'. The amount of risk ESPO is prepared to tolerate before action is required is known as 'risk tolerance'

The Size of Risk - Heat Map represents the ESPO's risk scoring matrix.

The following monitoring varies according to the risk score:

- (a) Residual risk score of 6 or less (low level of risk) should require no mitigating action. However, risk owners should review controls for low risk areas to ensure they are effective and not disproportionate. The risk score should be reviewed annually;
- (b) Residual risk score of 8 to 12 (medium level of risk) should trigger a review of the existing controls, if a new risk, and may require the implementation of additional controls for existing risks. Risks with this score should be reviewed annually or twice a year if necessary; and
- (c) Residual risk score of 14 to 20 (high level of risk) should trigger a review of the existing controls, may require the implementation of additional controls and the problem may need to be escalated to the Management Committee for consultation. Risks with this score should be reviewed at least 6 monthly
- (d) Residual risk score of 20 or above (top level of risk) will trigger a review of the existing controls, is likely to require the implementation of additional controls and the problem should be escalated to the Management Committee for consultation. Risks with this score should be reviewed quarterly.

ESPO's Key Risk Register has a summary table ranking each risk according to its score with detailed analysis sheets attached including information on the above

The Management Committee will receive reports, at least annually, on risk management arrangements and assessments. This will include where appropriate any revised policy, and the corporate risk register. Any changes to risk levels highlighted as a result of the Health and Safety and the management of Business Continuity will be reported upon through the corporate risk register together with a report on risk management included within the annual statement of Accounts.

Risk Management Process

The stages are summarised below with a commentary on the arrangements at ESPO.

Identify the risks

This is the first stage to use where the risks that may affect a particular new activity, existing operational activity or project are listed. At this point opportunities can be considered and risks grouped. This work forms the basis of the risk register.

Risks can be classified as Internal or External with the latter being categorised as:

- Social (impact of society)
- Technological (normally considered through the impact of loss, or introduction of new forms, of information technology and communication systems)
- Economic (financial impact)
- Environmental (impact on the sustainability agenda)
- Political (primarily around governance)
- Legal (primarily around complying with EU procurement legislation)

The criteria for evaluating risk should consider:

- Financial: +ve/-ve for ESPO, Members, and customers;
- Reputation: +ve/-ve in terms of the quality of the outcome, and its impact on ESPO, Members, customers and suppliers;
- The potential for procurement challenges, and the ability to achieve the 'best' outcome;
- Staff: impact on them;
- Assessed against business objectives.

This process is facilitated by the Major Risk Record (MRR) Form which forms the basis of the Corporate Risk Register.

Identify probable risk owner(s) and a risk co-ordinator

The risk owner assesses the risk, detailing how actions can be taken and by when to reduce the likelihood and severity of the risk to an acceptable level.

All actions detailed need to consider and detail who is do what and when. If monitoring or reporting is involved the frequency and responsibility for such reports should also be included.

- All risk assessments should be dated (i.e. date of completion) and certified by the risk owner.
- Responsibility and an action completion date should be assigned to all actions on the MRR record.
- Where risks are high, with further action required, action taken and progress on further action taken should be monitored by the SMT on a quarterly basis

All Risk owners for those risks that affect the whole organisation will be the Senior Management Team. At a project level the risk owner should be the project manager. Risk owners should be added to the risk register.

The risk co-ordinator collates all the risks to create a risk register and manages the risk reporting process.

Evaluate the risks

The risks should then be evaluated for impact and likelihood. An assessment of the timing of the risk can also be made.

The scales used for impact and likelihood are as follows:

Impact:

1. Insignificant
2. Minor
3. Moderate
4. Serious
5. Very Serious

Likelihood:

1. Very Low
2. Low
3. Medium
4. High
5. Very High

The combined scores on a 5 x 5 matrix will give scores ranging from 1 to 25 depending on the severity of the risk. These numbers are indicative only as the process is not an exact science but most importantly it assists in thinking about the risk.

The total risk score divisions are as follows:

- 1 – 6 - Low
- 8 - 12 - Medium
- 14 - 20 - High
- Over 20 - Very high

The Size of Risk - Impact Guide provides examples for likelihood, impact and total risk score. Once this has been completed the risks are prioritised and ranked according to score and proximity. The risk register is updated accordingly.

