



Minutes of a meeting of the ESPO Finance and Audit Subcommittee held at County Hall, Glenfield, Leicestershire on Monday, 16 November 2015.

PRESENT

Mr. I. Monson CC – Norfolk County Council (in the Chair)

Leicestershire County Council
Mr. G. A. Hart CC

Lincolnshire County Council
Mrs. S. Rawlins CC

20. Minutes of the meeting held on 8 September 2015.

The minutes of the meeting held on 8 September 2015 were taken as read, confirmed and signed.

21. 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.

22. Urgent items.

There were no urgent items for consideration.

23. MTFS Monitoring for the First Six Months of 2015-16.

The Subcommittee considered a joint report of the Director and Consortium Treasurer setting out the results of the first six months of trading in the 2015-16 financial year. A copy of the report, marked 'Agenda Item 4', is filed with these minutes.

Arising from discussion the following points were raised:-

- (i). Due to a decline in non-education store sales, total sales were behind budget by £1.1 million but had been offset by increased income from gas and rebates. Despite the decline in store sales, initial indicators suggested ESPO remained on target to achieve the £3.3 million surplus as outlined in the Medium Term Financial Strategy;
- (ii). Expenditure relating to agency usage was above budget due to staff vacancies and sickness absence. However this had been offset by lower expenditure in staffing due to a reduction in full time employees;
- (iii). During the financial year ESPO had invested a significant amount of officer time and resources into improving customer satisfaction, such as the use of the seasonal relief warehouse, and undertook a number of actions to improve warehouse efficiency. However it was anticipated that this level of investment into

customer satisfaction would not be required to maintain it into the future now that the appropriate measures had been identified and put in place;

- (iv). The costs in applying the school holiday discount and the Academy offer were incorporated into the margins. As such any discounting activity would be considered as part of the variable costs when managing peaks in demand;
- (v). Members expressed concern regarding the impact on ESPO of budget cut to local authorities. Officers had been looking at a range of initiatives to ensure that the £6 million surplus by 2018-19 remained achievable. However this would require a range of actions particularly due to the implementation of the National Living Wage on top of the agreed MTFS (minute 25 refers).

RESOLVED:

That the results of the first six months of trading for the 2015 financial year be noted.

24. Review of the basis for calculating the Dividend Distribution.

The Subcommittee received a joint report of the Director and Consortium Treasurer outlining the proposed revised methodology for calculating the dividend distribution. A copy of the report, marked 'Agenda Item 5', is filed with these minutes.

Arising from discussion the following points were raised:-

- (i). The current calculation method had been inherited by the ESPO management team at a time when Leicester City Council had been a member of the consortium. Subsequently, following discussions with officers, it had been decided to review the appropriateness of the calculation method used;
- (ii). The basic principles underpinning any revision to the calculation method were ensuring that 80% of the retained surplus was distributed to members, using a method which acknowledged the risk of membership, encouraged the use of ESPO services, and acknowledgement of the previous level of engagement with ESPO by each member authority;
- (iii). A number of models had been considered using a number of variables with the intention of finding a model which would minimise any financial impact (up to a maximum of a £30,000 swing) on dividend distribution compared to the previous method of distribution. However as the Medium Term Financial Strategy was aimed toward increasing the surplus over the next four years, members were reassured that no member authority would receive less money should these changes be approved and implemented for the 2015/16 distribution, and ESPO achieved the increased surplus;
- (iv). The proposals as set out in the report were supported by the Subcommittee and commended officers for finding a new balanced method of calculation.

RESOLVED:

That the proposed new method of calculating the dividend distribution be recommended for approval by the Management Committee at its meeting in December.

25. Impact of the National Living Wage.

The Subcommittee received a joint report of the Director and Consortium Treasurer outlining the potential impact of the National Living Wage on ESPO. A copy of the report, marked 'Agenda Item 6', is filed with these minutes.

