EASTERN SHIRES PURCHASING ORGANISATION

A LOCAL AUTHORITY PURCHASING AND DISTRIBUTION CONSORTIUM

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

Date:	28 August 2015
My Ref	BH/ESPO
Please ask for:	Ben Holihead
Direct Dialling	(0116) 305 6339
e-mail:	ben.holihead@leics.gov.uk

To: Members of the ESPO Finance and Audit Subcommittee

Dear Member,

ESPO FINANCE AND AUDIT SUBCOMMITTEE

A meeting of the Finance and Audit Subcommittee will be held at on Tuesday, 8 September 2015 at 10.30 am in the Gartree Committee Room, County Hall, Glenfield.

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

Yours faithfully,

B Holihead

Ben Holihead
for Consortium Secretary

AGENDA

Item		Pages
1.	Minutes of the meeting held on 9 June 2015.	(Pages 3 - 6)
2.	To advise of any other items which the Chairman has decided to take as urgent elsewhere on the agenda.	
3.	Declarations of interest in respect of items on the agenda.	

4. Draft Statement of Accounts 2014/15 and Annual Governance Statement. (Pages 7 - 76)

Joint report of the Consortium Treasurer and Director.

5. MTFS Monitoring for the First Four Months of 2015/16. (Pages 77 - 84)

Joint report of the Consortium Treasurer and Director.

6. Quarterly Progress Against the Internal Audit Annual Plan. (Pages 85 - 92)

Report of the Consortium Treasurer.

7. Date of next meeting.

The next meeting will be held on Monday 16 November at County Hall, Glenfield.

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

ESPO

Minutes of a meeting of the ESPO Finance and Audit Subcommittee held at County Hall, Glenfield, Leicestershire on Tuesday, 9 June 2015.

PRESENT

(in the Chair)

Mr. J. Clarke CC	Mr. I. Monson CC
Dr. R. K. A. Feltham CC	Mrs. S. Rawlins CC

1. Election of Chairperson for the municipal year 2015/16.

Mr. I. Monson CC (Norfolk County Council) was elected Chair for the municipal year ending 2015/16.

(Mr. I. Monson CC in the Chair)

2. Minutes of the meeting held on 23 February 2015.

The minutes of the meeting held on 23 February 2015 were taken as read, confirmed and signed.

3. Declarations of interest.

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

No declarations were made.

4. Urgent items.

There was one urgent item for consideration entitled 'Quarterly Progress Against the Internal Audit Plan'.

5. Draft Outturn 2014/15.

The Subcommittee received a report of the Consortium Treasurer outlining the Draft Outturn for 2014/15. A copy of the report, marked 'Agenda Item 5', is filed with these minutes.

Arising from discussion the following points were raised:-

(i). The overall surplus for 2014/15 would be £2.2m as had been forecast. The rebate income had been very strong due to the increased use of framework contracts, a number of one off rebates such as wheelie bin procurement, and changes to the processes for collecting rebate income;

(ii). The budget for the next financial year for stores margin had been increased owing to the recently agreed price increase for top lines. This was in accordance with the agreed strategy;

(iii). Growth had been principally driven outside of core member areas particularly in Wales and the M5 corridor. However the Director advised that core member areas had also seen an increase in growth;

(iv). The budget for 2015/16 had not anticipated the same expenditure on agency staff in the warehouse as had been experienced during 2014/15. This was due to changes in warehouse processes and the use of a seasonal relief warehouse during the peak period.

RESOLVED:-

(a) That the Subcommittee approve the draft outturn for 2014/15;

(b) That the allocations from the operating surplus for 2014/15 be approved;

(c) That the payment of the proposed dividend as outlined be approved subject to the approval of the final accounts in September 2015.

6. <u>Change to the order of business.</u>

RESOLVED:

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

7. <u>Supplementary Information Informing the Draft Outturn.</u>

The Subcommittee received an exempt report of the Consortium Treasurer providing more detailed information regarding the Draft Outturn 2014/15. A copy of the report, marked ‘Agenda Item 10’, is filed with these minutes. The report was deemed exempt under Section 100(A) of the Local Government Act 1972 due to containing commercially sensitive information.

RESOLVED:-

That the report be noted.

8. <u>Change to the order of business.</u>

RESOLVED:

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

9. <u>Quarterly Progress Against the Internal Audit Plan.</u>

The Subcommittee received a supplementary report outlining the quarter 4 progress against the Internal Audit Plan. A copy of the report, marked ‘Agenda Item 6a’, is filed with these minutes. The Subcommittee considered the matter, the Chair having decided it was of an urgent nature due to the requirement stipulated in the Terms of Reference of the Subcommittee to consider quarterly audit updates.

Members were informed that ESPO had volunteered to share its payroll and accounts payable data as part of the National Fraud Initiative which was a nationwide bi-annual data sharing exercise to attempt to identify fraud. Any potential matches would be passed on to the Assistant Director (Finance) to further investigate.

The remaining audits for completion would be signed off within the deadlines that had been set. There had been no high recommendations as a result of any audits.

RESOLVED:

That the Quarterly Progress Against the Internal Audit Plan be noted.

10. Internal Audit Service Annual Report 2014/15.

The Subcommittee received a report of the Consortium Treasurer outlining the Internal Audit Service Annual Report for 2014/15. A copy of the report, marked 'Agenda Item 6', is filed with these minutes.

Arising from discussion the following points were raised:-

(i). The issues raised in the annual report reflected changes over the previous two years which subsequently increased the amount of areas needing to be covered by the annual report. Members were advised that owing to these changes, the new rigorous auditing standards had not been fully complied with but would be in the future;

(ii). The report would be used to inform the Annual Governance Statement which would be sent to the Management Committee in June 2015;

(iii). Members were advised of errors on the table showing overall performance against the 2014-15 internal audit plan. The total number of unplanned audits was three, raising the total number of audits to 32. The number of audits completed by the 22 May was 26, and not 27 as written in the report. Members were advised that paragraph 22 should read that HoIAS could provide assurance of rigorous monitoring of due professional care and quality.

RESOLVED:

That the Internal Audit Service Annual Report 2014/15 be noted.

11. Internal Audit Plan 2015/16.

The Subcommittee received a report of the Consortium Treasurer outlining the Internal Audit Plan for 2015/16. A copy of the report, marked 'Agenda Item 7', is filed with these minutes.

Arising from discussion the following points were raised:-

(i). Due to changes in the regulations there would be one month less to undertake the internal audits in line with Council Annual Meetings. It was clarified by officers that although ESPO was not bound under the new regulations, it would still have to finish audits a month early to take into account member authority requirements;

(ii). Members expressed their support for the audit of the Servicing Authority on the same level as the member authorities. The Plan included continued improvement to the governance of ESPO and how risk was managed;

(iii). It was clarified that the transparency of competitors was a comparative approach whereby auditors compared the information available on ESPO's website to the websites of its competitors.

RESOLVED:

That the Internal Audit Plan 2015/16 be noted.

12. Date of next meeting.

RESOLVED:

It was noted that the next meeting of the Subcommittee would be held on Tuesday 8th September at 10.30am.

10.35 - 11.35 am CHAIRMAN
09 June 2015

ESPO FINANCE AND AUDIT SUBCOMMITTEE – 8 SEPTEMBER 2015

DRAFT STATEMENT OF ACCOUNTS AND ANNUAL GOVERNANCE STATEMENT 2014/15

JOINT REPORT OF THE DIRECTOR AND CONSORTIUM TREASURER

Purpose of Report

1. This report sets out the Statement of Accounts and Annual Governance Statement for the financial year 2014/15.

Background

2. Local Authority Accounting requires the organisation to approve the Statement of Accounts and Annual Governance Statement for the financial year 2014/15 and receive the Auditor's report by the end September 2015.

3. The Draft Statement of Accounts were distributed to members on 26th June 2015 in accordance with the minutes of the Management Committee meeting held on 24th June 2015. The Draft Annual Governance Statement was also considered by the Management Committee at this meeting.

Draft Statement of Accounts and Annual Governance Statement 2014/15

4. The Draft Statement of Accounts and Annual Governance Statement for 2014/15 are attached as Appendix 1.

5. PriceWaterhouseCoopers (PWC) commenced with the final audit of the accounts on 10th August 2015 for two weeks. It is hoped that an oral update on audit progress will be submitted to members on 8th September 2015.

6. The CIPFA Code of Practice on Local Authority Accounting requires the organisation to disclose information relating to the impact of an accounting change that will be required by any new standards that has been issued by 1 January 2015 but not yet adopted by the Code for the relevant year. The changes that have not yet been implemented are stated with the Accounts.

Key Points

7. Value of Land and Buildings:- The Grove Park premises were valued at £10.5m (2013/14 - £10m) in accordance with professional

guidelines. The outstanding long term loan now stands at £7.5m (2013/14 £8.0m). Note 12 in the Statutory Accounts

8. The total net surplus after dividend distribution was £1.9m (2013/14 £1.3m).

9. Total cash balances were £9.8m (2013/14 £8.5m) an increase of £1.3m mainly down to the surplus and a year on year reduction in debtors as detailed in Note 19. The total dividend declared but not yet paid stands at £1.5m (2013/14 £1.5m). Note 16 in the Statutory Accounts

10. Total net assets grew to £12.8m from £10.9m in the prior year. This is principally due to the surplus on provision of services of £1.9m. Page 7 in the Statutory Accounts

11. There are no significant post balance sheet events

Resources Implications

12. None

Recommendation

13. The Subcommittee is asked to

    a. Note the contents of the report; and

    b. Recommend that the draft Statement of Accounts for 2014/15 be approved at Management Committee.

Equalities and Human Rights Implications

14. None

Background Papers

15. None

Officers to Contact

Mr Chris Tambini, Consortium Treasurer
E-mail: chris.tambini@leics.gov.uk
Tel: 0116 305 7831

Mr John Doherty, Director of ESPO
E-mail: j.doherty@espo.org
Tel: 0116 265 7930

Appendices

Appendix A - Draft Annual Statement of Accounts
Appendix B - Annual Governance Statement

This page is intentionally left blank

Explanatory Foreword

Introduction

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

About ESPO

ESPO is a Joint Committee set up under Section 102 of the 1972 Local Government Act. The member authorities at 31 March 2015 were Cambridgeshire, Leicestershire, Lincolnshire, Norfolk and Warwickshire County Councils together with Peterborough City Council.

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

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

Performance in 2014-2015

ESPO has enjoyed its 14th successive year of growth in our stores business; in addition the usage of our frameworks contracts has grown. This allows ESPO to continue investing in low prices, excellent service and high quality procurement expertise.

Tight control has been maintained over spending both on staff and operating expenses, and this has resulted in a Net Surplus in the management accounts (as shown in Note 23 to this Statement of Accounts) of £2,163k. This enables the announcement of a £1,457k dividend distribution to members for 2014-2015.

Future Prospects

In order to mitigate the possible adverse effects of Local Authority spending constraints on future sales volumes ESPO continues to market its goods and services to a broad public sector audience within and beyond its member areas. This strategy supported the successful performance in 2014-2015 and will be continued in line with ESPO's four year strategy and the medium term financial plan.

ESPO's Accounts

The following accounting statements represent ESPO's accounts for the 2014-2015 financial year and have been prepared on a going concern basis. The statements and notes are presented in a way that is intended to meet the common needs of most users with the objective of showing the results of the stewardship and accountability of elected members and management for the resources entrusted to them.