Identify suitable responses to risk

Where needed, a range of practical responses to each significant risk on the risk register is identified and recorded on the register.

Range of responses (controls) to a risk:

- **Reduce** - take action to reduce either the probability of the risk developing further, or its impact.
- **Accept** - when the probability and impact are low producing a total risk score below 7, or when it would be too expensive to mitigate a risk.
- **Transfer** - transferring the risk to a third party, e.g. insurance.
- **Terminate** - identifying actions to eliminate the risk such as withdrawing from the activity.
- **Contingency** - a plan of action to be implemented when a risk develops further or passes through a risk threshold.
- **Prevent** - identifying measures to prevent a risk having an impact on an organisation.

Responses are proportional to the risk and mapped against the risks on the risk register.

Implement responses

The most appropriate responses to each risk will be determined and implemented by ESPO Management in order of priority. Approval for additional earmarked funding required to implement responses may be requested from the Management Committee. Responses when implemented should bring the most serious risks below the risk tolerance thresholds. Once implemented the responses will be monitored by Management and amended as necessary

The risk tolerance threshold score has been set at 10 or less. The exact meaning of this value is somewhat subjective and this is will be reviewed annually to assess whether it is appropriate as a methodology to highlight the key risk areas. All strategic risks even with a score less than 10 will appear on the register. Those that are red will be prioritised and will be considered quarterly by SMT.

Assurances about effectiveness

The risk responses implemented are assessed for effectiveness in keeping the risks within agreed tolerance levels by regular monitoring of the risk indicators. Internal and external audit reports provide further assurance on effectiveness.

Embed and review

The risk management arrangements will be reviewed on an annual basis including a review of the risk register and a report will be produced for the Management Committee in March. The report will assess the effectiveness of the measures to control risk with recommendations for improvement or development.

The Corporate Risk Register will be reviewed quarterly by SMT, including reviewing action taken to mitigate risk. Where appropriate new actions are to be recorded and reviewed in the following quarterly meeting.

The Annual Governance Statement (June Committee) will also include a review of Risk Management policy and processes.

Size of Risk - Impact Guide

This Impact Guide is designed to assist in determining the scores applied to any risk. In the application within ESPO a 5 x 5 scale for impact and likelihood is used.

Impact ranges from Insignificant (1) to Very Serious (5). Likelihood ranges from Very Low (1) to Very High (5). The combined scores on a 5 x 5 matrix will give scores ranging from 1 to 25. The scoring will be determined on the basis of the Senior Management Team's opinion of the residual risk after taking account of their perception of the effectiveness of the existing controls. These numbers are indicative.

The combined risk score can then be calculated to determine the severity of the risk on the following scale:

- ▶ 1 - 6 Low
- ▶ 8 - 12 Medium
- ▶ 14 - 20 High
- ▶ Over 20 - Very high

Impact Grid

The Impact Grid is the scoring matrix referred to above with risk thresholds applied according to the total risk score. Applying colours in this way is sometimes known as the 'traffic light' method. This gives 3 levels of risk denoted by colours in this case - red being the most serious; yellow being the middle level; and blue the least serious.

If, upon review, a risk crosses one of the thresholds it should trigger either an increase or decrease in the internal controls applied to it.

Severity	5	5	10	15	20	25
	4	4	8	12	16	20
	3	3	6	9	12	15
	2	2	4	6	8	10
	1	1	2	3	4	5
		1	2	3	4	5
		Likelihood				

	Red
	Yellow
	Blue

Size of Risk – Impact Guide

The Impact guides are only for guidance and are not intended to be prescriptive. It should be the worst-case scenario that is usually used to rate the risk.