Arising from discussion the following points were raised:-

- (i). It was anticipated that by 2020 the National Minimum Wage could be £9.75 per hour which presented a significant material risk for ESPO. In addition to the immediate wages risk, there was also a number of other variables which posed a risk such as the impact on school budgets and the resulting impact on their flexibility to purchase from ESPO. As the wage would only apply to those aged 25 and over, the material impact on ESPO would be dependent on its workforce age profile at the time;
- (ii). Whilst the initial incremental increases would be incorporated into the growth outlined in the Medium Term Financial Strategy, ESPO would have to take a number of measures in the outer years of the Strategy to counter the impact of the National Living Wage in order to achieve the £6 million surplus.

RESOLVED:

That the contents of the report be noted.

26. Quarterly Progress against the Internal Audit Plan.

The Subcommittee received a report of the Consortium Treasurer providing the latest quarterly update on progress against the Internal Audit Plan 2015/16. A copy of the report, marked 'Agenda Item 7', is filed with these minutes.

The Subcommittee was advised that there had been no partial or high importance (HI) recommendations made on the completed audits so far. The previous HI recommendations from the audit of ICT applications – Optima Energy Software were being managed sufficiently enough to be signed off.

Although it was felt that the outstanding audit work remaining would be completed on time, officers from the Internal Audit Service would be closely liaising with the management staff at ESPO to ensure the timely completion of all audits by the end of the financial year. However it was noted that some audits could not be completed until a full year had passed. Some audit work was conducted on an ongoing basis throughout the year such as counter-fraud work.

RESOLVED:

That the quarterly progress against the Internal Audit Plan 2015/16 be noted.

27. Review of the Frequency of Finance and Audit Subcommittee meetings.

The Subcommittee received a report of the Consortium Secretary outlining the proposed changes to the frequency of Subcommittee meetings. A copy of the report, marked 'Agenda Item 8', is filed with these minutes.

At the previous meeting of the Subcommittee it was felt that ESPO was in a much better position than when its present governance arrangements had been implemented. Owing to the increasingly stretched resources of the member authorities, it was hoped that reducing the number of meetings members needed to attend would contribute toward making these savings.

It was proposed that the number of Subcommittee meetings be reduced from four to two per year to coincide with key dates in the financial calendar. Should the proposals as outlined in the report be approved by the Management Committee, the new meeting cycle would be implemented in January 2016.

RESOLVED:

That the proposals as outlined in the report be recommended for approval at the Management Committee at its meeting in December.

28. Date of future meetings.

RESOLVED:

Subject to the change in frequency of meetings (minute 27 refers), it was noted that future meetings of the Subcommittee would take place on the following dates:

- 22 February 2016 – 11.00am at County Hall, Glenfield.
- 6 June 2016 - 11.00am at County Hall, Glenfield.
- 5 September 2016 - 11.00am at County Hall, Glenfield.
- 14 November 2016 - 11.00am at County Hall, Glenfield.

29. Exclusion of the public.

RESOLVED:

That under Section 100(A)(iv) of the Local Government Act 1972 the public be excluded from the meeting on the grounds that it will involve the likely disclosure of exempt information during consideration of the following item of business entitled 'Strategic Discussion Document to Inform MTFS Assumptions' as defined in paragraphs 3 and 10 of Schedule 12A of the Act; and, in all circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information.'

30. Strategic Discussion Document to Inform MTFS Assumptions.

The Subcommittee received a joint report of the Director and Consortium Treasurer outlining the assumptions being considered for the Medium Term Financial Strategy covering the period 2016 – 2020. A copy of the exempt report, marked 'Agenda Item 11', is filed with these minutes.

The exempt report was not for publication as it contained information relating to the financial or business affairs of a particular person (including the authority holding that information).

RESOLVED:

That the contents of the report be noted.

(THE MEETING RESUMED IN OPEN SESSION)

11.05 am - 12.55 pm
16 November 2015

CHAIRMAN