Movement in Reserves Statement

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

Comprehensive Income and Expenditure Statement:

This statement shows the accounting cost during the year of providing services in accordance with generally accepted accounting practices. It is fundamental to the understanding of the consortium's activities in that it summarises trading income and expenditure for the year ending 31 March 2015 of all functions for which ESPO is responsible.

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

Balance Sheet:

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

Cash Flow Statement:

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

Authorisation of Accounts:

The Statement of Accounts presents a true and fair view of the financial position of the organisation at 31 March 2015 and its income and expenditure for the year ended 31 March 2015.

Date of Authorisation:

The accounts were authorised for issue on 30 June 2015.

J. Doherty Director of ESPO	C. Tambini Consortium Treasurer
Date: 28/09/2015	Date: 28/09/2015

The Eastern Shires Purchasing Organisation Consortium's Responsibilities

The consortium is required to:

- Make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs; for the consortium that officer is the Chief Financial Officer of Leicestershire County Council who is the Consortium Treasurer;

- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;

- Approve the Statement of Accounts.

These accounts were approved at a meeting of the Consortium Management Committee on 28 September 2015.

Councillor J Clarke

Chairman, ESPO Management Committee

Date: 28/09/2015

The Consortium Treasurer's Responsibilities

The Consortium Treasurer is responsible for the preparation of the consortium's Statement of Accounts in accordance with proper accounting practices as set out in the CIPFA/LASAAC Code of Practice in Local Authority Accounting in the United Kingdom 2014/15.

In preparing this Statement of Accounts for the year ended 31 March 2015, the Consortium Treasurer has:

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

The Consortium Treasurer has also ensured that:

- Proper accounting records have been maintained and kept up to date;
- Reasonable steps were taken for the prevention and detection of fraud and other irregularities.
- The Statement of Accounts give a true and fair view of the financial position of ESPO at the reporting date and of its expenditure and income for the year ended 31st March 2015.

C Tambini

Chief Financial Officer of Leicestershire County Council (Consortium Treasurer of ESPO).

Movement in Reserves Statement
For the years ended 31st March 2014 and 2015

	General Fund Balance	Earmarked Projects Reserves	Earmarked Repairs and Renewals Reserve	Earmarked Property Maintenance Reserve	Earmarked Pay Harmonisation	Earmarked Legal Claim	Strategic Review Implementation	Total usable Reserves	Unusable Reserves	Total Reserves	Note
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	
Balance at 31st March 2013 Carried Forward	**2,958**	**592**	**2,344**	**1,043**	**0**	**235**	**400**	**7,572**	**2,066**	**9,638**	
Movement in Reserves during 2013-14											
Surplus on provision of services	1,288							1,288		1,288	
Other Comprehensive Income and Expenditure (Surplus on revaluation of property)											
Total Comprehensive Income and Expenditure	1288							1,288		1,288	
Adjustments between accounting basis and funding basis under regulations	17		(74)					(57)	57		6
Net Increase/(Decrease) before Transfers to Earmarked Reserves	1,305		(74)					1,231	57	1,288	
Transfers to/from Earmarked Reserves	(934)	210	521	432		(235)					7
Increase/(Decrease) in 2013-14	371	136	521	432	0	(235)	0	1,231	57	1,288	
Balance at 31st March 2014 Carried Forward	**3,329**	**728**	**2,865**	**1,475**	**0**	**0**	**400**	**8,797**	**2,123**	**10,920**	
Movement in Reserves during 2014-15											
Surplus on provision of services	1,264							1,264		1,264	
Other Comprehensive Income and Expenditure (Surplus on revaluation of property)									592	592	
Total Comprehensive Income and Expenditure	1,264							1,264	592	1,856	
Adjustments between accounting basis and funding basis under regulations	(274)	(80)						(354)	354		6
Net Increase/(Decrease) before Transfers to Earmarked Reserves	990	(80)	0	0	0	0	0	910	946	1,856	
Transfers to/from Earmarked Reserves	(683)	(226)	545	364							7
Increase/(Decrease) in 2014-15	307	(306)	545	364	0	0	0	910	946	1,856	
Balance at 31st March 2015 Carried Forward	**3,636**	**422**	**3,410**	**1,839**	**0**	**0**	**400**	**9,707**	**3,068**	**12,775**	

Comprehensive Income and Expenditure Statement
For the year ended 31 March 2015

2013-14				2014-15			
Gross Expenditure	Gross Income	Net (Income) Expenditure		Gross Expenditure	Gross Income	Net (Income) Expenditure	Note:
£000	£000	£000		£000	£000	£000	
31,680	(43,562)	(11,882)	Central Stores	32,903	(44,659)	(11,756)	
44,637	(52,014)	(7,377)	Other Customer and Client Receipts	40,502	(48,770)	(8,268)	
76,317	(95,576)	(19,259)	Total	73,405	(93,429)	(20,024)	
10,400		10,400	Employees	11,306		11,306	24 30
271		271	Other Employee Expenses	263		263	
682		682	Premises	651		651	
1,926		1,926	Transport	1,949		1,949	
1,600		1,600	Equipment	1,456		1,456	
366		366	Office Expenses	281		281	
715		715	Other Expenses	907		908	
129		129	Support Service Charges	147		147	
92,406	(95,576)	(3,170)	**Net Cost of Services**	90,365	(93,429)	(3,063)	
1,506	(11)	1,495	Other Operating expenditure	1,457	(10)	1,447	8
399	(12)	387	Financing and Investment Income and expenditure	378	(26)	352	9
94,311	(95,599)	(1,288)	**Surplus on Provision of Services**	92,200	(93,465)	(1,264)	
		0	Surplus or deficit on revaluation of Property, Plant and Equipment assets			(592)	10
		0	**Other Comprehensive Income and Expenditure**			(592)	
		(1,288)	**Total Comprehensive Income and Expenditure**			**(1,856)**	

Balance Sheet
As at 31st March 2015

	31 March 2014	31 March 2015	Note
	£000	£000	
Property, Plant and Equipment	10,575	11,002	10
Intangible Assets	200	165	11
Long Term Assets	10,775	11,167	
Inventories:			
Central Stores Stocks	5,167	5,392	13
Short Term Debtors	9,609	8,114	14
Cash and Cash Equivalents	8,497	9,773	15
Current Assets	23,273	23,279	
Short Term Borrowing	(802)	(724)	12
Short Term Creditors	(12,517)	(11,359)	12,16
Other Current Liabilities	(1,609)	(1,944)	16
Current Liabilities	(14,928)	(14,027)	
Long Term Borrowing	(8,000)	(7,500)	12,32
Other Long Term Liabilities	(200)	(143)	12
Long Term Liabilities	(8,200)	(7,643)	
Net Assets	10,920	12,775	
Usable Reserves	8,797	9,707	17
Unusable Reserves	2,123	3,068	18
Total Reserves	10,920	12,775	

The notes on pages 10 to 47 form part of the Statement of Accounts.

Cash Flow Statement
For the year ended 31st March 2015

2013/14		2014/15	Note:
£000		£000	
(1,288)	Net Surplus on the provision of services	(1,264)	
(304)	Adjustments on provision of services for non-cash movements	(2,306)	19
(375)	Adjustments for items included in the net surplus on the provision of services that are Investing and Financing activities	(343)	19
1,916	Net cash flows adjustments to operating activities	1,857	20
(51)	Total net cash flow from operating activities	(2,056)	
149	Investing Activities	147	21
624	Financing Activities	633	22
722	Net decrease / (increase) in cash and cash equivalents	(1,276)	
9,219	Cash and cash equivalents at the beginning of the reporting year	8,497	15
8,497	Cash and cash equivalents at the end of the reporting year	9,773	15

Notes to the Accounts

1. Accounting Policies

a. Introduction

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

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

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

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

b. General Principles

The Statement of Accounts summarises ESPO's transactions for the 2014/15 financial year and its position at the year end of 31 March 2015. ESPO is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2011, which those regulations require to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 and the Service Reporting Code of Practice 2014/15, supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under section 12 of the 2003 Act.

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

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

1. Accounting Policies (continued)

c. Accruals of Income and Expenditure:

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

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

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

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

Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.

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

Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

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

d. Cash and cash equivalents

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

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

e. Exceptional Items

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

1. Accounting Policies (continued)

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

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

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

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

g. Charges to Revenue for Non-Current Assets

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

- Depreciation attributable to the assets used by the relevant service
- Revaluation and impairment losses on assets used by the service where there are accumulated revaluation gains in the Revaluation Reserve against which the losses can be written off
- Amortisation of intangible fixed assets

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

h. Employee Benefits

Benefits Payable During Employment

Short term employee benefits are those due to be settled within 12 months of the year end. They include such benefits as wages and salaries, paid annual leave and paid annual sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees and are recognised as an expense for services in the year in which employees render service to the organisation. An accrual is made for the cost of holiday entitlement (or any form of leave e.g. time off in lieu) earned by employees but not taken before the year end which employees carry forward into the next financial year. The accrual is made at the wages or salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

The Local Government Pension Scheme

In accordance with the International Accounting Standard 19 – Employee Benefits (IAS 19), ESPO is required to disclose certain information concerning assets, liabilities, income and expenditure related to pension schemes for its employees. This information is included within the Leicestershire County Council Statement of Accounts for 2014/15 as staff are employees of Leicestershire County Council in the council's role as servicing authority for the organisation and no separate apportionment is made of pension scheme assets and liabilities in respect of ESPO staff.

1. Accounting Policies (continued)

Discretionary Awards

ESPO has restricted powers to make discretionary awards of retirement benefits in the event of early retirement. Any liabilities estimated to arise as a result of an award to any member of staff are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

i. Events after the Balance Sheet date

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

- those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events

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

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

j. Financial Instruments

Financial Liabilities

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

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

Financial Assets

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

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

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

1. Accounting Policies (continued)

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

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

k. Classification of Assets and Liabilities

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

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

All other assets are classified as long term.

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

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

All other liabilities are classified as long term.

l. Intangible Assets

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

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

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

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

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

1. Accounting Policies (continued)

m. Inventories

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

n. Leases

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

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

Finance Leases

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

Lease payments are apportioned between:

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

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

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

Operating Leases

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

1. Accounting Policies (continued)

o. Property, Plant and Equipment

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

Recognition

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

Measurement

Assets are initially measured at cost, comprising:

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

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

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

The warehouse and offices premises at Grove Park are included at fair value and are revalued regularly to ensure that the carrying amount is not materially different from their fair value at the year end. Various Chartered Surveyors in the Property Services Division of Leicestershire County Council's Resources Department carry out the valuation. The current property value used in the 2014/15 accounts is based on a certificate issued by the Council's Head of Property Services Division as at 31 March 2015. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains, except that gains may be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a service.

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

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

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

1. Accounting Policies (continued)

Impairment

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

Where impairment is identified, they are accounted for by:

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

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

Depreciation

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

Depreciation is calculated on the following bases:

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

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

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

Disposals and non-current assets held for sale

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

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

1. Accounting Policies (continued)

p. Provisions, Contingent Liabilities and Contingent Assets

Provisions

Provisions are made where an event has taken place that gives the organisation a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. for instance, ESPO may be involved in a court case that could eventually result in the making of a settlement or a payment of compensation.