Severity descriptors	Possible consequences	Examples*
1 - Insignificant	No impact	
2 - Minor Negative outcomes from risks or lost opportunities that are unlikely to have a permanent or significant effect on the ESPO's reputation or performance	<ul style="list-style-type: none"> Less than <0.5% of total turnover financial impact No regulatory consequence Minor adverse publicity Minor reversible injury 	<ul style="list-style-type: none"> Employee sues successfully for wrongful dismissal Senior manager has a work related injury e.g. slips
3 – Moderate Negative outcomes from risks or lost opportunities that will have a significant impact on ESPO but can be managed without major impact in the medium term	<ul style="list-style-type: none"> Financial loss up to 2% of total turnover in any year Limited regulatory consequence Local or limited adverse publicity Major reversible injury 	<ul style="list-style-type: none"> Major IT project is late or overspent Staff injured due to negligence Loss of a major contract
4 - Serious Negative outcomes from risks or lost opportunities with a significant effect that will require major effort to manage and resolve in the medium term but do not threaten the existence of the organisation in the medium term	<ul style="list-style-type: none"> Financial loss over 2% of total turnover in a single year Major savings programme required to break-even in the medium term Significant regulatory consequence Negative headlines in the national press Irreversible injury or death 	<ul style="list-style-type: none"> Major loss of sales due to staff shortages which stops warehouse functioning. e.g. Bird Flu pandemic. ESPO IT systems fail completely and cannot be recovered. Member authority leaves the consortium
5 – Very serious Negative outcomes from risks or lost opportunities which if not resolved in the medium term will threaten the existence of ESPO.	<ul style="list-style-type: none"> Financial loss (or loss of potential financial surplus) over 2% of turnover for consecutive years Substantial regulatory consequence Sustained negative headlines in the regional / national press. Closure of major part of business Irreversible multiple injury or death 	<ul style="list-style-type: none"> Major buildings fire Withdrawal of ESPO's ability to trade. Sustained failure to recruit staff Major accident due to the organisation's negligence

*** the examples can move up or down the matrix accordingly to suit.**

Size of Risk – Likelihood

Descriptor	Likelihood
1 – Very low	2% likely to happen
2 – Low	5% likely to happen
3 – Medium	10% likely to happen
4 – High	20% likely to happen
5 – Very high	50% likely to happen

Total risk score guide

Descriptor	Guide
0 – 6 Low	Low level of risk, should not require much attention but should be reviewed at least annually
8 – 12 Medium	Medium level of risk, should be monitored and reviewed annually as a minimum, 6 monthly if necessary
14 – 20 High	High level of risk, should be constantly monitored and reviewed quarterly or 6 monthly. Possibly escalate to higher committee if required
Over 20 – Very high	Top level of risk, should be constantly monitored and

Appendix 2**Risks identified:**

Major Systems Failure (IT systems, power supply, communications, etc.) preventing service delivery.

Risk categories (such as *Reputation, Governance, Finance, Operational*): **Operational**

Possible consequences if the risk were to emerge?

1. Immediate cessation of almost all office and warehouse functions with possible evacuation and closure of the premises.
2. Failures in processing customers' orders, in providing deliveries to customers, in replenishing stocks and in providing procurement services and support.
3. Loss of reputation with customers leading to order cancellations and longer-term reduction in turnover.
4. Major financial losses from above consequences resulting in a possible annual trading loss.
5. Non-compliance with EU procurement regulations with resulting potential legal action.

Raw Risk Assessment:

Predicted impact of the risk: (Scale 1-5, see Guide)	Predicted likelihood of the risk: (Scale 1-5, see Guide)	Total risk score: (Impact x likelihood, Scale 0-25)
4	5	20
Explanation for rating:	Explanation for rating:	Low / Medium / high
Not likely to threaten the consortium existence	Most frequent cause of continuity failures	HIGH

Control Measures:**Actions to reduce the likelihood and severity of the risk to an acceptable level?**

1. A range of approved IT policies that encourage and support the correct use of systems by users and signed acceptance of such policies.
2. Disaster recovery contract with ICM Business Continuity Services Limited providing for fast hardware replacement of all priority servers, for recovery of IT systems/data and for alternative office accommodation facilities together with annual testing of recovery procedures.
3. Back up external communication link and external power supply
4. A contract with Iron Mountain for the daily collection and off-site secure data storage of back-up records.
5. Use of UPS protection for the power supply to essential IT equipment/servers with additional automatic back up of IT equipment power supply using a generator (regularly tested).
6. Fire suppressant gas supply to server room.
7. Redundant air cooling capacity to server room
8. Maintenance and support agreements for all essential equipment and major IT systems
9. Full and recoverable records of all IT systems, software, equipment and support/maintenance.
10. Firewall protection for all external facing systems with regular security testing and software updating.
11. RAID or similar redundant protection for servers' disks.
12. Regular reviews, maintenance and cleaning of server room facilities.
13. Use of professional risk advice to review and update IT Business Continuity Plan.
14. Escrow agreements in place for Infor and Indigo commercial software.