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

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

Contingent Liabilities

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

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

Contingent Assets

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

q. Reserves

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

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

r. VAT and Climate Change Levy (CCL)

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

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

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

The CIPFA Code of Practice on Local Authority Accounting requires the organisation to disclose information relating to the impact of an accounting change that will be required by any new standards that has been issued but not yet adopted. This applies to the adoption of the following standards within the 2015/16 code:

- *IFRS 3 Joint Ventures*

Provides clarity on the exceptions from the scope for joint ventures. ESPO has no joint venture arrangements, therefore this standard will have no impact on the 2014/15 Statement of Accounts.

- *The Annual Improvements Cycle to IFRSs*

(2011-2013 Cycle) involves minor improvements and updates to provide further clarity on disclosures. These will not have a material impact on the 2014/15 Statement of Accounts.

- *IFRS 13 Fair Value Measurement*

This standard provides a consistent, single source of valuation measurement and enhanced disclosure guidance. This standard requires surplus assets and non-current assets held for sale to be revalued at market value. Operational property, plant and equipment are outside the scope of IFRS 13. This standard will have minimal to no impact to ESPO.

- *IFRIC 21 Levies*

This is an interpretation on the accounting for levies imposed by governments and when entities should recognise the liability to pay the levy. This will have minimal to no impact to ESPO.

- *IAS 40 Investment Property*

The above provides further clarity on the relationship between investment property and Business Combinations. ESPO does not hold investment property; therefore this should have no impact on the 2014/15 Statement of Accounts.

3. Critical Judgements in Applying Accounting Policies

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

- ESPO's premises at Grove Park, Enderby have been subject to a revaluation as at 31 March 2015 by the Property Department of Leicestershire County Council (the organisation's servicing authority). The resulting increase in the fair value of £592,000 is reflected in the accounts.

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

The Statement of Accounts contains estimated figures that are based on assumptions made by ESPO about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors.

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

However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the organisation's Balance Sheet at 31 March 2015 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	**Uncertainty**	**Effect if Actual Results differ from Assumptions**
Property, Plant and Equipment	Assets are depreciated over useful lives that are dependent upon assumptions of business requirements and upkeep expenditure on individual assets.	If the useful lives of assets reduces depreciation increases and the carrying amount of the asset falls. It is estimated that the annual depreciation charge for the premises would increase by £1,500 for every year that useful lives had to be reduced.
Debtors	At 31 March 2015, ESPO had a balance of sales ledger debtors of £6,475k. A review of overdue debts has identified that impairment for doubtful debts of £48,000 was appropriate in relation to amounts due from commercial organisations. However, it is not certain that such an allowance will be sufficient.	If an additional 1% of customers become insolvent, the amount of the impairment for doubtful debts would require an additional £65,000 to be set aside as an allowance.
Stocks	Stocks of catalogue products are held in anticipation of sales to customers. The catalogue is re-issued annually and products may be added or deleted. Stocks held at 31 March 2015 in excess of one year sales may not be included in subsequent catalogues. The write down in value of stocks held in excess on one year amounted to £76,000. This value is based on an estimate of sales over the next 12 month period. However, it is not certain that sales forecasts are accurate; that the products will not be included in the next catalogue and that the write down is sufficient or excessive.	If 10% of the products for which excess stocks have been identified are included in the catalogue for 2015/16, the resulting reduction in stock write down would be £7,600.
Reserves	There is an uncertainty to the amount of reserves created as the amounts are based on estimates.	The position is regularly reviewed.

5. Events after the Balance Sheet Date

The Statement of Accounts was authorised for issue on 30 June 2015. Events taking place after this date are not reflected in the accounts or notes. Where events taking place before this date provided information about conditions existing at 31 March 2015, the figures in the accounts and notes have been adjusted in all material respects to reflect the impact of this information. There are no post balance sheet events.

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

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

2014/15	**Usable Reserves**							
	General Fund Balance	Earmarked Projects Reserves	Earmarked Repairs and Renewals Reserve	Earmarked Property Maintenance Reserve	Earmarked pay Harmonisation	Strategic Review Implementation	**Total Movement in Usable Reserves**	Movement in Unusable Reserves
	£000	£000	£000	£000	£000	£000	£000	£000
Adjustments primarily involving the Capital Adjustment Account:								
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement;								
Charges for depreciation and impairment of non current assets	275						275	(275)
Amortisation of intangible assets	81						81	(81)
Proceeds of sales of non current assets as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	51						51	(51)
Gain/loss on disposal of non current assets	(10)						(10)	10
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:								
Statutory provision for financing of capital investment (Grove Park)	(500)						(500)	500
Statutory provision for financing leased capital investment	(122)						(122)	122
Use of General Fund to finance new capital expenditure	(41)						(41)	41
Adjustments involving the Earmarked Reserves:								
Use of reserves to finance new capital expenditure	0	(80)					(80)	80
Adjustment involving the Accumulated Absences Account:								
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(8)						(8)	8
Total Adjustments	**(274)**	**(80)**	**0**	**0**	**0**	**0**	**(354)**	**354**

6. Adjustments between the Accounting Basis and Funding Basis under Regulations (continued)

2013/14 comparative figures	Usable Reserves								
	General Fund Balance	Earmarked Projects Reserves	Earmarked Repairs and Renewals Reserve	Earmarked Property Maintenance Reserve	Earmarked Pay Harmonisation	Earmarked Legal Claim	Strategic Review Implementation	**Total Movement in Usable Reserves**	Movement in Unusable Reserves
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Adjustments primarily involving the Capital Adjustment Account:									
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:									
Charges for depreciation and impairment of non current assets	473							473	(473)
Amortisation of intangible assets	78							78	(78)
Proceeds of sales of non current assets as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	83							83	(83)
Gain/loss on disposal of non current assets	(12)							(12)	12
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:									
Statutory provision for financing of capital investment (Grove Park)	(500)							(500)	500
Statutory provision for financing leased capital investment	(115)							(115)	115
Use of General Fund to finance new capital expenditure								0	0
Adjustments involving the Earmarked Reserves:									
Use of reserves to finance new capital expenditure		(74)						(74)	74
Adjustment involving the Accumulated Absences Account:									
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	10							10	(10)
Total Adjustments	**(17)**	**(74)**	**0**	**0**	**0**	**0**	**0**	**(57)**	**57**

7. Transfers to/from Earmarked Reserves

This note sets out the amounts set aside from the General Fund in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund expenditure in 2014/15.

	Balance at 1 April 2014	Transfers in 2014/15	Capital Transfers out 2014/15	Revenue Transfers out 2014/15	Balance at 31 March 2015
	£000	£000	£000	£000	£000
Earmarked Projects Reserve	728	7	(80)	(233)	422
Earmarked Repairs and Renewals Reserve	2,865	574		(29)	3,410
Earmarked Property Maintenance Reserve	1,475	405		(41)	1,839
Earmarked Pay Harmonisation	0				0
Earmarked Legal Claim	0				0
Strategic Review Implementation	400				400
Total	**5,468**	**986**	**(80)**	**(303)**	**6,071**

2013/14 Comparative Figures:

	Balance at 1 April 2013	Transfers in 2013/14	Capital Transfers out 2013/14	Revenue Transfers out 2013/14	Balance at 31 March 2014
	£000	£000	£000	£000	£000
Earmarked Projects Reserve	592	348	(74)	(138)	728
Earmarked Repairs and Renewals Reserve	2,344	559		(37)	2,865
Earmarked Property Maintenance Reserve	1,043	438		(6)	1,475
Earmarked Pay Harmonisation	0				0
Earmarked Legal Claim	235			(235)	0
Strategic Review Implementation	400				400
Total	**4,614**	**1,345**	**(74)**	**(416)**	**5,468**

8. Other Operating Expenditure

2013/14 £000		2014/15 £000
1,506	Dividend payable to member authorities	1,457
(11)	Gains on disposal of non current assets	(10)
1,495	**Total**	1,447

9. Financing and Investment Income and Expenditure

2013/14 £000		2014/15 £000
399	Interest payable and similar charges	378
(12)	Interest receivable and other similar income	(26)
387	**Total**	352

10. Property, Plant and Equipment

Movements in Balances

Movements in 2014/15

	Land and Buildings	Vehicles, Plant and Equipment	Total Property, Plant and Equipment
Cost or Valuation	£000	£000	£000
At 1 April 2014	10,000	3,379	13,379
Additions		151	151
Revaluation Increase recognised in the Revaluation Reserve	7		7
Revaluation Increase recognised in the Capital Adjustment Account	493		493
De-recognition – disposals		(146)	(146)
At 31 March 2015	**10,500**	**3,384**	**13,884**
Accumulated Depreciation and Impairment			
At 1 April 2014	92	2,712	2,804
Depreciation charge		275	275
Impairment (reversals) recognised in the Capital Adjustment Account	(92)		(92)
De-recognition – disposals		(105)	(105)
At 31 March 2015	**0**	**2,882**	**2,882**
Net Book Value:			
At 31 March 2015	**10,500**	**502**	**11,002**
At 31 March 2014	**9,908**	**667**	**10,575**

10. **Property, Plant and Equipment (continued)**

Comparative Movements in 2013/14:

	Land and Buildings	Vehicles, Plant and Equipment	Total Property, Plant and Equipment
Cost or Valuation:	£000	£000	£000
At 1 April 2013	10,000	3,486	13,486
Additions		158	158
Revaluation Increase/(decrease) recognised in the Revaluation Reserve			0
Revaluation Increase/(decrease) recognised in the Capital Adjustment Account			0
De-recognition – disposals		(265)	(265)
At 31 March 2014	**10,000**	**3,379**	**13,379**
Accumulated Depreciation and Impairment:			
At 1 April 2013	0	2,524	2,524
Depreciation charge	92	382	474
Impairment losses recognised in the Revaluation Reserve			0
De-recognition – disposals		(194)	(194)
At 31 March 2014	**92**	**2,712**	**2,804**
Net Book Value:			
At 31 March 2014	**9,908**	**667**	**10,575**
At 31 March 2013	**10,000**	**962**	**10,962**

<u>Depreciation:</u>

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

a. Land and Buildings – 70 years
b. Vehicles, Plant and Equipment – 4 to 10 years

<u>Capital Commitments:</u>

At 31 March 2015, there were no contractual commitments in 2015/16 for the acquisition of tangible or intangible assets.

10. Property, Plant and Equipment (continued)

Revaluations:

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

	Land and Buildings £000	Vehicles, Plant and Equipment £000	Total Property, Plant and Equipment £000
Historical cost		3,384	3,384
Valued at fair value at 31 March 2015	10,500		10,500
Total Cost or Valuation	**10,500**	**3,384**	**13,884**

11. Intangible Assets

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

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

The carrying amount of intangible assets is amortised on a straight line basis. The amortisation of £81,033 charged to revenue in 2014/15 was charged as a service overhead cost under the heading "Equipment" in the Comprehensive Income and Expenditure Statement.

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

	31/03/2014 Purchased Software £000	31/03/2015 Purchased Software £000
Balance at start of year:		
• Gross carrying amount	527	602
• Accumulated amortisation	(324)	(402)
Net carrying amount at start of year	203	200
Additions – Purchases.	74	46
Amortisation for the year	(77)	(81)
Net carrying amount at end of year	200	165
Comprising:		
• Gross carrying amount	602	648
• Accumulated amortisation	(402)	(483)
	200	165

12. Financial Instruments

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

	Long-Term		Current	
	31 March 2014	31 March 2015	31 March 2014	31 March 2015
	£000	£000	£000	£000
Loans and Receivables: Financial assets carried at contract amounts including Cash and Cash Equivalents	0	0	18,106	17,887
Total Receivables	0	0	18,106	17,887
Borrowings: Financial Liabilities at amortised cost	8,000	7,500	802	724
Total Borrowings	8,000	7,500	802	724
Other Long Term Liabilities: Finance Lease liabilities	200	143	0	0
Total other long term liabilities	200	143	0	0
Other Short Term financial Liabilities: Financial liabilities carried at contract amounts	0	0	14,115	12,899
Total Short term Liabilities	0	0	14,115	12,899

12. Financial Instruments (continued)

Income, Expense, Gains and Losses:

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

	2013/14		2014/15	
	Financial Liabilities	Financial Assets	Financial Liabilities	Financial Assets
	Measured at amortised cost	Loans and Receivables	Measured at amortised cost	Loans and Receivables
	£000	£000	£000	£000
Interest expense payable on long term loan	(383)	0	(357)	0
Bank interest payable on leased assets loans	(16)	0	(20)	0
Bank and short term investment interest receivable	0	12	0	26
Net (loss)/gain for the year	(399)	12	(378)	26

Fair Values of assets and Liabilities

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

- Estimated interest rate at 31 March 2015 of 3.12% for loans from Leicestershire County Council based on equivalent rates for loans from the PWLB and a rate of 7.6% for equipment loans based on equivalent commercial rates.
- No early repayment or impairment is recognised.
- Where an instrument will mature in the next 12 months, carrying amount is assumed to approximate to fair value.
- The fair value of trade and other receivables is taken to be the invoiced or billed amount.

The fair values calculated are as follows:

	31 March 2014		31 March 2015	
	Carry Amount	Fair Value	Carry Amount	Fair Value
	£000	£000	£000	£000
Financial Liabilities – Premises loan from Leicestershire County Council	8,648	9,264	8,137	9,327
Other Long-term creditors	209	209	259	259

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

Loans and Receivables:

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

13. Inventories

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

	2013/14	2014/15
	£000	£000
Balance at start of year	4,540	5,167
Purchases	32,364	32,903
Recognised as an expense in the year	(31,634)	(32,602)
Written off balances	(103)	(76)
Balance at year end	5,167	5,392

14. Short Term Debtors

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

31 March 2014		31 March 2015
£000		£000
	Current Debtors	
2,035	Reserved Debtors	1,687
7,709	Sundry Debtors	6,475
(135)	Less provision for bad debts	(48)
9,609	**Total**	**8,114**
	Analysis of Bad debts Provision	
(164)	Opening Balance as at 1 April	(135)
(8)	I and E Charge for the Year	2
37	Less Bad Debts adjustment	85
(135)	Closing Balance as at 31 March	(48)

15. Cash and Cash Equivalents

31 March 2014		31 March 2015
£000		£000
1	Cash held by ESPO	1
440	Bank current accounts	442
8,056	Bank short-term deposit account	9,330
8,497	**Total Cash and Cash Equivalents**	**9,773**

16. Short-Term Creditors and Other Current Liabilities

31 March 2014		31 March 2015
£000		£000
	Supplier balances:	
159	• Other local authorities	396
8,629	• Other entities and individuals:	7452
3,541	Reserved creditors and suspense accounts	3,330
11	Taxes and duties	404
1,506	Member authority dividends	1,457
280	Payroll deductions	264
14,126	**Total**	13,303

17. Usable Reserves

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

ESPO reserves have been established to meet operating deficits and to finance major one-off expenditure and replacement of assets. The Usable Reserves held by ESPO at 31 March 2015 are as follows:

(i) General Fund:

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

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

(ii) Earmarked Projects:

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

(iii) Repairs and Renewals:

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

(iv) Property Maintenance:

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

(v) Strategic Review Implementation:

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

18. Unusable Reserves

31 March 2014		31 March 2015
£000		£000
99	Revaluation Reserve	106
2,131	Capital Adjustment Account	3,063
(108)	Accumulated Absences Account	(100)
2,123	**Total**	3,069

Revaluation Reserve

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

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

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

	2013/14	2014/15
	£000	£000
Balance at 1 April	99	99
Difference between the fair value depreciation and historical cost depreciation:		
Revaluation gains on Property, Plant and Equipment	0	7
Balance at 31 March	99	106

18. Unusable Reserves (continued)

Capital Adjustment Account

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

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

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

2013/14	**Capital Adjustment Account**	2014/15
£000		£000
2,065	**Balance at 1 April**	2,131
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:	
(473)	• Charges for depreciation of non current assets	(275)
0	• Net Revaluation gains and (Impairment losses) on Property, Plant and Equipment	585
(78)	• Amortisation of intangible assets	(81)
0	• Revenue expenditure funded from capital under statute	0
(71)	• Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(40)
(622)		189
	Net written out of the cost of non-current assets consumed in the year	
	Capital financing applied in the year:	
74	• Use of Major Project Earmarked Reserve to finance new capital expenditure	80
0	• Use of the Repairs and Renewals Earmarked Reserve to finance new capital expenditure	0
614	• Statutory provision for the financing of capital investment charged against the General Fund	622
0	• Capital Expenditure charged against the General Fund	41
688		743
2,131	**Balance at 31 March**	3,063

18. Unusable Reserves (continued)

Accumulated Absences Account

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

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

2013/14 £000		2014/15 £000	
(98)	**Balance at 1 April**		(108)
98	Settlement or cancellation of accrual made at the end of the preceding year	108	
(108)	Amounts accrued at the end of the current year	(100)	
(10)	Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	8	
(108)	**Balance at 31 March**		(100)

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

2013-14		2014-15	
£000	**Non cash Transactions:**	£000	
(551)	Depreciation of non-current assets	(356)	
(10)	Movement on short-term accumulating compensated absences adjustments	8	
(561)			(348)
	Revenue items on an accruals basis:		
627	Increase in stocks	226	
1,658	Increase / (Decrease) in debtors	(1,495)	
(882)	(Increase) / Decrease in creditors	1,153	
525	(Increase)/ Decrease in tax creditor	(393)	
(1,671)	Increase in other current liabilities	(1,449)	
257			(1,958)
(304)	**Total adjustment to net surplus on the provision of services for non-cash movements**		(2,306)
	Adjustments for items included in the net surplus on the provision of services that are Investing and financing activities		
(387)	Interest payable (net)	(352)	
12	Surplus on disposal of non-current assets	9	
(375)			(343)

20. Cash Flow Statement – Adjustments to Operating Activities

The cash flows for operating activities include the following items:

2013/14		2014/15
£000		£000
(11)	Interest Received	(27)
399	Interest paid	378
1,528	Dividends paid	1,506
1,916	**Net cash flows from operating activities**	1,857

21. Cash Flow Statement – Investing Activities

2013/14		2014/15
£000		£000
232	Purchase of Property, Plant and Equipment and intangible assets	198
(83)	Proceeds from the sale of property, plant and equipment and intangible assets.	(51)
149	**Net cash flows from investing activities**	147

22. Cash Flow Statement – Financing Activities

2013/14		2014/15
£000		£000
115	Cash payments for the reduction of outstanding finance lease liabilities	122
509	Repayment of short and long-term borrowing	511
624	**Net cash flows from financing activities**	633

23. Amounts Reported for Resource Allocation Decisions

The analysis of the income and expenditure on the face of the Comprehensive Income and Expenditure Statement is that specified by the Service Expenditure Reporting Code of Practice. However, decisions about resource allocation in 2014/15 were taken by ESPO's Leadership Team on the basis of financial reports analysed across its two main operating divisions. These reports are prepared on a different basis from the accounting policies used in the accounts. In particular:

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

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

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

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

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

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

23. Amounts Reported for Resource Allocation Decisions (continued)

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

Management Trading Account:

2013/14				2014/15		
Stores	Central Purchasing	Total		Stores	Central Purchasing	Total
£000	£000	£000		£000	£000	£000
(43,573)	(52,073)	(95,646)	Sales Income	(44,671)	(48,808)	(93,479)
31,680	44,637	76,317	Cost of Sales	32,903	40,502	73,405
(11,893)	(7,436)	(19,329)	Gross Margin on Sales	(11,768)	(8,305)	(20,073)
			Service Expenditure:			
4,406	5,983	10,389	Employees	5,085	6,230	11,315
16	252	268	Other Employee Expenses	29	229	258
1,308	285	1,593	Premises	1,192	276	1,468
2,184	254	2,438	Transport	2,278	193	2,471
372	681	1,053	Equipment	486	618	1,104
55	314	369	Office Expenses	39	245	284
52	656	708	Other Expenses	11	852	863
109	20	129	Support Service Charges	70	77	147
0	0	0	Service Recharges	0	0	0
8,502	8,445	16,947	Total Expenditure	9,190	8,720	17,910
(3,391)	**(1,009)**	**(2,382)**	**Net Surplus**	**(2,578)**	**415**	**(2,163)**

23. Amounts Reported for Resource Allocation Decisions (continued)

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

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

2013/14 Stores £000	2013/14 Central Purchasing £000	2013/14 Total £000		2014/15 Stores £000	2014/15 Central Purchasing £000	2014/15 Total £000
(43,574)	(52,073)	(95,647)	**Income as per ESPO Management Accounts**	(44,671)	(48,808)	(93,479)
0	12	12	Interest receivable included under Sales Income	0	26	26
11	72	83	Disposals of non current assets included under Sales Income	12	39	51
(24)	0	(24)	Interest credited to Earmarked Funds	(27)		(27)
(43,587)	(51,998)	(95,576)	**Gross Income as per the Comprehensive Income and Expenditure statement**	(44,686)	(48,744)	(93,430)
40,182	53,082	93,265	**Expenditure as per ESPO Management Accounts**	42,093	49,223	91,316
(400)	(100)	(500)	Capital elements of the premises loan repayments included under Premises	(400)	(100)	(500)
0	(112)	(112)	Capital elements of the leased assets repayments included under Transport	0	(119)	(119)
0	(3)	(3)	Capital elements of the leased assets repayments included under Office Expenses	0	(3)	(3)
(523)	(62)	(585)	Amounts transferred to Earmarked, Repairs and Renewals and Maintenance Reserves for future capital expenditure included under Equipment	(498)	(62)	(560)
(383)	(16)	(399)	Interest payable included under Other Expenses	(358)	(20)	(378)
0	0	0	Non current assets purchases included under Transport			0
0	0	0	Non current assets purchases included under Equipment	(13)	(28)	(41)
			Plus expenditure not included in Management Accounts. Included in the Comprehensive Income and Expenditure Statement:			
452	99	551	Depreciation of non current assets and amortisation of intangible assets included under Equipment	271	85	356
9	1	10	Compensated absences included under Employees	(4)	(4)	(8)
145	35	180	Earmarked Reserves revenue expenditure included under equipment	15	288	303
39,482	52,924	92,406	**Gross Expenditure as per the Comprehensive Income and Expenditure statement**	41,107	49,259	90,366
(4,105)	**935**	**(3,170)**	**Surplus on Net Cost of Services as per ESPO Statement of Accounts**	**(3,579)**	**515**	**(3,064)**