Risk indicators to be used to monitor the risk? *(These provide early warning, minimum of 3)*

1. Satisfactory annual disaster recovery test results with ICM.
2. Generator testing log
3. IT Section records of frequency & consequences of systems & equipment failures.

Residual Risk Assessment following Control Measures:

Predicted Impact of the risk: (Scale 1-5, see Guide)	Predicted likelihood of the risk: (Scale 1-5, see Guide)	Total risk score: (Impact x likelihood, Scale 0-25)
2	3	6
		Low / Medium / high
		Low

Further action required to reduce risk:

1. Re-consider and review the mutual support agreement with similar local authority consortia in the event of a major disaster.
2. Keep under review vulnerability of ESPO web sites to external service provider failures.
3. Keep under review maintenance agreements and reserve machine(s) to ensure priority servers are least vulnerable.
4. Keep under review disaster priorities and possible off-site cover for the telephone system/server.
5. Keep under review UPS and generator protection for additional PCs and printers to maintain minimal operations.

Recommendation to Director/Committee:

No further action

Signature: Clive Pitt

Date: 28/01/2014

Score Summary:

Raw Risk Score	Risk Tolerance	Residual Risk Score	Effect of Internal Controls
20/25	10/25	6/25	14/25



ESPO MANAGEMENT COMMITTEE – 26 JUNE 2014

DIRECTOR'S PROGRESS UPDATE

Purpose of Briefing Note

1. The purpose of this report is to update members of the actions and progress made since the last ESPO Management Committee meeting held on 6 March 2014.

Overall Financial Performance

2. Overall financial performance can be summarised as:
 - The draft out-turn surplus for the year is £2.4m compared to the March forecast of £2.1m and the budget of £1.8m.
 - Sales to March at £95.6m are ahead of budget of £94.2m;
 - ESPO enjoyed its 13th successive year of record Stores sales finishing at £42.3m, which is 0.2% ahead of budget and 5% ahead of 2012/13;
 - Rebate income of £5m, a proxy for framework engagement, is now finalised in line with the requirements of Pricewaterhouse Coopers (PwC) to keep the books open until 9 May 2014.
3. Key figures underlying the total sales to 31 March 2014 are as follows:

		<u>YEAR TO DATE</u>		
		ACTUAL	BUDGET	PRIOR YEAR
		£m	£m	£m
<u>SALES</u>				
	STORES	42.3	42.3	40.3
	DIRECT	21.6	21.1	23.3
	GAS	25.5	25.6	24.4
	CATALOGUE ADVERTISING	0.9	0.9	0.9
	REBATE INCOME	5.0	4.1	4.9
	MISCELLANEOUS INCOME	0.2	0.2	0.2
<u>TOTAL SALES</u>		95.6	94.2	94.0

Proposed ESPO Balanced Scorecard for 2014/15

4. The proposed balanced scorecard is attached as Appendix 1. In accordance with the decision of the Management Committee on 6 March, this version now reports on SMEs providing services through ESPO contracts.

External Activities and Developments

PBOs, Pro5 members and beyond

5. The market place for procurement solutions and the provision of stationery and education consumables continues to evolve. I continually scan the market place for developments and emerging trends. As part of this process, on 26 March 2014, a Member Category Open Day took place at ESPO to further inform developments in the market, focussing on frameworks. Members from Cambridgeshire, Northamptonshire, Warwickshire and Leicestershire attended.
6. ESPO has invited all Senior Officer Group members to training sessions, without charge, on the interpretation and benefit realisation from the forthcoming new EU procurement directive. Norfolk will be taking up an offer local to itself, enabling the distribution of its places to other members. The offer has been well received with dates to start from September 2014.
7. ESPO led a Pro5 Directors' Meeting on 30 April 2014 which was attended by John Doherty and Kristian Smith (ESPO), Glenn Facey and Andrew Foster (Central Buying Consortium), Julia Veall (North East Procurement Organisation) and Simon Hill and Paul Smith (Yorkshire Purchasing Organisation). Discussions centred on the future of Pro5, and our need to operate with 'One Voice' when engaging in developments with the Local Government Association (LGA) and responses to the House of Commons Public Administration Select Committee findings.