23. Amounts Reported for Resource Allocation Decisions (continued)

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

24. Officers Remuneration

a) Apart from the senior officers who are listed in note b) below, there were no officers in either 2013/14 or in 2014/15 whose emoluments met or exceeded £50,000. Therefore this table has been omitted.
b) The following table sets out the remuneration disclosures for senior officers whose salary is less than £150,000 but equal or more than £50,000 per year:

Post holder Information (Post Title)	Salary (inc fees and allowances)	Compensation Payments	Benefits in Kind (e.g. Car Allowances)	Total Remuneration excluding pension contributions	Employers Pension contributions	Total Remuneration including Employers pension contributions
2014/15	£	£	£	£	£	£
Director	127,689	0	0	127,689	25,921	153,610
Assistant Director (Procurement & Compliance	77,891	0	2,020	79,911	15,812	95,723
Assistant Director (Finance)	76,076	0	0	76,076	15,444	91,520
Assistant Director (Sales and Marketing)	72,809	0	4,738	77,547	14,780	92,327
Assistant Director (Operations)	72,809	0	2,896	75,705	14,780	90,485
Operations Manager	49,145	0	0	49,145	9,976	59,121
Trading Manager	50,771	0	0	50,771	66,536	117,307
Commercial Manager	54,604	0	0	54,604	11,085	65,689
Commercial Manager	54,604	0	2,402	57,006	11,085	68,091
	636,398	0	12,056	648,454	185,419	833,873

24. Officers Remuneration (continued)

2013/14 Comparatives	Salary (inc fees and allowances	Compensation Payments	Benefits in Kind (e.g. Car Allowances)	Total remuneration excluding pension contributions	Employers Pension Contributions	Total remuneration including Employers Pension contributions
	£	£	£	£	£	£
Director	127,689	0	0	127,689	24,644	152,333
Deputy Director	33,661	0	1,045	34,706	29,798	64,504
Assistant Director (Finance)	75,660	0	0	75,660	14,602	90,262
Assistant Director (Procurement and Compliance)	42,454	0	0	42,454	8,194	50,648
Assistant Director (Sales and Marketing)	55,716	0	0	55,716	10,753	66,469
Assistant Director (Operations)	58,682	0	3,099	61,781	11,326	73,107
Operations Manager	50,080	0	0	50,080	9,665	59,745
Trading Manager	48,876	0	493	49,369	37,548	86,917
Commercial Manager	53,940	0	1,599	55,539	10,410	65,949
Commercial Manager	53,940	0	2,241	56,181	10,410	66,591
	600,698	0	8,477	609,175	167,350	776,525

NOTE:

In 2013/14 the Deputy Director retired on the 30th September 2013. Both Interim Commercial Mangers were made permanent in their roles. The Assistant Director (Procurement & Compliance) commenced ESPO on the 9th September 2013. The Assistant Director (Sales & Marketing) commenced on the 24th June 2013 and the Assistant Director (Operations) commenced on the 27TH May 2013.

EXIT PACKAGES

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

Exit Package Cost Band	Number of Compulsory Redundancies		Number of Other Departures Agreed		Total Number of Exit packages by Cost Band		Total Cost of Packages in Each Cost Band	
	2013/14	2014/15	2013/14	2014/15	2013/14	2014/15	2013/14 £000	2014/15 £000
£0 - £20,000	0	0	1	3	1	3	7	28
Total	**0**	**0**	**1**	**3**	**1**	**3**	**7**	**28**

25. External Audit Costs

Eastern Shires Purchasing Organisation incurred the following audit fees:

	2013/14	2014/15
	£000	£000
Fees payable to external auditors with regard to external audit services and statutory inspection carried out by the appointed auditor under the Audit Commission's *Code of Audit Practice* in accordance with section 5 of the Audit Commission Act 1998.	14	14
A rebate of £1,460 was received from the Audit Commission.		

26. Related Parties

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

Members

Members of the Management Committee have a direct control over ESPO financial and operating policies. No payments are made by ESPO to any members of the Management Committee. During 2014/15 no members had an interest in any work or services commissioned by ESPO. Contracts were entered into in full compliance with the organisation's standing orders.

Officers

During 2014/15 no officers declared a pecuniary interest in any contractual or financial transactions.

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

Debtors:

ESPO provides goods and services to all member authorities and as a consequence amounts due from member authorities including LEA schools for such transactions amounted to £1,882k as at 31 March 2015 (£3,302k as at 31 March 2014) and are included in 'Sundry Debtors' as detailed in note 14 to the Statement of Accounts. The amounts owing from each member authority are as follows:

Analysis of Sundry Debtor Balances	31 March 2014	31 March 2015
	£000	£000
Member Authorities:		
Cambridgeshire County Council	396	309
Leicester City Council	352	0
Leicestershire County Council	665	443
Lincolnshire County Council	660	309
Norfolk County Council	787	434
Peterborough City Council	129	106
Warwickshire County Council	313	281
Total	3,302	1,882

26. Related Parties (continued)

Sales:

The value of sales to member authorities, including LEA schools, for services provided by ESPO are included within the value of Gross Income in the Consolidated Income and Expenditure Statement and amounted to £38,122k for 2014/15 (£45,297k for 2013/14). The following is a breakdown by individual member authority:

Analysis of sales to member authorities.	2013/14	2014/15
	£000	£000
Member Authorities:		
Cambridgeshire County Council	6,801	5,899
Leicester City Council	4,443	0
Leicestershire County Council	6,728	6,470
Lincolnshire County Council	7,688	7,581
Norfolk County Council	10,712	9,704
Peterborough City Council	2,223	2,247
Warwickshire County Council	6,702	6,221
	45,297	38,122

Creditors:
Amount due to member authorities for services they provided to ESPO amounted to £396k as at 31 March 2015 (£159k at 31 March 2014) and are included within the value of 'Supplier Account Balances' as detailed in the Short-Term Creditors note to this Statement of Accounts.

Analysis of Supplier Account Balances.	31 March 2014	31 March 2015
	£000	£000
Member Authorities:		
Leicestershire County Council	153	380
Cambridgeshire County Council	6	0
Warwickshire County Council	0	16
	159	396

Purchases:
The value of purchases from member authorities for services they provided to ESPO are included within the value of Gross Expenditure in the Consolidated Income and Expenditure Statement and amounted to £1,972k for 2014/15 (£1,850k for 2013/14). The following is a breakdown by individual member authority:

Analysis of purchases from member authorities.	2013/14	2014/15
	£000	£000
Member Authorities:		
Cambridgeshire County Council	40	25
Leicester City Council	48	0
Leicestershire County Council	1,540	1,698
Lincolnshire County Council	0	0
Norfolk County Council	4	0
Peterborough City Council	0	0
Warwickshire County Council	218	249
	1,850	1972

27. **Capital Expenditure and Capital Financing**

ESPO finances the purchase of routine replacement non current and intangible assets from the Repairs and Renewals Reserve or the Property Maintenance Reserve.

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

Financing of capital expenditure on non current and intangible assets:

2013/14			2014/15	
Intangibles	Vehicles, plant and Equipment		Intangibles	Vehicles, plant and Equipment
£'000	£'000		£'000	£'000
0	158	Financed from Revenue	22	19
74	0	Financed from Earmarked Reserves	0	0
			25	55
0	0	Financed from Vehicle and Equipment Reserves	0	0
74	158		47	74

Capital expenditure commitments:

	31 March, 2014 £000	31 March, 2015 £000
The organisation had no commitments during 2014/15 for the purchase of non current assets in the following financial year, 2015/16.	0	0

`

28. **Leases**

Finance Leases

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

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

31 March 2014		31 March 2015
£000		£000
323	Vehicles, Plant and Equipment	283

28. Leases (continued)

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

	31 March 2014	31 March 2015
	£000	£000
Finance lease liabilities (net present value of minimum lease payments):		
• Current	0	0
• Non current	393	368
Finance costs payable in future years	54	47
Minimum lease payments	447	415

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

	Minimum Lease Payments		Finance Lease Liabilities	
	31 March 2014	31 March 2015	31 March 2014	31 March 2015
	£000	£000	£000	£000
Not later than one year	129	136	109	120
Later than one year and not later than five years	318	279	284	248
	447	415	393	368

Operating Leases

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

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

	2013/14	2014/15
	£000	£000
Not later than one year	7	4
Later than one year and not later than 5 years	12	11
Minimum lease payments	19	15

28. Leases (continued)

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

	2013/14	2014/15
	£000	£000
Minimum lease payments	19	15

29. **Impairment Losses**

During this financial year ESPO has recognised a Revaluation Gain of £592k in relation to its premises at Grove Park, Enderby. The premises have been valued on a fair value basis of £10,500k by the Property Services Department of Leicestershire County Council at 31st March 2015. The organisation continues to utilise the premises as its operational headquarters, warehouse and distribution centre.

30. **Pensions**

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

Details of the Leicestershire County Council defined benefits pension fund are contained within the authority's annual Statement of Accounts which are available on line from www.leics.gov.uk. The latest fund actuarial valuation at 31 March 2013 identified that the funds assets were sufficient to meet approximately 72% of the liabilities accrued up to that date. Increases in employer's contribution rate that are required within the valuation will be phased in over a three year period commencing 1 April 2014. The contributions payable by ESPO will be 20.3% in 2014/15, 21.3% in 2015/16 and 22.3 in 2016/17.

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

In 2014/15 ESPO paid an employer's contribution of £1,328k (2013/14 - £1,189k), into the Pension Fund, representing an average 20.2% of total pensionable pay.

In addition, ESPO is responsible for all pension payments relating to added-years benefits it has awarded, together with the related increases. In 2014/15 these amounted to £91k (2013/14 - £39k), representing 1.2% of pensionable pay

31. **Contingent Liabilities**

There are no contingent liabilities.

32. **Nature and Extent of Risks Arising from Financial Instruments**

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

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

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

Credit Risk

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

The maximum exposure to credit risk in relation to ESPO's investments in banks and building societies is 100% of its investments, but this cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principle sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of irrecoverability applies to all of ESPO's deposits but there was no evidence at 31 March 2015 that this was likely to crystallise.

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

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

	Amount at 31 March 2015 £000	Historical experience of default %	Historical experience adjusted for market conditions at 31 March 2015 %	Estimated maximum exposure to default and un-collectability 31 March 2015 £000	Estimated maximum exposure at 31 March 2015 £000
Bank Deposits	443				0
Investments (see Note 15)	9,330				0
Customers	6,320	1.14	0.89	55.9	45.5
				55.9	45.5

Where applicable, no credit limits were exceeded during the reporting period and ESPO does not expect any losses from non-performance in relation to bank deposits. ESPO's standard terms of trade are 30 days.

32. Nature and Extent of Risks Arising from Financial Instruments (continued)

A total of £1,429k of the balance of £6,475k was overdue at 31 March 2015 and can be analysed as follows:

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

	31 March 2014 £000	31March 2015 £000
Less than one month overdue	1,071	829
Between one and three months	186	388
More than three months overdue	53	212
	1,310	1,429

Impairment of financial assets:

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

Liquidity Risk

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

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

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

Maturity analysis of financial liabilities:

	Total Long-Term Outstanding at 31 March 2014 £'000	Total Long -Term Outstanding at 31 March 2015 £'000
Lender:		
• Leicestershire County Council	8,000	7,500
Analysis of Maturity of this loan:		
• Between one and two years	500	500
• Between two and five years	1,500	1,500
• Between five and ten years	2,500	2,500
• In ten years or more	3,500	3,000

32. Nature and Extent of Risks Arising from Financial Instruments (continued)

Market Risks:

Interest Rate Risk:
ESPO is exposed to interest rate risk in terms of its exposure to rate movements on its investments and short-term borrowings. The impact on the Income and Expenditure Account of rate changes on interest receivable and interest payable on such transactions is nominal in relation to ESPO turnover. For example, the effect of a 1% increase in rates would be an increase in income on investments of £98k. The effect of a 1% decrease would have the opposite effect. 1% has been used for this analysis as this reflects the maximum expected movements in market rates over the next 12 months.

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

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

GLOSSARY OF TERMS

ACCOUNTING POLICIES

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

ACCRUALS

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

AMORTISED COST

The amortised cost of a financial asset or financial liability is

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

BALANCE SHEET

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

Net Assets and

Total Reserves.

CASH AND CASH EQUIVALENTS

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

CAPITAL EXPENDITURE

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

CAPITAL RECEIPTS

Income received from the sale of capital assets.

COMPREHENSIVE INCOME AND EXPENDITURE ACCOUNT

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

CASH FLOW STATEMENT

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

CIPFA

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

CONTINGENT LIABILITIES

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

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

CREDITORS

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

CURRENT ASSETS / LIABILITIES

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

DEBTORS

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

DEPRECIATION

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

FAIR VALUE

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

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

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

GENERAL FUND

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

IMPAIRMENT

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

INTANGIBLE FIXED ASSETS

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

LEASING

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

There are two forms of lease:

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

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

LONG TERM BORROWING

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

MOVEMENT IN RESERVES STATEMENT

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

NET BOOK VALUE

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

NET WORTH (NET ASSETS/LIABILITIES)

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

NON CURRENT ASSETS

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

PROVISIONS

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

PUBLIC WORKS LOAN BOARD (PWLB)

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

REMUNERATION

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

REVENUE

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

UNUSABLE RESERVES

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

USABLE RESERVES

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

This page is intentionally left blank

Appendix B

Annual Governance Statement 2014/15

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 2015 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: *Evidence and documents that demonstrate compliance / good practice*	**Assurances received**	**Weaknesses identified:** *Areas for improvement*
• Service/Business Plans supported by relevant strategies • Communication Strategy • Performance trends and reports on the progress of service delivery • Formal complaints policy and procedures that inform positive service improvement • Comparison of information on ESPO's economy, efficiency and effectiveness of services • Instruction on how to measure Value for Money	• Outcomes are delivered through Assistant Director's plans and strategies which set out objectives and targets in relation to ESPO's priority outcomes. • Communication strategy that is based on a brand survey of our customers allowing us to provide a better service to our stakeholders. • Performance trends reported through 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.	

64

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 – *Evidence and documents that demonstrate compliance / good practice*	**Assurances received**	**Weaknesses identified:** *Areas for improvement*
• 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	• Constitution sets out ESPO's political structure and roles and responsibilities of the Committees, the Chief Officers and the rules under which they operate. There are specific job descriptions in place. • Constitution sets out 'Responsibility for Functions' including scheme of delegation to the Director. Also includes financial regulations and contract procedure rules. • Regular meetings take place between the Chairman, the Director and the servicing authority. • Assessment of compliance with the CIPFA Statements on the Role of the CFO and Role of the Head of Internal Audit. • Internal Audit Charter sets out the purpose, authority and responsibility for the internal audit function and clearly defines Members and officers' roles, responsibilities and relationships • 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 that 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	. Implement actions to ensure the internal audit function fully conforms to the Public Sector Internal Audit Standards

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

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

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

Description of Governance Mechanisms – *Evidence and documents that demonstrate compliance / good practice*	**Assurances received**	**Weaknesses identified:** *Areas for improvement*
• Annual Governance Statement • Member and Officers Codes of Conduct • Performance appraisal • Procedures for responding to behaviour complaints • Anti –fraud and anti-corruption policies • Standing orders and financial regulations • Register of Interests and Gifts and Hospitality – members and staff • Ethical awareness training and dealing with conflicts of interest • Communicating shared values with members, staff, the community and partners • Whistleblowing arrangements • Decision making practices/framework • Protocols for partnership working • Code of Corporate Governance	• 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 and Anti-Bribery and Money Laundering. • 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.	

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 – *Evidence and documents that demonstrate compliance / good practice*	**Assurances received**	**Weaknesses identified:** *Areas for improvement*
• 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	• 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 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 Key Risk Register. • Management Committee adopted the principles of the CIPFA Code of Practice on Managing the Risk of Fraud and Corruption (2014) and chose to make a statement in its annual governance report on whether ESPO conforms to the Code or needs to take further action • Monitoring of reports to ensure propriety of decision making and that legal advice is included where necessary and appropriate. • External audit assurance • Chief Officer Group assurance	Up to date Business Continuity plans need to be implemented.

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

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

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

Description of Governance Mechanisms – *Evidence and documents that demonstrate compliance / good practice*	**Assurances received**	**Weaknesses identified:** *Areas for improvement*
• Induction programme • Officer training and development plans • Availability and communication of activities • Performance reviews of officers • Workforce Planning • Member training and development	• 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	Succession planning for key posts needs to be implemented

PRINCIPLE F: Engaging with stakeholders to ensure robust public accountability

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

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

Description of Governance Mechanisms – *Evidence and documents that demonstrate compliance / good practice*	**Assurances received**	**Weaknesses identified:** *Areas for improvement*
• Database of stakeholders • Annual report • Communication Strategy • Annual financial statements • Decision making and key documents • Freedom of Information Act publication scheme • ESPO Website • Best practice standards in recruitment and staff terms and conditions	• Full public annual report providing information on outcomes 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.	A database of stakeholders that need to be engaged with needs to be created. Forward plan of consultation and engagement with stakeholders needs to be created.

69

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/SOLACE 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 2014-15, Leicestershire County Council Internal Audit Service (LCCIAS) provided internal audit service to ESPO.

The Internal Audit Service (IAS) should conform to the Public Sector Internal Audit Standards 2013 (the PSIAS). An Internal Audit Charter mandating the purpose, authority and responsibility of the internal audit activity at ESPO was approved by Management Committee in February 2015. The Head of Internal Audit Service (HoIAS) conducted a rigorous challenge and self-assessment of LCCIAS's conformance to the PSIAS. The self-assessment identified that current practices generally sufficiently conform to the PSIAS. However, a few specific areas have been identified where action is needed before the HoIAS can claim to fully conform. Whilst these are not significant deviations to the PSIAS, the Consortium Treasurer considers that reference to implementing actions (including embedding the Quality Assurance & Improvement Programme) should be recorded as a key improvement area. For the time being, the HoIAS is continuing to state that LCCIAS abides by the principles of the PSIAS

In order to meet a PSIAS requirement to form an opinion on the overall adequacy and effectiveness of ESPO's control environment i.e. the framework of governance, risk management and control, the HoIAS constructs an annual risk based plan of audits. Given the continuing improvements in risk management at ESPO, the plan is primarily based on the contents of Corporate Risk Register, Major Risk Records, the four year Strategy and the AGS, to ensure that current and emerging risks are adequately covered. Parts of the plan relate to audits of the key financial systems that are used by the External Auditor in their audit of the financial accounts. A contingency is retained for unforeseen risks, special projects and investigations.

Audit reports often 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 both suitably designed and are being consistently applied, and that material risks will likely not arise. The combined sum of individual audit opinions and other assurances gained throughout the year (e.g. attendance at Committees, evaluations of other assurance providers), facilitate the HoIAS to form the annual internal audit opinion on the overall adequacy and effectiveness of ESPO's governance, risk management and control framework (i.e. the control *environment).*

The HoIAS presents an annual report to the Management Committee in June. The annual report incorporates the annual internal audit opinion; a summary of the work that supports the opinion; performance against the plan, a statement on conformance with the PSIAS and any matters to be raised in the AGS.

For 2014-15, based on audit work undertaken, overall, positive opinions were given in all three components of the control environment (governance, risk management and control)

<u>Governance related internal audit work</u>

An opinion on whether good governance principles have been applied is based on the results of audits of Budget Management; ESPO Services; Business Strategy; Risk Management; Annual Governance Statement; Information Management and Staff purchase scheme. Recommendations were relatively minor and where they related to governance, it was to improve it, i.e. not to have to establish it.

The HoIAS attends the 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. During the year, Management Committee approved an Internal Audit Charter for ESPO mandating the purpose, authority and responsibility of the internal audit activity, and adopted the principles of the CIPFA Code of Practice for Managing the Risk of Fraud & Corruption.

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. During the year, the Director of ESPO made arrangements to adopt Leicestershire County Council's (the Servicing Authority's) revised Employee Code of Conduct and a suite of revised and new anti-fraud and corruption policies, strategies and procedures, improving guidance to employees.

HoIAS opinion: - There is a general acknowledgement that there is need for a strong governance framework to achieve the objectives and financial targets contained in the four year Strategy. Otherwise, nothing of such significance, adverse nature or character has come to the HoIAS attention. As such reasonable assurance is given that ESPO's governance arrangements are robust.

<u>Risk management related internal audit work</u>

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.

An audit of the project management arrangements for the replacement of the GEMS energy management system identified two high importance recommendations. Verbal assurances on implementing the actions were received and it is planned to conduct a short follow up audit in 2015-16.

A specific audit of the ESPO risk management framework (corporate risk register) proved there were yet further improvements and good elements of risk management, although re-alignment of key risks to the strands of the four year Strategy and further embedding at operational level would strengthen arrangements. Recommendations have been accepted and so a follow up audit will take place in 2015-16 to confirm their implementation.

Other specific audits conducted that linked to risk management were Applications Management; Supply Chain and Procurement & Compliance Risk Management

The HoIAS advises the External Auditor on ESPO's management of fraud risk.

HoIAS opinion: ESPO has acknowledged the need to implement the GEMS recommendations and there is opportunity to continue improving its risk management framework. 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 Rebates Income;

General Ledger Reconciliations; Trading Performance; Distribution of Surplus; Servicing authority role; Payment Cards; IT General Controls - External Auditor Reliance; Stock Management; Fleet Management and E-Tendering. No findings were of such seriousness as to suggest a fundamental weakness in a main financial system. ESPO volunteered to submit employee and creditors data into the National Fraud Initiative data matching (counter fraud) exercise

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.

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 ESPO in the effective management of risk.

Risk management processes have been further entrenched into the management of the organisation with each member of the management team being responsible for reviewing changes in risk on a quarterly basis within their area of responsibility.

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 2013/14 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 2013/14, 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 2014.