ESPO Internal Developments

Member Liaison

8. I continue to meet members on a quarterly basis to discuss key themes which are arising and any items pertinent to members' specific needs. I informed them that ESPO had been reviewing the Spend Analytics offerings as reported under strategic projects. ESPO is trying to achieve an overview of members' spend, to help inform the ESPO work plan, but also to explore further commercial advantage on behalf of the membership. ESPO has confirmed that it is working with Lincolnshire and the LCAT solution to achieve these aims. Full member sign up to the LCAT solution will enhance the potential opportunities available here.
9. Key deliverables from the SOG work programme are to deliver procurement savings through Spend Analytics and eAuctions; share best practice in terms of procurement templates and market intelligence, and promote better joined up working; develop a set of procurement performance measures; deliver e-procurement solutions; and deliver social value.

People Plan

10. The key themes of the 'People Plan' are now being addressed as follows:

- Communication

A new internal communications plan has been implemented with a Weekly Update informing of activity across the business. It also includes feel-good Friday, acknowledging thanks for all the extra work people do in the regular course of their work week. A Director's Update is issued monthly to keep everyone up to date with the strategic direction of the business and informing on progress on areas identified by the Staff Survey.

In addition to the Monthly Director's Update, ESPO staff attended an All Staff Briefing 29 and 30 April 2014 in which featured feedback on work instigated by the 'People Plan', and importantly cascading expectations as set out in the ESPO strategy.

- Reward and recognition

A new ESPO-wide Reward & Recognition Scheme was rolled out in April. The scheme rewards individual performance that goes above and beyond the day to day expectations with themes for achievement linked to ESPO's values. A suggestion scheme to pick up on good ideas is also included as part of the scheme.

- Investment in resources

We have now invested £40k for the renewal of kit and a further £42k in forklift repairs in the Warehouse. We are also looking at investment in CCTV, lighting, bike sheds, packing stations, new wagons for the fleet and appropriate kit for field-based employees. We have now allocated investment in 12 new vehicles (£360k), forklift trucks (£100k), and packing stations (£10k).

- Leadership and team management & Learning and development

Senior Management Team Performance Development Reviews (PDR) were completed in January and Section Leaders have received training with the intention that at the end of March everyone will have had some form of PDR.

Line managers are now driving PDRs throughout ESPO and have opened up communications between departments through the Weekly Update.

- ESPO brand

We have reviewed our brand and visual identity and developed a new set of brand guidelines; this introduces a simpler version of our logo

(shown at the top of this report) which will be rolled out gradually. The ESPO stripes will tie all of our graphic designs together and guidance will be provided on how we write and talk to customers so that we are always consistent. The new ESPO catalogue front cover has moved away from its abstract design to feature our product range, clearly demonstrating the new graphic style for ESPO.

Audit Reports

11. There have been a number of audits carried out by Leicestershire County Council (LCC). There have been no High Importance recommendations.
12. The Annual Report of the LCC internal audit service was presented to the Finance and Audit subcommittee in June, which concluded that reasonable assurance on Governance, Risk Management and Internal financial and ICT controls could be drawn following its work at ESPO in 2013/14.
13. Progress continues to be made in the areas identified in the LCC Health & Safety audit report. ESPO has produced a Health & Safety Policy and Local arrangements, as well as a Fire Emergency Plan, which are held on the ESPO intranet, on the warehouse Health & Safety notice board, and in the Health & Safety Planning office. All staff members have been briefed on the location of these documents. General Risk Assessments for Picking, Replenishment, and Goods Out are now available. A new Health & Safety Officer, Hugh Gormley, has been appointed and he will continue to work closely with the LCC team.
14. Internal audit carried out a risk management audit reported in January, and payroll audit reported in March. There were no issues to escalate.

Sales & Marketing

Website

15. The new website project is now in its final development stage for launch. Internal soft launch will ensure full functionality testing by internal staff and stakeholders prior to full external launch during June.