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 ESPO's control environment, 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 the Director and two Assistant Directors 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;

Additionally, two Lead Members were interviewed to confirm that processes in place to inform and update them on key risks and issues relating to ESPO were satisfactory, and a sample of ESPO staff were interviewed to evaluate to what extent they were aware of managements' assertions that staff are kept well informed

The Role of the Chief Financial Officer (CFO) at ESPO this is the Consortium Treasurer

CIPFA's Statement on the Role of the Chief Financial Officer (CFO) in Local Government (2010) 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 (Consortium Treasurer).

is able to bring influence to bear on all material business decisions, ensuring that immediate and long term implications, opportunities and risks, are fully considered and in alignment with the MTFS and other corporate strategies. The CFO is aware of, and committed to, the five key principles that underpin the role of the CFO, and has completed an assurance statement that provides evidence against core activities which strengthen governance and financial management at ESPO.

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 the Consortium Officers, the Director of ESPO and other 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.

The Role of the Consortium Secretary

The Consortium Secretary has responsibility for:
- ensuring that decisions taken comply with all necessary statutory requirements and are lawful.
- ensuring that decisions taken are in accordance with ESPO's budget and it's Policy Framework
- providing advice on the scope of powers and authority to take decisions

Where in the opinion of the Consortium Secretary any decision or proposal is likely to be unlawful and lead to maladministration, he/she shall advise the Management Committee accordingly,
In discharging this role the Consortium Secretary is supported by officers within the County Council's Legal and Democratic Services Teams

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 2014/15 were sound.

Progress on issues previously identified:

The table below describes the governance issues identified during 2013/14 and the progress made against this during 2014/15. These are not considered material governance issues:

Key Improvement Area	Update on position	Carry forward for 2015/16	Lead Officer
Constitution and Partnership Agreement Finalise agreement to Constitution and Partnership Agreement with individual Members.	Completed	No	Monitoring Officer
Internal Communication Improve staff awareness of the various codes of conduct and other important issues by updating and developing the Intranet	Completed	No	Director
Anti Fraud & Corruption Update all Anti-Fraud and Corruption policies in conjunction with LCC, ensuring specific ESPO concerns are addressed.	Completed, but ongoing commitment required.	No	Director
Learning and Development Improved access to L&D activities for all stakeholders	Completed, ongoing development required.	No	Director
Succession Planning Workforce Planning for Key posts.	Progress but challenges or risks remain	Yes	Director
Internal Audit Charter & QAIP Develop and gain members approval to both a Charter & QAIP	Completed	No	HoIAS

Whilst the review of effectiveness concluded ESPO's overall financial management and corporate governance arrangements during 2014/15 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 2014/15 to carry forward for monitoring within 2015/16.

Key Improvement Area	Lead Officer	Deadline
Business Continuity Up to date Business Continuity plans need to be implemented	Director	December 2015
Succession Plans Succession planning for key posts needs to be implemented.	Director	December 2015
Stakeholders		

A database of stakeholders that need to be engaged with needs to be created.	Director	March 2016
<u>Forward Planning</u> Forward plan of consultation and engagement with stakeholders needs to be created.	Director	March 2016
<u>Internal Audit Function</u> Implement actions to ensure the internal audit function fully conforms to the Public Sector Internal Audit Standards	Head of Internal Audit Service	March 2016

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.

Furthermore, having considered all the principles of the CIPFA Code of Practice on Managing the Risk of Fraud and Corruption, we are satisfied that the Council has adopted a response that is appropriate for its fraud and corruption risks and commits to maintain its vigilance to tackle fraud.

John Doherty
Director

Councillor J Clarke
Chairman, ESPO Management Committee

ESPO

ESPO FINANCE AND AUDIT SUB COMMITTEE – 8TH SEPTEMBER 2015

MTFS MONITORING FOR THE FIRST 4 MONTHS OF 2015-16

JOINT REPORT OF THE DIRECTOR AND CONSORTIUM TREASURER

Purpose of Report

1. This report sets out the results for the first four months of trading April to July 2015 as per the management accounts with explanations for the more significant variances to budget.

Background

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

Financial Performance for the first 4 Months of 2015-16 compared to the MTFS.

Sales

	YEAR TO DATE				
	ACTUAL		BUDGET		PRIOR YEAR
	£000	%	£000	%	£000
STORES	17,428.0		17,877.5		16,091.1
DIRECT	6,600.5		6,351.7		6,603.1
GAS	6,787.4		5,634.4		6,629.6
CATALOGUE ADVERTISING	788.1		770.0		734.9
REBATE INCOME	1,486.1		973.4		1,028.7
MISCELLANEOUS INCOME	23.0		50.0		12.2
	33,113.1		31,657.0		31,099.6

3. Total sales at £33.1m ahead of budget of £31.7m principally down to higher gas sales which are showing a positive variance of £1.1m. Gas sales are however almost exactly consistent with the prior year.

4. Store sales are £449k behind budget but £1,337k ahead of last year. The variance to last year is down to the success of the relief warehouse which has enabled us to

achieve our deliveries on time. It is thus timing as eventually last year the warehouse deliveries were back on track.

5. Direct sales are £249k ahead of budget helped by a large MOD order for white goods. Compared to the prior year there is no variance which is a good performance as there was the one off impact of the free school meals initiative last year.

6. Rebates are £513k ahead of budget and £458k ahead the prior year. The key framework contracts such as MSTAR continue to perform strongly. The key objective remains that rebates are at least in line with the prior year.

7. Catalogue advertising is in line with budget and £54k ahead of the prior year.

Margin

	YEAR TO DATE					
	ACTUAL		BUDGET		PRIOR YEAR	
	£000	%	£000	%	£000	%
STORES	4,334.0	33.1%	4,680.3	35.5%	4,043.1	33.6%
DIRECT	766.7	13.1%	730.7	13.0%	748.0	12.8%
GAS	121.3	1.8%	100.7	1.8%	140.1	2.2%
CATALOGUE ADVERTISING	788.1		770.0		734.9	
REBATE INCOME	1,486.1		973.4		1,028.7	
MISCELLANEOUS INCOME	23.0		50.0		12.2	
	7,519.2		**7,305.2**		**6,707.0**	

8. Overall margin is £214k ahead of budget due to higher rebates and improved directs margin.

9. Stores mark-up is 33.1% compared to a budget of 35.5% and a prior year of 33.6%. Clearly the budget mark-up was a challenge but the bulk of the absolute pounds variance is down to volume. A review of the impact of the 1.7% price rise in the 2015-16 catalogue is currently being carried out to determine if this has caused a shift in customer demand.

10. The impact of the additional gas sales is the increased margin of £21k.

Expenditure

	YEAR TO DATE					
	ACTUAL		BUDGET		PRIOR YEAR	
	£000	%	£000	%	£000	%
EMPLOYEES						
Staff	3,290.8		3,553.2		3,276.7	
Agency/Contract	523.5		358.9		473.2	
Total	3,814.3		3,912.0		3,749.9	
OVERHEAD EXPENSES						
Transport	761.6		641.0		731.6	
Warehouse	628.3		629.2		624.0	
Procurement	73.7		120.0		85.9	
	1,463.6		1,390.2		1,441.5	
Marketing	569.6		501.4		511.5	
Finance and IT	268.1		297.0		293.5	
Directorate	18.7		8.5		15.1	
	856.3		806.9		820.1	
Total	2,319.9		2,197.1		2,261.5	
	6,134.2	18.5%	6,109.1	19.3%	6,011.5	19.3%

11. Total expenditure is £25k over budget principally driven by higher agency costs offset by lower staff costs. The lower staff costs are principally down to reduced FTE's.

FTE numbers as at July 2015 are as follows

	YEAR TO DATE		
	ACTUAL	BUDGET	PRIOR YEAR
Stores	159	166	173
Purchasing	90	107	93
Indirects	85	89	83
TOTAL EMPLOYEES	333	362	349

12. Warehouse agency costs are £182k over budget though offset to some extent by a £115k underspend on FTE's. Part of the high spend is driven by long term sickness rates which are now being addressed.

13. The HR Strategic Business Partner and HR Advisor have been working closely with ESPO's managers to improve attendance numbers. At the start of April, there were twelve employees on long-term absence with several more added to that in subsequent months. Since April however, nine have returned to work, one has resigned and two have taken ill health retirement. There are currently only five members of staff on long-term absence. Whilst this positively impacts reported statistics, we will continue to handle each case individually and sensitively.

14. While the current twelve-month rolling figure is at 11.84 days per FTE, we have set an interim target of nine days per FTE by the end of March 2016 with a view to achieving the overall target of 7.5 days per FTE during 2016/17.

15. Accurate data collection, close management of long-term sickness, the identification of patterns in short-term sickness, implementation of improvement plans, and mandatory attendance management training are expected to drive down absence figures.

16. In addition to this our 3rd party distribution costs are £130k over budget. This is partly linked to the costs associated with the new relief warehouse. All deliveries from CEVA were handled by 3rd party carrier.

17. Overall costs as a percentage of sales have fallen to 18.5% from 19.3% last year and 19.3% in the budget.

Surplus

YEAR TO DATE					
ACTUAL		BUDGET		PRIOR YEAR	
£000	%	£000	%	£000	%
1,385.0	**4.2%**	**1,196.1**	**3.8%**	**695.5**	**2.2%**

18. Trading surplus is £189k ahead of budget and £690k ahead of last year.

19. Following the September mini trading peak a detailed forecast will be prepared at the half year. Our trading performance to date suggests that at this point the full year budget surplus of £3.3m will be achieved but the sales mix will be different.

Service Line

20. The detailed service line analysis is included in Appendix 1 showing performance compared to budget for the Stores, Directs, Energy and Procurement. All areas are making a net contribution.

Balance Sheet and Cash Flow

21. A detailed balance sheet and cash flow is included in Appendix 2.

22. Overall stock levels are £891k higher than at last year end reflecting stocking up in advance of the September mini peak.

23. Debtors are £2.7m higher than year-end but this is seasonal reflecting the July peak. Debtor days were 41.5 compared to 47.3 this time last year. Cash receipts in July were 20% ahead of last year reflecting the impact of on time deliveries.