ESPO Catalogue

16. The new 2014/15 ESPO catalogue launched one week ahead of schedule. It has been distributed across member and non-member areas. The total range has been expanded to 27,000 lines, including 600 new products (c. 3,000 new lines). Prices have been held on more than 15,000 products, achieving sub-inflation price increases across the product range. Smart Buy own label products also feature heavily.
17. New mini spin-off catalogues have been produced for each of the main catalogue categories. These will be distributed to schools and held centrally for distribution.
18. The new 2014/15 Dealing Direct Framework catalogue showcasing frameworks and contracts to Public Sector customers was formally launched

at The Public Sector Show, ExCel Centre, London on 13 May 2014. It contains details of all ESPO's new and existing contracts. ESPO's Corporate team will be meeting with delegates from Central and local government and the health sector as well as representatives from the wider public sector across the UK.

19. Meetings are continuing with key Direct Delivery furniture suppliers in an attempt to resolve last summer's customer complaints regarding damaged goods and late delivery issues.

Campaigns, activities and newsletters

20. In April, ESPO attended The Academy Show at ExCel Centre, London. Its stand generated a high level of interest from suppliers and customers with particular focus on Free School Meals and Education frameworks. Organisers reported more than 3,000 visitors with ESPO receiving more than 100 requests for catalogues and high quality leads to present to the Woodland Academies Trust in Kent, run procurement workshops for a group of 27 secondary schools in Sussex, four schools in Salford and a group of three church schools in Gloucestershire.

21. ESPO attended The Education Show at Birmingham NEC to launch the new ESPO Catalogue and the new Education Frameworks catalogue. The stand generated a high level of interest from suppliers and customers, and generated two huge orders to furnish 23 classrooms at Alston Primary school and a whole school refurbishment at a school in Evesham.

N.B. ESPO is not an appointed project manager or agent, but a commitment has been made that all procurement needs will be satisfied through ESPO.

22. The ESPO Free School Meals initiative continues throughout May and June. ESPO will be attending nine LACA roadshows across the UK focusing on Universal Infant Free School Meals. With seminars, workshops and presentations these are attended by School Heads, School Business Managers and Local Authority representatives.
23. The next issue of £150m Sports Funding has been released via Local Authorities into primary schools across England. ESPO continues to promote its Schools Sport catalogue product offer with the ESPO Active campaign generating sales c. £75k per month.
24. Good PR coverage has been generated by recent activity from our new partners Skout PR. Articles on School Meals, an article commenting on framework timescales being unfriendly to SMEs, and coverage in The Guardian Teacher Network have been key media features for ESPO.
25. As well as increasing the number of new accounts in this financial year to date and there have been several significant orders received from the Ministry of Defence (MoD) as ESPO has been nominated as a preferred supplier, including orders c. £250k white goods for UK Army barrack refurbishments and £35k for schools consumables in The Falklands.

ESPO Risk and Governance Update

Annual Review of Organisational Approach to Risk Management

26. ESPO continues to strengthen its approach to risk management, both in framework creation and catalogue procurement. Also, our procedures have recently been subjected to an audit which has prompted further improvements to be made. Elsewhere on the agenda is the annual review of organisational approach to risk management. That report contains the recommendations from the recent internal audit on risk and also outlines the enhancements identified by the Assistant Director, Procurement and Compliance.
27. The approach to risk at ESPO was discussed at the Chief Officer Group (COG), where it was discussed that a risk workshop including some of the COG members may be helpful in further informing the risk appetite at ESPO.

Strategic Projects

28. Progress against the critical strategic projects is as follows:

- E-tendering: This project continues to progress well. Registration on the portal as a whole now exceeds 8,000 suppliers; 70% of ESPO's currently awarded suppliers are now successfully registered. Dedicated staff members continue to work toward the 100% total requirement with the intention that the majority will be signed-up in good time to support the roll-out programme. System testing continues through the final steps and contracts will begin to be tendered electronically from the end of May. Further training is scheduled for June and July. In parallel, initial preparatory work for Contract Management continues with training taking place in May, ready for the transition of record transfer to be planned and resourced.
- Warehouse Peak planning: An in-house group is meeting monthly and implementing recommendations. The school holiday offer is underway which allows schools to defer delivery until August.
- Warehouse & logistics review: A separate report on the Logistics review is elsewhere on the agenda.
- Demand planning: The new stock optimisation system is now in place. Stock availability is running at 98.13%.
- GEMS: The CCS Sprint ii framework was utilised to undertake the procurement of a suitable system to replace the existing one and provide enhanced functionality. The contract was awarded to Optima for roll-out during summer 2014 prior to the termination of GEMS in 2015. An external project manager has been appointed and has undertaken initial scoping work with Optima and ESPO, is "mapping" the current workflows and developing the Project Plan. We are exploring with Laser (the IP owner of the existing GEMS system) the scope for a copy of the

GEMS database being provided to Optima to facilitate and expedite the data migration process.

- Spend analytics: ESPO has committed to invest £15k to enhance Lincolnshire's LCAT solution with regard to showing SME level service provision, and to further engage the ESPO membership. There is a longer term goal to form a members' spend analytics to target resources, benchmark and develop stronger category links. Concurrently, Apsiz is analysing ESPO data for comparison against the existing LCAT offer.

This has been progressed via the SOG group, which has agreed in principle to sharing spend data across ESPO membership. A draft data sharing agreement has been drawn up and distributed to form the basis of the data sharing and it is awaiting SOG feedback. Members of SOG not signed up to utilising LCAT for spend analytics are seeking funding from their respective organisations to do so. ESPO's own spend analysis is set for June, with particular focus on supply chain improvements within the catalogue operations.

Resources Implications

29. None arising directly from this report.

Recommendation

30. Members are asked to note the contents of the report.

Officer to Contact

John Doherty, Director
J.Doherty@espo.org, 0116 265 7931

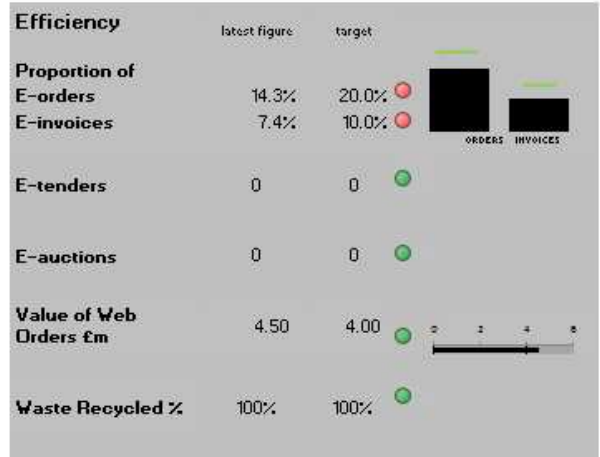
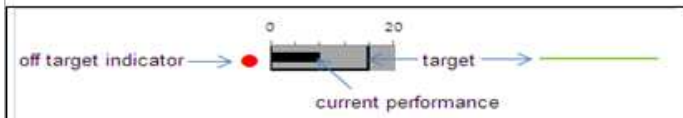
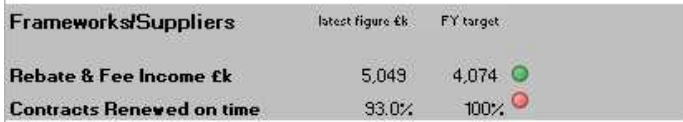
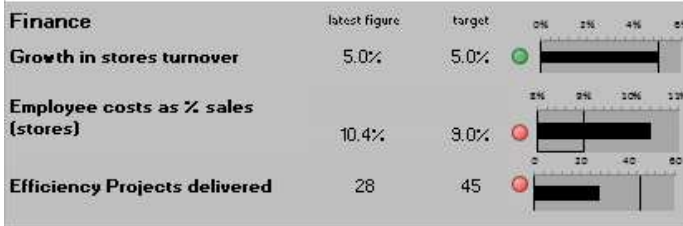
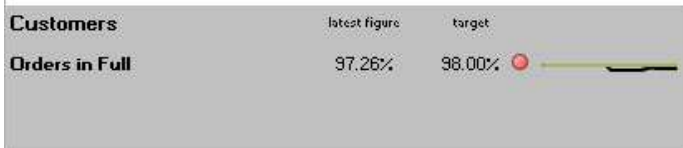
Appendices

Appendix 1: Balanced scorecard

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Proposed new balanced scorecard

March-2014



A= All S= Stores D= Directs E=Energy & Fuels
F= Frameworks C= Consultancy M= Major Projects

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