24. Creditors are £730k higher linked to the increased stock levels.

25. In December 2015 the dividend of £1.5m will be paid to Members.

Resources Implications

26. None

Recommendation

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

Equality and Human Rights Implications

28. None

Risk Assessment

29. None identified

Officers to Contact

Mr J Doherty, Director
Tel: 0116 265 7931
E-mail: j.doherty@espo.org

Mr C Tambini, Treasurer to the Consortium
Tel: 0116 305 7831
E-mail: chris.tambini@leics.gov.uk

Appendices

Appendix 1 - Service Line Analysis
Appendix 2 - Balance Sheet and Cash Flow

This page is intentionally left blank

SERVICE LINE INCOME AND EXPENDITURE SUMMARY **Jul-15**

ACTUAL	**STORES**	**DIRECTS**	**ENERGY**	**PROCUREMENT**	**TOTAL**
	£000	**£000**	**£000**	**£000**	**£000**
STORES	17,428	0	0	0	17,428
DIRECT	0	6,601	0	0	6,601
GAS	0	0	6,787	0	6,787
CATALOGUE ADVERTISING	552	236	0	0	788
REBATE INCOME	138	0	346	1,002	1,486
MISCELLANEOUS INCOME	16	0	1	7	23
Total Sales	18,133	6,837	7,134	1,009	33,113
Less Cost of Sales	13,094	5,834	6,666	0	25,594
Surplus on Trading Account	5,039	1,003	468	1,009	7,519
Wages and Salaries	1,206	189	121	440	1,956
Agency Costs	490	0	0	0	490
Other Expenses	628	19	11	44	702
Transport	762	0	0	0	762
Operating Surplus	1,954	796	335	525	3,610
%	10.8%	11.6%	4.7%	52.0%	10.9%
Contribution to Central Costs					
Finance and IT	259	173	29	115	575
Marketing	585	390	65	260	1,300
Directorate	108	108	21	112	349
Net Surplus	1,001	125	221	38	1,385
	5.5%	1.8%	3.1%	3.8%	4.2%
Check Balance					0

BUDGET	**STORES**	**DIRECTS**	**ENERGY**	**PROCUREMENT**	**TOTAL**
	£000	**£000**	**£000**	**£000**	**£000**
STORES	17,878	0	0	0	17,878
DIRECT	0	6,352	0	0	6,352
GAS	0	0	5,634	0	5,634
CATALOGUE ADVERTISING	539	231	0	0	770
REBATE INCOME	0	0	211	762	973
MISCELLANEOUS INCOME	35	0	0	15	50
Total Sales	18,452	6,583	5,846	777	31,657
Less Cost of Sales	13,197	5,621	5,534	0	24,352
Surplus on Trading Account	5,254	962	312	777	7,305
Wages and Salaries	1,321	216	135	504	2,176
Agency Costs	307	0	0	0	307
Other Expenses	629	32	13	75	749
Transport	641	0	0	0	641
Operating Surplus	2,356	714	164	198	3,432
%	12.8%	10.8%	2.8%	25.5%	10.8%
Contribution to Central Costs					
Finance and IT	282	188	31	125	627
Marketing	567	378	63	252	1,261
Directorate	108	108	21	112	349
Net Surplus	1,399	39	48	-291	1,196
	7.6%	0.6%	0.8%	-37.4%	3.8%
Check Balance					0

ACTUAL V BUDGET VARIANCE	**STORES**	**DIRECTS**	**ENERGY**	**PROCUREMENT**	**TOTAL**
	£000	**£000**	**£000**	**£000**	**£000**
STORES	-450	0	0	0	-450
DIRECT	0	249	0	0	249
GAS	0	0	1,153	0	1,153
CATALOGUE ADVERTISING	13	5	0	0	18
REBATE INCOME	138	0	135	240	513
MISCELLANEOUS INCOME	-19	0	1	-8	-27
Total Sales	-319	254	1,289	232	1,456
Less Cost of Sales	-103	213	1,132	0	1,242
Surplus on Trading Account	-215	41	156	232	214
Wages and Salaries	115	27	13	64	220
Agency Costs	-183	0	0	0	-183
Other Expenses	1	13	2	31	47
Transport	-121	0	0	0	-121
Operating Surplus	-403	82	172	327	178
%					
Contribution to Central Costs					
Finance and IT	23	15	3	10	51
Marketing	-18	-12	-2	-8	-40
Directorate	0	0	0	0	-1
Net Surplus	-398	85	172	329	189

Appendix B

EASTERN SHIRES PURCHASING ORGANISATION

CONSOLIDATED MANAGEMENT BALANCE SHEET AS AT Jul-15

31st March 2015 £	£		£	£
		FIXED ASSETS :		
	10,774,594	Net tangible Fixed Assets		10,774,594
		CURRENT ASSETS :		
5,392,376		Stocks	6,283,894	
8,172,572		Debtors	10,850,689	
1,360		Cash	560	
1,380,000		Short Term Investments	1,334,000	
	14,946,308	Other Current Assets		18,469,143
		CURRENT LIABILITIES :		
636,884		Short Term Loan	500,000	
11,504,765		Creditors	11,822,016	
625,893		Other current Liabilities	1,175,886	
-8,391,469	4,376,073	Cash Overdrawn	-6,831,734	6,666,168
	10,570,235	**NET CURRENT ASSETS**		11,802,975
		LONG TERM LIABILITIES		
	8,000,000	Long Term Borrowings		8,000,000
	13,344,829	**NET ASSETS**		14,577,569
		REPRESENTED BY:		
	11,222,789	Usable Reserves		12,455,526
	2,122,042	Unusable Reserves		2,122,042
	13,344,831	Total Reserves		14,577,568
				-1
	2.18	Acid Ratio		1.83
	31.9	Debtor Days		41.5
	59.0	Stock Days		
	47.7	Creditor Days		56.0

Cash Flow from 01/4/2014 to Jul-15

Surplus	1,238,250
AFINIMOFS	
Allocations to Maintenance and Equipme	53,335
Movement in Fixed Assets	0
Movement in Unusable/Earmarked Rese	(58,846)
Total	1,232,739
Movement in Long Term Borrowings	
Payment of Dividend	
Movement in Long Term Items	0
(Increase)/Decrease in Stock	(891,518)
(Increase)/Decrease in Debtors	(2,678,117)
Increase/(Decrease) in Creditors	730,360
Movement in Working Capital	(2,839,275)
Total	(1,606,536)
Movement in Cash Balances	(1,606,535)
	1

ESPO FINANCE AND AUDIT SUBCOMMITTEE – 8 SEPTEMBER 2015

INTERNAL AUDIT SERVICE - PROGRESS AGAINST THE 2015-16 INTERNAL AUDIT PLAN

REPORT OF THE CONSORTIUM TREASURER

Purpose of the Report

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

Background

2. The Consortium Treasurer (the Treasurer) is responsible for the proper administration of ESPO's financial affairs. In accordance with ESPO's Financial Regulations Rule 15, specific responsibility for arranging a continuous internal audit is delegated to the Treasurer. Under its terms of reference the Finance and Audit Subcommittee (the Subcommittee) should receive and review audit and governance reports. The Subcommittee also monitors the adequacy and effectiveness of the internal audit service provided to ESPO. To achieve this, the Subcommittee is provided with quarterly progress reports.

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

Summary of Progress

4. Audits completed (to a minimum stage of draft being reviewed) between 23 May and 25 August 2015, are shown in **Appendix 1.** The 'opinion' is what level of assurance can be given that material risks are being managed. The sum of individual engagement opinions assists the Head of Internal Audit Service (HoIAS) to form an annual opinion on the overall adequacy of ESPO's control environment, comprised of its governance, risk management and internal control framework.
5. There are four classifications of assurance: full; substantial; partial; and little. A report that has a high importance (HI) recommendation would not normally

get a classification above partial. Exceptions would be where the controls are sound but there is a high importance efficiency recommendation.

6. Four 2014-15 audits that were incomplete at the end of March have been concluded. There were no audits with high importance recommendations or partial assurance opinions in the final quarter.

7. **Appendix 2** summarises at 25 August 2015, conclusions and key recommendations for completed audits; the scope of audits in train and a list of others not yet started. The position is at this time of the year with a lot of work in progress is normal. ESPO's Assistant Director (Finance) is liaison to plan and progress audits.

Recommendation

8. That the contents of the report be noted.

Equal Opportunities Implications

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

Background Papers

Report to ESPO Management Committee on 27 September 2012 – Finance and Audit Subcommittee – Proposed terms of reference and indicative work plan
http://ow.ly/Rlh1Q

Report to ESPO Finance and Audit Subcommittee 9 June 2015 – Annual Internal Audit Plan
http://ow.ly/RlhBs

Officer to Contact

Neil Jones, Head of Internal Audit Service
Tel: 0116 305 7629
Email: neil.jones@leics.gov.uk

Appendices

Appendix A – Summary of Internal Audit Service work between 23 May and 25 August 2015

Appendix B – Summary outcomes of remaining 2014-15 audits, work in progress and audits not yet started 25 August May 2015

Summary of Internal Audit Service work 23 May to 25 August 2015

Appendix A

Control environment	Entity	Final Report Issued (or position @ 25/8)	Opinion	HI Rec
Governance	Information Management - b/f from 2014-15	23-Jul-15	Substantial Assurance	No
Risk management	Applications Management - b/f from 2014-15	23-Jul-15	Substantial Assurance	No
Internal control	Rebates Income - b/f from 2014-15	24-Jul-15	Substantial Assurance	No
Internal control	E-Tendering - b/f from 2014-15	15-Jun-15	Substantial Assurance	No
Internal control	Servicing authority - b/f from 2014-15	Almost complete	TBC	
Internal control	NFI - ESPO	Outputs received & being evaluated	N/A	No

This page is intentionally left blank

Appendix B

Summary outcomes of remaining 2014-15 audits at 25 August 2015

Audits which are now ‘concluded’

Audit title	Conclusions and key recommendations	Opinion
Information Management	An audit of how information is held securely on site, off site, in transit and that any information security related breaches are identified and investigated. All recommendations were agreed and these included implementing and rolling out an Information Management Policy and Process; confirming that flows of commercially sensitive data are controlled and exploring software that blocks employees from using personal portable storage devices.	Substantial
Applications Management	The audit evaluated whether potential risks and issues surrounding key business management systems within ESPO have been identified and appropriately mitigated. All recommendations were agreed. These included reviewing support agreements and contracts; implementing a formal patching/upgrade policy; the development and implementation of a formal business continuity process and reviewing the backup storage arrangements.	Substantial
Rebates Income	An annual audit to confirm that for top rebate income generating contracts that the level of turnover indicated by the suppliers and consequently the level of rebate paid by the supplier was accurate. The audit revealed only minor issues which were left for management to determine the validity of following up.	Substantial
E-Tendering	This audit was to confirm that ESPO complies with e-tendering arrangements. There were two minor recommendations (both agreed) to upload all supporting documentation and to populate Pro-Contract with actual contract dates, as notified in the award of contract notification.	Substantial
National Fraud Initiative	For the first time ESPO volunteered relevant payroll and creditors’ information to the bi-annual anti-fraud initiative. Outputs have been received & are being evaluated to determine if there are any ‘matches’ which might indicate fraud.	Investigatory

Audits at 25 August where fieldwork was still in progress

Note : ToE – terms of engagement

Audit title	**Assurance objective**	**Position @ 25 August 2015**
Servicing authority	The servicing authority is providing service in line with the agreement	Almost complete
Management Information - Profitability of Framework Agreements	Strategic & operational decision making (e.g. to develop or end frameworks) is based on good quality information	In progress
Optima Energy Software	To confirm prior year High Importance recommendations have been progressed	In progress
Procurement & Compliance Risk Management	The framework is sufficiently robust to prove effectiveness and avoid liability. To include ESPO's adherence to The Public Contracts Regulations 2015	In progress
BACS	Access is controlled and transactions are validated	ToE drafted
Distribute Surplus - Design	The design and security of the revised financial model is robust	ToE drafted
Business Strategy/Transformation	Attainment of the objectives of the Strategy is well governed - follow up work commissioned from Transformation Unit	In progress
Customer satisfaction	The risks of customer loss are identified and mitigated	Planning stage
Vehicle & Fleet operating costs	Revised arrangements are monitored and securing vfm	Planning stage

Audits remaining for 2015-16 not yet started

Annual governance statement
Business Strategy/Transformation – individual projects
Control environment
Governance framework
Information management
Risk management
Transparency
Counter Fraud - NFI specific
Counter Fraud
ICT applications
Warehousing
Rebates income
General ledger reconciliations (*)
IT general controls (*)
Trading performance (*)

(*) Traditionally audits where the external auditor has placed reliance on the work of internal audit.

This page is intentionally left blank